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# SINGAPORE PRIVATE FUND MARKET OVERVIEW

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After years of pandemic-driven turbulence, the private funds industry in the Asia-Pacific (APAC) region has fared comparatively well amid the “new normal”. With international investors continuing to search for diversified returns, Asia-Pacific’s private capital asset under management (AUM) reached a record high of US\$2.28 trillion in September 2021, according to Preqin’s Report titled “Preqin 2022: Alternatives in Asia-Pacific”<sup>1</sup>.

As Singapore looks to position itself as a wealth and fund management hub in the APAC region, Singapore is well placed to serve as a gateway for international capital to tap into the opportunities across the APAC region. In the 2021 survey conducted by the Monetary Authority of Singapore (MAS)<sup>2</sup>, it was reported that Singapore’s total AUM in 2021 reached around US\$4 trillion, representing a 16% increase from the preceding year. Within the alternatives sector, private equity (PE) and venture capital (VC) AUM recorded a year-on-year growth of 42% and 48%, respectively<sup>3</sup>. In addition, the number of family offices based in Singapore grew to approximately 700 in 2022<sup>4</sup>.

As Singapore looks to develop further as a private markets hub, we have prepared a series of articles to provide an overview on the key considerations that fund managers should consider when establishing a private fund in Singapore. Investing in a private fund with a portfolio of diversified assets can help mitigate the risk and volatility in an asset portfolio, and a private fund structure is

becoming increasingly popular as a means for fund managers to raise and deploy capital.

Against this backdrop, our article series cover topics on (i) the fund structures that we commonly see in Singapore; (ii) the legal framework for fund management and fundraising activities; (iii) the primary differences between the domiciliation of a fund in Singapore, Hong Kong and the Cayman Islands; (iv) the taxation of funds and the tax incentive schemes in Singapore; as well as (v) the legal framework and the policy incentives to support the establishment of family offices in Singapore.

### 1. FUND STRUCTURES

A fund manager usually takes into account a number of factors such as commercial, legal, regulatory and tax considerations when it decides how a private fund should be structured. Some key factors to consider when structuring a private fund include (i) the nature of the investments that the fund will make and how liquid these assets are, (ii) whether the fund is structured as a closed-ended fund or an open-ended fund, (iii) investor familiarity with the structure, (iv) confidentiality, and (v) tax considerations.

The fund structures that we commonly see in Singapore are: (a) limited partnerships and (b) variable capital companies, but (c) unit trusts are mentioned for completeness purposes.

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<sup>1</sup> Preqin 2022: Alternatives in Asia-Pacific

<sup>2</sup> Monetary Authority of Singapore: 2021 Singapore Asset Management Survey

<sup>3</sup> Monetary Authority of Singapore: 2021 Singapore Asset Management Survey

<sup>4</sup> “Singapore family office scene set to soar in sophistication”, The Business Times (24 August 2022), <https://www.businesstimes.com.sg/companies-markets/banking-finance/whos-who-private-banking-aug-2022/singapore-family-office-scene>.

### *(a) Limited Partnerships*

Closed-ended private equity and venture capital funds are usually structured as limited partnerships. As with limited partnerships in other jurisdictions, a Singapore limited partnership does not have a separate legal personality and is governed by a limited partnership agreement, which provides that the general partner will hold assets on behalf of the limited partnership in its capacity as a general partner.

A Singapore limited partnership must consist of at least one general partner and at least one limited partner, but there is no upper limit on the number of partners in a limited partnership. As its name suggests, a general partner is responsible for management of the limited partnership and has unlimited liability for all debts and obligations of the limited partnership - this explains why it is common for fund managers to set up a special purpose vehicle to act as the general partner in order to ring-fence the potential liabilities. On the other hand, a limited partner's liability in respect of the limited partnership is limited to the amount of its agreed capital contribution, to the extent that it does not take part in the management of the limited partnership. The Singapore Limited Partnerships Act (Chapter 163B) provides for a non-exhaustive "white list" of actions that a limited partner may take (e.g. approving or disapproving an amendment to the limited partnership agreement) without being regarded as taking part in the management of the limited partnership.

Most investors are familiar with the limited partnership structure, and a limited partnership structure is favoured by both fund managers and investors as it is able to preserve confidentiality. This is because neither the limited partnership agreement nor the list of partners is available for public inspection in Singapore.

### *(b) Variable Capital Companies*

The MAS introduced the Variable Capital Companies (VCC) regime in 2020 with a view to offer more flexibility for investors to enter into and exit from the fund. A VCC is suitable for both open-ended and closed-ended fund strategies.

A VCC is comparable to a segregated portfolio company in the Cayman Islands. As its name suggests, a VCC can vary its capital structure through a redemption of capital, thereby allowing investors to exit and realise their returns from investment without being subject to the capital reduction restrictions.

Another notable feature of the VCC structure is that it may either be established as a standalone entity or as an umbrella structure with multiple sub-funds. By allowing different sub-funds to be set up under the same umbrella, the VCC presents a cost-effective solution to fund managers via sharing of manpower and resources. The sub-funds also operate as separate portfolios, where each sub-fund's assets and liabilities are segregated from each other under Singapore law.

To promote Singapore as a leading asset and wealth management centre, the MAS has launched a VCC Grant Scheme in 2020 for a period of three years till 2023 (the "VCC Grant Scheme"), which was then extended to 2025 (the "Extended VCC Grant Scheme"). Under the VCC Grant Scheme, the Financial Sector Development Fund will co-fund 70% of the qualifying expenses in relation to the provision of legal services, tax services, administration or regulatory compliance services paid to Singapore-based service providers for qualifying work performed in Singapore in relation to the incorporation or registration of a VCC, up to a maximum grant cap of S\$150,000 per VCC. While under the Extended VCC Grant Scheme, fund managers could enjoy up to 30% of co-funding at a cap of S\$30,000.

### *(c) Unit Trusts*

Unit trusts are more commonly seen in retail funds in Singapore, although it is possible that a private fund may be constituted as a unit trust. The trust arrangement is constituted by a trust deed entered into by the manager and the trustee. As a unit trust is not a separate legal entity, the legal ownership of the trust assets is vested in a trustee who has a fiduciary duty to hold these assets on trust for the interests of the unitholders.

An advantage of the unit trust structure is flexibility, as a unit trust is largely a contractual arrangement between the manager and the trustee, and the statutory rules that apply to a corporate vehicle, such as the rules on capital maintenance and the distribution of profits do not apply to a unit trust. However, investors in certain jurisdictions may be less familiar with a unit trust structure than a limited partnership. As such, unit trusts are more commonly used for retail funds where the MAS has an established regulatory regime for the registration of business trusts or for the listing of real estate investment trusts on the Singapore Exchange.



## 2. CONCLUSION

Singapore continues to remain a key hub for international fund managers and a popular domicile for the establishment of private funds in the APAC region. Thanks to the continued government support through incentive schemes, the establishment of fund managers and family offices in Singapore continue to grow, and Singapore is well positioned to capitalise on the growth of the AUM in the APAC region in the years to come.

*This publication is intended to provide a high-level overview on the private fund market in Singapore. It is provided for general informational purposes only and should not be construed as legal advice. King & Wood Mallesons does not practice Singaporean law, and works closely with local lawyers to support our clients' needs in Singapore.*

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*If you have any questions or comments, please get in touch with any of your KWM contacts below.*

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