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## **Guernsey – a private equity focused finance centre**

*By Peter Niven, Chief Executive of Guernsey Finance*

Guernsey is a leading international finance centre with particular prowess in private equity. Over the last 50 years the Island has established a reputation for providing an extensive range of financial products and services across the globe to the highest international standards. In recent times we have seen tremendous growth particularly in our funds sector and more latterly especially in alternatives such as private equity. Our success is founded on the fact that the Island's financial services heritage has helped build a wealth of expertise and first class infrastructure which makes us very attractive for the domiciling, structuring, management, administration and custody of private equity funds.

### **G is for private equity**

Since the inception of Guernsey's funds industry some half a century ago there has been significant growth and particularly in the more immediate past. Total business in the Island reached £207.2bn within 1,202 funds at the end of June 2008 – up 1.7% during the quarter and 33% year on year. We think our performance remains strong considering the world economic scene and it looks even more encouraging when you consider that some of our competitors such as Jersey saw a reduction in the value of their business during this last quarter.

In the last few years the Island's funds industry has seen traditional funds increasingly complemented by a rise in alternatives, with hedge funds/funds of hedge funds worth £29.7bn and property funds £18bn at the end of June 2008. The value of private equity funds under management and administration in Guernsey has risen 400% in the last four and a half years. During the second quarter of this year they increased by nearly £1bn (2.5%) to reach £36.2bn in some 226 funds at the end of June 2008. This is despite the difficult market conditions that have seen amounts raised by private equity funds across Europe fall by some 10% this year.

Jon Moulton, Founder and Managing Partner of Alchemy Partners, has said that Guernsey is "a terrific place in which to do business."

### **Menu of choice**

Other leading private equity managers such as CVC and BC Partners also have the operation of their funds facilitated in the Island. Our administrators can and do service non-Guernsey based funds but a large proportion of their business relates to Guernsey open and closed-ended funds, which are now promoted and sponsored by leading institutions in 45 countries. These can be established through a range of flexible investment vehicles such as unit trusts, Protected Cell Companies (PCCs), Incorporated Cell Companies (ICCs) and limited partnerships. There are a wide range of administrators on the Island many of which have specific expertise in and bespoke IT systems for administering private equity funds. These include dedicated private equity administrators such as IPES and Augentius, as well as global brands such as Northern Trust who have capacity to act as administrators and/or custodians.

Indeed, Guernsey's funds industry can draw on the services provided by the 49 licensed banks on the Island, which include some of the most famous names from around the world and between them have £128bn of deposits. Guernsey's funds industry can also call upon the Island's wealth management sector, where there are 140 licensed fiduciaries, ranging from large organisations to boutique operations, holding between £250bn and £300bn worth of assets in trust; and the local risk management industry, which is particularly renowned for making Guernsey the number one jurisdiction in Europe for captive insurance.

### **Well supported**

In addition, the Island's funds industry is supported by a comprehensive network of professional services such as investment, legal, tax, audit, accounting and actuarial advisers. This includes multi-jurisdictional law firms and the 'big four' accountancy firms where there is specialist expertise in private equity. Guernsey is also home to the Channel Islands Stock Exchange (CISX), which has grown considerably since it was established in 1998 and now has more than 2,800 securities listed.

Island life facilitates a team spirit among these financial services businesses who work with the Guernsey Financial Services Commission (GFSC) to provide products and services at international standards. The GFSC's robust yet pragmatic approach to regulation has fostered a tradition of innovation, for example Guernsey pioneered the PCC in 1997. It has also been enterprising in its successful introduction of Qualified Investor Funds (QIFs) – a self-certification regime for funds targeting experienced investors – and the launch of a 'fast track' registered funds regime.

Guernsey has a skilled, experienced and highly motivated on-Island workforce. In addition to in-house training the finance industry provides professional development for its staff through the Guernsey Training Agency (GTA) University Centre. Its work with the Institute of Directors (IoD) ensures that the Island has a pool of experienced and also well qualified non-executive directors. This has enhanced Guernsey's reputation for being not just being well-regulated but having strong standards of corporate governance.

Importantly, having a physical operation in Guernsey provides additional substance to offshore arrangements. World-renowned private equity managers Terra Firma and Permira have established their own bases in the Island. European managers find Guernsey convenient in terms of time zone and travel because it is situated between the UK and France. This year Guernsey has enhanced its attractiveness by introducing a new Companies Law and an online Guernsey Companies Registry offering incorporations in 15 minutes and prices starting from £100. In addition, on 1 January this year, Guernsey moved to a zero rate of corporate tax as standard, there is still no withholding tax on dividends paid, no capital gains tax, no inheritance tax and no value added or general sales tax, and personal income tax remains levied at a maximum of 20%.

### **The KKR effect**

It could be argued though that the listing of the US\$5bn Guernsey limited partnership KKR Private Equity Investors LP on the Amsterdam Euronext was so innovative that it has been the largest single contributor to the Island's recent success in the asset class. This highlighted that at the time Guernsey was one of the few jurisdictions from where funds wishing to list on Euronext did not need to obtain a licence in the Netherlands because the Dutch AFM had ruled that there was already adequate 'home' supervision. It also put Guernsey on the map internationally and particularly in the US and this is something from which the Island has never looked back as it has become – in the words of Bridget Barker, Partner at Macfarlanes in London – “the jurisdiction of choice for private equity.”

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