

A RISE OF PRIVATE EQUITY IN JERSEY

by Andrew Weaver

Jersey has long been happy to welcome private equity to the Island, recognising the value created by the investment and management activities of this significant segment of the global financial markets. Organised private equity, through the establishment of pooled investment vehicles and the management and advisory services provided by focussed specialists, has grown from the middle of the twentieth century, originally in the form of venture capital and then as private equity from the early 1980s onwards. The private equity sector has grown and diversified substantially since then, with sector specialisations in small, mid- and large capital buyouts, turnaround specialist and increasingly real estate investment. In response to the last boom and bust cycle and the substantial reduction in sources of credit that keep business and investment going, the private equity sector has started to diversify into the provision of credit finance through a number of ways.

From its earliest possibilities in venture capital, especially in the technology sector, Jersey has been closely associated with private equity as a home to the pooled investment vehicles, gathering investors from the UK, Europe and across the globe and seeking opportunities to invest in new ventures wherever they arose. Flexible and appropriate regulation, innovative legal structuring and tax neutrality and transparency all helped to ensure that Jersey was seen as a key location to establish these vehicles. As European private equity investment grew out of these roots, it naturally found its home in Jersey. As a result, investment advisers in the United Kingdom, Germany, Switzerland and Scandinavian countries looked to the Island to establish investment funds to pursue these opportunities to create and develop value, jobs and new business. Today private equity and venture

private equity and venture capital firms from countries as widespread as the Czech Republic, India and South Africa have created investment vehicles in Jersey.

BOUTIQUE SPECIALIST EXPERTISE

As a result of the interest in and suitability of the Island environment for these investment structures, the need for specialist services grew and Jersey is now home to world leading administration service providers offering both generic and bespoke services and successfully competing on the global stage. This is not restricted to domestic structures; Jersey firms are servicing structures established in other jurisdictions with alacrity, providing a real European home to global private equity. In addition other service providers, including in the legal and accounting sectors, in the Island are now regularly recognised among the leading experts in the world. Recent trends show the level of private equity investment in the corporate services sector is soaring as the investors themselves recognise the value creation opportunities in fund administration; substantial consolidation can be expected in this sector.

DEVELOPMENT OF MANAGEMENT AND ADVISORY FUNCTIONS

The years of expertise built up in the Island and the development of a sound regulatory framework has also resulted in a significant increase in recent times in the talent pool in Jersey, augmented by the arrival of further talented individuals and businesses. Jersey is no longer a passive home for investment vehicles in the private equity sector but is developing as a strong centre for the location of management and advisory functions in relation to those vehicles (and this is also being reflected in the hedge fund sector). Some of the leading businesses in private equity advisory services and hedge fund management have established offices and regulated business in the Island. The effect is not only an increase in the number and skill set of the investment professionals on the Island, but also a substantial increase in related professionals such as compliance managers, business risk consultants and governance advisers.

REAL ESTATE

In the latter part of the 1990s and into the noughties, in addition to private equity, Jersey carved out a role facilitating international investment into real estate in the United Kingdom, in the absence of a suitable indirect real estate investment vehicle under UK law. Even as the UK introduced REIT legislation, the popularity of Jersey continued apace and once again a depth of talent in real estate investment administration and services has built up. The reach of this expertise has since expanded, with recent Jersey investment funds and investment vehicles being established to invest in European real estate, such as in Ireland and Spain, as well as the United Kingdom. Along with the private equity and hedge fund sectors, the location of management expertise and specialist governance on Jersey has also been increasing.

DEBT AND MEZZANINE, INFRASTRUCTURE

The perennial investors' search for yield, in a dry credit market following the global financial crash, combined with the regulatory and other pressures that resulted in a substantial slowdown in the traditional sources of debt funding created an opportunity for those with appropriate expertise. Even as credit markets are beginning to ease, the private equity and hedge fund firms have established themselves as alternative sources of debt finance and the leading global players are establishing both private and listed fund vehicles to undertake principal lending activity. We expect this trend to continue and Jersey is proving particularly popular as a location in which to establish these structures. Likewise, investor demand for access to the relative certainty of steady returns over the long term (matching the long term obligations of institutional investors such as pension funds) has created a rising demand for infrastructure investment. Despite a few stumbles along the way this is a substantial segment of the Jersey funds industry.

CONCLUSIONS

As private equity investment has grown from its origins in the USA, to become a significant economic contributor in Europe and then expanded globally, so Jersey has embraced this value creator. From venture capital, through buyout and into real estate, debt and infrastructure and on to hybrid investment Jersey has built up world class expertise in servicing the needs of this industry and increasingly is becoming a principal base for the provision of management and financial advisory skills to the sector. The Island's government, industry and regulatory arms are all keen to preserve and build upon Jersey's unique, specialist position in this sector with world class standard setting, flexibility and innovation.

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