The unprecedented capital flows being committed to Africa can only accelerate in the coming years, and the international financial centre of Jersey will play a pivotal role in enabling such flows. **Dr Desné Masie** outlines the opportunities highlighted in her recent report

Jersey's value to the African opportunity

Says Allan Wood, Global Head of Business Development at Jersey Finance: "Jersey has a very strong commitment to supporting capital flows into Africa. The African opportunity, with its young and growing population, rising middle class and rapidly deepening capital markets, has seen unprecedented capital flows being committed to the continent in recent years.

"We thought it would therefore be useful to explore these issues with South African fund managers and their investors now."

Indeed as Wood says, the past two years have seen unprecedented capital commitments to Africa in foreign direct investment as the region becomes more economically and politically strategic. Over $200bn in foreign direct investment have been committed by China, Russia, the EU, Japan and UK during this period.

This push of international capital flows into the continent will only accelerate with the increased requirements for environmental, social and governance (ESG) factors to be taken into account of investments. Impact investing to facilitate economic and social development in Africa will provide high-yielding opportunities in sustainable finance.

South African fund managers are already ahead of the curve on this. The past two decades have seen South African private equity expertise facilitate investment into retail, consumer, real estate and infrastructure across the wider African continent.

They are facilitating these flows into the wider African continent, and they are raising these funds across international capital markets, from America to Asia. In doing so, South African fund managers are primarily partnering with development finance institutions (DFIs).

A view of Cape Town, South Africa.

There is a role for international financial centres (IFCs) to play in extending their financial expertise into these investments alongside private and institutional investors in a cost and tax-neutral setting with support from DFIs.

With such a wide mix of available global capital, investor appetite and opportunities for investing into Africa, the choice of fund domiciliation has never been more important, for both investors and fund managers looking for efficiency, stability and transparency.

Jersey has long been passionate about connecting African opportunities to the world with its highly regarded financial centre expertise, standards of governance and growing track record on the continent.

In 2014, the *Jersey's Value to Africa* report set out the island's ambition to connect global capital to the African continent, through its highly networked international footprint and efficient regulatory frameworks. Since then, the island has been strengthening its relationships in the key hubs of South Africa, Kenya and Nigeria, while global interest in the continent has increased.

In 2019, Jersey Finance sought to build on these insights and commissioned an independent research report from *African Business* magazine surveying more than 60 investors and fund managers operating in jurisdictions worldwide and with a connection to South African managers to discover the emerging trends for fund domiciliation and capital raising, particularly as a route for private equity impact investing into the wider African continent.

Overview of report findings: Jurisdictional stability is key

The report, *South African Fund Managers: Trends in Fund Domiciliation and Capital Raising*, was launched on 5 November 2020 with a webinar of experts, and also discussed the report structure and findings. The research looked at the drivers of domiciliation and capital raising from many perspectives.

As regards the spread of assets in our sample, the investors, and the DFIs – situated in the US, UK and EU – 100% of capital is invested internationally, and their substantial portfolios are not limited to Africa. Among GPs, our sample had around 60% of their capital committed internationally, with the managers all having a connection to South Africa, but their funds or special purpose vehicles domiciled across onshore and offshore jurisdictions – the majority in Mauritius, but also around 30–40% in Caymans and sub-Saharan Africa, and a smaller subset of around 10–15% of funds domiciled in Europe (mainly the UK, Dublin, Luxembourg and Jersey).

In relation to how funds end up in these jurisdictions, we found that choice ultimately rests with investors, although they are willing to be guided by the manager.

The investors in our sample with their significant international footprint have no particular preference to using a particular jurisdiction, provided the level of governance and regulation is sound.

Many SA private equity funds investing into Africa use Mauritius because of its geographical context and this has been the status quo for many years. This will, however, be complicated by Mauritius still being on the EU blacklist at the time of writing. Many managers we spoke were already considering redomiciling their funds into a more stable jurisdiction, and some investors warned if the issue was not resolved, they would be forced to move and restructure.

Ultimate factors leading to the choice of jurisdiction are also investor-led and this is determined by some key factors such as familiarity, cost, tax neutrality, regulation and governance, and the quality of local service providers and non-executive fund directors.

We find that, of these, top of mind for investors is the quality of the legal and regulatory framework, given the industry trend focused on transparency through anti-money laundering (AML), know-your-customer (KYC) and substance provisions resulting in increased regulatory reporting and costs only further exponentialised by the recent push for ESG to be incorporated into investment decision-making.

We also found that South African fund managers, like many non-EU GPs, think that the Alternative Investment Fund Managers Directive (AIFMD) is not consistently applied, creating further hurdles to enter the EU. There is clearly an opportunity to facilitate non-EU capital raising from the UK and EU here for Jersey. The Island is independent of the UK and the EU and has private placement arrangements to market into both sides of the post-Brexit equation.

Political and fiscal stability is also an increasing factor, given the aforementioned geopolitical tumult due to Brexit, Covid-19, and the US-China trade war. Jurisdictions such as Jersey.

Jersey – a centre for excellence in African investment and networks

Jersey has long been a centre for excellence in facilitating global capital flows and networks into Africa, with the chair and founder of Invest Africa, Rob Hersov, having some of his assets domiciled there. The Hersovs have been using Jersey for wealth management for three generations.

Another string to the island's bow is that Rupert McCammon, the chair and founder of the largest African investment conference outside the continent, Afsic, also operates Afsic and Africa Capital Investments from the Island.

"Jersey has a very strong commitment to supporting capital flows into Africa."

Allan Wood, Global Head of Business Development at Jersey Finance

Rob Hersov, Chairman, Invest Africa

Marketing into Europe and navigating AIFMD

Being outside of the EU means South African managers are not subject to EU directives when targeting investors from the rest of the world, but there have been problems when marketing into Europe even with a structure in the EU. One major issue for funds marketing into Europe, besides choosing a jurisdiction not on the blacklist, as mentioned in the trends section, is the choice between private placement and the EU Alternative Investment Fund Managers Directive (AIFMD). While the majority of funds use private placement, some have used full AIFMD passport for selling into the EU. An issue in this regard that keeps coming up for the GPs on AIFMD, however, is lack of coherence and overly draconian provisions in terms of selling. The application of AIFMD for non-EU funds has been an issue in the market for several years.

What GPs told us about AIFMD:

"We would like to see some level of sense and proportionality for AIFMD. We are not allowed to fly to Paris or Zurich or wherever, to talk to anyone about raising funds, or we will be breaking EU law. Power balance is totally skewed against (smaller) SA funds who just want to have a speculative, fact-finding discussion."

"We have marketed into Europe but it has not been easy. AIFMD is very disjointed and the European Supervisory Authorities do not seem to apply the rules consistently, even within the same jurisdiction. For example, we did a raise in Denmark and were asked to provide a letter from the SA regulator. The regulator told us it was the first time they had to provide such a letter, and were not sure what the ESA really wanted them to say in it. It's so odd. Yet I am sure we couldn't have been the first SA fund to do a raise in Denmark."

There is clearly an opportunity to facilitate non-EU capital raising from the UK and EU here for Jersey, which literally sits between the UK and EU, and has Private Placements Agreements with both. This means that Jersey bridges the gap between the UK and the EU in this post-Brexit environment and takes any uncertainty off the table.

Jersey further provides a high degree of political and fiscal stability for investors and funds exposed to both the EU and UK. Research by Jersey Finance shows that by the EU's own statistics, only 3% of all Alternative Investment Fund Managers are registered to market in more than three European jurisdictions. This means that 97% of all managers do not market in more than three EU countries.

If a manager is part of the 3% who market on a pan-European basis or to the retail market then they will most likely need to access EU markets via another jurisdiction under full scope of AIFMD or UCITS. But if a manager is one of the 97% who do not market so widely within the EU, then Jersey offers a quicker time to market, a more efficient and a more cost effective solution.

At the time of writing a full review of AIFMD had been launched by the European Commission on 22 October, which opened a consultation with the industry to explore a range of issues including potentially complicated delegation of fund managers' activities.

The US and Asia's sophisticated investor framework and Asia Region Funds Passport becoming competitive to EU Fund managers in the survey also tell us that the US and Asia's sophisticated investor framework also make capital raising easier for South African managers in some aspects, particularly emerging managers looking to raise capital via a hub in the Caribbean for the US such as Caymans and BVI and Singapore or Hong Kong for Asia. The accelerating pace of the Asia Regions Funds Passport to facilitate selling between markets in Asia including Australia; Japan; New Zealand; The Republic of Korea; and Thailand, are also fast offering similar standards to the EU's UCITS and AIFMD frameworks, which will further smooth the path for African funds looking to raise in Asia. However, one GP said: "we have never had a problem accessing US or Asian capital through our Jersey partnership."

IFC 5, St Helier, Jersey

Reflections on the report findings from Tanya van Lill, CEO of the South African Private Equity and Venture Capital Association (SAVCA)

The Jersey Finance report *South African Fund Managers: Trends in Fund Domiciliation and Capital Raising* provides useful insights into the factors that influence the choice of jurisdiction for fund domiciliation. The report findings are not only relevant to institutional investors (LPs) looking to capitalise on the investment opportunities the African continent has to offer, but are especially useful for private equity fund managers seeking to structure their funds and successfully fundraise from international investors.

One of the main drivers identified in the report that influence the decision to domicile is very much dependent on the LPs and their level of comfort with the jurisdiction. The report provides an interesting comparison between jurisdictions based on two key considerations, namely regulatory complexity and cost.

The report also alludes to the fact that South African fund managers are ahead of the curve when it comes to identifying and investing in opportunities across the African continent, particularly into retail, consumer, real estate and infrastructure investments. South African fund managers bring a level of maturity and sophistication to transactions given their experience and track record.

Given the need for economic recovery and building back better as a result of the Covid-19 crisis, it is important to continue attracting foreign capital to the continent, and for research reports like these to highlight the opportunities and channels to facilitate investment. Thank you to Jersey Finance and their research team for providing us with an insightful document.

Investing into nature: Jersey Fund for a Wilder World

With the focus on sustainable finance increasing, Jersey is again ahead of the curve, investing directly into biodiversity and nature that will benefit developing countries, including in Africa.

Launched in January, "Jersey Fund for a Wilder World" has as its objective effecting positive change on the restoration of global ecosystems, and is designed to give financial services firms in Jersey the opportunity to contribute a portion of their fees earned from sustainable finance workflows to a pooled central pot.

Contributing to the fund is voluntary, and is initially open to fund service providers, including administrators, law firms and accountancy firms, with the intention to ultimately open the fund up to a wider cross section of Jersey's finance industry.

The inward investment of capital in the fund will contribute towards Durrell's "Rewild our World" strategy, which undertakes projects aimed at reviving, restoring and rewilding diverse habitats around the world, from Jersey and the UK to Mauritius and India.

The launch of the fund forms part of Jersey's wider objective of positioning itself as a global centre of excellence for sustainable finance, with Jersey Finance shortly due to set out a long-term vision and strategy for the ESG space.

It also builds on the Jersey Financial Services Commission's consultation last year on enhancing disclosure and governance requirements for sustainable investments, Jersey being one of only seven pilot cities/territories taking part in the United Nations' "United 4 Smart Sustainable Cities" initiative, and the Government of Jersey's implementation of a Carbon Neutral Strategy.

Elliot Refson, Head of Funds, Jersey Finance, says: "I'm particularly pleased to be working with Durrell, which has such strong roots in Jersey but expertise and a reputation that extends right around the world, and to have already had such strong support from firms here in Jersey. This fund provides a fantastic opportunity for firms in Jersey to make a combined, clear and positive difference to natural environments around the world."

Durrell will also assume responsibility for monitoring, evaluating and providing a comprehensive analysis of the impact of the investment. Dr Lesley Dickie, CEO, Durrell, adds: "Through the Rewild our World initiative, we have set our sights on delivering significant change to the fortunes of threatened wildlife through a positive and bold vision for conservation. By bringing together our own knowledge and experience of global conservation with the international expertise of Jersey's financial services industry, this fund can play an important role in realising our long-term goals." ■

"The Jersey Fund for a Wilder World provides a fantastic opportunity for firms in Jersey to make a combined, clear and positive difference to natural environments around the world."

Elliot Refson,
Head of Funds,
Jersey Finance

WILDER WORLD
JERSEY FUND