Guernsey’s International Capital Flows

The economic benefits of Guernsey’s fund industry to the UK & Europe
Headlines

The Guernsey funds industry provides a clear benefit to the UK and Europe

- Conduit for £25bn of overseas investment into the UK from global investors
- Facilitates access for UK investors investing £27bn into global assets
- Conduit for a further £71bn of investment into Europe, of which £51bn is from global investors
- Capital deployed principally in private equity (PE), infrastructure and property
- Inward and outward investment to and from the UK and Europe facilitated by a robust and internationally recognised regulatory platform

Introduction

The purpose of this report is to offer a condensed snapshot of the research and analysis carried out by KPMG into the economic benefits the Guernsey funds industry provides to the UK and Europe.

KPMG interviewed key decision makers of the Guernsey funds market including UK investment managers, lawyers and sponsors to obtain qualitative opinions – which are the source of the quotes provided – as well as gathering quantitative data from administrators of Guernsey funds (excluding fund of funds) and reviewing publicly available information from a variety of other sources.

KPMG were engaged by Guernsey’s Government, The States of Guernsey, to carry out the research. Data in this report is correct as at November 2014.

To read the full report visit:
www.weareguernsey.com/media/2464/international-capital-flows-kpmg-report.pdf
Economic benefits to the UK

Guernsey funds promote significant inward investment into the UK

The results indicate that more than £34bn from Guernsey funds is invested into UK assets.

£25bn of this investment is from overseas investors and predominantly non-European investors, which demonstrates Guernsey’s role as a facilitator of inward investment to the UK. Respondents note that the overseas investor base is more likely to use Guernsey than any other jurisdiction when investing into the UK.

“There would be significant loss to the UK if Guernsey didn’t exist”

The majority of capital is invested into long-term tangible assets, including PE (60%), infrastructure (14%) and property (14%). All of these asset classes can provide economic and social benefits to the UK. Social (for example schools and hospitals) and economic (for example airports and roads) infrastructure assets serve communities, provide social benefits, support jobs and stimulate economic growth.
PE firms, totalling £21bn, typically look to invest majority stakes in underperforming companies that have the potential for high growth. Growth in the businesses is delivered by working with the company’s management team to improve performance and strategic direction, making complementary investments and driving operational improvements.

The UK generates substantial Investment Manager (IM) fees from Guernsey funds

Guernsey is the offshore jurisdiction of choice for a large number of UK IMs and we estimate that the UK earns more than £1bn in IM fees from Guernsey funds, representing 9% of total UK IM fees.

“GUERNSEY ASSISTS THE UK PROFESSIONAL SERVICES AND IM INDUSTRY WHICH THE UK DEPENDS ON”
Guernsey assists UK investors with portfolio diversification through access to global investments

The analysis indicates that UK investors invest £36bn into Guernsey funds, of which 73% is then deployed outside the UK. This supports the hypothesis that the Guernsey funds market facilitates UK investors in achieving their goal of obtaining exposure to global alternative assets which they may be unable to do through alternative domiciles.

UK investors are predominantly institutional, pension funds, multi-asset funds and private wealth managers and can achieve a higher return for their underlying investors through an efficient structure with access to a more diversified choice of investments.

During the qualitative assessment it was noted that UK investors are comfortable using Guernsey as it offers UK IMs and investors flexible structures to enable a wider investment choice. Furthermore, it was noted that the UK’s Financial Conduct Authority (FCA) and the US’s Securities and Exchange Commission (SEC) are comfortable with Guernsey given the Guernsey regulator, the Guernsey Financial Services Commission (GFSC) offers a well regulated, respected and efficient service.

“UK INVESTORS (INCLUDING PENSION FUNDS) CAN GENERATE BETTER RETURNS INVESTING THROUGH GUERNSEY AND THUS REQUIRE LESS UK GOVERNMENT SUPPORT”
Economic benefits to wider Europe

Guernsey funds promote significant inward investment into wider Europe

This research indicates that more than £105bn of assets of Guernsey funds are deployed in Europe, with £71bn being invested into Continental Europe (i.e. excluding the UK). This is predominantly in PE, infrastructure and property, with these asset classes collectively making up 92% of assets deployed into Europe.

Non-European investors contribute £51bn (49%) of investment to assets deployed in Europe. Based on interviews, we believe that the £54bn from European investors is deployed in countries that are different from the underlying investor country, thus demonstrating inward investment into individual European countries.

Europe generates substantial IM fees from Guernsey funds

Total IM fees earned by Guernsey domiciled funds amount to nearly £2bn. Of this, European IMs earn 90% despite providing only 50% of investors and holding 68% of assets.

Under the EU’s recently implemented Alternative Investment Fund Managers Directive (AIFMD), Guernsey offers the flexibility of a dual regulatory regime enabling IMs to offer an efficient and appropriate framework for investment into Europe, for European and non-European investors. The dual regime ensures Guernsey will become more important in attracting inward investment into Europe and generating fees for European IMs who will be able to remain competitive with non-European IMs.
Facilitating global capital flows

Guernsey is used as a conduit to facilitate the raising of capital from investors in different countries and subsequently to facilitate the deployment of this capital into global assets

Of the £155bn of Guernsey funds under administration, 46% of the assets of Guernsey funds are deployed into Europe (excluding the UK) with 32% being deployed outside of Europe and 22% deployed specifically into the UK.

Guernsey is a hub for alternative investment assets. PE is the dominant sector in the Guernsey funds market with 70% of all assets being deployed into this sector, predominantly located in Continental Europe and the UK.

Infrastructure and property each account for 8% of the market. Infrastructure assets are predominantly located either in the UK (42%) or outside of Europe (55%). Property assets are predominantly located in the UK (37%) or Continental Europe (53%).

50% of investors are located outside of Europe, demonstrating global investors are comfortable using Guernsey structures. The key reason identified for this is the Island being well respected and transparent with an established regulatory track record.

Guernsey funds have a diversified investor base, with 86% of funds having investors located in more than one region as well as a diversified asset base with at least 55% of funds deploying assets in more than one region.

Guernsey is utilised as a facilitator of global investment and, as a transparent jurisdiction, can play a major role as cross-border investment continues to grow.
Guernsey funds facts

- Private equity firms manage and grow companies valued at £21bn across the UK, supporting economic growth and supporting jobs in businesses ranging in size from SMEs up to multi-nationals

- Guernsey infrastructure funds (including a hub of renewable funds) assist with supporting key UK government objectives by facilitating the construction and management of £4.8bn of key infrastructure assets across the UK

- Private equity firms manage and grow companies valued at £80bn across Europe, supporting economic growth and supporting jobs in businesses ranging in size from SMEs up to multi-nationals

- In Europe, Guernsey infrastructure funds facilitate the construction and management of £5.3bn of key infrastructure assets

- The top three property funds (representing 41% of the property industry), all relate to UK commercial property which provides office space nationwide to British enterprises

- Debt funds provide £1.4bn of liquidity to both UK companies and the UK government through the purchase of gilts

- In Europe, debt funds provide £3.2bn of liquidity to both companies and governments through the purchase of gilts