Jersey Finance

Delivering Insight ▪ Driving Innovation

Jersey for Institutional Investors:

Executive Summary

Europe Economics was commissioned by Jersey Finance to examine the role of Jersey in facilitating the effective and efficient management of pension and other institutional assets. This report describes the types of tax-exempt institutions, including pension funds investing through Jersey vehicles and the estimated volume of their assets under administration; it analyses the added value of investing through Jersey for tax-exempt institutions and effectively demonstrates what sets Jersey apart from other international finance centres to make it a clear choice for investors and fund promoters.

Introduction

The report begins by looking at the Jersey funds and corporate structures which attract tax-exempt institutional investors*. The Island certainly has a large funds sector, with over £209 billion of funds under administration in June 2016 according to Monterey Insight. Of this, £145 billion was domiciled in Jersey and a further £14 billion was domiciled in Jersey but not administered there.

It is also the location for a large number of corporate structures, or special purpose vehicles (SPVs), which perform investment and financing activities on behalf of companies and institutions. It has been estimated that, at the end of 2016, around £600 billion is held in specialist structures for various businesses and institutions.

In fact, investors in funds domiciled or administered in Jersey come from a range of locations. A 2016 Capital Economics report estimated that 42% of all wealth managed in Jersey came from investors based in the UK, 20% from the rest of Europe, and 38% from the rest of the world.

There are two clear reasons for tax-exempt institutional investors to invest through vehicles based in Jersey: Jersey's tax neutrality and its expert financial services centre which works with its clients to manage and grow wealth. These benefits ultimately accrue to the investors in tax-exempt institutions, such as pension fund members.

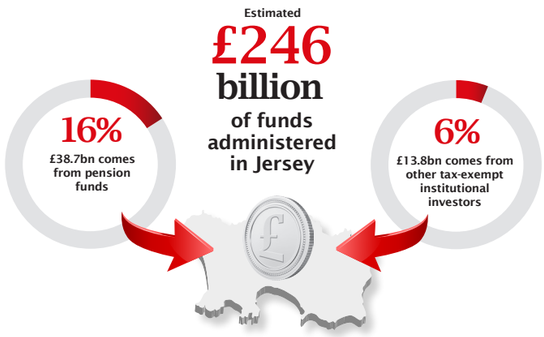
The Island's tax neutrality is particularly important for tax-exempt institutional investors, which usually do not pay income tax or capital gains tax in their home country. If they make cross-border investments in countries which are not tax-neutral, they may be subject to tax when drawing returns from their investments. This often requires complex and costly solutions to create tax-transparent vehicles or tax filings to reclaim tax deducted. Put simply, investing in Jersey avoids these complications and costs, making it easier to make cross-border investments which create a more diversified portfolio.

*The report is using tax-exempt institutional investor in the sense of entities such as pension funds or sovereign wealth funds that have domestic exemption from tax in their country of residence. Non-tax-exempt investors may also include institutional investors such as life companies, non-exempt pension funds and other savings vehicles which themselves may be eligible for international treaty benefits however these investors are not the subject of this research.

Jersey's Tax-Exempt Institutional Investors

To understand the scale of activity of tax-exempt institutional investors in Jersey, Europe Economics surveyed Jersey administrators and lawyers responsible for servicing funds and corporate structures. It received responses from 10 fund administrators, whose net asset value (NAV) of assets under administration (AUA) account for 58% of the total funds AUA in Jersey. In addition, it received three responses from administrators of SPVs.

Based on the survey results, Europe Economics estimates that the value of total funds under administration had risen from £209 billion in June 2016 to £246 billion by June 2017. Of the £246 billion of funds, approximately £39 billion comes from pension funds and around £14 billion is from other tax-exempt institutional investors, such as sovereign wealth funds (SWFs). Among the tax-exempt institutional assets under administration, those invested by pension funds account for 74%.



The tax-exempt institutional investors with funds administered in Jersey come from around the world. Of the £39 billion of pension fund assets, around £18 billion originates from EU investors (excluding the UK), around £5 billion from UK-based investors and around £12 billion from the rest of the world (excluding North America).

Of the £600 billion believed to be held in corporate structures, Europe Economics estimates that around 20% is attributable to pension funds, with slightly less globalised origins. The Europe Economics survey suggests that 20% of the assets administered on behalf of SPVs is from UK-based institutions, around half is from the USA and the remaining 30% is from other EU countries.

Most of the funds administered in Jersey by tax-exempt institutional investors are invested in private equity and venture capital. Around 19% is invested in property/real estate. Bonds, equities, mixed and money market instruments account for only 7% of total investments by tax-exempt institutional investors.

58 million people

are estimated to benefit from Jersey's administration of pension fund investment in the real estate fund sector

At least 58 million pension fund members worldwide are represented by pension funds investing in real estate through Jersey funds. However, there are pension funds which invest in real estate through Jersey corporate structures, which would make the total even higher. What's more, the number of ultimate beneficiaries would rise further if investors in private equity were involved.

The Benefits of Doing Investment Business in Jersey

Administrators surveyed by Europe Economics were asked about the factors important to the success of their doing business in Jersey – those important to themselves and those seen as important to their clients. They said that the Island's proportionate regulatory environment was very important, followed by the skilled labour force, and knowledge spill-overs and mutual learning between sectors. The proportionate regulatory regime was also seen clearly as the strongest factor when compared with an onshore jurisdiction (the UK), followed by the lower costs of doing business and of developing new products.

For tax-exempt institutional investors, the administrators saw Jersey's tax neutrality as a critical requirement for the success of the industry and investor interests. It is transparent and well-regulated and grants investors the opportunity to use Jersey's services without paying an additional layer of tax or incurring significant administrative costs and complexity in replicating tax neutrality when investing cross-border through onshore funds or vehicles. Many administrators noted that should Jersey lose its tax-neutral status, and other jurisdictions retain theirs, it would clearly impact on Jersey's attractiveness as a location for these investors.

A tax-neutral location enables tax-exempt investors to join with investors from different countries, or with non-tax-exempt investors, within a fund or vehicle without risking their tax-exempt status, regardless of the ultimate location of the investment. This facilitates investment in a broader range of funds, assets and locations than would otherwise be possible if the investor remained with onshore funds. International diversification of portfolios and diversification across different asset classes can be very attractive in a volatile stock market or when fixed-income investments offer low returns.

Jersey's focused and responsive regulatory environment was considered a significant beneficial factor by all the administrators, and was held to be the primary non-tax related advantage of Jersey for institutional investors. The benefits of this environment accrue in a number of ways:

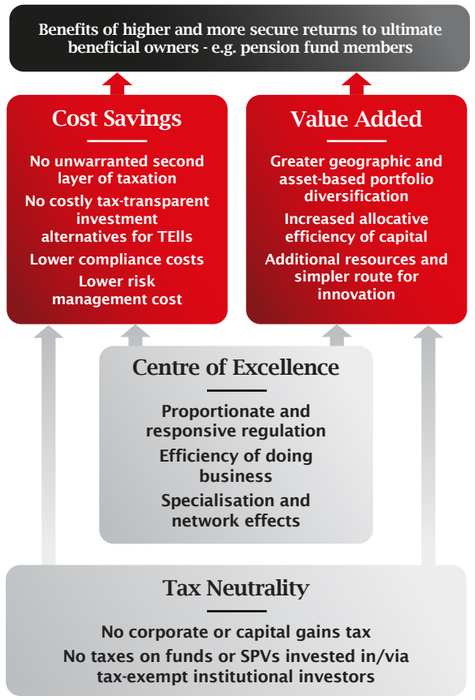
- Jersey's stability, proactive approach and quality governance have created a good reputation – which is important for institutional investors, in particular pension funds, and can reduce risk management costs.
- Jersey's responsive approach to regulation reduces costs for investors and enables greater innovation.
- Jersey's flexibility regarding EU regulation avoids unnecessary costs for institutional investors.

Jersey prides itself on its sound regulatory practices and its approach to regulation has particular features that are attractive to institutional investors. Its treatment of professional investors is proportionate, and does not impose the costs and restrictions associated with retail investor protection. The regulator works with relevant partners to understand the day-to-day processes of investors in alternative assets, and implements regulations which balance the impact of intervention on the industry with the needs of investors. All of which creates a robust, assuring and accessible environment for existing and future investors.

The new Jersey Private Fund guide, seen as a much-welcomed simplification of the previous regime, recognises the shift towards fewer investors per fund and funds being wholly institutional. It created the streamlined Jersey Private Fund and clarified fund requirements, saving time and cost in setting up and servicing funds, creating a more innovative product that matched investor needs. The administrators also said that Jersey's fund laws were among the best at converting a promoter's ambitions into a fund vehicle in a timely fashion – speed to market being a crucial factor.

Jersey's flexibility over EU regulation means that funds set up in Jersey can be marketed to non-EU tax-exempt institutional investors, avoiding the costs and restrictions of the EU's AIFMD regime for alternative investment fund managers. However, fund promoters can also market alternative investment funds to EU investors through bilateral agreements between Jersey's regulator and those of each member state. Funds can thus market freely to EU investors and those in the rest of the world. This is particularly important for tax-exempt institutional investors, including pension funds, which are very active in alternative investments.

The benefits of investing through Jersey investment vehicles

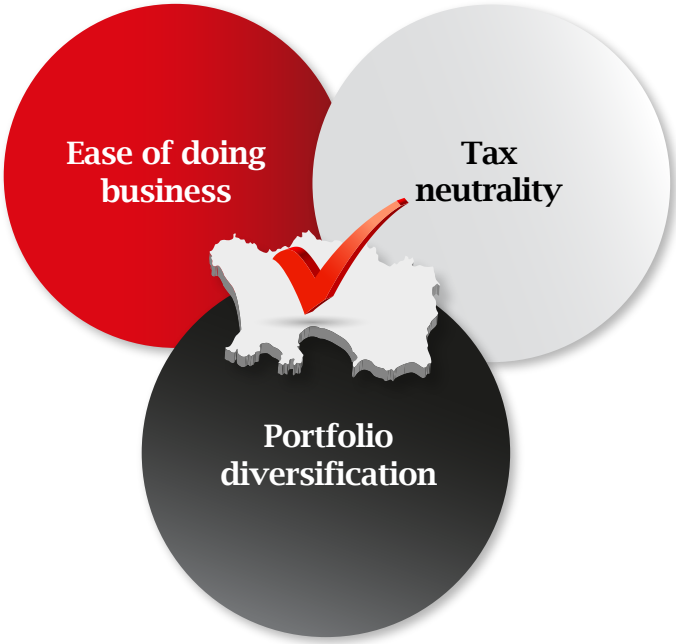


There are a range of other positive factors which set Jersey apart as a centre of excellence for establishing and servicing funds and corporate structures, in particular for tax-exempt institutional investors. The Island is seen as a place where it is easy to do business, with its use of English and common law which are familiar to UK, US and other investors around the world. Its time zone supports interaction between North American and Asian markets, while its proximity to London expedites access to funds from the UK and the rest of the world. And it has third-country access arrangements to the EU.

Jersey also has a deep pool of forward-thinking, highly skilled professionals, more than 13,000 of them in fact, who work closely with investors to establish and service funds and corporate structures in an effective and efficient way. The concentration of skills across a range of professions is a significant advantage which brings agglomeration benefits: the close working relationships between professionals locally supports innovation, development and efficiency in the delivery of new services. And it has expertise in managing assets such as real estate and private equity investments – attractive asset classes for tax-exempt institutional investors.

Market participants consider Jersey to have a depth and range of skills that other offshore centres cannot readily match; even compared to some onshore jurisdictions, market participants consider Jersey service providers to be more client focused and responsive.

Jersey's Added Value



There are several key sources of added value for tax-exempt institutional investors which invest in Jersey funds or structures:

- **The ease of doing business** – a stable business environment with a regulatory regime proportionate to the nature of the investors, a responsive and flexible approach to developing rules and a significant pool of skills and expertise. These are complemented by a familiar legal structure, a useful time zone and proximity to the City of London. Most administrators said these features created cost-savings and lower risk-management costs for investors.
- **Tax neutrality** – the ability of tax-exempt investors to retain their tax-exempt status, avoiding the cost of complex administrative procedures to create tax-transparent vehicles and the additional compliance burden of, for example, listing and reporting.
- **Reach of benefits** – tax neutrality facilitates diversification into a wider range of cross-border investments, of key importance for pension funds from all over the world seeking reliable returns on long-term investments.

Jersey as a financial centre provides services to a large number of tax-exempt institutional investors. These include around £53 billion of funds under administration in Jersey, of which around £39 billion is from pension funds, as well as a further £120 billion held by pension funds through Jersey corporate structures.

The Island's positive features outlined in this report provide significant benefits and add value to tax-exempt institutional investors investing in Jersey-domiciled and administered funds and corporate structures. Given the vast reach of such institutional investors – in particular, pension funds – these benefits reach a significant number of people. The features illustrated clearly reflect what sets Jersey apart from other jurisdictions, with a range of benefits that are proving successful for existing investors and that will prove attractive to investors of the future.

Cost Efficiencies Vs Other Jurisdictions

Regulation + skilled workforce + ease of innovation + business efficiency

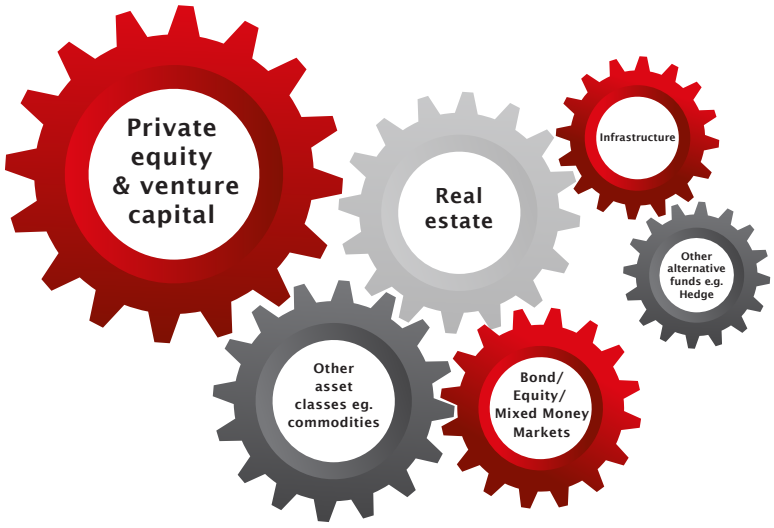
=

Up to

£26 million

Cost savings of tax-exempt institutional assets under administration p.a.

Types of Investment Assets



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For further information please visit www.jerseyfinance.je/institutionalinvestors