



PARA BELLUM ADVISORS

DIRECT CAPITAL PRINCIPAL · OFFSHORE VEHICLE ARCHITECTURE

Offshore Investment Platform Design for a Direct Capital Principal

SCENARIO TYPE

Direct Capital Principal – AUD-based investable capital outside operating businesses

ASSET CLASS

Offshore private markets, direct lending, structured credit

RISK FOCUS

Tax drag on investment returns, wrong vehicle architecture, adviser circle with no structuring capability

PRIMARY OFFER

Structuring-as-a-Service™

RELEVANT SERVICES

Offshore vehicle architecture · Investment policy design · Australian tax coordination · ISDA at vehicle level · Ongoing structuring advisory retainer

THE SITUATION

The principal had spent twenty years building businesses and was at a point where the operating businesses were generating surplus capital beyond what they needed to fund their own growth. Approximately AUD 40 million had accumulated outside the operating group, sitting in a combination of direct Australian equities, a managed balanced fund, and cash.

Every dividend received was taxed at the principal's marginal rate. Every capital gain was taxable onshore. The managed fund was distributing capital gains annually that the principal had not chosen to realise. The overall tax drag on the investment portfolio was significant and growing.

The principal had become aware that institutional investment managers he dealt with through his businesses were using offshore structures to hold their investment capital. He asked his Big Four accountant whether this was available to him. The accountant confirmed it was possible but could not tell him how to structure it, what jurisdictions made sense, or what the interaction would be with his Australian tax position.

The principal's instinct was correct. The adviser circle's capability was not sufficient to act on it.

HOW THE PROBLEM COMPOUNDS

Australian high-net-worth individuals investing onshore are at a persistent structural disadvantage relative to institutional investors who operate through offshore vehicles. Every dollar of return is subject to Australian tax at the point of realisation. Compounding inside a tax-paying structure is materially less efficient than compounding inside a zero-tax structure over a long horizon.

The gap compounds in two ways: the direct tax drag on each year's returns, and the foregone returns on tax dollars that left the portfolio each year rather than remaining invested. Over a ten-to-fifteen-year horizon, the difference between a properly structured offshore vehicle and a standard onshore investment account is substantial.

The principal also wanted access to offshore private markets and direct lending opportunities – asset classes that are difficult to access effectively through onshore structures. The natural vehicle for that kind of investing is an offshore fund structure that can hold a range of instruments and distribute returns in a tax-efficient way.

WHAT TYPICALLY BREAKS

The accountant knows Australian tax, not offshore vehicles

Limited knowledge of offshore vehicle types, jurisdiction selection, and the interaction between offshore holding structures and Australian controlled foreign company rules. Can confirm the concept is possible; cannot say how to implement it.

The bank or fund manager has a product to distribute

The jurisdiction they recommend is often the one most convenient for them rather than the one most appropriate for the client. The investment policy they suggest protects their distribution relationship.

The lawyer can draft, not design

Can document whatever structure is proposed but does not have the investment management background to assess whether the structure actually fits the investment programme or creates problems six years later.

Nobody can coordinate the pieces

Tax counsel, Singapore administrator, legal, investment manager – each manages their domain. The coordination role that holds the design together and ensures the pieces interact correctly is the gap. It is where the structure either works or quietly fails.

THE STRUCTURAL INSIGHT

An offshore investment vehicle for a principal of this scale is not a complex structure. It is standard institutional infrastructure that is underused by Australian direct capital principals because the advice layer required to implement it properly is thin outside the major institutional markets.

Singapore's Variable Capital Company structure is well-suited to an actively managed investment programme, treated favourably under Singapore tax law, and has a credible regulatory environment that provides some insulation from ATO challenge. Cayman exempted limited partnerships are the standard structure for private equity and private credit investing, recognised by virtually every institutional counterparty.

The Australian tax position does not disappear when capital moves offshore. Controlled foreign company rules, foreign investment fund rules, and the treatment of distributions from foreign entities all remain relevant. The offshore structure must be designed in conjunction with proper Australian tax advice – not instead of it.

A Singapore Variable Capital Company was selected as the primary vehicle, with a sub-fund structure allowing different asset classes to be held with appropriate ring-fencing. Australian tax position was reviewed by specialist tax counsel. ISDA documentation was established at the vehicle level to allow the offshore structure to transact derivatives directly – relevant for the direct lending programme where some investments involve interest rate or FX components.

INTENDED OUTCOMES

- ▶ Properly structured offshore investment vehicle in place – capital deployed into private markets and direct lending without the tax drag of an onshore structure.
- ▶ Investment policy and governance framework defensible under Australian tax audit – the principal has clarity about what the vehicle can and cannot hold.
- ▶ Capital restructuring from onshore portfolio staged over two years to manage Australian tax consequences of realising existing positions.
- ▶ Ongoing structuring advisory retainer in place – structuring input on specific transactions, counterparty terms, and instrument design as the investment programme develops.
- ▶ Total cost of restructuring recovered in reduced tax drag within the first eighteen months of operation.

WHERE THIS APPLIES

Most relevant where a principal has accumulated investable capital of AUD 20 million or more outside operating businesses; is currently holding that capital in onshore structures that generate recurring tax drag; and wants to access private market asset classes that are better held offshore.

Less relevant where the investment programme is primarily passive and onshore; the investment horizon is short enough that the restructuring cost is not recovered by the tax saving; or the principal's Australian tax position is sufficiently complex that offshore structuring creates more risk than it resolves.

TYPICAL ENGAGEMENT PATH

Structuring-as-a-Service™ – Bespoke Advisory, offshore investment vehicle architecture and investment policy design.

Secondary: Ongoing structuring advisory retainer for transaction-level structuring support as the investment programme develops. Coordination with tax counsel and Singapore administrator.