

THE SECURITIES INDUSTRY IN THE BAHAMAS

FUND ADMINISTRATION

One of the fastest growing areas of financial services in The Bahamas has been in mutual funds. The Bahamas has a full complement of globally-recognized administrators as well as a wide range of domestic niche players. As testimony to their sophistication and professionalism, several administrators in The Bahamas have been nominated or are recipients of Global Custodian awards.

Prior to the enactment of legislation, the management and administration of collective investment schemes in The Bahamas grew in a safe environment, limited to the private international banks and a limited number of investment houses.

Since the creation of the Securities Board (now the Securities Commission) and the passing of the Mutual Funds Act and the Regulations in 1995, The Bahamas has gained considerable credibility and recognition as a properly regulated environment for the establishment and operation of funds. There are more than 50 licensed fund administrators in The Bahamas. They manage in excess of 750 funds with reported assets under management of approximately \$90 billion. These funds are either licensed or registered by the Securities Commission or operate on an exempt basis from The Bahamas.

The primary objective of the Government's mutual funds legislation is to ensure that there is appropriate supervision in relation to the affairs of Bahamas-based mutual funds. The legislation has two primary purposes: to ensure full disclosure having regard to the sophistication of the investor; and to ensure full compliance with the fit-and-proper test as it relates to directors, investment managers and sponsors.

FUND STRUCTURES

- Cost/time efficient Optimal Fund structure can be designed from available investment vehicles
- No investment restrictions on Umbrella Funds, Fund of Funds, Hedge Funds, Derivative Funds or any other investment strategy

INVESTMENT VEHICLES AVAILABLE IN THE BAHAMAS

- International Business Company (IBC ACT 2000)
- Exempt Limited Partnership
- Limited Life/Limited Duration Company
- Unit Trust

EXAMPLES OF FUNDS STRUCTURES AVAILABLE

- Single Class
- Multi-Class
- Multi-Fund (protected cell legislation pending)
- Master-Feeder
- Fund of Funds

Essential to the success of the funds industry is the presence of major international auditing firms, providing a high level of confidence to international investors and ensuring integrity with respect to fund administration.

This environment has seen The Bahamas administer the full spectrum of funds including equity, bonds, money market, fund of funds and hedge funds. Securities traded in these funds are unlimited and include derivatives, mortgage backed securities, real estate and currencies.

In addition to funds, institutions also continue to use The Bahamas as a principal base for special purpose vehicles.

INVESTMENT MANAGEMENT

The Bahamas is gearing up to become a hub for capital markets activities.

Growing numbers of companies have become interested in setting up investment management operations in The Bahamas for the purposes of establishing funds, private banking and institutional accounts, private and corporate trusts, limited partnerships and hedge funds. These structures are being used to invest across the investment spectrum in global equities, bonds, real estate, derivatives, commodities and currencies.

The mandate of the securities commission is to effectively oversee and regulate the activities of the securities and capital markets and to protect the investors while strengthening public and institution confidence in the integrity of those markets. In this regard, the Securities Commission regulates: 1. intermediaries in the investment or negotiation of securities (i.e. brokers/agents); 2. underwriters, agents etc. who issue public offerings; 3. advisors on the investment or sale of securities (i.e. promoters and their associates); 4. fund administrators, trustees, custodians, operators and their representatives; and 5,

the securities market, the stock exchange and any other bodies prescribed by statute law.

The financial services industry in The Bahamas is growing at an unprecedented rate. With this growth, the focus of local service providers is sustaining this trend through staff training and maximizing the use of technology.

TAX STATUS AND CONFIDENTIALITY

Having the ability to compound investment returns tax-free is not just a dream. In The Bahamas no taxes are levied on capital gains, corporate earnings, personal income, sales, inheritance or dividends. This applies to all resident corporations, partnerships, mutual funds, trusts and individuals. Obviously, the tax benefits to international investors will ultimately be determined by the rules that apply where they are domiciled.

A primary advantage of forming a fund in The Bahamas is the absence of taxation, of any kind, imposed on the fund from within The Bahamas. Therefore, income and gains to the fund and distributions, if any, as well as the redemption of shares, transpire completely tax-free. An additional advantage, provided by the Mutual Funds Act, is that of confidentiality for the fund and its investors.

POLITICAL AND ECONOMIC STABILITY

Although independent from the U.K. since 1973, The Bahamas has retained much of the English political and legal framework, holding democratic elections at least every five years, maintaining lower and upper legislative houses and a legal system based on English common law with right of appeal to the Privy Council.

On the economic side, The Bahamas has benefited from an enormous investment in tourism in recent years that is estimated by the government to have exceeded \$1.5 billion, compared to GDP in 2000 of \$4.8 billion. Along with investments in banking and local industry, this led to growth in GDP of 3% in 1997, followed by 3.5% in 1998, 5% in 1999 and 3.5% in 2000. Combined with a growing middle class, this economic growth will support further development of the financial management industry in The Bahamas.

TALENTED POOL OF PROFESSIONAL EMPLOYEES

Due to its history as a reputable banking jurisdiction, The Bahamas has built up a highly skilled workforce of accountants, lawyers, bankers, trustees and investment managers. The country's emphasis on education and literacy has also created a highly skilled labour force which provides a broad source of personnel at all organizational levels.

The lack of income and capital gains taxes also attract a high number of talented investment professionals to The Bahamas from traditional financial centres, thereby strengthening the professional infrastructures even further.

MODERN COMMUNICATIONS

The Bahamas has more than 64,000 telephones operating within a 100% digital, fully automated switching system. Fund managers have access to all of the standard computer-based investment research tools such as Bloomberg, Datastream and Reuters. The Bahamas has



12 Internet service providers, allowing fund administrators access to the same information as investment analysts and portfolio managers on Wall Street.

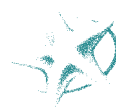
INDEPENDENCE

The Bahamas independent status allows the country the unique ability to establish its own legislation and regulations without deferring to another country.

LOCATION AND TIME ZONE

Nassau is conveniently located 200 miles from mainland U.S. – 30 minutes by jet from Miami or a two and one-half hour flight from New York. Due to the enormous investment in hotel rooms over the last few years, there has been a corresponding increase in the number of direct flights offered to international cities in the U.S. and Europe. Another advantage is that The Bahamas operates in the same time zone as New York allowing the country to move in step with some of the most influential stock markets in the world.

The prospects for The Bahamas to retain and build upon its reputation as one of the world's leading off-shore financial centres have never looked brighter.



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