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PRIVATE EQUITY FUND RAISING IN GUERNSEY

30 AUGUST 2019

In an interview for Hedgeweek's Guernsey Fund Services 2019 Special Report, TMF Group (Guernsey) Director Mark Hooton discusses the recent trends in Guernsey's private equity industry.

The last two years have been a boon for global private equity managers. In 2017, total net new assets reached $552 billion according to Preqin, and although slightly down in 2018, the asset class still attracted $426 billion. With close to $1 trillion in net inflows, it seems investors can't allocate to private equity fast enough, snapping up co-investment and secondary opportunities to supplement their primary allocations as they seek to maintain healthy long-term returns in what remains a low-rate, low-return environment.

Large managers have dominated the fund raising environment, with Carlyle Group closing the largest fund, Carlyle Partners VII, with $18.5 billion. In Europe, PAI Partners secured a EUR5 billion raise, Triton Partners targeted €3 billion for its fifth flagship fund, while Inflexion Private Equity Partners LLP, secured £1.25 billion for the Inflexion Buyout Fund V.

"We continue to see investor interest in private equity," says Mark Hooton, Director, TMF Group (Guernsey). "It's fair to say though that while investors have capital to deploy, they are being a lot more careful as to who to allocate to. In this current environment, given uncertainty over global economic growth, they are focusing heavily on managers' track records and experience."

Although the fund-raising dynamics are likely to remain strong in 2019, it remains a significant challenge for smaller and midsized managers to attract investor interest. Institutional allocators will often flock to high pedigree, well-established names when market conditions start to get choppy. As such, 2019 could be a period of even more concentrated positioning, with fewer GPs featuring in PE portfolios.

"Some of these investors are willing to write significant tickets to build closer relationships with a smaller number of managers but that comes with its own challenges for managers. If they have a dominant investor in the fund (in terms of percentage of Fund AUM), they might exert more of an influence over the manager than they would have in earlier fund vintages," suggests Hooton.

In respect to jurisdictional fund raising, from his vantage point in Guernsey Hooton confirms that people are choosing to use the island to raise new funds but admits that the uncertainty from Brexit negotiations between the UK and Europe hasn't helped.

"We are having to educate managers and investors that the Channel Islands lie outside of the EU already and therefore, Brexit doesn't have any real impact on how sponsors set up and launch Guernsey investment funds to market them across Europe. The same regulatory mechanics as we use today will still apply, once Brexit is concluded, so launching a fund amidst all the political uncertainty should present no particular concerns to PE managers," explains Hooton.

According to Guernsey Finance, the total net asset value of Guernsey's funds under administration reached a five-year high last June, at £276.2 billion. Private equity was central to this growth trajectory, growing £6 billion through the first quarter of 2018 to £112.7 billion. The closed-ended sector overall, increased by £4.2 billion in Q4 2018, to GBP176.3 billion. Private equity funds made up 59% of that total, equivalent to GBP115 billion.

"Guernsey's private equity industry continues to grow," says Hooton. If you look at the local marketplace a lot of the administrators have capability in multiple jurisdictions and if a manager wants to raise a fund where the right answer is to use a different jurisdiction to Guernsey, we will issue the necessary instructions to our global network.

"But for those who do choose Guernsey, they can enjoy good speed to market when raising new funds. The Guernsey Financial Services Commission have very clear timings that they work to in order to approve fund applications. We have a variety of different routes. One being the administrator-led 'fast track' regime. As an administrator, we carry out due diligence on the fund manager, and will make an application to the GFSC on the

basis of our findings."

Under this arrangement, the manager can be authorised within 10 days. Funds registered under the Registered Collective Investment Schemes Rules 2018 ('RCIS' funds) will be approved within three working days, while applications for those who opt for a Private Investment Fund ('PIF') are approved within just one working day.

"We are working on a couple of fund launches at present as well as a few managed account vehicles. One is a registered fund for an existing client and the second is a registered fund for a new fund promoter. The regulatory regime has been designed to be simple and can be applied to a broad range of investments.

"The island has a workforce that's been working in the funds industry for many decades. There is a deep source of knowledge and expertise and that allows for a very practical approach to helping managers set up their funds and get them to market," adds Hooton.

With ESG/sustainable investing becoming an important trend among institutional investors, those who can offer fund vehicles with green credentials could be well placed to attract new assets in 2019. Cognisant of this growing awareness to invest more responsibly, for the good of the planet, last year Guernsey introduced a new regulatory wrapper called the Guernsey Green Fund.

"It has attracted a fair bit of new interest. It is basically a regulatory overlay to our existing funds regime that allows the manager, if they meet certain criteria when investing in green technologies, to apply the label to their fund and market it to investors as an ethical investment vehicle. For pension funds and other large institutional investors who have strict ESG guidelines, it's a nice product as it allows them to tick the right boxes for their specific investment criteria," explains Hooton.

Under the Guernsey Green Fund Rules, Green Funds must invest 75% of their portfolio in investments meeting the green criteria. They include: low-carbon technologies, renewable energy, lower carbon and efficient energy generation.

"From a general investment point of view, there is growing interest in this area of impact/green investing. There are numerous emerging technologies and it is providing something slightly different for fund managers to consider in the marketplace.

The GFSC has put in place strict criteria (to avoid misuse of the GGF) for investment managers to get one of these funds approved," says Hooton.

He admits that although there is still work to be done educating fund sponsors on how to launch funds and understanding the constitutional rights of the jurisdiction, it offers a stable funds environment.

The GFSC is very approachable, he says. If one wants to launch something that looks a bit different to other fund strategies, the regulator is happy to have a conversation with the manager to understand how it will work.

"We've had some very positive comments from clients in the past about the GFSC, and how accessible they are," says Hooton. "The island is very much geared towards the funds industry and we've always had access to the EU through National Private Placement Regimes, which we've been doing for the last six years under AIFMD without a problem. Everything is tried and tested. We know what we are doing and AIFMD works for all of Guernsey's regulated fund products.

"The UK, by contrast, has yet to go through that whole learning experience when it finally leaves the EU. We hope NPPR will continue to remain an option for managers to market their Guernsey funds to UK and European investors."

Regardless of the outcome of Brexit, Guernsey will continue to work closely with the EU via NPPR regimes, and in that sense, it will continue to be business as usual. Having that certainty will be important for managers when looking to actively fund raise in the EU.

The original version of this article first appeared in the HedgeWeek Guernsey Fund Services 2019 Special Report, April 2019. To access the full report, click here.

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