

UPDATE

Guernsey Funds Industry Emerges Resilient And Revitalised

Update prepared by Darren Bacon, (Partner, Guernsey)

With 2020 now behind us, Darren Bacon thinks there is plenty to be optimistic about within Guernsey's funds sector. Sustainability is a key consideration for many investors, longer life funds are emerging with growing popularity and Guernsey was already a step ahead of the UK in the 'green industrial revolution' while Brexit was being finalised..

When we recall 2020, it will inevitably be associated with COVID-19. The public health crisis has also had an enormous impact on many other aspects of society and business life. In Guernsey, however, the lack of any significant COVID restrictions means it's not just 'business as usual', but there has been an inspirational impact on many who are now working on a combined desire to 'build back better'.

With this latest phase of the 'digital revolution' gathering pace during the pandemic, Zoom alone has increased the number of users of its online communications platform from 10 million to over 300 million. As workforces across the globe continue to embrace the many new possibilities offered by utilising technology to maintain connectivity, the opportunities afforded to the Funds sector and its investors are continually evolving too, with barely a pause during the pandemic. As demonstrated through the use of numerous new apps and programs, business deals kept progressing throughout the year. Innovative ways of socialising and networking have also grown out of this resilient 'can-do' attitude which has combined to ensure Guernsey's financial services sector has shown great resilience in turbulent times, once more reinforcing Guernsey's safe harbour credentials.

All of this comes off the back of a strong 2019, which saw Guernsey-domiciled funds enable a capital flow of £41.6 billion into the UK and £43 billion into the USA. Year on year growth shows that the total flow of investments from UK investors facilitated by Guernsey funds has roughly doubled since 2013, and private equity remains the dominant asset class for Guernsey-domiciled funds.

Private Equity Emerges Resilient And Revitalised

With Guernsey's Funds market entering 2021 in such a stable and strong position, there are some clear patterns emerging – including the prioritisation of public health and the 'build back better' approach to the work/life balance. Private equity appears to be assimilating these trends and emerging resilient and revitalised, with a new competitive edge and a proven approach to delivering good long-term returns in all market situations.

One such development is the rise in interest in 'longer life funds' which highlights a notable shift away from short term/high return funds and a move towards steady but consistent returns over a longer time period. At a recent Guernsey Finance webinar, private equity veteran, Guy Hands, highlighted his view that many will see this future-conscious option as a safer bet for ensuring a return on their investments while also backing wider global aims to 'build a better world' post-COVID.

With many wanting to stake a personal claim in that aim, investors using Guernsey can also further capitalise on the Island's strong and distinct reputation, which has served to help its continually evolving finance sector build its fortunes with a number of more recent developments in the area of Green Finance. The future will undoubtedly include an even greater focus on both ESG and Green Finance than already

seen, as the demand for ethically-conscious investments grows increasingly more attractive. It had already enjoyed a huge boost in appeal pre-COVID following the global awakening led by Greta Thunberg and other campaigners, highlighting the stark realities of climate change.

Green Finance

Guernsey Finance is using its promotion of Green Finance as one way of reminding investors that there is 'no place like home' in finding the right domicile, and that Guernsey is the investment location of choice for those wanting to focus on the environment as well as the economy.

The "whitelisted jurisdiction of substance" is already highlighted by Guernsey Finance for five core success factors – stability, substance, flexibility, resilience and sustainability.

Stability is one that has long been proven by Guernsey's finance sector. It's highly skilled workforce working in a strictly regulated environment has seen a "return to strong growth" over the last year, according to Monterey^[i]. With Fund assets serviced in Guernsey up more than 3 per cent to US\$412 billion last year, and Mourant offering legal advice to 157 funds with a value of hundreds of billions of dollars.

With an overall 10.3 per cent increase in the total number of schemes (excluding infrastructure) held in Guernsey, Monterey says "these positive results" show that "in an overall context, the Guernsey Funds industry has strengthened".

Substance Is Everything

With these success stories continuing to reflect the Island's whitelisted position on the EU list of jurisdictions, the high value placed on substance also reflects the input of the highly skilled and well-resourced work force. Thus Guernsey's Funds expertise was highlighted and evolved further during the COVID-19 enforced lockdown, with an emphasis on the offshore jurisdiction's flexibility, with technology driven solutions rolled out across Mourant's global offices as just one example. There was no pause in the work – clients were serviced as normal demonstrating the Guernsey Funds sector's continued and strengthening resilience.

As longer life funds emerge as an increasingly attractive private equity vehicle in response to changing desires from investors, there are also fresh sustainable options available which continue to develop at speed. A recent survey by TrustQuay^[ii] found those working in the Funds industry also expect it to refocus on more specific niche markets and service areas over the coming years, with a number of mergers and acquisitions foreseen. Further digitalisation of the market will be a big part of that with the unprecedented rates of change already seen during 2020 likely to continue into next year at least, with an accelerated demand for further technological innovation to be drawn on being highlighted by many Fund Managers.

Sustainability – One To Watch?

The Green and Sustainable funds market will be the one to watch closely with an emphasis on confirmed longer life returns and wider ESG requirements. In July, the GFSC issued a discussion paper - 'Funds Growth Omnibus' – which looked at certain aspects of Guernsey's funds framework with a wider consultation following. This has a long term aim of creating opportunity for growth in the funds sector with both the Guernsey Green Fund and the Green Verifier included. The consultation poses the question of what financial products should and should not be considered Green Transactions, paving the way for further development of new investment funds which can be brought under the green umbrella.

The process of verifying green transactions could be restricted under one suggestion made by the GFSC – this would enable new multi-disciplinary licensees to operate with compliance and financial experts working alongside environmental scientists. It would enable a 'one stop service' to be created to certify and verify green financing products. The licensee would need to be recognised by a scientific governance which would provide a narrow experience base to draw from, but it would mean that the highest standards could be kept to ensure the fund's green credentials are met.

This is all open to debate through the consultation, along with a number of other proposed amendments to the regulation of private investment funds. But with Guernsey Finance championing sustainable and Green Finance there could be support for this work to align the growing market's principles with those of ESG, as both are hugely valuable.

As a member of the United Nations' Finance Centres for Sustainability Global Network and the Network for Greening the Financial System and the Sustainable Insurance Forum, Guernsey has repeatedly shown it is committed to sustainable finance. These sustainable credentials are attractive to long-term investors and particularly those interested in the wider green investment community and consumers of green investment products. As we look ahead optimistically to the future, the investors of tomorrow are likely to be even more interested in ethical and sustainable investment products as the Green Finance movements takes a stronger hold after establishing its roots in Guernsey and other offshore jurisdictions.

Acknowledging that the decision makers of established Guernsey structures, including a number of private equity funds, will be more mature and experienced investors, we can surmise that the growing number of sustainable options will be attractive to younger members of the private equity family. Giving them the power to make financial decisions over private equity vehicles will ensure a generational shift change leading to a longer term commitment towards making environmentally conscious economic decisions, with the results seen to offer returns over the coming years and decades as those funds and investors grow in maturity.

With the climate as much a concern as the currency, new private equity deals are increasingly assessed on their environmental credentials as much as on their returns on investment.

New innovative and sustainable private equity funds are also likely to be tech driven and able to prove they can meet high regulation standards – meeting the demands of investors who are looking ahead to the future with an ethical and sustainable filter while also wanting to ensure a good rate of return for their investments.

New investment products which meet ESG, Green Finance and longer life requirements are already available and will become ever more competitive as the Island and other offshore and onshore jurisdictions forge ahead with implementing them.

Boris Johnson is now putting Green and Sustainable Finance at the centre of the UK government's plans for the future of its own financial services post-COVID and post-BREXIT. With a 10-point action plan mooted as a pathway to a 'green industrial revolution' Boris will be playing catch-up after Guernsey and other jurisdictions signed up to the UN's Financial Centres for Sustainability global network more than two years ago.

Footnotes:

[i] <http://www.blglobal.co.uk/Features.aspx?id=the-funds-landscape>

[ii] <https://guernseypress.com/news/2020/11/27/corporate-services-mergers-will-increase/>

This article was first published on ifcreview.com as part of a feature looking at the Guernsey funds industry.

The Mourant article can be read [here](#), and the full report can be read [here](#).

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