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FlexFunds Rolls out its Global Securitisation Structuring Model in Asia

FlexFunds was founded in 2011 and today has more than 70 employees across three continents - the Americas, Europe and most recently Asia. Two of the firm's leading executives met with Hubbis to elucidate their business model and their very considerable optimism about opportunities in Asia.

Executive summary

The Miami-based and global securitisation structuring firm, FlexFunds, was established in 2011 and has built its business on the premise that asset managers around the world need efficient, distributable, and cost-effective investment vehicles for their customised strategies. The firm is now on a mission to conquer Asia and is working outwards from its regional base in Singapore. Hubbis met with two of the key executives who are driving the business forward.

Alex Contreras is the Global Sales Director of the firm and is headquartered in Miami. He continually visits the growing array of corporate offices and, since June 2017, Singapore to nurture client relationships.

It is in Singapore that Asia sales director, Jose Lopez-Arenas, resides. He is now driving much of the firm's regional development and shared some of his key priorities for the firm's expansion.

Despite Asia being FlexFunds' newest region for expansion, both Jose and Alex believe it will soon become one of the firm's largest markets.

FlexFunds was founded in 2011 by a team of capital markets and private equity veterans that identified what we have now proven to be a worldwide industry need. This is the need for the creation of investment vehicles that allow financial institutions, asset managers, and family offices to create efficiencies that help expand access to investment strategies globally.

FLEXFUNDS SEES ITSELF as a pioneer. “The asset management industry is dynamic and offers a wide range of alternatives,” comments Alex Contreras, Global Sales Director at the firm. “At FlexFunds, we are a force for innovation, having created what we consider the world’s first and most advanced customised programme dedicated to securitisation through a Global Note Program. We like to distinguish ourselves through forward-thinking, comprehensive solutions, and dependable support.”

FlexFunds is not involved in sales, that is conducted through the more-than 100 leading financial institutions worldwide providing distribution and trading service with which FlexFunds works. “We have, to date, arranged more than USD2.5 billion in total funding through our securitisation structures,” Contreras reports.

The FlexFunds clients are through the distribution intermediaries, therefore, ultimately monetising their newly-securitised assets to end-buyers that might typically include private banks and broker-dealers.

The best things come in threes

The FlexFunds securitisation programme offers three core types of solutions. They are the FlexETP Fund, which securitizes a portfolio of publicly traded assets such as equities or debt; the FlexETP Loan, which securitizes a private loan agreement; and the FlexETP Wrapper, which securitizes private shares of a company or fund.

“FlexETPs,” explains Contreras, “are exchange-traded products that provide a simple and low-cost solution for investment

FlexFunds sets out its stall for Asia expansion:

There are several core priorities for the thrust that FlexFunds is making to bring its business model to Asia. The firm set up in Singapore in June 2017, from where Asia Sales Director, Jose Lopez-Arenas, is driving much of the regional development. He told Hubbis what he considers to be the firm’s key priorities for its expansion in Asia.

"The first mission," he reports, "is to bring over from the US and Europe the capability of providing what we consider to be easier, faster, and more tailor-made solutions to every potential manager, asset-manager, family office, or even company that might want to work with us to structure securitisation deals and raise funds. We offer an excellent service and an additional distribution channel for them to reach capital at a more affordable cost and much faster."

His second priority during the coming two years is to help the firm grow more rapidly than in the past five years. "We have enjoyed fast growth from our HQ in Miami," he notes, "and that expansion has been helped by Miami also serving as a core financial centre for the rapid growth in the Latin America region, where we have enjoyed fast-track expansion. We now aim to replicate that and even surpass that experience in Asia."

He explains that Europe has grown since the firm set up three years ago and that FlexFunds now has offices in Switzerland and Madrid.

"We are based in Singapore, but Hong Kong is also a vital hub for the region, so we spend a lot of time there also. We are working energetically across the region, from Korea to Australia, to Malaysia and so forth, to educate the market."

He highlighted Korea as a case in point where there is a considerable opportunity. "Many asset managers have clients across the world who want to invest within the funds that they manage in Korea," he explains, "but unfortunately due to the local regulation, if you want to be an investor in those funds you need to be registered in Korea, according to the local regulations. We provide a solution that allows them to funnel all the investments through our structure."

Another element of his mission is to establish the FlexFunds name as a recognised global brand in Asia and to become one of the go-to solutions when it comes to fund distribution or product structuring.

ALEX CONTRERAS
Flexfunds

management and distribution. The underlying assets are distributed to investors through a Euroclear-listed security via all investment platforms." He further clarifies that the security carries an ISIN number, a price (NAV) calculation, a Bloomberg listing, and trustee and audit services. This further simplifies the structurization process.

"The programme delivers major advantages to asset managers," reports Contreras, "including speed and efficiency, with issuances launched within four to six weeks and includes a turnkey solution and banking platform setup. Global distribution takes place through listed securities with ISIN codes and wide circulation through the capital markets. There is also an ease of access for investors on worldwide trading platforms, with no additional KYC or AML processes."

Structuring, not selling

"We do not sell to the end-investors," Contreras emphasised, "our clients are those who have assets that they wish to make liquid or wish to express through a tradable instrument with a market price. We work with these clients to help them design their strategy. We help them select the optimal FlexETP solution, set the terms, organise an issuance date, and by collaborating with our service providers we complete the ETP setup process. On the issuance date, all investors can then participate through Euroclear."

The service providers Contreras refers to are renowned names in the financial, accounting and legal world. They include names such as Bank of New York Mellon, Citi Bank, Euroclear, Sanne Fiduciary Services, Reuters and Bloomberg, and Deloitte.

Contreras provides more insight into the structuring. "Quite simply," he explains, "on behalf of any private bank, asset manager or perhaps family office, we create an investment vehicle through a securitisation programme. The result is a tradable security that allows investors to buy into these vehicles and thereby gain exposure to the underlying assets. The asset providers thereby raise capital and turn assets they hold into liquid assets."

Looking at the three core products in more detail, Contreras explains that the FlexETP Fund solution securitises a portfolio of publicly traded assets such as equity, bonds, options, funds and listed products, all of which are actively managed by a portfolio manager.

The FlexETP Wrapper solution, on the other hand, securitises fully private - non-listed assets, such as shares of a company or a private fund. The assets might include private share subscriptions, real estate, hedge funds, private equity or even alternative assets such as an art collection.

And the FlexETP Loan solution securitises a private loan agreement, with eligible assets that include loan agreements, private debt, letters of credit, feeder loans and loan refinancings.

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Working the middle ground

"For all these categories, we can handle smaller transactions from USD5 million upwards," he reports. "We can do deals of up to USD500 million, but our typical range is USD20 million to USD50 million and even at the higher end that is far too small to be of interest to the structuring arms of the global brand banks."

Simplicity and transparency are watchwords for the firm. A

distinct advantage is FlexFunds' efficiency at onboarding the products into most of the banking platforms. Contreras clarifies that sometimes, even for a fund with an ISIN, it can take a long time to get them on-boarded because of the required due diligence. FlexFunds can go to any of the global banks and establish these global note programmes within those bank platforms, so they can then be traded to their end-investors.

"We work with a host of service providers," he explains, "but our clients need only deal through us, so they do not need separate relationships and documentation with each of the service providers with which we operate. In a world of intensifying regulation, that is of great benefit and convenience to the clients we work with around the world."

Transparency throughout

FlexFunds aims for transparency as to how it makes its money. "We charge fees in the basis points as a percentage of the issuance size," Contreras emphasises. "We charge only on the funds that are passed through these vehicles, so our interests are clearly aligned with our clients. The fees range from 25 basis points for the more liquid strategies, for example, a package of listed equities and up to 50 points for securitisations of the more illiquid assets. Additionally, there is a modest set-up fee up front."

Contreras believes that both transparency and simplicity are essential, as is the selection of the firms FlexFunds works with. "We take great care to focus on the assets to be securitised and the quality of the managers across the globe that we work with. I should note however that we are the structuring agent, so there is a clear limit to our due diligence - these products are for sophisticated investors with a typical minimum ticket of 100,000 in either dollars or euros."

To understand more how FlexFunds' solutions enable access to global capital markets for ease in capital raising, visit flexfunds.com ■

Securitisation - a layman's introduction

FlexFunds is keen to expand in Asia by educating the market as to the options it offers asset managers of all types. To do so, the core element of the structure must be understood.

Securitisation is the issuance of tradable financial instruments backed by one or a group of assets. Through securitisation, assets receive an additional layer of accessibility in the financial markets, allowing for the funding of an investment strategy, or for financing based on creditworthiness, cash flows, and/or collateral of an organisation. The result of securitisation is a tradable financial instrument that can be purchased globally through brokerage accounts.

One of the primary reasons for the growing popularity of securitisation in recent years is its flexibility in the choice of an underlying asset. The advantages of a global securitisation programme are that investors access these securities from their existing brokerage accounts, imposing no additional Know Your Client (KYC) or Anti-Money Laundering (AML) requirements.

Assets stay within existing custodial accounts, and any redemptions or distributions are delivered directly to the investors. Top-tier service providers, each serving a different role in the programme, are key to ensuring the programme's robustness and trustworthiness.

Securitisation, as with any other alternative investment solution, is most useful when customised to each specific situation. To choose the most advantageous investment structure, asset managers will consider a variety of factors. These include the degree of applicable regulatory impact, the burden of administrative diligence, the complexity of accessing global investors, as well as the efficiency with which the investment structure can capture opportunities.

For investors, some of the key aspects are typically the ability to target assets, the flexibility to choose passive or active strategies, the cost efficiency of the vehicle, as well as the simplicity of the on-boarding process.

Getting to know the FlexFunds prime movers in Asia

Alex Contreras is often on the road across Asia as the firm seeks to rapidly build its presence in the region. Contreras is the Global Sales Director at FlexFunds, which now boasts offices and representatives in the United States, Spain, Argentina, Singapore, Brazil, Uruguay and Switzerland.

He has over 15 years of experience in the financial services industry. His focus has been in structuring customised financing to the needs of clients targeting financial safety and sustainable investment returns. In addition, Contreras has a strong entrepreneurial background having co-founded a nationwide retail company, Viesso, and assisted other start-ups in their growing stages.

He was born in Venezuela and received a B.A. in Business/Economics with an International Relations concentration from the University of California Los Angeles (UCLA) and an MBA from UCLA Anderson School of Management.

Contreras joined FlexFunds in 2011 virtually at its inception, based on the credentials of the two founders. "I was attracted by the vision of Jose Carlos Gonzalez, who had from 2008 built the Global X Funds business, a New York-based provider of exchange-traded funds that facilitates access to investment opportunities across the global markets."

"Gonzalez and Mario Rivero, the CEO, who had a successful background in banking and consulting, attracted me to join the firm, even though it was just at the beginning," he recalls. I became one of their first employees and we now have about 70 people worldwide. The business has allowed me to exploit the best of my two career passions, namely finance and entrepreneurship. It has been a fascinating ride so far."

His colleague Jose Manuel Lopez-Arenas is Spanish by birth and multi-jurisdictional by inclination. "I am Spanish," he reports, "but was educated in the US for high school, attended university in Spain, did my MBA there and in France. I spent a decade in Hong Kong and have now been in Singapore for six years," he reports. "It has been an exciting 42 years so far!"

His early career was as an auditor before moving into corporate banking, then into structured finance, and later private finance. He became the head of corporate business for a European bank in Singapore and then joined FlexFunds in 2017.

Prior to FlexFunds, he worked for four years in Singapore as BBVA Head of Corporate client's team handling origination, management, and execution of business opportunities of SE Asian large corporations. He has gathered great experience in relationship management, project and structured finance, and portfolio management.