While other jurisdictions have been contracting, Malta’s fund industry has continued to expand in 2008 and 2009. Now it is determined to build on its success.

**OVERVIEW**

**FUND ADMINISTRATION**
The number and variety of fund administrators in Malta has significantly increased over the last 18 months with several new players.

**SETTING UP A HEDGE FUND**
Castigated in the past for its detailed regulation, Malta’s legislative framework for the fund industry is now seen as a competitive advantage.

**ACCOUNTING**
With the Big Four accounting firms all established on the island, Malta has the capacity and expertise to help the hedge fund industry continue to expand.

Malta
Hedge fund industry gains momentum
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Overview
While other jurisdictions have been contracting, Malta continues to expand and is determined to build on its success.

Prime minister
Malta’s government sees financial services as a key pillar of its economic expansion plans.

Finance minister
Malta’s government is firmly behind the development of financial services and hedge funds specifically.

Stock exchange
Malta is seeking opportunities in new areas.

Fund profile
Domiciling funds in Malta was a logical choice for Atlantik Asset Management.

Fund administration
The number and variety of fund administrators established in Malta has significantly increased over the last 18 months.

Custody
The island state is keen to attract more banks offering custody services, with one eye on the opportunities offered by Ucits IV.

Setting up a hedge fund
Malta’s legislative framework for the fund industry is now seen as a competitive advantage within the EU.

Legal services
The island state believes quality, rather than quantity, is what distinguishes its legal services.

Tax
Malta’s many double-taxation agreements coupled with its EU onshore status gives it a strong position as a favourable tax environment.

Accounting
Malta has the capacity and expertise in audit and accounting to help the hedge fund industry grow.

What they say
Service providers, fund administrators and legal firms explain why they think Malta is increasingly becoming a jurisdiction of choice.

Malta at a glance
Key facts, figures and information about Malta.
Growing jurisdiction plans for expansion

Malta’s fund industry has seen exceptional growth from a low base. While other jurisdictions have been contracting, Malta continued to expand in 2008 and 2009. Now it is determined to build on its success.

Malta is gearing up to challenge the established hedge fund jurisdictions in Europe. Although the government is careful to say it is not competing head-on with the dominant players in the industry – Luxembourg and Dublin – the country is in an advantageous position following the financial crisis. Its rivals are looking decidedly less healthy.

Ireland, annoyed its eurozone partners by declaring a bank bailout without consultation and is still dealing with the fallout from a near-collapsed banking sector that is still far from healthy. The Celtic Tiger may have roared its last for some time.

Luxembourg’s reputation is somewhat tarnished after a series of what looks like bad decisions by banks beset there over the Madoff scandal. Its perceived lax regulation and cavalier attitude to taxation and oversight is now being reined in. Both fund domiciles are going through a bad patch while Malta surges ahead, albeit from a low base. Its slow and methodical approach to building a hedge fund jurisdiction has paid off. The country has increasingly built up its expertise and knowledge of the sector. Where 12 months ago it had only one or two fund administrators of note, it now has several. All Big Four accounting firms are present with substantial practices. They, too, are showing growth in the financial services side of their business and particularly in hedge fund-related work.

Local lawyers have quickly gained a reputation for thoroughness and high professional standards, but at a fraction of the cost of London.

Cost is one of the big advantages Malta offers at the moment. Dublin, which many believe was pricing itself out of the market before the financial crisis hit, is still at least double the cost of Malta. Luxembourg, too, is considerably more expensive than the island state.

Although the cost advantage is transitory and will eventually disappear as Malta’s economic growth catches up with its EU counterparts, it does give the jurisdiction a short-term advantage the island is eager to exploit.

Cost is not the only thing attracting hedge fund managers and promoters to the island. The Malta Financial Services Authority (MFSA) has gained a reputation for flexibility coupled with meticulous attention to detail. Although many thought the level of regulation was too stringent – particularly compared with Luxembourg and even Ireland – in a world traumatised by lax regulation, it is fast gaining Advocates. As an onshore EU jurisdiction with favourable tax rates, a balmy Mediterranean climate and a population that is known for its hard work, fast learning and high moral standards, the combination looks set to win Malta even more business in the future.

Although the total number of funds domiciled in the jurisdiction is still small compared with the more established centres, the growth has been steep. Even taking into account that it comes from a low base, it is impressive.

At present Malta is content to forge a niche for itself. It is building a reputation as the jurisdiction of choice for smaller, start-up funds that find the high costs and crowded service sectors of Dublin and Luxembourg unfriendly. In a world where cost matters, funds are keen to show investors they mean to keep management fees low. They can point to the cost savings offered by Malta as well as the safety of an onshore EU jurisdiction.

Size in Malta does not matter: the regulator is as eager to see a start-up with a couple of million euros at launch as it is to see a bigger ticket launch. This openness has already gained the MFSA a reputation among managers.

Petr Posker, investment director of Atlantik Asset Management which has domiciled its funds in Malta, was pleasantly surprised to find the regulator so knowledgeable about hedge fund strategies. “It is desirable to have flexibility in terms of the regulator. Because the regulator is very flexible in Malta and also knowledgeable – something that is not usual – we chose Malta,” says Posker, pointing out that flexibility was lacking in Luxembourg and Dublin.

Malta’s size is another advantage. “Malta is not crowded. People there have time to talk to you. The jurisdiction also offers the potential for people to be more creative and active than in other jurisdictions. It is more personal. Malta’s like one big family; everyone knows each other. If you are looking for a director for the fund, they will know half of Malta,” notes Posker.

“My feeling at the MFSA at the
We are in close contact with them. The respond to new ideas from managers. We want to develop the regime and now more than ever that is important. Numbers. We want to attract quality. regime within Europe," says Bannister.

It was able to use HSBC in Malta as custodian and administrator. “We felt HSBC offered good protection for our assets,” he says.

Joseph Bannister, chairman and president of the MFSA, believes the authority should encourage visits from funds. He also thinks one of Malta’s advantages is its strong regulation. “We have robust regulation tailored to hedge fund managers. Our objective is to offer a secure regime within Europe,” says Bannister.

“We do not have a policy of pursuing numbers. We want to attract quality. Now more than ever that is important. We want to develop the regime and respond to new ideas form managers. We are in close contact with them. The aim of the regulation is to develop quality control,” he adds.

He is pleased that Malta has had a good year. “The numbers are good. They are not in the thousands but it is at a level we can sustain,” he says.

According to Bannister investors like to be in Europe and managers are selecting a jurisdiction based on the quality of the regulation. “The fact is investors want a European label,” notes Bannister.

This trend has worked in Malta’s favour. He says the regulator has also seen a tremendous increase in enquiries about UCITS funds. There has even been some re-domiciliation of these funds to Malta away from Luxembourg and Dublin as fund managers seek a regulated but cost-efficient jurisdiction.

An increase in UCITS funds, says Bannister, should be matched with an increase in the number of banks offering custodial services. He wants to see more choice as well as more big name banks moving into the jurisdiction to offer custody services locally.

One large European bank is already considering converting its existing licence to offer more services in Malta, including fund administration and custody. “We need to look at the services we offer for UCITS and in particular expand our custodial services. More custodians need to come to Malta,” says Bannister.

He believes with the introduction of UCITS IV even more opportunities will open and Bannister wants Malta to be ready with services already in place to support growth in this sector.

Malta has been active in supporting legislation coming out of Brussels that will support the hedge fund industry. While Bannister admits there are still some major hurdles to overcome in the alternative investment fund managers directive, not least of which are issues relating to leverage, valuation and the role of the prime broker, he is supportive of EU moves to standardise the treatment of hedge funds throughout Europe.

Bannister believes the offer ofpassporting management companies and funds domiciled in one EU jurisdiction throughout the EU will be a fillip for the industry and should also benefit Malta.

The issue of third country-domiciled funds is a difficult one, concedes Bannister. “We believe the passporting rules should apply to funds authorised in third countries but there is a need for equivalent regimes. If third countries are amenable to that, it should not be difficult to achieve,” he says.

Malta already has strong contacts with other major jurisdictions. It has signed memoranda of understanding with the Channel Islands of Guernsey and Jersey, the Cayman Islands, Bermuda and others. Talks with China and South Africa on a memorandum are also being pursued.

“We exchange information with many jurisdictions and there is not a problem with authorisation. However, obviously we would like to see more regulation from the Caribbean,” adds Bannister. “We talk to Cayman quite a lot, both on a formal and informal basis.”

The MFSA believes close co-operation and cross-border exchange of information is essential for policing a global industry like hedge funds. He points out that in some jurisdictions authorisation can be granted overnight.

“Here in Malta we respond quickly but we do extensive due diligence. We look at who is running the fund,” says Bannister. In addition the MFSA carries out on-site visits to registered funds. This, concedes Bannister, will be a problem with the current staff allocation as the number of funds expands. So he is planning to expand his workforce.

Looking to the future Bannister says there are no big changes planned to the regulation of the sector. However the “direction” for an update of Malta’s company law (which is essentially based on the UK’s company law) should be clear by the end of 2009.

The MFSA has the ability to introduce legislation and so, says Bannister, is in a good position to react quickly to developments in the industry and support innovation. His lesson from the financial crisis is simple: Malta should not relax its regulation.

“The sector here is growing. We need more time and more people to oversee the regulation. We cannot relax on our visits to companies. We need to invest in human resources for the future,” says Bannister.

For Bannister the future looks promising as continued growth in the hedge fund area is expected. This growth, however, should not compromise the MFSA’s ability to carry out its duties.

The future, as far as Bannister is concerned, should be a continuation of robust oversight by the MFSA coupled with the flexibility needed to accommodate innovation in the industry. ■
Ambitious plans for island state

Malta’s government sees financial services as a key pillar of its economic expansion plans. For its prime minister it is one of the biggest challenges Malta faces over the coming years.

In an interview with Hedge Funds Review, he gives his opinion on the development of the hedge fund sector.

Prime Minister Lawrence Gonzi has a vision of where he wants Malta to be by 2015. In that vision, financial services plays a major part. After taking office in March 2004 and his re-election in 2008, he declared his intention to transform Malta by targeting six sectors as the “pillars” of Malta’s economy.

A central role was given to financial services, already contributing 11%–12% of GDP. The target is to increase this to 25% by 2015. Gonzi believes it can be achieved.

Within financial services, the hedge fund industry has been singled out. “Hedge funds are a particular area we are targeting for growth, not just as a domicile for the funds but for attracting fund managers,” he says.

“We see hedge funds as an important part of financial services in Malta. We have the professionals that can provide the infrastructure. Many are setting up administration services here,” he says, adding that the fund sector will be able to “exploit Malta’s infrastructure and other advantages”.

The development and growth of financial services is one area on which all political parties in Malta agree.

“Services are one advantage a small country can provide. This can be a big advantage when applied to financial services and fits very nicely into our overall plans,” says Gonzi.

Since 1997 the country has invested heavily into IT infrastructure. At the same time the government has also stressed the need to help more people access higher education. It is one of the few countries in the world that pays students to attend university.

Gonzi sees the technology infrastructure in the country as a way Malta can “connect” to the world. As a small island state, he believes technology is the key to bringing Malta closer to the global economy.

As financial services is heavily dependent on highly developed technological infrastructure, his investment in this sector, too, has paid off. Technology has changed Malta’s position. “Once being an island was a disadvantage but now we can compete with New York, Beijing, Luxembourg, Singapore. Technology has helped level the playing field,” declares Gonzi.

He believes Malta has other competitive advantages. Its relatively low salaries compared to the rest of Europe plus the population’s fluency in English are “something few non-European countries can boast,” he says. “The legislation is in Maltese and English so there is no problem of interpreting.”

Gonzi also sees Malta as playing a key role in the Mediterranean region. He believes the country has enormous potential as the financial centre in the Mediterranean, perfectly placed to exploit its connections with the Middle East and Africa.

“No one is as strategically located,” Gonzi declares. “We will be able to exploit our professionals. There is no quick fix or easy solution. Malta is not a shady domicile. We are a top-notch, good-quality one people can trust,” says Gonzi.

The country has seen continuous growth over the last months, despite the financial crisis. Malta’s prudent policies, particularly in banking, have seen the country weather the financial storms well.

While growth has not be as fast as in previous years, the economy and the financial services sector are still growing. “It is a big challenge to achieve our target by 2015,” he says. “Since I became prime minister on the same day we joined the EU, I mean to write a new chapter in the history of this island.”

EU membership has certainly given the country an economic boost. The country has embraced EU regulations, ensuring it is among the first to adopt directives to ensure nothing can slow down cross-border business.

“There has been a tremendous shift. We have moved from labour-intensive manufacturing into the services area. We intend to continue this shift,” he declares.

Gonzi is also keen on developing Malta as an Islamic financial centre. The country is preparing legislation that will allow Sharia-compliant banking and other financial services to be offered from the island state.

The government is keen to expand its growing financial services industry offering to the Arab world. Gonzi believes Malta is ideally positioned geographically and culturally as “the only financial centre in the EU and eurozone able to offer a range of services”.

“The advantage Malta has is that we are comfortable with the Arab world and the Arab world trusts and engages with Malta,” he says.

Another significant advantage of Malta, continues Gonzi, is its membership in the Commonwealth, a voluntary association of 53 countries that were formerly colonies of Great Britain.

He said the country’s link to Africa and other parts of the world, including the Caribbean, are “natural” and will help Malta’s ambitious plans to expand the reach of its financial services industry globally.

“The concept is to grow exponentially. The potential is there. When the time comes we will target other regions and states but first we are looking to develop our relationships with the Middle East,” confirms Gonzi.

He believes the area has enormous potential growth “and that’s the future sector for our growth”.

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Regulating for success

Malta’s government is firmly behind the development of financial services and hedge funds specifically. The finance ministry is set to play a key role in encouraging that development both domestically and internationally.

For Tonio Fenech, Malta’s minister of finance, economy and investment, hedge funds are “clearly one of the important and growing sectors” of financial services. Since 2004 when the island state joined the EU, financial services have become a key component of economic expansion.

The hedge fund industry and alternatives in general has found a strong advocate in Fenech, who is keen to ensure appropriate legislation that encourages the industry rather than stifles it.

Appointed as finance minister following the March 2008 general election, Fenech had only a few months before the collapse of Lehman Brothers brought the global financial market to the brink of collapse. It is testament to Malta’s growing stature as a financial services centre that Malta’s views – and voice about regulation and better oversight of the sector are heard with interest, not just in the EU but in international fora.

Hedge funds represent 60% of the total net asset value of funds actually administered by Maltese companies. “This is a significant amount for us in terms of the growth we’ve seen and in terms of net assets, about €6.4 billion,” says Fenech. Despite rapid growth so far, Fenech believes there is still room for a lot more.

“The skills are there and the environment is right. When I have talked to experts in this field, particularly internationally experts, they talk about Malta being the right place for the hedge fund industry. I hope we can continue to build on the success,” notes Fenech.

Malta has in the past been criticised for its tight regulation and oversight of the fund industry. Compared to Ireland and Luxembourg its alternative funds regime was considered the most stringent, although its regulator has a reputation for fairness and flexibility. Now the rest of the world sees tight regulation as a good thing, Fenech believes Malta is well placed to capitalise on its reputation as well as its clear legislation.

He believes the real challenge for Malta will be in ensuring the country has the right skills and maintains quality services for the industry.

“The Malta Financial Services Authority [MFSA] is very active in this field. In fact a couple of years ago we instituted a joint co-ordination committee between the MFSA and the tertiary institutions in Malta and also with the practitioners themselves to devise key initiatives to ensure we are able to supplement industry with new professionals that can support these industries,” explains Fenech.

The fast-paced growth, believes Fenech, can be maintained. He says the country has no restrictions on international companies bringing in people to fill key positions. “You have this mix of indigenous professionals together with international professions working from our jurisdiction. If there is a particular skill which is not immediately available, then one can bring those skills from another country. Investors will soon discover that Maltese professionals learn very quickly the specialisations that is required and will prove to be quite good compared with any other professionals,” says Fenech.

Looking at how the hedge fund industry itself is likely to develop, Fenech is not overly worried about any legislation that will come out of Brussels affecting the sector. He believes tighter regulation is “very much in line with our vision of what we want to be as a financial centre. We want to be a reputable one. Therefore, proper regulation for us is essential and the fact we were already exercising proper regulation will help us grow in future,” he says.

While in the past Malta may have lost business to other jurisdictions because of its high standards, Fenech believes these are now helping to attract more business to the island.

He expects regulation within the EU and internationally to ask the industry to adhere to a number of standards, particularly as regards transparency and what he calls “key elements” that would ensure these products are ones that investors want, understand and can be trusted.

“We want people to feel when they are in the Maltese jurisdic-
tion that if they say I’m investing in a hedge fund which is in Malta’ it sends a message that it is a fund which is properly regulated and properly managed. That is a competitive advantage in my opinion. In today’s world, investors are wary as to where to put their money. I think we’ve seen an international shift moving the funds to jurisdictions with good reputations and robust regulation,” he declares.

“We want to regulate it to ensure we have the proper regulation for it. That is why our laws are detailed,” says Fenech.

Looking specifically at how the sector will develop within Malta, Fenech is confident of continued success. “We are a small jurisdiction and therefore the regulator is approachable in terms of understanding the products, ensuring that we adequately monitor and service these products and that we have the proper regulation for it. That is why our laws are detailed,” says Fenech.

He makes no apologies for the detailed regulation. He does not believe in an ‘I like you, I trust you, you can do it’ approach. “Rather, we’re trying to understand what’s innovative in a product and how we are going to regulate it to ensure it fits our strategically important concept of reputation,” explains Fenech.

He says investors want this and are choosing Malta because of this high degree of regulation. He believes “fund managers are able to say to investors that these are the rules I need to adhere to, these are the transparency provisions and this is the information I have to give the regulator. This is how I’m being monitored. So you can rest assured there is someone who is really looking at what I’m doing so you can trust it,” concludes Fenech.
Innovative plans for exchange

As the fate of smaller European stock exchanges hangs in the balance, Malta is seeking opportunities in new areas and plans some innovative offerings to guarantee its survival.

A number of changes are expected to impact the Malta Stock Exchange following the appointment of a new chairman, Arthur Galea Salomone, and a corporate restructuring that has transformed the state-owned entity to a group of companies set up under the Companies Act.

The idea behind the restructuring was to make the exchange more competitive, raise efficiency levels and, most importantly, pave the way for it to be able to offer a number of new services as well as get it ready for eventual privatisation.

According to chief executive Mark Guillaumier, the exchange is looking at ways to take advantage of the ‘new normal’. He believes the world “has changed tremendously” over the last 12–18 months.

One result of this has been the success of Malta in attracting a large number of hedge funds to domicile in the territory. Despite this increase not one new fund has been persuaded to list on the Malta exchange.

Guillaumier accepts the reasons for listing may not be as strong, particularly as Malta’s highly regulated fund sector already gives investors the protection and comfort they are seeking in a post-financial crisis world.

While the exchange has been successful in listing retail collective investment schemes (Fidelity, Prudential, HSBC, Barclays) it has not seen the same level of interest from the hedge fund and alternatives sector.

Galea Salomone is advocating a new strategic direction and impetus. He wants to see a revitalised exchange seizing opportunities. While Guillaumier is cagey about revealing too much about the still to be confirmed plans, it is likely the exchange will be branching out and looking at services it can offer to the fund sector.

As it is hard to convince funds, particularly the start-ups Malta is attracting at present, Guillaumier thinks offering a package of services that includes a listing but offers much more may be a more attractive “value proposition”.

The services the exchange is believed to be considering includes capital introduction for funds looking to raise their profile and capital in Europe, some prime broker functions and the possibility of offering an AIM-like exchange listing.

Another area of interest on the agenda is exchange traded funds (ETFs), says Guillaumier. He expects Malta to be appearing in one of the FTSE indexes and thinks this could make the exchange more attractive as a possible venue for ETFs from European as well as companies not in the EU.

Guillaumier says if the exchange decides to go down this route it will structure some packages to make it attractive for the funds.

He believes Malta’s fiscal incentives are already apparent, including a favourable onshore tax environment and a growing financial services sector.

Another area where the exchange may be looking in future is Islamic finance. In line with government plans to create a Mediterranean Islamic financial centre in Malta, the exchange is considering how it could capitalise on this opening.

How the exchange intends to break into the market, however, has not been spelt out. It is likely the exchange could be considering some strategic alliances.

While firmly in Europe, Guillaumier points out Malta is less than 200 kilometres from another continent, Africa.

He notes the good connections the country has with North African countries and thinks there could be opportunities there to exploit.

One Libyan company has a secondary listing on the Malta exchange. The Libyan stock exchange has also visited Malta for discussions about future possible co-operation.

Guillaumier also sees possibilities within Gulf Co-operation Council (GCC) states. He believes the GCC in particular will be attracted by Malta’s solid regulation as well as its EU membership.

While the exchange in the past had been looking for partnerships, it is now more interested in forming mutually advantageous alliances with other exchanges in Europe and elsewhere. Guillaumier believes the exchange needs to “look around” at the possible openings.

Over the next three to five years he expects to see some changes in the European exchanges, particularly the smaller ones.

He points to the fact that the Vienna Bourse already owns several of the new EU member states’ exchanges (Prague, Cyprus, Slovenia, Budapest) and that the exchange may be looking to link with a bigger entity.

Guillaumier’s plan is to increase the value of the Maltese exchange by creating services, including attracting more corporate bond issues, an area that has been particularly active this year.

Guillaumier says the exchange’s new chairman is keen to drive the organisation ahead.

He sees the exchange playing a much more aggressive role in the overall financial services sector in future.

Within Europe, Guillaumier sees Malta continuing to play a role in plans to speed up clearing and settlement. He also believes the exchange needs to update its trading systems.

The one currently in operation, says Guillaumier, is “past its sell-by date”. Once a new trading system is installed it could act as a catalyst for other developments by improving connectivity, clearing and settlement infrastructure.
Czechs find home in Malta

Domiciling funds in Malta was a logical choice for Atlantik Asset Management, looking for a well-regulated jurisdiction onshore in the EU.

Petr Posker is not the first Czech fund manager to choose Malta and judging from his experience he will not be the last. As investment director and senior portfolio manager at Atlantik Asset Management (AM), Posker’s decision to domicile his first hedge funds in Malta was a combination of pragmatism and convenience.

First, Posker wanted a well-regulated, onshore jurisdiction within the EU. Posker thought Luxembourg and Dublin were “crowded” and they were more expensive than Malta. Posker says the Malta Financial Services Authority (MFSA) not only understood the strategy but also was flexible. “It is not usual to have a regulator that is so knowledgeable and so approachable,” he says.

This led Posker to domicile his first two hedge funds, Atlantik Advanced Balanced CZK Fund and Atlantik Advanced Commodity CZK Fund, in Malta and expects to launch any future funds there, too. Atlantik AM is an independent asset management company in the Czech Republic. It manages two funds for qualified investors: Atlantik Advanced Solutions under the jurisdiction of Malta and a Czech Atlantik Flexible Bond Fund. Atlantik AM is the main partner of Fortis Investments in the Czech Republic and Slovakia in distributing the Fortis L Funds. It focuses on the management of assets of individuals, companies and institutions. The client assets under management currently amount to Ckr 4 billion ($22 million).

The Advanced Balanced Fund follows a dynamic combination of investments in equities, bonds, commodities and real estate companies. The structure changes depending on developments of financial markets, economic indicators and the psychology of the markets. Active management of investments, using financial leverage to multiply trends, and short positions to profit from falling markets, are done through futures contracts.

Posker set up both funds after experiencing some frustration with his long-only funds. He believed he could not sufficiently protect investor money without the flexibility of shorting to neutralise market movements.

The aim of the fund’s strategy is to achieve a positive return every year, with lower fluctuations of value than is usual in long-only equity funds. Investing, believes Posker, should be balanced. So the fund invests simultaneously in four asset classes: equities, commodities, real estate companies and bonds. Investments in the fund are currency-hedged for Czech-crown investors.

In general Posker believes equities have high growth potential with a long-term return exceeding inflation. The fund looks for inexpensive equities of successful companies. As bonds and other fixed-income investments represent a stabiliser for a portfolio, the fund looks for attractive regions offering higher returns and appealing opportunities that result from changes in interest rates.

Posker expects to see continued increases in commodity prices as more resources are consumed. By adding commodities to the portfolio, he hopes to be able to profit from this upward trend.

For real estate, the fund invests through financial markets which Posker believes is easier and more efficient than acquiring particular, individual properties.

The strategy is based on a combination of these four asset classes through a proprietary allocation model. The combination is dynamic and is adjusted depending on the developments of financial markets and other economic parameters.

This strategy has been used to manage the investments of Atlantik clients since January 2005. Using financial leverage plus long and short positions, it is possible to manage the fund’s investments actively. The fund also uses financial leverage to boost returns when the economy is developing favourably. Returns can be achieved on a declining market by using short positions. This, believes Posker, makes it possible to protect clients’ assets from major market slumps.

The strategy is founded on investing into two basic components: fixed investments into a broad portfolio of commodities, generating attractive long-term returns and dynamic investments with the goal of taking advantage of short-term investment opportunities in individual commodities. The fund invests entirely through standard financial instruments traded on exchanges around the world.

Part of the fund’s strategy is also to factor in market behaviour (the momentum factor).

The fund’s goal is to achieve a positive return each year above inflation and to earn a return on a three-year horizon that is at least comparable to the return of equities at a much smaller risk.

By investing into a Maltese fund, a Czech investor obtains the advantages of a higher return in comparison to a Czech fund. As the fund is established in Malta, its earnings are tax exempt.

Minimum investment in the fund is €75,000 equivalent with monthly valuation of the portfolio. The fund is structured as a SICAV with a management fee of 0.8% a year and a performance fee of 10%. Custodian services are provided by HSBC Bank Malta with fund administration by HSBC Securities Services (Malta).

The second fund, Atlantik Advanced Commodity CZK Fund, was established to take advantage of what the fund managers believe will be continuous demand and increases in commodities as developing countries increasingly consume more resources.

By investing into commodities, the fund hopes to profit from growth in prices and to protect the portfolio against price shocks. By using the "right instruments" the portfolio can achieve a positive return even when prices fall.

The strategy invests in fixed investments into a broad portfolio of commodities, generating attractive long-term returns and a dynamic component with the goal of taking advantage of short-term investment opportunities in individual commodities such as seasonal price fluctuations.

The proportions of the fixed and dynamic components are adjusted depending on changing market situations. Using financial leverage plus long and short positions, the fund can profit from short-term price fluctuations both in times of rising and declining commodities prices.

The strategy uses financial leverage to multiply the returns. The fund invests entirely in financial instruments traded on exchanges taking positions on a broad range of commodities including corn, cocoa, copper, crude oil, soy beans, coffee, gold, fuel oil, wheat, cotton, silver, natural gas, sugar and gasoline.

The strategy targets an annual return over a 10-year period of 8.7% a year. The dynamic component provides for the rest of the fund’s return.

The majority of Atlantic’s investors are high net worth individuals and municipalities based in the Czech Republic. The maximum allocation to the two funds is usually around 20% of the overall investment portfolio. Some investors prefer to be purely in the balanced fund while others allocate to both.

Posker says the intention is to establish a solid track record for the fund before marketing it to institutional investors outside the Czech Republic.

Future plans include launching another fund in the first half of 2010 and Posker does not rule out the possibility of launching parallel UCits products.
Fund administration. Our core business.

TMF administers a wide range of investment funds and other collective investment schemes. TMF is a truly independent third party fund administrator, providing a customised service with flexibility and full attention to detail. We operate in accordance with SAS 70 - Type II certification to produce fully Reconciled Net Asset Value calculations in a timely and accurate manner for investments inside and outside the EU. Our fund administration services include fund accounting valuation services, shareholder services and custodian services.

For more information about our services, please send an e-mail to fus.mlt@tmf-group.com or get in touch with Mark de Marco at our office in Malta.

Our services
The group’s activities are divided up into nine services lines, including bookkeeping and reporting services, domiciliary and management services, and corporate secretarial services, as well as more specialized services such as fund administration and registrar and shareholder services.

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With over 3,300 professionals working out of 86 offices in 65 countries, TMF provides independent accounting and corporate secretarial services to companies worldwide. All our offices are company-owned to ensure that we can provide a broad platform rather than a network of associated members, as well as the highest quality worldwide.
Gaining critical mass

The number and variety of fund administrators established in Malta has significantly increased.

Malta is becoming increasingly popular as a fund jurisdiction as more funds, particularly hedge funds, choose the island as their domicile. The value of assets of funds domiciled there stood at only €500 million at the end of 2001. This rose rapidly to €8.8 billion by the end of 2007 before falling to €6.6 billion at the end of 2008.

Prospects look bright. Despite the financial crisis, fund administration services in Malta are expanding rapidly. Over the past year a number of operators have opened or further developed their operations in Malta.

With the hedge and alternative fund industry set to continue on a growth path, fund administrators in Malta are keen to be ready for new business. Many are expecting increased business from new launches, the opening of Ucits products, funds re-domiciling to a European jurisdiction from outside the EU and a general pick-up in hedge fund launches.

Although there are some size and capacity constraints for administrators operating in Malta, the industry believes there is significant capacity with a skilled workforce available and plenty of room for physical expansion.

One of the bigger names to see Malta as a good base for European operations is Custom House Global Fund Services and Equity Trust.

According to Dermot Butler, chairman of Custom House, the merger was the catalyst for operating the fund administration business through a Maltese-based company. In addition to the Malta office, Custom House has a presence in Dublin, Guernsey, the Netherlands, Luxembourg, Chicago and Singapore.

The combined businesses of Custom House have total assets under administration (AUA) of over $80 billion. The company provides full administrative services to alternative investment and hedge funds. Its clients are primarily alternative investment and hedge fund managers and also include commodity trading advisors (CTAs), banks, family offices and investment marketing companies.

Custom House specialises in what Butler calls “esoteric” funds, preferring to concentrate on a variety of investment strategies such as long/short equity, equity-option merger and convertible arbitrage, high-yield bonds, emerging markets, real estate, private equity, venture capital, currencies, futures and derivatives, as well as funds of funds and other multi-advisor products.

The Malta office opened with only three staff but was expected to have a complement of eight by the end of 2009. “We are doing well,” says Butler. Although the Malta operation is not yet offering the full range of services, Butler says Malta will be a vital link in the company’s business. “Malta is a growing jurisdiction. Its regulator is pragmatic but strong, working to help you. Malta is business friendly, less expensive than Dublin and Luxembourg and has a well-educated workforce,” enthuses Butler.

The company has already picked up a substantial client, National Bank of Canada, which has been setting up a number of SICAV funds domiciled in Malta. Butler says the master/feeder structure that is possible to use in Malta has been particularly attractive for the bank.

By the end of 2009 Butler expects to have at least eight trained administrators in place and should be able to provide a full range of fund administration services by then.

He expects to see a lot more funds opening on the island. “Malta should see a lot of business,” says Butler, expecting funds from Caribbean centres to move onshore driven by political considerations. He also believes Malta is ideally positioned to pick up business from the Middle East.

Another relative newcomer in the fund administration sector is Apex Fund Services. Anthony O’Driscoll, managing director, has seen a strong increase in the number of enquiries about fund launches since October. He says the reasons are twofold: money coming back into the system and uncertainty caused by the European directive on alternative investment fund managers. O’Driscoll says funds and management companies are not sure where to domicile and if European, are tending to opt for an onshore EU jurisdiction.

“Malta is attractive. Cost is important for many start-ups and costs here are 10%–30% lower than in other European jurisdictions,” says O’Driscoll. “It is only €15,000–€20,000 to set up a professional investment fund in Malta.”

Some substantial funds with assets under management (AUM) in the billions are also beginning to choose Malta, notes O’Driscoll. However, he believes Malta has quickly established itself as the jurisdiction of choice for start-ups and the smaller funds being squeezed out of high-cost, overcrowded jurisdictions.

In just 18 months Apex itself has over 50 funds on its books. “A lot are around €2–€3 million AUM. There is a mix of Maltese, Bermudan and Cayman funds, both single strategy and fund of hedge funds, as well as private equity and others,” says O’Driscoll.

Time is money

He cites speed to market as another factor attracting funds. For Apex, one of the attractions of a Malta operation was the availability of low-cost, highly skilled workers. O’Driscoll says he does not expect to have to look outside Malta for staff.

“A lot of these smaller funds like the personal touch. We help them solve issues along the way. A lot of the bigger administrators are not able to do this,” says O’Driscoll.

He also hopes that many of the smaller funds Apex is servicing grow into larger funds. He foresees no problems in gearing up to accommodate larger funds. There are no staff or technology contraints, says O’Driscoll.

The company provides fund accounting and transfer agency services for hedge funds and private equity funds, including valuation of the fund, calculation of net asset value and share registry services for Ucits and non-Ucits funds. All books and records are maintained on the web-based Apex PFS PAXUS plat-
A new view on fund administration

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HSBC Securities Services (Malta) Limited is a Recognised Fund Administrator and is licensed to conduct investment services business by the Malta Financial Services Authority.
form. O’Driscoll is also hoping that the Malta office acquires the SAS 70-approved control framework in early 2010.

One of the more established fund administrators is HSBC Global Asset Management (Malta), incorporated in 1996. It manages a range of domestic and international funds, specialising in the development of structured capital, secured investment products and in the provision of tailor-made discretionary portfolio management services.

With the backing of an international bank, the fund administration and servicing operation has been able to attract a significant amount of work. In addition to its offshore funds it administers, HSBC Global Asset Management offers a full service and is capable of handling most classes of instruments including bonds, equities, floating rate notes, futures, options, forward contracts, swaps and others.

With almost a decade of experience in third-party fund administration, Charles Azzopardi, managing director at HSBC Securities Services (Malta), believes his company is well placed to capitalise on the growth of Malta as a hedge fund jurisdiction.

He believes there is synergy within the banking group that has allowed the business to diversify side by side to leverage specialist systems, technology and infrastructure to good effect in Malta.

**Size matters**

He says there has been an acceleration in business and like others is seeing strong demand from smaller funds. Azzopardi believes HSBC is well placed to capitalise on the expected influx of funds and management companies. He believes HSBC’s specialised systems, technology infrastructure and access to the global network of the bank will be an attractive offering. He says the company is committed to developing fund administration services and already works with around 26 funds representing a variety of strategies and including retail UCITS, non-UCITS, PIFs, hedge funds, private equity, property and others. The average size of the funds is €20 million, which for many administrators may be considered too small.

The bank, Azzopardi says, is committed to the sector. Its fund administration services cover the whole gamut, including transfer agency, corporate secretary, accounting, treasury, custody and others, all from one main office.

For the smaller funds and start-ups Azzopardi says HSBC can offer a quality service that larger administrators often cannot provide for funds with AUM of under €100 million. With an eye on the potential growth of funds, Azzopardi says he has been able to tailor a serviced to smaller funds.

CEO Alan Richards is equally keen to see the fund administration service side develop. He says the fundamentals in Malta are attractive for funds looking for a good jurisdiction. He believes HSBC’s offering is a strong one. The bank’s robust balance sheet makes it a good counterparty, something that investors are particularly keen to see.

Another of the more established fund administrators is Valletta Fund Services (VFS), the fund administration arm of the Bank of Valletta Group. VFS was set up in October 2006 and devolved from Valletta Fund Management on the strength of third-party fund administration business that was developing.

The company was set up as a specialist operation to provide a comprehensive range of fund administration solutions to fund promoters. These services include turnkey fund formation, fund accounting and valuation, transfer agency as well as compliance and corporate services.

Kenneth Farrugia, general manager at VFS, says the company is able to service the full spectrum of funds domiciling in Malta. VFS is currently servicing around 75 funds with AUA of almost €2 billion. The funds include 18 retail non-UCITS, nine retail UCITS III schemes and 48 alternatives of which only four are not domiciled in Malta. On a national level, out of the 313 funds authorised by the Malta Financial Services Authority (MFSA), 220 are alternative funds, so VFS has a good chunk of the market and is the largest fund administrator in Malta.

Farrugia says he is seeing more fund management companies setting up in the jurisdiction.

Farrugia expects the number of funds domiciled in Malta to continue to increase and for VFS to continue to gain market share while also increasing the average size of the funds it manages.

Like other fund administrators, he believes Malta’s service sector is well placed to take funds that are considered too small by administrators in the overcrowded jurisdictions, such as Luxembourg and Ireland. He also believes Malta’s low corporate tax rate and professional workforce able to offer a quality service to smaller funds will continue to make the offering attractive. He believes as the size of funds grows and the numbers coming to Malta increase, the jurisdiction and its service providers will be able to keep up with demand without sacrificing quality.

At TMF Fund Administration (Malta) managing director Mark De Marco is up-beat about prospects, although he says business did not begin to pick up until September 2009. He predicts a continued increase in demand and says he expects to win a contract to administer two more funds by the end of 2009 or in the first quarter of 2010. Although around 80% of the funds TMF administers are domiciled outside Malta, De Marco expects to start picking up more Maltese-domiciled funds in 2010.

Unlike many administrators in other jurisdictions, TMF has not had to do any restructuring and “coped pretty well” with the financial crisis, says De Marco. He believes the jurisdiction is well placed to pick up more business and that there is “room for growth” in Malta. Most importantly, he says TMF is prepared for this growth.

De Marco is particularly optimistic that more funds and investors will want independent fund administrators who are not connected to a bank or any other company. He says TMF has no plans to change significantly its offering.

“Back office is our forte,” he says emphasising the broad range of fund administration services the company offers, including corporate secretarial services, directorships and incorporations.

TMF, says De Marco, has the technology systems to cope with a multi-prime environment as well as a variety of concepts and styles of funds, including multi-manager funds and sub-funds.

He believes the future will continue to be dominated by cautious investors who want to make sure the worst is over before getting back into hedge funds. He thinks investors will be taking a keen interest in the funds operations down to portfolio level to ensure a fund is sufficiently diversified. Once investors have regained confidence in funds, he expects to see an improvement in the number of funds launching as well as an increase in AUM, concludes De Marco.
Custom House Offers 24/5 Service

Custom House Global Fund Services Limited offers its clients a full “round the world” and “round the clock” administration service through its network of offices which includes Amsterdam, Chicago, Dublin, Guernsey, Luxembourg, Malta and Singapore.

Custom House Global Fund Services Limited and its subsidiaries are fully regulated, as required, by the relevant authorities in their jurisdiction. The Dublin office is fully SAS70 compliant and is the only hedge fund administrator in the world ever to be awarded a Moody’s Management Quality Rating.

For more information on Custom House, please visit:

www.customhousegroup.com
CUSTODY

Gearing up

Malta’s government would like to see more competition and some significant international players in custody.

A recent research report claims over half of all European hedge fund companies plan to launch onshore versions of their strategies. The majority of these are likely to be UCits III funds. With hedge funds en masse beginning to enter this area, European hedge fund jurisdictions are becoming even more interested in these products. Malta, along with Dublin and Luxembourg, expects to be able to benefit from this trend.

Hedge fund managers are keen to launch UCits not only to tap into a new investor base but also to be in a position to take advantage of UCits IV. This latest version of the directive creates a single market for service providers to UCits funds, except for custodians.

In Dublin and Luxembourg the fund servicing structure of custodian banks, administrators, managers, transfer agents and professional advisory firms is already well established. Both are key locations for domiciling and servicing investment funds. Malta, while not quite as advanced as Dublin and Luxembourg, is keen to be on the list of jurisdictions where hedge funds and investment companies are keen to set up.

At present the two dominant banks providing custody services in Malta are HSBC and Bank of Valletta. Both offer a comprehensive custody service.

As part of HSBC’s integrated securities services, HSBC Bank Malta provides custody and clearing services to retail and institutional clients. The unit forms part of HSBC’s global custody and clearing business. The Malta bank is responsible for the safekeeping of over €3 billion of client assets (at December 31, 2008).

Through the parent company, HSBC Bank Malta offers a custody service package including safekeeping. The custody unit uses Euroclear, HSBC Bank London and other sub-custodians as necessary. For trade capture, clearance and settlement, the custody unit uses the HSBC group’s IT systems, including Group Hub Securities System.

The custody unit follows up corporate actions to ensure instruments are received within the required deadlines. It also follows up dividends and interest payments crediting the client account on receipt of the money. It can also help clients reclaim tax as necessary.

Bank of Valletta is teamed with JP Morgan to provide global custody services, seen as a growing segment of the Maltese bank’s business. The bank is now actively exploring ways to expand its global custody reach.

It provides custody services not just for its own in-house funds but also for professional investor funds domiciled in Malta.

According to Lion Calleja, head of custody operations at the bank, UCits funds is an area that is attracting interest. He says some UCits funds are relocating from current jurisdictions including Luxembourg, Ireland and the Channel Islands to be in Malta. They see the jurisdiction as more attractive from a cost perspective. Bank of Valletta and others are keen to pick up the custody part of the business.

Bank of Valletta also has a business collaboration agreement with FIMBank. The two are co-operating and promoting each other’s services in a number of business areas and markets. The areas of business covered by the agreement include trade finance and related services, wealth management services, trustee services, fund administration services and custody services. Trustee services, fund administration and custody services are important operations for the Bank of Valletta Group, according to the bank’s CEO.

The bank has plans to grow its custody services. According to Calleja, it sees a niche in providing services for smaller funds and the smaller custodial transactions. While larger custodian banks, such as BNY Mellon and State Street, may not be keen to take on business unless it is substantial, Bank of Valletta has no minimum amount for its service.

Since under the UCits regulations all custodial work needs to be local, the bank is hoping to pick up more business. The bank has custodial business worth around €2.5 billion including its own funds. Work also flows through to the custody operations from Valletta Fund Services, the fund administration arm of the banking group.

The bank thinks it is in a strong position to pick up this business. The group announced profits for the financial year ending September 30, 2009 of €18.8 million, more than double the €40.6 million profit in 2008.

A relative newcomer to the custody scene in Malta is Sparkasse Bank Malta. According to Paul Mifsud, managing director, the bank has seen strong demand for its services including execution, settlement and custody. Since the bank performs some of the functions of a prime broker, Mifsud believes it is also well placed to start picking up more custody work, particularly from UCits funds domiciling in Malta.

Leveraging the bank’s fund of hedge funds platform as well as traditional hedge fund work, Mifsud says he expects the custody side to make “significant progress” particularly with the UCits rules skewed in favour of domestic custodians. He thinks the country is well placed to pick up more business because of domicile there. The challenges, says Mifsud, will be for Malta to cater for the growth. With only three licensed players regulated locally on custody, he expects to see more banks enter the market.

The Malta Financial Services Authority is keen to see more choice of custodians, too. It says at least one major European bank already present in the country has applied for a full banking licence and intends to start offering custody services from Malta. Mifsud agrees, saying Malta needs a “pool of custodians so people can pick different parts of the business.” He believes Sparkasse Bank Malta is well placed to take advantage of the surge in business that is expected in 2010 and beyond.

MEDITERRANEAN BANK SET TO MAKE A SPLASH IN MALTA

Mediterranean Bank is one of the newest banks to set up in Malta. Re-launched with fresh capital and new management, the bank is targeting the wealth management, savings and investment industries but also has an eye on a variety of services for the country’s growing funds sector.

CEO Mark Watson bought the bank in August 2009. With a background in financial services, he decided it was “a good time to start a new bank”.

With the burgeoning funds sector, he saw an opportunity in Malta to create a wealth management business offering a range of investible €18.8 million products as well as private banking services such as foreign exchange transactions, safe deposit, money transfers, accounts and savings and deposit products among others.

Watson is keen to build on what he sees as “essentially a very interesting tapestry that Malta has to offer.”

One area he is considering is custody. He emphasises that it is still very early days for the bank but it is “one area we are looking at as we see synergies with the broader wealth management type of products.” Initially the bank will concentrate on wealth management products that Watson hopes will be attractive to Malta’s high net worth individuals.

He also sees opportunities in supporting smaller hedge fund managers that are likely to domicile in Malta. He sees both as potentially lucrative sectors to support as a private bank.

However, he is keeping his options open, stressing that there are a number of products and service areas he is looking to provide.

One option may be to link up with a leading banking institution to offer a custodial service, he says it is “premature” to suppose the bank will go ahead with this idea. “We are not sure it is right for us,” he says.

He believes the introduction of UCits IV could open many opportunities to the local banking community. The cost competitiveness of the jurisdiction, says Watson, should give it an advantage over other jurisdictions in Europe.

He sees Malta overall as “a very attractive European jurisdiction; there is no doubt about that.”

WILL THE UCITS IV DIRECTIVE CHANGE THE MALTESE CUSTODY SCENE?

The introduction of the UCits IV directive could bring significant changes to the Malta financial services industry. The directive aims to create a single market for service providers to UCits funds, except for custodians.

Malta is well placed to benefit from this trend, as it already has a strong financial services industry. However, there are some challenges that need to be addressed.

One challenge is the lack of custodians in Malta. The country needs to attract more custodians to take advantage of the UCits IV trend.

Another challenge is the cost of doing business in Malta. The country needs to ensure that its costs are competitive with other European jurisdictions.

The government of Malta needs to ensure that the country is well equipped to attract custodians. This includes providing the necessary infrastructure and regulatory framework.

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Sparkasse Bank Malta plc is authorised to conduct Banking business and to conduct Investment Services business by the Malta Financial Services Authority (MFSA).
Malta’s fund legislation is both detailed and flexible. Many in the island state see it as a blueprint for onshore regulation of hedge funds and believe international as well as European steps to regulate the industry will bring other countries closer to the Maltese model.

Its biggest advantage, perhaps, is its bilingual legislation. All of Malta’s laws are published in English and Maltese, both official languages in the state. This gives the legislation a clarity and ease of understanding absent in some other onshore jurisdictions. The fact that Malta also combines the legal traditions of the Continent with the Anglo-Saxon model has also given it an edge.

Over the past 15 years, Malta’s legal system has been revamped and updated. The resultant sophisticated and comprehensive legal framework is designed to attract foreign funds and other companies to Malta.

The country boasts a single regulator for financial services, the Malta Financial Services Authority (MFSA). Unlike many other regulators, the MFSA can propose legislation. This gives it an advantage when faced with innovations within the industry. Unlike many of its counterparts it can move quickly to modify existing rules and change outdated ones to ensure regulation that is in line with industry innovations.

Overall the legislation provides a comprehensive regulatory framework for the setting up, licensing and marketing of all types of collective investment schemes and institutional funds and for providers of investment services. The laws also provide for regulation of a number of designated non-banking financial activities and for the setting up and recognition of trusts.

Maltese company law is in line with all EU company laws. Indeed, the island state has a reputation for prompt adoption and harmonisation of EU directives. This means it is fully compliant with all EU legislation and offers companies setting up in Malta many of the advantages these laws confer on companies looking to expand into other EU member states.

In addition to adoption of EU directives, Malta’s laws are also in line with Organisation for Economic Co-operation and Development (OECD) standards on supervision and the prevention of money laundering and insider dealing.

The government believes the consolidation of the various provisions in Maltese law on professional secrecy provides the necessary reassurance to foreign investors without hindering the supervision of fiscal and regulatory compliance and without obstructing investigations into serious crimes such as money laundering and corporate fraud.

For the fund industry several acts are relevant. One of the major pieces of legislation administered by the MFSA is the Investment Services Act (ISA) of 1994 (amended in 2002). The Act provides the statutory basis for the licensing and regulation of persons and companies setting up investment services and collective investment schemes. It requires investments services business to operate only with a licence from the MFSA. The ISA lays down the broad criteria to be applied by the MFSA when considering applications.

Malta encourages an environment that encourages the development of investment services business in a sound and professional manner. The protection of investors’ interests is paramount. This means the MFSA has been given wide-ranging powers to take action.

At the same time the MFSA understands the importance of allowing financial services, and especially the fund sector, the freedom to innovate and to develop new products. The MFSA only grants a licence if it is satisfied that the applicant, or in the case of a company, each of its directors and officers and other related parties, are “fit and proper” to provide. In general there are three criteria that have to be met: integrity, competence and solvency.

Despite the detailed legislation, there is a culture in Malta geared towards making things happen rather than stopping them. This coupled with the accessibility and proactive development at the MFSA, means Malta is seen by many funds, and particularly start-ups, as an alternative jurisdiction for registering and licensing a fund.

Planning early

The MFSA encourages promoters and fund managers to meet the organisation as early as possible to smooth any difficulties. This can help shorten the fund licensing process considerably.

The ISA lays down the statutory basis for regulating collective investment schemes. It does not provide detailed rules and regulations to which such schemes must adhere, but empowers the regulator to issue rules and regulations to license holders as it considers necessary.

The MFSA has issued investment service rules under the ISA.

These rules explain in general terms the scope and contents of the ISA, set out the application procedure and highlight the standard licence conditions that will be applied to a licensed entity in the various regulatory areas and in the appropriate circumstances.

European passporting regulations are in force to enable Maltese-licensed entities to exercise their right to set up a branch or provide services in EU or European Economic Area (EEA) member states, and vice versa for EU- or EEA-licensed entities.

The ISA allows for the setting up of a variety of retail collective investment schemes, both UCits and non-UCits, together with funds for professional investors (PIFs).

Various structures are also possible, including a stand-alone type of fund, multi-funds and multi-classes both open- and closed-ended.

Professional support is available from a number of established fund administrators, law firms, auditors, banks and custodians.

PIFs are collective investment schemes designed for professional and high net worth investors aggregated under the term ‘authorised investors’. There are three categories of PIFs depending on the experience of the targeted investor. These are targeted at:

- Experienced investors who must have a minimum entry level of €15,000 or the equivalent currency.
- Qualifying investors who must have a minimum entry level of €75,000 or the equivalent currency.
- Extraordinary investors must have a minimum entry level of €750,000 or the equivalent currency.

Alternative investment funds, such as hedge funds, private equity funds and property funds are set up in the form of PIFs. They are regulated by specific rules relating to their estab-
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lishment, management and marketing. In most cases a PIF takes the form of an incorporated open-end or closed-end investment company but can also be set up as a limited partnership or as a unit trust.

Collective investment schemes may be established either as a corporate or non-corporate entity. Corporate funds usually take the form of a private or public limited liability company or a limited partnership. Depending on the requirements of the fund, if it is set up as a limited liability company it can be an investment company with variable share capital (SICAV) or an investment company with fixed share capital (INVCO).

An INVCO may only be set up as a public company, while a SICAV may be set up as a private or a public limited company.

Non-corporate funds include funds set up as a unit trust (regulated by the Trusts and Trustees Act) and mutual funds established by contract.

PIFs are regulated by the Rules for Professional Investor Funds issued by the MFSA. A PIF can be marketed only to the specific classes of investors that meet specific criteria set out in the rules.

**More freedom**

PIFs promoted to qualifying and extraordinary investors are not subject to any restrictions on their investment or borrowing. Those promoted to experienced investors are also not subject to any restrictions, although borrowing for investment purposes and leverage via the use of derivatives is restricted to 100% of net asset value (NAV).

PIFs are increasingly being used in Malta for the setting up of hedge funds.

A private scheme is also available. This limits the total number of participants to 15 persons, who are close friends or relatives of the promoter. The scheme is essentially private in nature and purpose, provided it does not qualify as a PIF. Such schemes are subject to a much simpler application process.

Overseas-based funds that invest directly or indirectly in immovable property can be marketed to experienced and qualifying investors. In this case they must comply with the conditions set out by the MFSA.

A collective investment scheme licensed by the MFSA can also appoint a third-party investment manager. If a manager is appointed, the MFSA requires the manager and the custodian to be independent of each other. If no third-party manager is appointed, the scheme is considered to be self-managed.

If the manager is incorporated in Malta, it must be licensed by the MFSA under the ISA. The manager should have sufficient financial resources to enable it to conduct its business effectively and to meet its liabilities.

The licensed manager of a SICAV can also be one of its directors.

The MFSA needs is to be satisfied that all directors and officers, or in the case of a unit trust or limited partnership the trustees or the general partners, meet the criteria of a fit and proper person to carry out such activities or functions required by the scheme.

Through adoption of the EU passporting regime, Malta allows EU/EEA-licensed managers to offer services in Malta.

### APPLICATION AND NOTIFICATION FEES

<table>
<thead>
<tr>
<th>Collective investment schemes: Maltese Ucits schemes, Maltese non-Ucits schemes and overseas based non-Ucits schemes</th>
<th>Application/ notification fee (£)</th>
<th>Annual supervisory fee (£)</th>
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<td>European investment companies establishing a branch in Malta in terms of passport rights</td>
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<td>European management companies establishing a branch in Malta for passport rights</td>
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<td>European Ucits marketing units in Malta under Ucits regulations</td>
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Source: KPMG
INVESTMENT FUNDS
CAPITAL MARKETS
TRUSTS
CORPORATE FINANCE

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Email: simon@simontortell.com
As the jurisdiction has grown, Malta’s legal profession has expanded and increased its knowledge of hedge funds and alternatives in general. Several are now key players in the fund sector.

One of the most well known and larger legal practices in the funds sector is Ganado & Associates. Max Ganado, managing partner, says Malta and his firm are seeing a lot of activity at present. Many funds, including retail funds, are choosing Malta, and there has been a dramatic rise in the number. Ganado believes the more service providers, particularly fund administrators, that set up in Malta, the more fund business in general will follow.

The second boost to Malta’s prospects is likely to come from UCITS III and IV. Ganado says Malta will be able to attract more UCITS products. He believes many management companies are likely to choose Malta as the EU base of operations for passporting to other member states. He points to the relative cost advantages of Malta which he believes will make it attractive. However, he thinks a bigger plus point is the fact that the jurisdiction is a well-regulated one with a regulator willing to listen to industry and allow innovation within the existing framework.

Like others, Ganado believes Luxembourg and Ireland are becoming “crowded”. The easy access to the Malta Financial Services Authority (MFSA) is a particular draw for the smaller funds and start-ups who appreciate the ability to talk through issues before launch.

Overall, he is confident of Malta’s ability to continue to expand not just as a niche market for start-ups but also for re-domiciling companies and service providers.

MAMO TCV is one of Malta’s leading law firms, but came relatively late to the funds sector. MAMO TCV Advocates evolved from the merger in 2000 of two leading Maltese law firms: Tonna Camilleri Vassallo & Co and John Mamo & Associates. Today the firm is one of the largest legal practices in Malta.

According to partner Joseph Saliba, the firm has a strong commercial law practice and added financial services around two and a half years ago. He says the firm recognised that financial services and the funds sector within it was growing at a fast pace. Over the past couple of years, the firm has built up expertise and knowledge in the fund sector. Much of the firm’s work is concentrated on professional investor funds, retail funds and advice to companies wanting to establish in Malta for passporting as well as UCITS and non-UCITS retail advice.

According to Saliba, expertise now ranges from private equity to hedge funds, with the most experience in distressed and fund of hedge funds as well as master/feeder structures. He points out that the firm has always been active in re-domiciling companies but is now also working in this area with funds. It has leveraged its contacts in other European markets, particularly Switzerland, Lichtenstein, northern Italy and Germany, and is also picking up work from the UK and Turkey.

Like Ganado, Saliba sees no reason why the funds sector should not continue to expand. He believes the number of double-taxation agreements in particular is a plus point for Malta linked with its competitive tax structure for companies.

Keeping up
He is concerned if the funds sector grows too big, too quickly Malta could have problems providing the necessary workforce. That is something he thinks needs to be managed and believes the government’s cautious development of the sector coupled with incentives in education will be able to keep pace with growth.

A more uncertain element that could potentially slow Malta is the EU’s approval of its tax system. Although it has formally “blessed” it, Saliba is worried that in the current climate another member state may take exception to it and call for another appraisal.

Another well-known figure in the funds world is Simon Tortell of Simon Tortell and Associates. He and his team have set up hundreds of funds including sub-funds, UCITS and hedge funds, says Tortell.

His main concern at the moment is the alternative investment fund managers directive. He says this will initiate a lot of work for Malta when it comes into existence. He believes that despite the uncertainty over the directive, there will be a rush of hedge fund managers and management companies seeking to set up within the EU. He believes Luxembourg and Ireland may not be able to cope with the business and says Malta offers a fast and cheaper alternative but within a well-regulated environment.

Tortell expects many funds will also want to create parallel, onshore UCITS funds out of existing products. Again, he thinks Malta is well placed to pick up this work.

Tortell confirms he is seeing a lot of business coming to Malta and has no doubt this will continue. He believes there will be a rush of funds from the Cayman Islands and British Virgin Islands looking to come onshore within the EU. He also confirms he is seeing a lot more interest in hedge funds creating parallel UCITS structures. Although Malta is a long way behind Luxembourg and Ireland, he believes the jurisdiction is moving in the right direction and says the country’s advantages of low cost and highly skilled workforce coupled with an accessible and flexible regulator will attract more funds.
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Joseph Ghio, a senior associate at Fenech & Fenech Advocates, also comes from one of the oldest law firms on the island. His firm has also added financial services to its specialisations and now has a considerable department focusing on the sector and on hedge funds. Ghio says he is “very bullish on prospects for the practice. He believes the jurisdiction has not yet reached its full potential and thinks the range of choices for UCits and hedge fund products in particular will be attractive for managers and promoters.

Like others in the legal profession, he thinks Malta is well placed to take advantage of the turmoil in the financial services sector. He thinks its status as an onshore EU jurisdiction will be attractive for hedge funds looking for an environment that is welcoming with a reputation for high standards when it comes to regulation. He says Malta has continued to grow and is now “on the map of world-class hedge fund jurisdictions”.

Ghio believes the country has reached critical mass and should see continued strong growth in the short term. As investors shy away from offshore centres, he thinks the degree of regulation and supervision offered in Malta will give investors the comfort they seek. Like others in Malta, he also thinks the country is ideally placed to take on new clients and funds as fund managers and vehicles move from the more-crowded Luxembourg and Ireland jurisdictions or opt for Malta because of its speed to market, low costs and highly regarded regulator.

Leaving home
Malta is also “on the top of the list for re-domiciling”, according to Ghio. He confirms his firm, too, has had a “flurry of funds” enquiring about re-domiciling to Malta. He also believes the fact that Malta is “too small” for the jurisdiction. Like Ghio, he thinks the fact that financial services and the funds sector has not been a political football has helped the jurisdiction gain a foothold quickly. Griscti says his firm is particularly working with fund managers and promoters from Europe, including Switzerland. Like others he is seeing increased work not only in setting up management companies and new funds but also with the re-domiciling of funds.

For Griscti a lot depends on perception. He says people think offshore jurisdictions or even European states outside the EU could be at a disadvantage in future, particularly if the EU directive on alternative investment fund managers excludes or heavily penalises what it sees as unregulated jurisdictions. EU membership, says Griscti, was the catalyst that helped propel Malta into the big league of financial service centres and has continued to boost its funds sector. He believes it is now time for Malta to look ahead and start thinking about the next stage of development for the funds sector.

“Malta needs to be thinking of its strategy: where it wants to go and ensure it has the individuals to cope with that growth,” says Griscti.

For his own firm Griscti believes it is unlikely it will grow to the size of the international law firms. Nevertheless, he believes his and other firms in Malta are able to provide a highly specialised and focused service to the fund industry.

Flexibility benefits
Louis de Gabriele at Camilleri Preziosi believes the hedge fund world continues to move to Malta due to its flexible legislation and particularly the professional investor fund (PIF). He says this is a good structure for hedge funds and is accommodating to all type of strategies.

He agrees with Griscti that Malta needs to be thinking ahead to the next stage of its development within the funds sector. He thinks the current framework under which the MFSA works is sufficient at present, but could come under severe strain with an increase in the number of funds it needs to supervise and monitor.

He believes a lot of effort has been put into making people aware of what Malta has to offer as a fund jurisdiction and that in future this should pay off. A higher profile for Malta, says de Gabriele, is likely to result in an even greater number of funds domiciling in the jurisdiction. Not only will it be attractive for UCits III products, says de Gabriele, but UCits IV will also offer significant opportunities for the country and could result in many more investment management companies choosing Malta as their home.

Frank Chetcuti Dimech, partner at CDF Advocates, sees his firm’s future in the compliance niche. Although the practice is active in helping funds establish and set up in Malta, the firm has a strong bias towards compliance and advisory issues. This, he believes, is a growth area, particularly as funds are increasingly faced with more regulatory duties. The MFSA, says Chetcuti Dimech, has significantly boosted its compliance monitoring and intends to increase it further in the future. Non-compliance, he warns, could land funds in a lot of trouble with regulators and could be costly.

CDF Advocates has extensive experience in advising on financial services compliance and has set up CAS Compliance Advisory Services in order to provide clients with support on compliance obligations and to help protect them against possible fines and criminal liability.

Chetcuti Dimech says this will form a core service offering for the practice in future but stresses that the firm also intends to increase its involvement in setting up and redomiciling funds and fund management companies.

Overall, although Malta’s legal services sector might be seen as small compared with other jurisdictions, it makes up in quality what it lacks in quantity. Almost all of the leading practices expect to see significant growth over the next few years and many are also taking on more staff as well as enlarging their offices physically.

All are positive about the growth of Malta as a hedge fund centre and see continued, accelerated expansion for the future.

VISION FOR 21ST CENTURY PROFESSIONAL SERVICES

Tonio Fenech, a partner at Fenech, Farrugia & Fiott, has a vision for professional services.

“We believe that professional services organisations, including law firms, are called to be both thought leaders as well as catalysts of creativity, not merely guardians of the status quo,” according to the vision statement of one of Malta’s newest businesses.

Fenech is keen to design a “way of working together” of different professionals to provide clients with a complete service offering, not just legal services.

Coming out of the family law firm, Fenech is working with his partners in the company to offer management support services including IT, trust and fiduciary services, tax advice and legal services. Other professionals will be added to the mix as needed, depending on client needs, says Fenech.

The idea of creating a professional services network that can offer a wide range of services is, believes Fenech, the best model to fit a world where the lines between professions and services are being blurred.

In the mission statement he describes this as “taking on a more integrated character than the strict confines of any particular discipline or specialisation”.

He sees opportunities for this model within the alternative funds sector where he thinks the “open architecture” will be ideally suited to the needs of fund managers.
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Malta enjoys a flexible and sophisticated local tax regime. It is the only EU member state to operate a full imputation system. This means tax paid by a company essentially remains a pre-paid tax on behalf of the shareholders’ tax liability.

Under the refundable tax system, tax is paid by a company registered in Malta on its profits. When a company distributes its profits to shareholders, irrespective of where they are based, the shareholders are entitled to receive a refund of a substantial part of the tax paid by the distributing company.

Distributions to non-resident investors and capital gains on exit made by non-resident investors are exempted from tax in Malta. A 15% final withholding tax is imposed on distributions and capital gains to Maltese-resident investors.

Malta enjoys an extensive range of double-taxation treaties. These include agreements with Albania, Australia, Austria, Belgium, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Germany, Hungary, India, Italy, Korea, Libya, Luxembourg, Malaysia, Netherlands, Norway, Pakistan, Poland, Portugal, Romania, Slovakia, South Africa, Sweden, Switzerland, Syria, Tunisia, the UK and the US. Treaties concluded but not yet in force include Kuwait, Singapore, Thailand, Turkey and Ukraine.

For collective investment schemes, taxation is regulated through the Income Tax Act, Income Tax Management Act and the Collective Investment Scheme (Investment Income) Regulation.

Other licensed funds, including all funds in overseas-based schemes, are classified as non-prescribed funds.

All income of collective investment schemes is exempt from tax in Malta except for the withholding tax applicable to local investment income in the case of prescribed funds. So local investment income (excluding dividends) derived by prescribed funds is subject to a final withholding tax.

The withholding tax rate is 15% in the case of bank interest and 10% in the case of other investment income.

Tempting onshore environment

Malta’s many double-taxation agreements coupled with its EU onshore status should give it a strong position as one of the most favourable tax environments in Europe.

An investment services expatriate is an individual who is not ordinarily resident and not domiciled in Malta or was not resident for a minimum period of three years before taking up employment with or starting to provide services to an investment services company.

The fiscal incentives applied for the first 10 years include an exemption from tax on a generous list of benefits in kind which he/she might receive (such as removal costs, accommodation expenses, travel costs, school fees, medical expenses) and an exemption from tax on interest and royalties received and on capital gains on the disposal of shares in a company or units in a collective investment scheme.
Deloitte Malta has a dedicated team of audit, tax and advisory professionals experienced in serving clients in the financial services industry. For further information please contact Andrew Manduca or Stephen Paris at amanduca@deloitte.com.mt or sparis@deloitte.com.mt

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With the Big Four accounting firms established on the island, Malta has the capacity and expertise to help the hedge fund industry grow. Despite the economic downturn, all the accounting firms are experiencing growth in their fund work.

Luck, says Deloitte’s Stephen Paris, has something to do with Malta’s success as an international financial centre and as a growing jurisdiction for hedge funds. However, it is not just luck that has seen the country emerge from the financial crisis in such a good state.

The stability of its banking system, coupled with what is seen as a well-regulated onshore regime for hedge funds, is continuing to attract start-ups. Paris believes Malta is particularly well placed for this sector of the market. “We are continuing to see new start-ups. This is key for the jurisdiction. Others in the EU, like Luxembourg and Ireland, are not geared up for start-ups the same as Malta,” notes Paris.

“We were lucky with the banking system,” Paris admits. While many may see Malta’s banks as less adventurous than others, the sector’s cautious approach and avoidance of anything that smacked of complexity meant the banks are on solid ground. The tight but flexible regulation of the fund sector makes Malta a safe and attractive jurisdiction, particularly for investors who are wary of counterparty risk.

For Paris the real challenge for Malta is its future development. “Where do we go from here? We have the lawyers, service providers, accountants, fund administrators and regulator. We are all geared up and we now need to take the next step,” says Paris.

He says Malta needs to get ready for the next wave. If one of the bigger-name fund administrators like State Street, RBC Dexia, Citib or Citco, opens on the island state, Paris believes that could be the impetus to push Malta into the mainstream.

While he believes critical mass has been reached for the fund industry, it is still hosting mainly small, start-up funds rather than the heavy players. He thinks the popularity of the professional investor fund (PIF) is an ideal vehicle for managers looking for a flexible onshore structure that gives them freedom to be innovative but within a regulated framework.

He admits the economy globally is still in a delicate place. He also thinks the cautious approach Malta has taken, gradually building up its expertise in the fund sector, is now paying off in this more circumspect environment.

The fact that the Big Four accounting firms are all present in Malta and have substantial work in the financial services sector bodes well for the future. All are leveraging their international networks to make sure the message about Malta’s fund industry is broadcast. By plugging into their global networks, Paris believes the accounting sector can help boost Malta’s image and ensure the message that it is open for hedge fund business becomes known.

He sees continuing opportunities for service providers, including the accounting and auditing profession. Paris believes Malta’s strength is in its ability to attract the smaller funds of €20-50 million who may not find such a welcoming environment in other jurisdictions. In Malta, he says, funds of almost any size will be able to find competitively priced, high-quality services.

Paris sees clear advantages for start-ups establishing in Malta. The regulator, he says, is open to the market, service providers have high standards at reasonable prices and because the jurisdiction is itself developing, it is much more flexible about the size of funds it will service. Paris, like others, does not think Malta should rush ahead. “Increased numbers are good, but we need to be able to cope with the volume and be able to keep up service standards,” he says.

“When you put together the package that is Malta’s offer the question becomes ‘why not Malta?’ rather than ‘why Malta?’,” Paris notes.

“I think given the individual players, auditors, lawyers and fund administrators all represented in Malta, it is an obvious choice,” he declares. The ability to talk directly with the regulator, a favourable and EU-approved tax regime as well as competitive services are all plus points.

Juanita Bencini, partner, regulatory and compliance advisory services at KPMG, agrees. She believes it will be reassuring to investors as well as fund managers that Malta has had none of the negative publicity some other jurisdictions have faced over the last 18 months. “We have been able to consolidate our positions at a particular level,” she says. “We have found our market niche and that is catering for the smaller funds and start-ups,” notes Bencini.

“Malta is being seen as the jurisdiction to set up in. Ireland and Luxembourg are not cost-effective for start-up funds and many are too small to meet the minimum require-
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ACCOUNTING

ments of assets under management for administrators based in those jurisdictions," she says. While these funds may be small, Bencini believes some may grow into the “giants of tomorrow” and that they and the jurisdiction will grow together.

Like Paris, Bencini thinks Malta should be looking ahead. “What’s next? Do we want to remain in this niche or should we be looking at other opportunities and market sectors to exploit,” she asks.

UCITS IV OPPORTUNITIES

The implementation of UCITS IV is expected to be finalised by 2011. The regulation provides for a more efficient framework aimed at giving broader access to more cost-effective products. First introduced in 1985, there have already been a series of amendments to the original directive. UCITS IV aims to enhance investor information through a simplified prospectus, facilitating the cross-border marketing of UCITS products throughout the EU using the prospectus as a marketing tool. This will widen the scope of financial instruments in which a UCITS product can invest, enabling the use of modern investment techniques. One of the key elements that has attracted the attention of Malta as well as other European jurisdictions is the introduction of a single passport for management companies by harmonising operating conditions. The passport will allow a management company to provide the services for which it was authorised in its ‘home’ member state directly or by setting up a branch office in another member state.

Removing the administrative barriers to the cross-border marketing of UCITS products should give even more impetus to the ‘brand name’ and encourage even more hedge funds to launch UCITS-compliant versions of existing or new funds.

The creation of a master/feeder structure will help consolidate existing funds and make it easier in future to set up and market from one EU member state to another. UCITS IV provides for one set of EU rules on the requirements for authorisation of a fund merger and on the information that will have to be given to investors.

Her view is that the financial crisis has opened up significant opportunities for Malta which it needs to seize and capitalise on. “I think there are certainly opportunities to look for other areas. We could be more proactive in marketing ourselves as a jurisdiction for funds setting up as well as looking to re-domicile.”

The aftermath of the crisis, the attention on the Group of 30 which threw on offshore jurisdictions, particularly in the Caribbean, could open new opportunities for Malta, believes Bencini.

“There are some who would say this is the time for European managers to move closer to home. Do they really need to be in the Caribbean? That could be an opportunity for us,” she says. “The danger is that we could let this pass us by. We need to grab the opportunities,” adds Bencini.

She believes the repercussions of what has happened and how it has changed the way investors view jurisdictions should be exploited by Malta. “Investors need to be wowed and I am confident that the structures Malta offers for funds will be ones that investors will be confident with. We can also offer the comfort of quality service providers, including the Big Four audit firms. That gives a certain measure of professional quality and assurance,” says Bencini.

She admits it is hard to say if there will really be a mass exit from the less-regulated offshore jurisdictions. But nevertheless she says Malta should be able to woo some funds and managers. “We are in a position to market ourselves as a quality market. I see growth potential for Malta,” she concludes.

At PricewaterhouseCoopers (PwC), partner Frederick Mifsud Bonnici, is thinking along similar lines. He points out that PwC saw the future prospects for the fund industry in the late 1990s. “We thought this would be a sector that would expand so we sent people out from Malta to work at other PwC offices where there was a lot of fund activity. Malta was one of the biggest secondment practices. We thought the sector would grow in Malta. It had all the prerequisites to success so we made the investment 10 years ago and it has been proven to have been the right move,” says Bonnici.

Malta’s size, says Bonnici, is an advantage. “It is easy to talk, phone and discuss issues,” he notes. This close co-operation and ability to sort through issues and problems quickly has helped develop the jurisdiction’s reputation for flexibility within a regulated environment. Bonnici also thinks the culture of Malta is another advantage. “We are very adaptable people. We’re at ease with a full English breakfast and with drinking wine at lunch like the French and Italians. We’ve had so many visitors – welcome and unwelcome – over the years that we have become adaptive. This makes us equally at ease with the French, Germans, Italians and the Middle East,” he says.

He believes early adoption of international financial accounting standards, even before EU membership, has also helped Malta attract audit business. He says Malta has a “leading edge” in working within the standards.

Like Paris at Deloitte, Bonnici thinks luck has played a part in Malta’s success.

“It’s fair to say we had a good year. Until about June things were dormant but since then, activity has picked up and in the last few months of 2009 we have reached the same high levels of activity seen in 2008. Yes, we were lucky. Our banking system came out of the crisis extremely well.”

He is optimistic about the future. “Over the last month the trend has picked up. I think the G20 initiative, looking closely at some centres’ tax standards and the move into regulatory concepts has helped us. We have a reputation for being a well-regulated jurisdiction,” he notes.

“I’m bullish about Malta. There is no doubt the fund industry is a growth area. We have competitive costs, knowledge, skills and competent service providers. We have hit critical mass,” he declares.

Ronald Attard, partner, transaction advisory services at Ernst & Young, is in a similarly buoyant mood. He has seen the practice grow from 40 to over 100 people and expects further growth for the future. Although it continues to be a difficult environment globally, he believes prospects are good.

Financial services, he says, is extremely important for Malta and within that sector the fund industry is picking up more speed. Attard points to the simple tax regime and self-managed fund structure as well as the PIF as reasons for Malta’s attractions for funds.

Like his colleagues, he believes many are choosing Malta because it is an EU member state and this is a comfort to investors. The well-regulated environment for hedge funds, he declares, is also attracting many fund managers.

He sees no potential threats that could slow down Malta’s progress. Indeed, he believes developments like UCITS IV should boost Malta’s ability to attract even more business in future.

MALTA MAINTAINS COMPETITIVENESS

The World Economic Forum’s Global Competitiveness Report for 2009/2010 ranks the performance of 133 countries providing a detailed profile for each, together with global rankings covering over 100 indicators.

The report ranked Malta in 52nd place for global competitiveness (the same position as last year) and classifies it with the innovation-driven economies. Malta is also placed with the top 20 countries worldwide in a number of key categories covering financial services.

MFSA chairman Joseph Bannister says Malta’s high rankings in the finance area is an independent endorsement of Malta’s growing status as an efficient and well-managed financial services hub and will continue to strengthen international confidence in Malta.

In the eighth pillar dealing with financial market sophistication, Malta showed a marked improvement. Malta moved from 18th to 13th place.

For the second year in a row Malta was ranked as having one of the most sound banking sectors (ranked 13th). Canada was in the top spot.

Malta was also ranked globally at 18 for ease of raising money through local share issues and 15th for effectiveness of stock market regulation, less than one point behind Sweden, the top-scoring nation in this category.

Other significant rankings included 12th for the strength of auditing and reporting standards and 20th for ease of bank borrowing.

The fourth pillar deals with health and education and fifth with higher education and training. Malta came 22nd for the quality of primary education and 21st on the suitability of the Maltese educational system to meet the needs of a competitive economy.
MALTA:
A European Centre for Excellence in Financial Services & International Business

With its ability to offer an attractive cost-efficient base for financial services operators looking for an EU-compliant, yet flexible domicile, Malta has experienced a rapid growth in this sector, making financial services a major force in the economy.

Significant strengths include a well-trained, motivated workforce, a very cost competitive environment, and an efficient tax regime backed up by over forty-five double taxation agreements. To these, we add a world-class ICT infrastructure, English as an official language, an enviable climate, together with a top-ranking quality of life, and our heritage-enriched strategic location in the heart of the Mediterranean. Equally important, we offer a single, financial services supervisory body, the Malta Financial Services Authority.

Look out for further information about doing business in Malta on www.financemalta.org
What they say about Malta

Joseph Saliba, partner, MAMO TCV
Malta’s extensive network of double-taxation agreements, says Saliba, gives the jurisdiction a competitive advantage. He agrees with others that Malta can cater for the smaller, start-up funds in terms of cost. He says the approach of the regulator is also important. The Malta Financial Services Authority (MFSA) takes a proactive approach to regulation while being supportive of innovation within the industry. “The MFSA will listen to what managers and the industry says,” notes Saliba.

Alan Richards, CEO and director, HSBC Bank Malta
Malta is a “well-kept secret” says Richards in relation to its ability to provide services to the alternative fund industry. He says the very strong level of education coupled with good technical infrastructure gives Malta the ability to put together a compelling and attractive package. Internationally Malta “punches above its weight” and has a pragmatic and strong regulator with a reputation for quality. Richards notes the technology infrastructure is “very good”. He says an increasing number of fund managers are “exploring the potential benefits of Malta”.

Kenneth Farrugia, general manager, Valletta Fund Services
“Malta has had a good year despite the crisis. It has seen growth in the number of funds and fund managers and there has been a significant increase in business within the fund sector,” notes Farrugia. Because Malta is small and nimble, it can react fast to changes and innovation, says Farrugia, adding that the regulator is able to react quickly to developments within the industry. The highly skilled and competitively priced workforce available in Malta is an attractive proposition for service providers and fund managers.
Joseph Ghio, associate, Fenech & Fenech Advocates
Malta has a good reputation with a hands-on approach to regulation that is balanced. Other advantages offered by Malta include a solid banking system, an English speaking and skilled workforce, a favourable time zone, numerous service providers and membership of the eurozone. As one of the few hedge fund jurisdictions to see growth in 2009, he says Malta has now reached critical mass that allows for significant exponential growth in the short term.

Mark Watson, CEO, Mediterranean Bank, Malta
Malta offers the most tax-efficient onshore jurisdiction in Europe, says Watson, and is “a very attractive European jurisdiction” that is politically stable with a robust banking system. It has been given a clean bill of health by Organisation for Economic Co-operation and Development and the International Monetary Fund. Watson is also impressed by the regulator’s approach and level of knowledge of the industry. He says the MFSA is “very approachable” and this makes a huge difference when setting up in the jurisdiction.

Anthony O’Driscoll, managing director, Apex Fund Services
Running costs in Malta, says O’Driscoll, are a fraction of that of other European jurisdictions. He believes this gives Malta an advantage, particularly with start-up funds that are watching the bottom line and need to keep costs low. “Malta is very much a business-centred and well-regulated domicile. It offers an attractive combination of cost, speed of setting up and quality service providers,” says O’Driscoll.

Max Ganado, managing partner, Ganado & Associates
Malta believes in co-operation, competition and innovation among EU states, says Ganado. It is a jurisdiction committed to high standards of disclosure, accountability and governance. He believes accessibility to the regulator, the speed of processing fund applications and a competitive cost structure coupled with a sophisticated legal structure and the use of the English language are key competitive advantages.
Malta at a glance

QUICK FACTS
Full name: Republic of Malta
Population: 408,000 (UN, 2008)
Capital: Valletta
Area: Malta is composed of three major islands (and three minor): Malta island – 246 km² (94.9 sq miles); Gozo – 67 km²; and Comino – 3 km².
There are also some minor uninhabited islands.
Major languages: Maltese, English
Major religion: Christianity
Life expectancy: 77 years (men), 81 years (women) (UN)
Monetary unit: euro from January 1, 2008
Main exports: Machinery and transport equipment
GNI per capita: $15,310 (World Bank, 2007)
Internet domain: .mt
International dialling code: +356
Location: 93 km south of Sicily and 288 km east of Tunisia
Terrain: Mostly low, rocky, with dissected plains and coastal cliffs
Climate: Mediterranean with hot, dry summers and mild winters
Average temperature: December–February 13.2°C; June–August 25.8°C
Business hours: Offices are usually open 08.00–12.30 and 13.30–17.00 Monday to Friday. Shops are open 09.00–3.30 and 16.30–19.00 Monday to Saturday. Most offices and shops are not open on Sundays and public holidays, although certain businesses are open in the main tourist centres.

PUBLIC HOLIDAYS 2010
New Year’s Day: January 1
Feast of St Paul’s Shipwreck: February 10
St Joseph’s Day: March 19
Freedom Day: March 31
Good Friday: April 2
Labour Day: May 1
Sette Giugno (commemoration of 1919 riot): June 7
Fast of St Peter and St Paul: June 29
Assumption Day: August 14
Our Lady of the Victories: September 8
Independence Day: September 21
Immaculate Conception Day: December 8
Republic Day: December 13
Christmas Day: December 25

MEDIA
Many of Malta’s newspapers and broadcasters have strong political affiliations. Daily and weekly newspapers appear in Maltese and English. Maltese radio began in the mid-1930s, partly to counter Fascist propaganda broadcasts from Italy. Malta Television launched in 1962, five years after the islanders started receiving TV signals from Italy. Italian channels remain popular. The first private broadcasting licences were granted to the two major political parties and the Catholic Church. More stations followed and there is now a proliferation of privately run radio stations and several TV channels.

VALLETTA
Malta’s capital city Valletta was originally built by the Knights of St John in the 1500s. Today the UNESCO world heritage city is filled with breathtaking baroque architecture, picturesque narrow streets, churches, palaces, museums, restaurants and cafes — and beautiful views of one of the Mediterranean’s most popular harbours. The city has recently signed world-renowned architect Renzo Piano to re-design its main sights to their pre-WW2 splendour.

GOZO
Gozo is the smaller, quieter and greener sister island of Malta. A short ferry ride or sea plane flight away, it is perfect for exploring the local way of life. The island is dotted with traditional villages, long winding walks, secluded lagoons and caves as well as characteristic farmhouses. The beaches are among the safest and prettiest in the Mediterranean Sea with warm temperatures and calm waters all year round. Gozo is particularly popular for outdoor sports with opportunities ranging from diving, rock climbing, sailing, abseiling to hiking for pros or beginners.

CUISINE
Traditional Maltese food is a mixture of North African, Mediterranean and English flavours, with a heavy Italian influence. The national dish is fenek, rabbit. Being an island, fish is obviously very widely eaten and species are seasonal. Other favourites include Minestra (a thick vegetable soup) and Bragoli (a mixture of meat, bacon, eggs, onions and breadcrumbs wrapped in thin slices of steak). Pastizzi is a savoury puff pastry filled with ricotta cheese or peas and is often eaten as a light snack. Malta also produces its own olive oil, honey and award-winning lager called CISK. There are several vineyards dotted around the islands producing some fine Maltese wine.

MALTESE PUPPIES
The Maltese breed is one of the oldest in the world. It is estimated Maltese dogs originated some 6,000 years ago. Well known with Phoenicians, Greeks, Carthaginians, Romans, Arabs and Normans, there are two schools of thoughts as to how the Maltese dog found itself on the island. Some say it was the ancient Phoenicians that first introduced the dog to Malta, while others believe the Maltese was an indigenous breed and grew in popularity when it was used as barter across the globe.

EVENTS
Malta hosts a number of events throughout the year, from traditional village festivals (feast days) to international music, art and sports events. One of the highlights is the Malta Carnival in February, a colourful affair during which residents are decked out in outlandish costumes and the streets are besieged with extravagant floats. The summer is rocked by the Isle of MTV concert in July. This brings the hottest international acts and DJs to the islands and its outdoor clubs. For more sophisticated entertainment, the Rolex Middle Sea Race in October entices some of Europe’s finest skippers and crews to take part in this demanding 606-mile Mediterranean route. The race starts and ends in Malta and navigates its way through impressive scenery just off the coast. Spectators can watch from the shore or even rent a boat to get closer to the action.

HISTORY
Malta’s history, reaching back over 7,000 years, is rich and eventful filled with influences from the Neolithic period to the Phoenicians, Romans, Byzantines, Arabs and the Order of the Knights of St John. Today there are numerous historic sites preserved on the islands, from ancient temples to an underground necropolis. The medieval town of Mdina is particularly one not to miss. Like a small time capsule, it boasts sublime baroque architecture, some great religious sights and mesmerising views of the islands.

MALTA’S LANGUAGE
The Maltese language (Malti) is a member of the Semitic language group. This group includes Arabic, Hebrew and Amharic. Some believe that Maltese is a descendant of the language that was spoken by the Phoenicians. However, most linguists think it is related to the Arabic dialects of western North Africa. What makes Maltese different from other Semitic languages is the fact it is the only language written in Latin script.
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Malta has a robust yet flexible regulatory funds framework, an accessible regulator, cost-competitive service providers and a service driven culture, all resulting in a highly effective time to market. At Valletta Fund Services Limited, Malta’s largest fund administrator, we support fund promoters at two levels: at the set-up stage through our Turnkey Fund Formation Service, and, once the fund is licensed, we provide a comprehensive range of fund services covering fund accounting and valuation, transfer agency as well as corporate support services.

Valletta Fund Services Limited is recognised by the Malta Financial Services Authority to provide fund administration services.

Visit our website at www.vfs.com.mt or call Kenneth Farrugia or Joseph Camilleri on +356 21227311

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It’s well worth spending a few minutes just talking to us.