

SURFING THE WAVES OF OPPORTUNITY IN GUERNSEY

14 AUGUST 2019

In an interview with HFM for its Guernsey 2019 Special Report, Dave Sauvarin of [Northern Trust](#) discusses how the island is responding to key global market trends impacting the fund industry.

From the surge in alternative assets and 'green' investing to the fintech tidal wave, Guernsey is playing a key role in supporting investment managers to rise to the challenges. This encompasses acting as a global launch pad for alternative investment funds, helping investors establish 'green' investment credentials, and working to further establish its reputation as an international hub for fintech innovation.

Alternative asset investment continues to experience rapid growth with market data suggesting global alternative assets under management could top \$21trn by 2025¹. This represents a dramatic increase from the record \$9.4trn in global alternative assets under management reported² for 2018, encompassing private equity, hedge funds, real estate, infrastructure and natural resource funds.

This transformational shift in institutional investor appetite is being driven by a diverse range of factors, including the potential to generate healthy returns, protect against volatile capital markets and meet ethical investment goals such as sustainability.

Q: How is Guernsey positioned to take advantage of the surging alternative assets market?

DS: Guernsey has longstanding experience across alternative assets with an important role to play in supporting the global growth. The island has been at the helm of the alternatives sector for over 30 years and continues to innovate to meet the needs of investors and promoters alike. The 'hands-on' experience of our finance professionals is supported by a favourable legal and regulatory environment, which is tailored to meet the unique attributes of alternative assets.

In the case of private equity, The Limited Partnerships (Guernsey) Law, 1995 (as amended) provides a highly regarded and established legal framework for general partner and limited partner structures. This has provided a foundation for Guernsey to be regarded as one of the world's leading jurisdictions to domicile private equity funds with assets under administration for this asset type larger than many other jurisdictions.

From a regulatory perspective, the Private Investment Fund (PIF) regime offers an expedited route to market for eligible funds and provides fund managers with greater flexibility. We recently supported the launch of a Pif fund in under three weeks, which included securing regulatory approvals and all the due diligence checks. This successful launch illustrates Guernsey's flexible and proportionate regulation allowing fund managers to access markets quickly, enabling them to respond to competitive global opportunities.

Q: What is Guernsey doing to keep up with the pace of market changes – including the introduction of the AIFMD and the drive for tax transparency, for instance – and how can it offer managers the market access they require?

DS: Guernsey continues to be a flexible and cost-effective base to distribute funds to the global marketplace. As an example, managers looking to market EU investment funds to European investors need to comply with the extensive conditions of the AIFMD, which can be quite costly.

However, Guernsey-domiciled investment funds can 'opt-in' to an equivalent regime and may be marketed to European investors under the National Private Placement Regimes (NPPR). This is on a country-by-country basis, rather than a full passport, and provides a more streamlined approach for managers who are not targeting a European-wide investor base. Depending on the fund structure, it also negates the need for a full AIFMD ManCo and full depositary solution. This is proving to be attractive to managers who, with rising levels of investor transparency, are increasingly challenged to demonstrate value for their management fees.

A recent study conducted by the industry confirmed Guernsey could access markets representing 80%³ of global wealth, which is an impressive statistic for those considering where to launch their next fund.

The island also has an impressive track record regarding tax transparency and data security, being an early

adopter of the Common Reporting Standard (CRS) as well as enacting legislation equivalent to the European General Data Protection Regulation (GDPR), last year and economic substance requirements effective the beginning of 2019.

Q: Does the global trend for some of the world's largest asset owners and family offices to transition from an investor role by setting up their own alternative investment funds represent an increased opportunity for Guernsey?

DS: Yes – most definitely. Guernsey offers a number of flexible structures which can be tailored to the needs of asset owners and family offices who are looking for ways to achieve full control over investment decisions. Rather than establish an in-house team of operations support staff and make significant technology investment, they can use a third-party fund administrator who already has experience supporting day-to-day fund operations. This enables them to focus on recruiting investment management talent while the administration activities are fully supported with a scalable model with ongoing capital investment. Our private wealth team is working with family office clients to build out these arrangements using Guernsey as a base.

Q: Environmental, social and governance (ESG) investing has become high on the global investor agenda. How has Guernsey responded?

DS: A Guernsey has been at the forefront of this trend. The recent publication of the Guernsey Green Fund Rules is the foundation for Guernsey to be a leading jurisdiction for green investment. The designation enables investors to pursue environmental objectives while investing into well-regulated vehicles. Guernsey is also part of the United Nation's Financial Centres for Sustainability Network. From Northern Trust's perspective, we have seen global clients with strong sustainable investing mandates decide to launch funds in Guernsey, drawn by the speed to market and consultative approach.

Moreover, The International Stock Exchange (TISE), headquartered in Guernsey, has launched a new green market segment, TISE GREEN. This aims to enhance the visibility of investments which make a positive impact on the environment. It is open to all types of green investments, including bonds, funds and trading companies, from any jurisdiction meeting an internationally-recognised green finance standard.

Guernsey can also demonstrate a robust governance and substance framework. It is recognised as a top-tier international finance centre with strong governance from regulators and an experienced pool of non-executive directors, service providers and qualified individuals.

Q: How is Guernsey embracing the opportunities that technologies such as blockchain and artificial intelligence can offer?

DS: Guernsey leads the world on the application of blockchain technology in private equity administration. In 2017, Northern Trust launched the industry's first commercial deployment of blockchain technology for the private equity market in Guernsey. This was supported by full consultation with clients, technology leaders and Guernsey-based regulators to bring this milestone development to market. Since then, further collaboration, including with the local audit and legal community, has resulted in further milestone innovations.

We recently announced an agreement to transfer our pioneering private equity blockchain technology to Broadridge Financial Solutions, a global fintech leader. This exciting development marks a significant step towards delivering an industry-wide private equity blockchain solution. Initially, the solution will be made available to all private equity funds domiciled in Guernsey and Delaware.

Guernsey has also led the way in creating new laws to support new fintech applications. The Electronic Transactions (Electronic Agents) (Guernsey), Ordinance 2019 gives greater certainty to support the use of both artificial intelligence (AI) and blockchain-enabled technology. In short, Guernsey law now recognises the role of AI in forming legally-binding contracts, which is a first, and reinforces Guernsey's importance as a base to develop and roll out these technology solutions for the global marketplace.

1 PwC, Asset & Wealth Management Revolution: Embracing Exponential Change, 2017

2 The Preqin Investor Outlook: Alternative Assets, H1 2019

3 Guernsey Finance: <https://www.weareguernsey.com/finance-industry/thematics/global-distribution/>

Dave Sauvarin - Northern Trust

Dave Sauvarin is chief executive of Northern Trust's business operations in Guernsey. He has over 20 years' experience in a wide range of operational and client-facing roles for funds sectors including private equity, real estate and infrastructure, and open- and closed-ended hedge funds.

An original version of this article first appeared in the HFM Guernsey 2019 Special Report. To access the full report, [click here](#).

WE ARE GUERNSEY is the brand under which Guernsey Finance promotes the island's financial services sector internationally. Guernsey Finance - the promotional agency for the island's finance industry internationally - is a joint industry and Government initiative responsible for the promotion of Guernsey. Under the leadership of Chief Executive Dominic Wheatley, the agency ensures that the core values and competencies of the island's finance sector are accepted and respected by the global community and that financial business development flows are enhanced.

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