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WRITTEN BY CRAIG CORDLE

# THE CAPITAL ALTERNATIVE

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In an interview for HFM's Guernsey 2019 Special Report, Ogier Partner Craig Cordle provides his views on the current state of the funds environment in Guernsey, and gives thought to the rise in private capital sources.

What do we mean by the term 'private capital' really?

There really isn't a fixed term for this but to my mind, by 'private capital', we're fundamentally talking about a source of capital – be it a loan or equity investment – that is not coming from an institutional or public source.

Rather, we're talking about money derived from very high-net-worth individuals or family offices, multi-family offices who are making these investments or making capital available to these types of structures. This isn't just a development for Guernsey, but seems more like a general trend across the world.

Following the financial crisis in 2008, the ability of banks to lend and their willingness to lend, was restricted. From this point, we started to see alternative types of debt emerging, with other types of non-bank lenders getting into the space. This event also saw the establishment of an increased number of investment funds, conceived to start lending, including in the consumer credit space.

As a general trend, this has continued. We first saw it with a raft of lending funds which were plugging a gap halfway between where banks were unwilling to tread. Now, we've seen an extension of this into increasingly more mainstream investments which is this private capital/PE sphere and trying to get exposure not just to debt investments but also to real assets and being willing to take some risk.

If you look at the typical PE model of funds established for a life of anywhere between 5-10 years, there are increasingly private investors taking a long-term view to place some of their wealth in a structure investing in these sorts of assets. There are some affluent people out there who are looking for places to invest. In the case of Guernsey, there are strong connections with South Africa. Our private wealth team also sees an increasing amount of work and enquiries coming out of the Middle East. There is also a lot of interest from our Asian client base.

If you really look at what people are after, it tends to be capital preservation. How do we not lose our money? Banking is expensive and so private capital investors are looking to deploy their wealth safely in a way that it will not be eroded.

Does a long strategy seem safer in some ways?

Perhaps. It's certainly safer in the sense that it will protect against the cyclical nature of investments.

There are good times and bad times and there is a degree of uncertainty in the market at present for various reasons. Brexit does make things a little bumpy in terms of closing transactions, but I think it's interesting that in the last couple of months the market view is beginning to change – and for the positive.

We're at a point now where people simply need to, and are beginning to, act irrespective of Brexit. Brexit cannot be looked at as a three-year excuse and eventually decisions must be made.

What other factors are affecting the market?

AI see the aforementioned changes that have led to a deployment of private capital as an emergent or growing trend, but on top of this, if you look at 2008 and the GFC, you had a flat lining of interest rates, and so what do you do? As an investor, you need to find somewhere to make money.

You're looking for places to deploy your cash but returns from traditional investments are low – basically private capital is on a search for yield – alternative ways of generating a good return because they were not seeing it from the more traditional routes.

They're searching for yield but at the same time there's been a sophistication jump for some investors. Gradually, investors have been educated and investors follow one another, so this trend has emerged.

Investors are more willing to ask for bespoke solution which are increasingly less expensive to put in place than may previously have been the case. Sometimes we see clients, and maybe if someone wants their own holding company in Guernsey, this effectively becomes a family office.

Are bespoke solutions now the norm?

It is no longer unusual to end up with an investment fund with multiple bolt-ons, or sidecars to allow for certain investors to get exposure to the same assets, but they don't necessarily want to be part of the fund. They may want to co-invest, or would rather hold a debt instrument, so we may set up a SPV for them which would in turn invest into the wider fund.

In one sense, it's essentially a case of investors wanting their own vehicle which they can control. Often investors feel more security holding assets through a company or partnership rather than holding those assets personally. And this trend leads into what we've seen in the past couple of years: there has been an increase in quasi-fund-like structures – they're not a collective investment schemes (given they may only invest in a single asset) but they have fund-like characteristics.

The bespoke solution also comes back to the point about increasing levels of investor sophistication. A group of investors come together and they know what they want to buy; they just need the overarching assistance in terms of how to buy it.

Where Guernsey has been good about this is that it's a relatively simple regime. We don't overcomplicate structures and I think this is reflected well in the speed to market and actual cost of working on these transactions.

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PO Box 655, St Peter Port,
Guernsey, GY1 3PN

+44 (0)1481 720071

INFO@WEAREGUERNSEY.COM

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