Europe Economics

Jersey for institutional investing: A clear choice

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Foreword

One of the main objectives of Jersey's finance industry is to ensure that the jurisdiction remains attractive to investors as a place to do business. The industry continually looks to the future, adapting to change and enhancing its offering as the financial landscape evolves.

A proportion of Jersey's current business is connected to institutional investors, which includes a wide variety of tax-exempt institutions, such as pension funds, endowment funds and sovereign wealth funds (SWFs).

However, the clear value that Jersey creates for global institutional and governmental investment portfolios has not been fully analysed and is not widely understood. So Jersey Finance decided early in 2017 to commission an independent report to illustrate Jersey's important role in the effective and efficient management of pension funds and other institutional assets. Our previous research projects into Jersey's Value to Britain and Europe had cast much-needed light on the Island's positive support for the economies of its two major trading partners, and the valuable insights were very well-received. We wanted to add further clarity about how Jersey serves tax-exempt institutional investors which play a vital role in their home countries around the world.

We worked closely with Europe Economics, a leading international research consultancy to produce this insightful report. It draws on a variety of data to quantify the scale of investments by tax-exempt institutions and analyse their motives for using Jersey. These data are supported by a survey of Jersey administrators and the legal community who service work with tax-exempt institutional investors, who provided information on what attracts them to the Island.

Jersey has a range of fund structures tailored to different investors' needs. It also enables the establishment and management of simple investment holding vehicles through to complex multi-jurisdictional structures. The data reveal that the tax-exempt institutional investors account for around a fifth of the funds under administration in Jersey and a similar proportion of the investment in corporate structures.

The report also clearly shows that one of the two main attractions which lead tax-exempt institutions to invest in Jersey is its tax neutrality. Such investors are generally exempt from paying income tax or capital gains tax in their home countries, but when they make cross-border investments, their tax-exempt status might not be recognised by other tax authorities. This could deter them from making such investments to create the diversified portfolios needed to maximise returns and minimise risk. Cross-border investments through Jersey allow them to make better returns for their beneficiaries — such as retired people, in the case of pension funds.

The other main attraction of Jersey, the report says, is its excellence as a forward-thinking international finance centre. Its proportionate regulatory environment is the most important aspect, according to the respondents to the survey: the regulator invests a lot of time in understanding the needs of professional investors, which often differ from those of retail investors. The new Jersey Private Fund guide, for example, is praised for finding ways of saving time and cost when funds are set up — speed to market being a vital factor.

Other advantages of Jersey as a financial centre include its clear, open and honest approach to business, specialist expertise to make things happen, concentration of skills and flexible arrangements for marketing alternative investment funds in the EU. And it is seen as easy to do business, with the Island's English language, common law legal system, time zone between Asia and North America, and access to the City of London when raising funds.

Jersey Finance has always emphasised the clear value that Jersey creates when working with global investors and businesses engaged in international financial transactions. In fact, this authoritative report by an independent consultancy spells out just how important Jersey is as a major international player, working with tax-exempt institutional investors and their beneficiaries on value-creating solutions to suit their circumstances. The report provides us with important findings that help us assess our current offering and will certainly influence our future strategy in terms of serving our existing and potential clients worldwide. I commend it to readers and hope that they will find it insightful.

Geoff Cook
Chief Executive
Jersey Finance

Executive Summary

Europe Economics was commissioned by Jersey Finance Limited 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 — such as pension funds — investing through Jersey vehicles, and the volume of their assets under administration. It then goes on to explore the reasons investors and fund promoters choose Jersey and analyses the added value of Jersey to tax-exempt institutional investors — and hence to the ultimate beneficiaries of those institutional investors.

Background to Jersey's funds and corporate structures

Pension funds and other tax-exempt institutional investors have a clear motivation to invest in alternative assets as a means to improve portfolio diversity, so that over the long-term higher returns can be achieved for a given risk weighting. The typically long-term nature of the investments made by institutional investors means reduced exposure to risks such as day-to-day volatility or asset illiquidity. Investing in alternative assets — such as private equity and real estate — through a fund or special purpose vehicle (SPV) is highly attractive in terms of risk management. Jersey has a range of fund structures tailored to different investor needs, and also enables the establishment and management of SPVs for institutional investors.

The financial community in Jersey services a large volume of funds. Administration is a highly value-added service where the Jersey industry's skill and experience is particularly relevant. For this reason we focus on administration as the key form of servicing provided by Jersey.

Jersey's tax-exempt institutional investors

Jersey's expertise is reflected in the scale of funds and SPVs linked to the island. Jersey hosts a large number of corporate structures, or SPVs — an estimated £600 billion is held in specialist structures for various businesses and institutions.[1] In addition, there was approximately £209 billion of funds under administration in Jersey at 30 June 2016.[2] This consists of approximately £145 billion in Jersey domiciled funds, and £64 billion in non-domiciled funds.[3] We surveyed Jersey administrators and lawyers responsible for servicing such funds and corporate structures and we believe the funds under administration are higher still at June 2017, at around £246 billion. We estimate that of this figure, approximately £39 billion (around 16 per cent) comes from pension funds, and around £14 billion (six per cent) is from other tax-exempt institutional investors, such as sovereign wealth funds (SWFs).

Most of the fund money (around 60 per cent by value) administered in Jersey and invested in by tax-exempt institutional investors is in private equity and venture capital (PE / VC) funds. Around 19 per cent is in real estate funds. Bond/equity/mixed/money markets instruments account only for seven per cent of total investments. These proportions do not differ significantly between pension funds and other tax-exempt institutional investors.

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1 Capital Economics (2016) "Jersey's value to Britain".

2 Monterey Insight (2016). The data reflect the situation at June 2016, and have been converted from US dollars into pounds sterling as at this date.

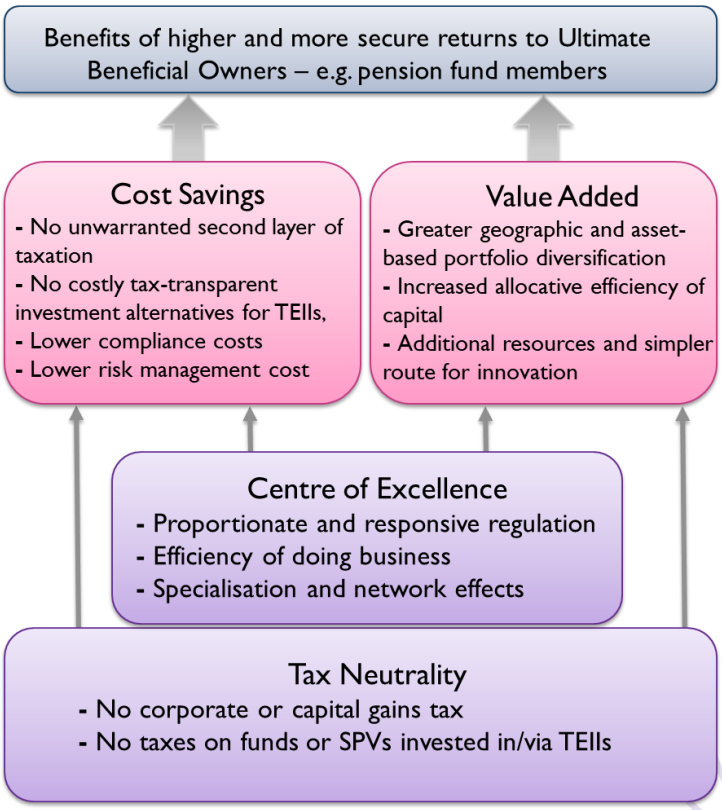
3 The Jersey Financial Services Commission (JFSC) fund statistics put the Net Asset Value (NAV) of funds serviced in Jersey at March 2017 at £266 billion. As discussed in Chapter 1, there are some differences between the JFSC and Monterey Insight figures — we base our extrapolations on the latter.

A significant fraction of the money from pension funds (being the largest group of tax-exempt institutional investors) stems from EU investors (excluding the UK) from countries such as the Netherlands, France, Denmark and Germany. Around 13 per cent of pension fund assets come from UK-based investors. Less than 10 per cent are from the US and Canada, and around 32 per cent from the rest of the world, including Switzerland and China.

The benefits of undertaking business in Jersey

The benefits to tax-exempt institutional investors (TEIIs) of investing through funds and corporate vehicles administered and/or established in Jersey stem from two main mechanisms: Jersey's tax neutrality and its excellence as a financial services centre. The benefits stemming from tax neutrality and the regulatory processes related to the setting up of vehicles may accrue only to Jersey-domiciled funds and vehicles. These would include cost savings for example from complying with a more tailored and proportionate regulatory approach ("lower compliance costs" in Figure 1). All funds administered in Jersey, regardless of their domicile, benefit from the other features of Jersey as a centre of excellence. Benefits would include, for example, the particular expertise of Jersey service providers in administrating funds which in turn results in lower internal risk management and due diligence costs incurred by funds and investors. The figure below summarises how these benefits arise.

Figure 1: The benefits of investing through Jersey investment vehicles



Source: Europe Economics.

Tax neutrality

Jersey does not tax intermediary investment vehicles, such as funds or corporate structures. This (tax neutrality) is a critical requirement for tax-exempt institutional investors. Without it, there is a risk that these investors may be exposed to additional, unwarranted layers of tax levied on these vehicles. Jersey's tax

neutrality also means that tax-exempt institutional investors need not incur significant administrative cost and complexity in replicating tax neutrality onshore. This decreases the potentially distorting influence of tax concerns in investment decision-making, particularly concerning cross-border investment. This applies to both investing via funds or through corporate structures.

Tax neutrality also facilitates access by tax-exempt institutional investors to a broader range of funds, assets and geographic locations compared to what would otherwise be possible if the investor remained with onshore funds. The ability to diversify their investment portfolios is crucial to pension funds, which seek to maximise returns for a given quantum of risk — for the ultimate benefit of their members. International diversification of portfolios can be very attractive in a volatile stock market or when fixed income investments offer low interest.

It is clear from our fieldwork that although a necessary condition, tax neutrality is by no means a sufficient reason for tax-exempt institutional investors to invest through vehicles located or serviced in Jersey. Jersey has a range of other features which attract tax-exempt institutional investors and provide tangible benefits to them.

Stable, proportionate and flexible regulatory environment

Jersey's focused and responsive regulatory environment is considered a significant beneficial factor and is held to be the primary non-tax related advantage of Jersey to institutional investors. These environmental benefits accrue in a number of ways:

- Jersey's political stability and commitment to the financial services industry, robust regulation of the services necessary for effective fund management (such as asset administration and other banking services), and good governance provide a good reputation which is important for institutional investors, in particular pension funds, and can reduce risk management costs.
- Jersey's proportionate and responsive approach to regulation reduces costs to investors compared to onshore jurisdictions (such as the UK) and enables greater innovation, and increases the ease of doing business. The regulatory approach is tailored to the different types of funds and investors, with expert investors such as institutions benefitting from lighter-touch regulation. The government and regulator are responsive to industry's needs in terms of supporting new products and implementing regulation in a proportionate and cost-effective way.
- Jersey's flexibility regarding EU regulation, being neither part of the UK nor the EU, avoids unnecessary costs to institutional investors. This will be particularly relevant for non-EU tax-exempt institutional investors in the case of the Alternative Investment Fund Managers Directive (AIFMD), as these are very active in the alternative investment space and otherwise would encounter high AIFMD-related costs.

Business efficiency and responsiveness

The ease of doing business in Jersey is a key attraction for funds and the tax-exempt institutional investors in those funds. This stems from factors such as: Jersey's common law legislative structure; its proximity to the City of London giving access to funds from the UK and the rest of the world; a time zone that supports interaction between a range of markets (e.g. Asian, North American and UK); and Jersey's long-established role as a third-country to the EU, with settled third-country access arrangements.

Jersey has a deep pool of skilled professionals providing a range of expertise necessary for the establishment and servicing of funds and corporate structures, with over 13,000 finance professionals, including over 55 per cent (7,230 employees) in trust and company administration, fund management and legal services.[4] Market participants consider Jersey to have a depth and range of skills that other offshore centres cannot match.

[4] Jersey Labour Market Statistics 2016.

This is further enhanced by the network and clustering effects present in Jersey which enable efficient coordination of the multiple servicing parties and drive information flows, which increase the development, innovation and competitiveness of the industry.

Sector expertise

Jersey is particularly strong in the servicing of real estate and private equity investment, where processes are less amendable to automation and more dependent on the skills and expertise of the people involved. This is highlighted by the fact that a significant volume of fund assets are administered in Jersey whilst being domiciled elsewhere — around £64 billion in 2016.[5] There are numerous examples of funds and corporate vehicles established and administered in Jersey investing in a wide range of high value alternative investments across multiple economies.

Jersey's added value

There are significant benefits to tax-exempt institutional investors in investing in (or via) funds and corporate structures established and/or administered in Jersey. Quantifying the added value to these investors is not straightforward given the absence of a clear counterfactual — i.e. the alternatives available to such investors beyond Jersey, which might involve investing through onshore funds and vehicles, or forgoing certain types of investments altogether. However, some areas of benefit can be quantified as follows:

- Added value from ease of doing business. Cost savings stemming from the ease of doing business would accrue directly to funds (for example, lower set up and compliance costs compared to onshore jurisdictions) and also indirectly through service providers' lower costs driven by, for example, more efficient processes, more highly skilled staff etc. Based on our survey of administrators we estimate that cost savings for these service providers alone could be 1–1.5 basis points of assets under administration, equivalent to £17–£26 million of tax-exempt institutional assets under administration (across funds and corporate structures). In addition to these indirect cost savings, further direct savings would accrue to tax-exempt investors through funds and vehicles set up in Jersey, as well as lower risk management costs.
- Administrative savings from retaining recognition of tax-exempt status. A significant source of added value for tax-exempt investors investing in Jersey funds and corporate structures is the ability to retain recognition of their tax-exempt status without investing in complex and costly tax-transparent alternatives. In addition to administrative costs, such tax-transparent vehicles may entail further costs — for example the costs of listing on a main trading venue could be as much as nine per cent of capital raised — which may not be necessary if relying on Jersey's tax neutrality.
- The scale and reach of Jersey's benefits. Tax neutrality and service excellence in Jersey enables tax-exempt institutional investors to invest in a wider range of cross-border investments, including alternative assets, thus contributing to valuable investment diversification. The benefits of this can be significant — reducing a home bias in investment can increase returns for a given level of risk, of key importance for pension funds in particular who are seeking reliable returns on long-term investments. We estimate that at least 58 million people benefit from Jersey's administration of pension fund assets — this figure is a lower bound as it draws only on pension funds' investment in the real estate funds sector, which is significantly outweighed by the investment in private equity.

[5] Monterey Insight 2016.

1 Introduction

Jersey Finance Limited was interested in research to examine the role of Jersey in facilitating the effective and efficient management of pension and other institutional assets. Europe Economics, an independent firm of economic consultants, was commissioned to conduct this research.

This report describes the types of tax-exempt institutions — including pension funds — investing through Jersey vehicles and the volume of their assets under administration; explores the reasons investors and fund promoters choose Jersey; and analyses the added value of Jersey's fund sector to tax-exempt institutional investors.

This report draws on three main strands of research:

- Data analysis. We analysed data on funds administered in Jersey — both those domiciled in Jersey and non-domiciled funds — from the Jersey Financial Services Commission (JFSC); more detailed data from Monterey Insight on the assets and geographic locations in which the funds are invested, including unregulated funds; and data on the features of the end investors in Jersey funds from Preqin.[6]
- Literature review. We included insights on the acknowledged benefits of tax neutral international financial centres such as cluster effects, regulatory impacts and tax implications for tax-exempt investors to develop our conceptual framework for the research.
- Fieldwork. We sent surveys to, and conducted interviews with, Jersey administrators, fund managers and lawyers to understand the role of tax-exempt institutional investors in Jersey's fund sector and the benefits provided to them. Participants in our fieldwork account for around 58 per cent of the total funds under administration in Jersey.

1.1 Motivation for institutional investors to invest in alternative funds

"Alternative" assets are those investments that are not stocks, bonds or cash. This category includes real estate, private equity and hedge funds. These can be attractive to investors because of the promise of greater returns and improved portfolio diversification. An optimal portfolio is defined as a combination of assets that provides a target (average) return at the lowest possible risk, or alternatively one which provides the highest expected returns given a predetermined level of risk.

Alternative investments may be sought particularly by pension funds and other tax-exempt institutions who, beyond seeking to diversify risk and boost returns, have longer-term investment horizons which mitigate forms of risk such as day-to-day volatility; similarly the illiquidity of some of these alternative assets (e.g. private equity, real estate) is of less concern in the case of long-term investments, with alternative assets being an effective match for long-term or illiquid liabilities like those in pension funds. Alternatives can also act as hedges against inflation risk.

Whilst tax-exempt institutional investors can and do make direct purchases of alternative assets, investing through funds specialised in particular elements within the alternative asset space may be much more attractive. Indeed, in the majority of cases, an alternative investment fund (AIF) is used as an investment vehicle, which is managed by a professional fund manager who has the experience and knowledge to select and manage the investments on behalf of the various investors in that fund.

Risk management is of great importance amongst and to institutional investors. It will not be efficient for even very large institutional investors to possess in-house the skills and incentive structures appropriate to

[6] Details about the data used are in the Appendix.

investing directly in a wide range of asset classes. On the other hand, they may possess the skills necessary to discern and compare the performance of the specialist fund managers.

The degree of diversification within an asset class achievable through investments in funds is going to be greater, for a given unit of investment capital, than that achievable by investing directly. The choice by institutional investors of investment funds also provides some distance between those responsible for assessing investment performance *across* different asset classes and those responsible for delivering such performance *within* particular asset classes.

1.1.1 Jersey funds

Jersey fund structures generally take the form of a limited partnership (currently the favoured vehicle for closed-ended private equity funds[7]), a company, or a unit trust. Funds can be closed-ended (which is typical in, say, private equity) or open-ended (as generally with hedge funds). Jersey funds cover both 'blind pool' activity, whereby the investors do not have a direct say in how the money is invested, and more bespoke club, joint venture and co-investment structures in which investors come together to make targeted investments — the latter are more common for institutional investors including sovereign wealth funds, family offices and pension funds. The different fund vehicles have different levels of regulation, depending on the intended investor population (i.e. retail or professional) and whether the fund is private or public. We discuss this tailored approach to regulation in more detail in Chapter 3.

1.1.2 Corporate structures and special purpose vehicles

Institutional investors can also invest through special purpose vehicles (SPVs), i.e. corporate entities created for the purpose of making an investment. These provide the flexibility of making direct investments whilst ensuring risk management and investor protection by segregating the investment risk from the investing institutions, and managing exposure to different legal and regulatory regimes associated with direct investments. As described in Chapter 3, there are particular advantages to investing via Jersey SPVs given the stability of the jurisdiction where the investors' assets are held, the specialist knowledge of the service providers and flexible company laws, as well as tax neutrality.

1.2 Background to Jersey funds and corporate structures

Jersey has a large funds sector, with a number of different fund types within its regulatory regime.[8] In addition to Jersey funds, non-Jersey domiciled funds are also serviced in Jersey. The servicing of funds includes administration and management, as well as a range of other activities such as audit and custody. Administration is a value-added service, where the skill and experience of the industry in Jersey (particularly regarding alternative investments) is particularly relevant. For this reason we focus on administration as the key form of servicing in Jersey for the rest of our analysis.

There are three main categories of interest:

- Funds domiciled and administered in Jersey.
- Funds administered in Jersey but domiciled elsewhere.
- Funds domiciled in Jersey but administered elsewhere.

Data on Jersey's fund sector come from two main sources: the JFSC quarterly fund statistics and Monterey Insight fund statistics. The two datasets are not immediately comparable, as discussed further in the Appendix.

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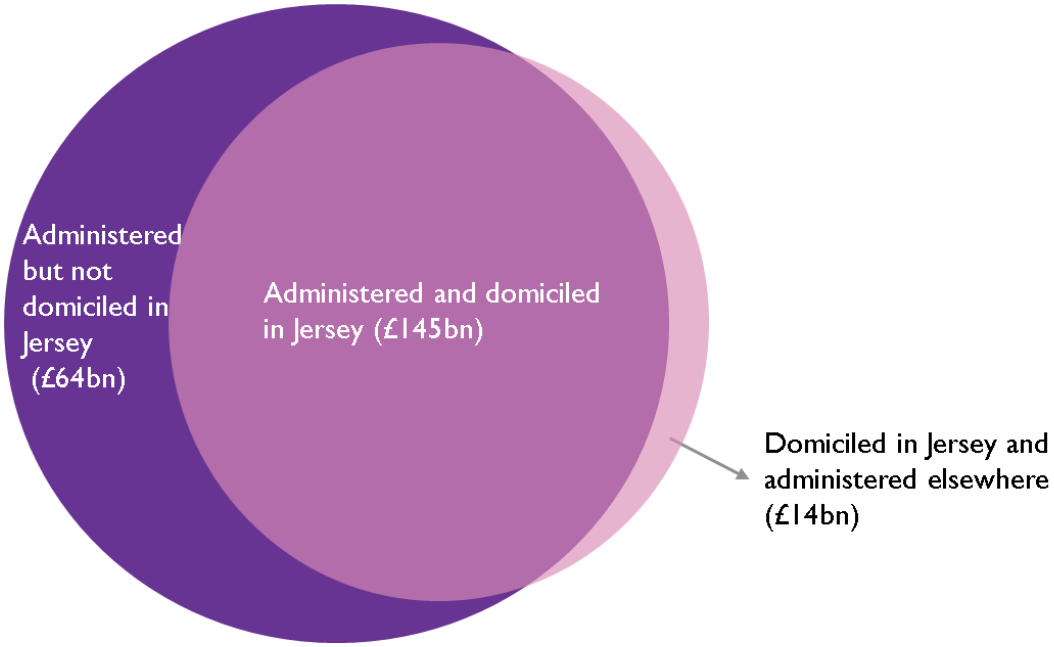
[7] See https://www.careyolsen.com/briefings/a-guide-to-funds-and-private-equity-in-jersey.

[8] Jersey regulates funds under the Collective Investment Funds (Jersey) Law 1988 (CIF) and the Control of Borrowing (Jersey) Order 1958 (COBO). CIFs are public funds whereas COBOs are private funds.

We use Monterey Insight fund data as the basis of our analysis as it includes a wider range of Jersey domiciled funds than the JFSC data and it provides greater granularity of fund details, in particular identifying the funds specifically administered in Jersey (rather than the broader definition of 'serviced'), which is the focus of our study.

There was approximately £209 billion of funds under administration in Jersey at 30 June 2016.[9] This consists of approximately £145 billion in Jersey domiciled funds, and £64 billion in non-domiciled funds, as shown in the figure below.

Figure 1.1: Share of Jersey-administered and/or domiciled funds

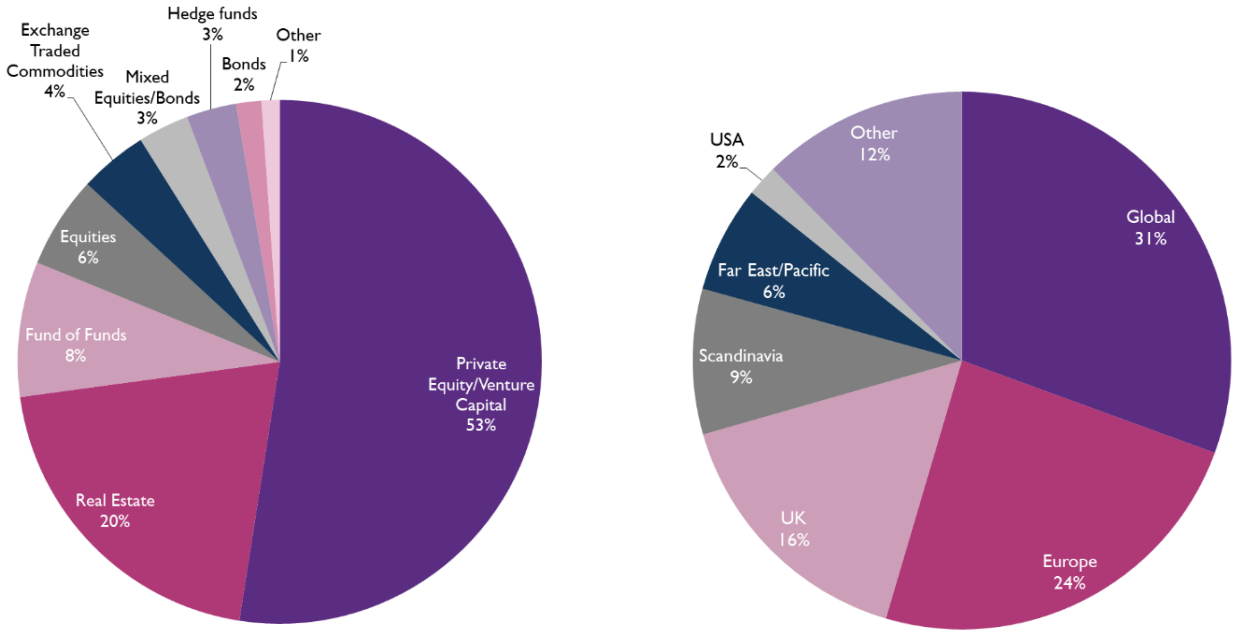


Source: Europe Economics, based on Monterey Insight 2016.

Investors in funds domiciled or administered in Jersey draw from a range of locations. Capital Economics estimated that 42 per cent of all wealth managed in Jersey comes from investors based in the UK, 20 per cent from the rest of Europe, and 38 per cent from the rest of the world. Equally, Jersey-administered funds invest in a wide range of assets across a number of geographic locations, as shown in Figure 1.2 below.

[9] Monterey Insight 2016. We note that the Monterey Insight data is up to June 2016, and have been converted from US dollars into pounds sterling as at this that date.

Figure 1.2: Asset types and investment locations of Jersey administered funds



Note: The right-hand chart shows the investment locations identified as the geographic focus of the funds. "Other" includes emerging markets, etc.
Source: Monterey Insight 2016.

Jersey is also the location for a large number of corporate structures, or SPVs, which perform investment and financing activities on behalf of companies and institutions. In October 2016 it was estimated that around £600 billion was held in specialist structures for various businesses and institutions.[10]

The following chapter presents our estimates of the proportion of these funds and corporate structures accounted for by tax-exempt institutional investors.

[10] Capital Economics (2016) "Jersey's value to Britain".

2 Jersey's Tax-Exempt Institutional Investors

To understand the scale of activity of tax-exempt institutional investors in Jersey, we surveyed Jersey administrators responsible for servicing funds and corporate structures (in additional to a wider interview programme with market participants including lawyers and fund managers). We received responses from 10 fund administrators, whose net asset value (NAV) of assets under administration (AUA) account for 58 per cent of the total funds AUA in Jersey. In addition, we received three responses from administrators of SPVs. This section presents our findings on the scale, geographical distribution, and range of assets invested in by tax-exempt institutional investors, including pension funds.

2.1 The scale and scope of Jersey's fund and corporate structures sector

As of June 2016, according to Monterey Insight Jersey administered approximately £209 billion worth of funds (net asset value).[11] (This consists of approximately £145 billion in Jersey domiciled funds, and £64 billion in non-domiciled funds.) Based on our survey results, we estimate this figure to be higher at June 2017, at around £246 billion.[12]

Corporate structures established in Jersey are responsible for a further significant amount of assets under administration through their direct investment on behalf of pension funds. As set out in section 1.1.2, these SPVs facilitate effective risk segregation and management for pension funds, and Jersey service providers have significant experience in setting up and administering such structures. Of the £600 billion believed to be held in corporate structures and investment vehicles, we estimate around 20 per cent, i.e. £120 billion is attributable to pension funds. However, as these corporate structures can co-invest through vehicles with multiple shareholders, perhaps with a mix of tax-exempt institutional investors and others, making such estimates is not straightforward and so this proportion should be interpreted cautiously.

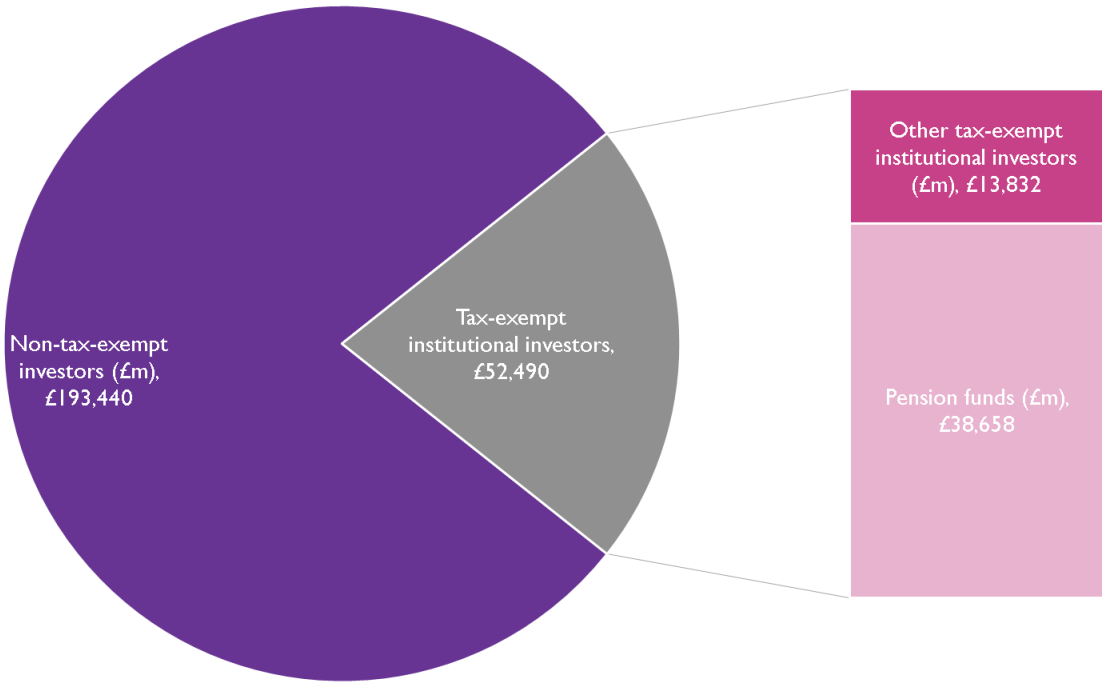
2.1.1 Tax-exempt institutional investors

We estimate that of the £246 billion funds under administration in Jersey, approximately £39 billion (around 16 per cent) comes from pension funds, and around £14 billion (six per cent) is from other tax-exempt institutional investors, such as sovereign wealth funds (SWFs). This is illustrated in Figure 2.1 below.

[11] Monterey Insight (2016) "Jersey Fund Report 2016" $278 billion, converted to pounds sterling.

[12] The JFSC fund statistics put the NAV of funds serviced in Jersey at March 2017 at £266 billion. As discussed in Chapter 1, there are some differences between the JFSC and Monterey Insight figures — we base our extrapolations on the latter.

Figure 2.1: Distribution of investors within the Jersey funds population



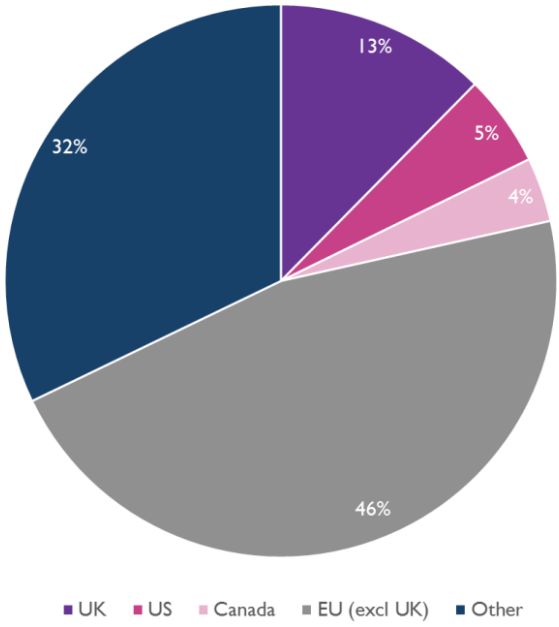
Source: Europe Economics' extrapolation based on survey results.

The institutional investors whose funds are administered in Jersey include pension funds (the vast majority), SWFs and other types of tax-exempt institutional investors.

2.1.2 Investor locations

The tax-exempt institutional investors with funds administered in Jersey come from around the world. As shown in Figure 2.2, assets from pension funds (being the largest group of tax-exempt institutional investors) largely stem from EU investors (excluding the UK) from countries such as Netherlands, France, Denmark and Germany. Around 13 per cent of pension fund assets come from UK-based investors. Less than 10 per cent are from the US and Canada, and around 32 per cent from the rest of the world, including Switzerland and China.

Figure 2.2: Geographic distribution of pension fund investors within survey sample, by NAV AUA



Source: Europe Economics survey results.

Responses from the survey on the geographical breakdown of other (non-pension) types of tax-exempt institutional investors were not as comprehensive. However, from the information we received, it seems the majority of these investors are from parts of the world other than Europe and North America.

Assuming the total population of Jersey's funds under administration follows the same distribution as our fieldwork sample, we have extrapolated the geographical distribution for pension funds in Table 2.1 below. We estimate that around £5 billion of Jersey's funds under administration comes from UK-based pension funds, around £18 billion from pension funds in Europe and around £12 billion from pension funds in the rest of the world excluding North America, and around £3.5 billion from the USA and Canada.

Table 2.1 Breakdown of all funds administered in Jersey by tax-exempt investor type and location

	UK (£m)	US (£m)	Canada (£m)	EU (excl. UK) (£m)	Other (£m)	Total (£m)
Pension funds	4,791	2,071	1,454	17,915	12,427	38,658

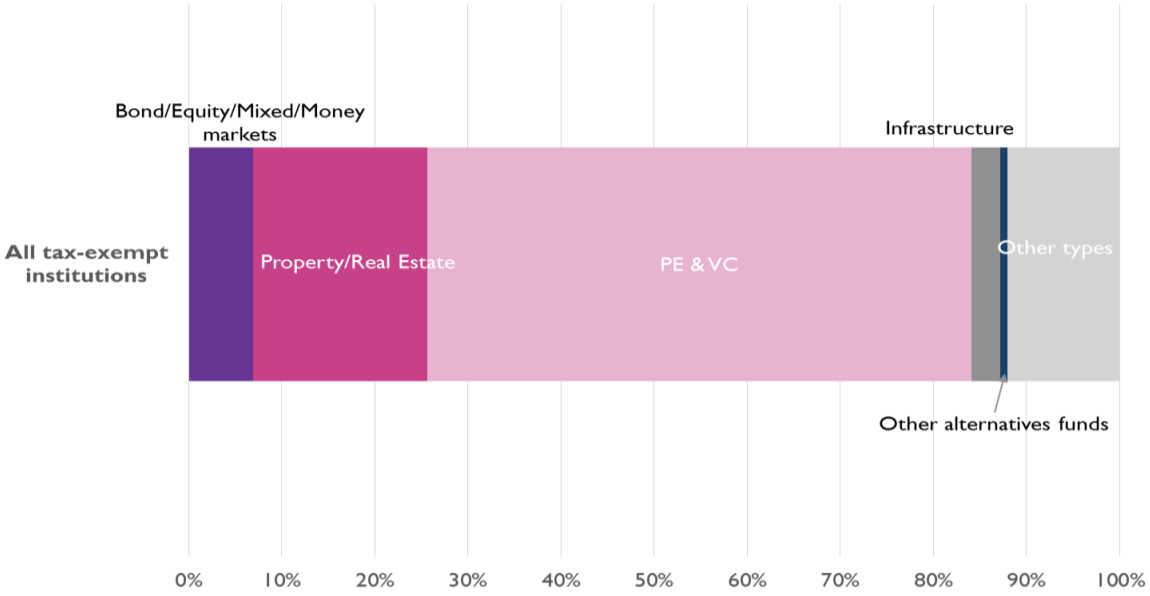
Source: Europe Economics extrapolation based on survey results.

The geographical distribution of investors in SPVs is slightly less globalised. Our fieldwork suggests that 20 per cent of AUA administered on behalf of SPVs is from UK-based institutions, around half are from the USA, and the remaining 30 per cent are predominantly from other EU countries.

2.1.3 Investment assets

Most of the funds (around 60 per cent) administered in Jersey and invested in by tax-exempt institutional investors are invested in Private Equity and Venture Capital (PE and VC), as shown in Figure 2.3 below. Around 19 per cent are invested in real estate. Bond/equity/mixed/money markets instruments account only for seven per cent of total investments. This proportion does not differ significantly between pension funds and other tax-exempt institutional investors.

Figure 2.3: NAV by investment instrument across sample of tax-exempt institutional investors



Source: Europe Economics survey results.

The composition of investments made by corporate structures appears to be much more orientated towards real estate. In our fieldwork, real estate accounted for just under 80 per cent of NAV of AUA for these structures. The importance of investments in real estate, especially UK real estate, was also emphasised in qualitative terms in our interviews.

2.2 The scale of ultimate beneficiaries

The funds administered in Jersey invested by pension funds from around the world bring benefits to the members of these pension funds. To estimate the number of citizens who would benefit from Jersey's fund administration via their pension funds, we have adopted the following methodology:

- Our starting point is the Preqin dataset which provides a list of pension funds who invest in real-estate funds in Jersey, and their total AUM. Given that the majority of NAV under administration from pension funds (according to our survey results) is private equity and not real estate, this number of pension funds will be a very conservative estimate of the number of pension funds investing through Jersey. Further, it does not take into account pension funds investing via corporate structures, or through a general fund manager (for example, our case study at section 3.6 shows that BlackRock has a large real estate fund located in Jersey of which a number of pension funds are part, but it is unlikely that the Preqin data capture these individual pension funds).
- We grouped the pension funds in the Preqin dataset by country (of which there were nine — see Table 2.2).
- To calculate the average number of members per pension fund, we used a range of sources.[13]
  - Where possible, we found the total number of members on the pension company's website.[14]
  - Where this was unavailable, we used the Pension Europe (for European countries) and Milliman's data (for the USA) to derive an average ratio of pension fund AUM per member for each country.

[13] Pension Europe provides a good dataset for European countries (UK, Germany, Italy and Sweden). We used Milliman's 2016 Public Pension Funding Study together with Preqin data to derive the ratio for the US.

[14] For the NISSAN Allied Corporate Pension Fund, we used the total number of employees as a proxy for the total number of members in the pension funds.

- We applied this to the AUM for all the pension funds within each country from the Preqin dataset to obtain an estimate of the number of members represented by the pension funds.

We found that at least 44.9 million pension fund members are represented by pension funds investing in real estate through Jersey funds. This number only takes into account investment made in the real-estate sector through Jersey funds and hence is the absolute lower bound of citizens impacted. For example, from our case study of the Battersea Power Station investment (see section 3.6) we know that the Malaysian Employees Pension Fund invests in real estate through a Jersey corporate structure (i.e. would not be included in the Preqin funds data) and has 13 million members, which would bring the total up to just under 58 million.

Table 2.2: Estimated number of members who stand to benefit from Jersey funds in real estate

	Number of pension funds per Preqin data	Estimated total number of members	Source of total number of members (estimates)
Canada	3	113,057	Pension fund's website
Denmark	1	400,000	Pension fund's website
Germany	1	102,120	Pension Europe
Italy	1	144,166	Pension Europe
Japan	1	142,925	Company's website
South Korea	1	18,000,000	News articles
Sweden	2	1,576,067	Pension Europe
UK	24	1,755,459	Pension Europe
US	147	22,675,448	Milliman

Source: Preqin, Milliman, Pension Europe, pension fund company website, and Europe Economics calculations.

3 The Benefits of Undertaking Business in Jersey

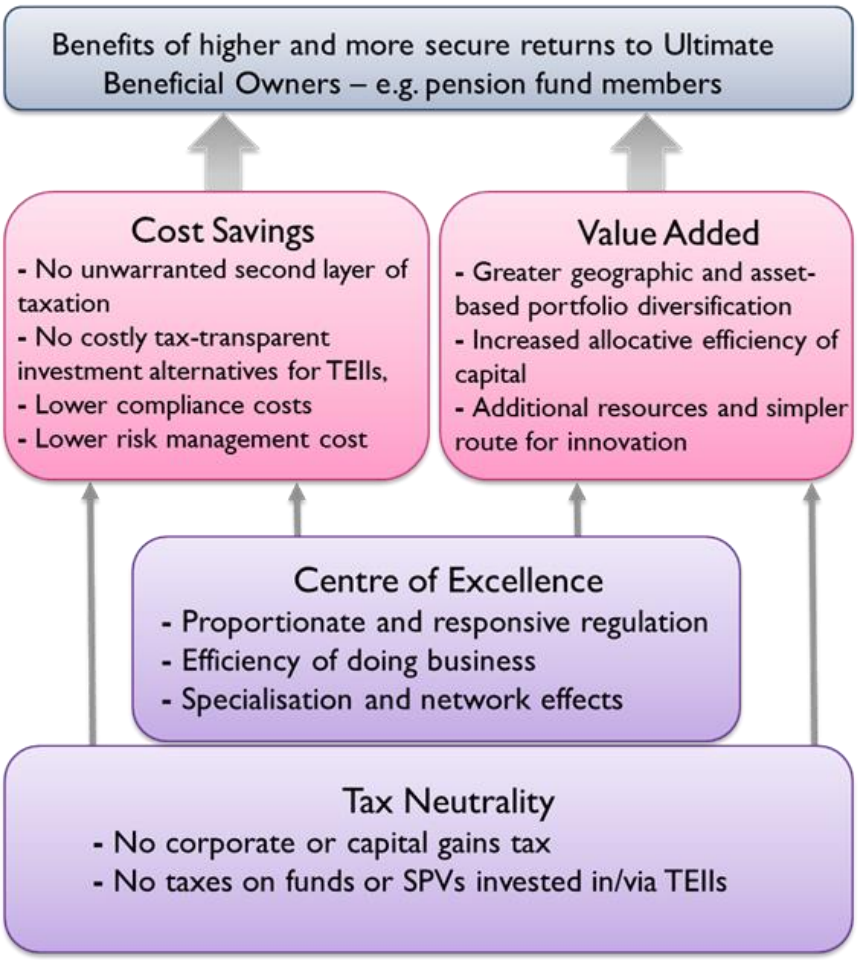
Investors and fund managers do business in Jersey for a variety of reasons. In this section and the next we explore the benefits that Jersey as an international financial centre offers and assess the extent to which these bring about cost savings and added value to tax-exempt institutional investors.

3.1 Understanding the benefits of Jersey

The benefits to tax-exempt institutional investors of investing through funds and corporate vehicles established and/or administered in Jersey stem from two main mechanisms: Jersey's tax neutrality and its excellence as a financial services centre. The figure below summarises how these features can lead to cost savings and added value (compared to onshore and other offshore jurisdictions). These benefits ultimately accrue to the end investors in tax-exempt institutions (TEIIs), such as pension fund members.

We note that the benefits stemming from tax neutrality and the regulatory processes related to the setting up of vehicles may accrue only to Jersey-domiciled funds and vehicles. These would include cost savings for example from complying with a more tailored and proportionate regulatory approach ("lower compliance costs" in Figure 1). All funds administered in Jersey, regardless of their domicile, benefit from the other features of Jersey as a centre of excellence. Benefits would include, for example, the particular expertise of Jersey service providers in administrating funds which in turn results in lower internal risk management and due diligence costs incurred by funds and investors. The figure below illustrates that tax neutrality is the foundation of the attractiveness of Jersey as an international financial centre, but that its excellent skills and services add significant value on top of this.

Figure 3.1: The benefits of investing through Jersey investment vehicles



Source: Europe Economics.

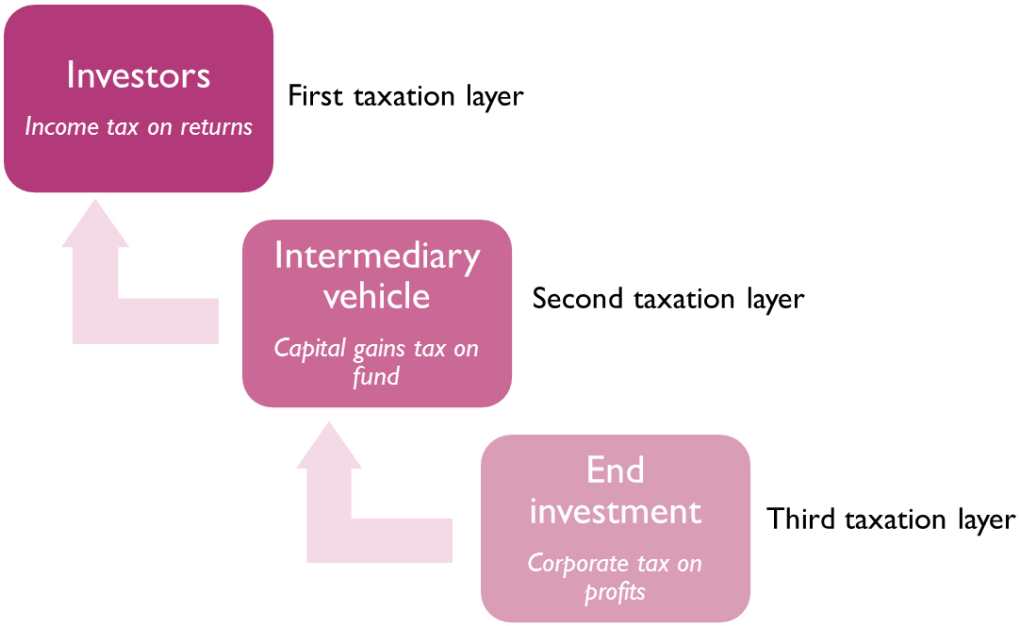
3.2 Tax neutrality

In order to better describe the benefits of tax neutrality for tax-exempt institutional investors, we begin with an example of a direct investment made by an investor in an alternative asset (e.g. an infrastructure project company). The infrastructure company would pay tax on its profits in its home jurisdiction, and the investor would pay tax on the dividends or returns it receives from the investment in its home jurisdiction. These two tax "layers" are represented by the first and third layers in Figure 3.2 below.

As described in section 1.1, tax-exempt institutions can invest in alternative assets through funds or SPVs. This introduces an intermediary vehicle between the investors and the ultimate investment which, at a simple level, would collect investable capital from the institutions and distribute the proceeds of the investments made. This is done in order to pool funds, realise benefits from specialist investment management skills, diversify risk and better manage risk compared to direct investments.

In some jurisdictions, this intermediary vehicle may also be taxed (i.e. in its own right, may suffer withholding tax on income or dividends received or may be subject to non-resident capital gains tax), reflected by the second layer of taxation in the figure below.

Figure 3.2: Illustration of taxation layers



Source: Europe Economics.

A tax neutral jurisdiction — such as Jersey — would not tax the intermediary vehicle. Tax would continue to be paid by the ultimate investors in their home jurisdiction, and also by the underlying investment in its home jurisdiction. The use of a tax neutral jurisdiction such as Jersey should result in no more or less tax being payable.

Tax-exempt institutional investors, such as pension funds and sovereign wealth funds, are generally exempt from paying income or capital gains tax in their home country. Income from investments is also generally tax-exempt. Any additional taxes on an intermediary vehicle (i.e. at the second layer) would represent double taxation for these investors and may distort investment decisions, reduce returns and increase risk.

Due to this status, such tax-exempt institutional investors may be able to replicate a tax-neutral vehicle onshore. However, this is likely to entail complex, costly administrative solutions to identify each tax-exempt investor separately within the fund or other tax-transparent vehicle,[15] and/or a greater number (and complexity) of tax filings to claim back the second layer of tax. This would also require the ongoing commitment of the jurisdiction to maintain such tax-transparent vehicles. Given the increasing life of a typical alternative investment fund (e.g. private equity funds increasingly have life spans of seven to 10 years) this may create a risk of uncertainty that may not be acceptable to institutional investors.

Further, for tax-exempt institutions investing through a tax-transparent vehicle in a cross-border situation, any potential tax leakage would need to be resolved with the revenue services of that jurisdiction, which may not recognise the tax-exempt status of the international institutional investor (for example if a double-tax agreement did not exist between the two countries).

The benefits of Jersey's tax neutrality for tax-exempt institutional investors are therefore threefold:

- It means that any costs associated with more complex tax reporting and structuring around either zero per cent or tax-transparent vehicles do not need to be incurred.
- There is no risk associated with questions about an onshore jurisdiction's commitment to maintaining such tax-transparent structures for the life of the fund (Jersey's commitment to tax-neutrality in general and to the financial services sector in particular has been confirmed a number of times by its government).

[15] This would identify each partner separately for tax purposes, rather than having an opaque vehicle which would be, in its entirety, subject to tax.

- It removes or at least minimises any additional risk of having to pay unwarranted tax if the vehicle's jurisdiction does not recognise the tax-exempt nature of an international institutional investor. This could either be a 'deadweight' tax, or a timing issue if the investor is able to recoup the tax in their home jurisdiction (along with costs of doing so).

The impact of taxation would, of course, be built into investment decisions, and double taxation (i.e. the second layer) could then distort the investment decisions of tax-exempt institutional investors. In this way, tax neutrality decreases the influence of tax in investment decision-making. This in turn likely facilitates cross-border investment, with the related benefits of investment diversification. The ability to invest through Jersey funds and corporate structures therefore means that these institutional investors can more easily gain exposure to cross-border investments without the concern of suffering a tax liability (or incurring costs of recouping the tax in their home country), thus maximising returns for future retirees.

Case study: Example of an alternative tax-transparent investment vehicle

The benefits of tax neutral jurisdictions like Jersey come into focus when one considers the alternative options available to tax-exempt institutional investors wishing to invest through onshore funds. In order to ensure their tax-exempt status is recognised and upheld, complex and costly administrative structures often need to be put in place. In addition to the cost implications, national laws may impose additional restrictions which make such alternative structures unworkable.

An example of such an alternative is the UK Real Estate Investment Trust (REIT). A REIT is a tax transparent vehicle which serves (at face value) the same purpose as a tax neutral Jersey vehicle in terms of preserving the tax-exempt status of institutional investors (investors qualifying for the REIT face no capital gains or income tax). However, there are a number of qualifying criteria which would add costs to the ultimate investor. Further, additional requirements may create barriers over and above a cost burden. For example, the vehicle needs to be listed — at a cost of around 2-3 percent of capital raised on the London Stock Exchange, plus disclosure and reporting requirements which may not be feasible to adopt.

As described in Chapter 1, a tax neutral location enables tax-exempt investors to join together with investors from different countries — or with non tax-exempt investors — within a fund or vehicle without risking the loss of the benefits associated with that tax-exempt status, regardless of the ultimate location of the investment. This facilitates investment in a broader range of funds, assets and locations compared to what would otherwise be possible if the investor remained with onshore funds. For example, the ability to diversify their investment portfolios is crucial to pension funds, which seek to maximise returns for a given quantum of risk — for the ultimate benefit of their members. International diversification of portfolios can be very attractive in a volatile stock market or when fixed income investments offer low interest.[16] [17]

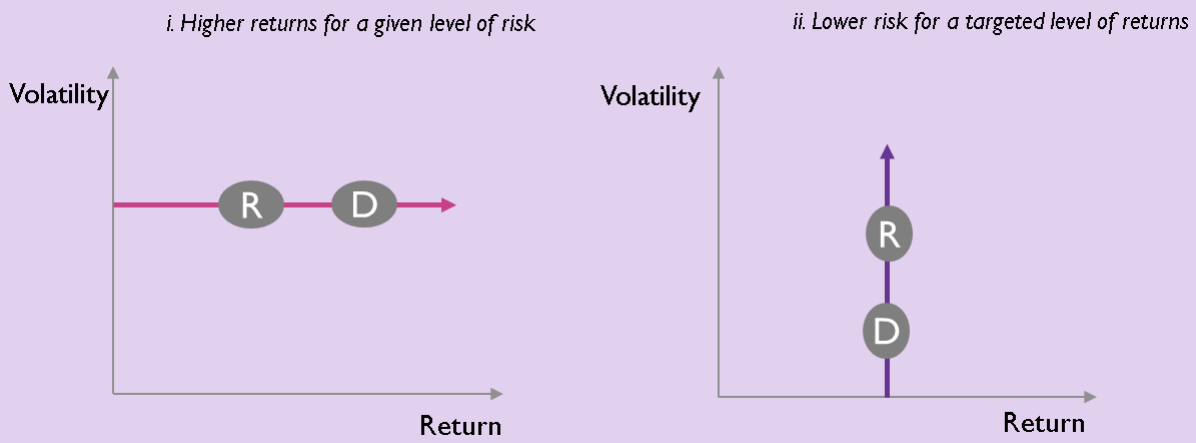
[16] Deloitte "The positive contributions of small international financial centres", https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/financial-services/lu-contributions-financial-centres-global-debate.pdf.

[17] In order to access the full spectrum of assets, asset diversification is also needed. In Jersey this is driven by Jersey's specialisation in alternative asset classes — in particular private equity and real estate — and its overall favourable regulatory and business environment contributing to the ease of investing in alternative assets. This is described in more detail in sections 3.4 to 3.6.

Case study: The benefits of investment diversification

Finance theory suggests that the benefits of diversifying an investment portfolio include a reduction in portfolio risk (i.e. the combined performance risks from all assets in a portfolio) and the ability to hedge (insure) the portfolio against sector- and asset-specific volatility. This point can be illustrated using standard economic theory of the optimal portfolio allocation developed by Markowitz. An optimal portfolio is defined as a combination of assets that provides a target return at the lowest possible risk (or alternatively one which provides the highest expected returns given a predetermined level of risk). Within this framework, restricting the range of assets available to an investor will typically entail a diversification cost. This is the case because, given the same level of volatility, a diversified portfolio will have higher returns than a restricted portfolio, or alternatively, if both portfolios generate the same returns, a restricted portfolio will have a higher level of volatility compared to a diversified portfolio.
This is illustrated in the figure below, where the diversified portfolio ("D") leads to higher returns for a given level of risk, or lower volatility for a targeted level of returns.

Figure 3.3: Illustrative impact of diversified versus restricted investment portfolios



Source: Europe Economics

Restricting the geographic diversification of investment portfolios can be thought of as a 'home bias'. This phenomenon in international finance literature describes investors' preferences to overweight their portfolios with domestic assets, in circumstances where cross-border diversification would provide a better risk reduction strategy. Overcoming a home or domestic bias can remove a key barrier to diversification, with the subsequent benefits of reducing concentration risk and avoiding diversification costs (in the form of either forgone returns or higher volatility).

Our fieldwork clearly demonstrated the benefits of Jersey's tax neutrality, with all participants agreeing that Jersey's tax neutrality was a necessity for tax-exempt institutional investors investing through Jersey funds and corporate structures, in ensuring that these paid the same tax as they would under a direct investment. Respondents also raised the example of Jersey as a key driver of geographic diversification: one respondent specifically mentioned the exceptionality of their Japanese pension fund clients, as Japanese pension funds rarely venture outside of their home country's investment options. Many of these market participants noted that should Jersey lose its tax neutral status — and other jurisdictions retain theirs — it would impact on Jersey's attractiveness as a location for these investors.[18]

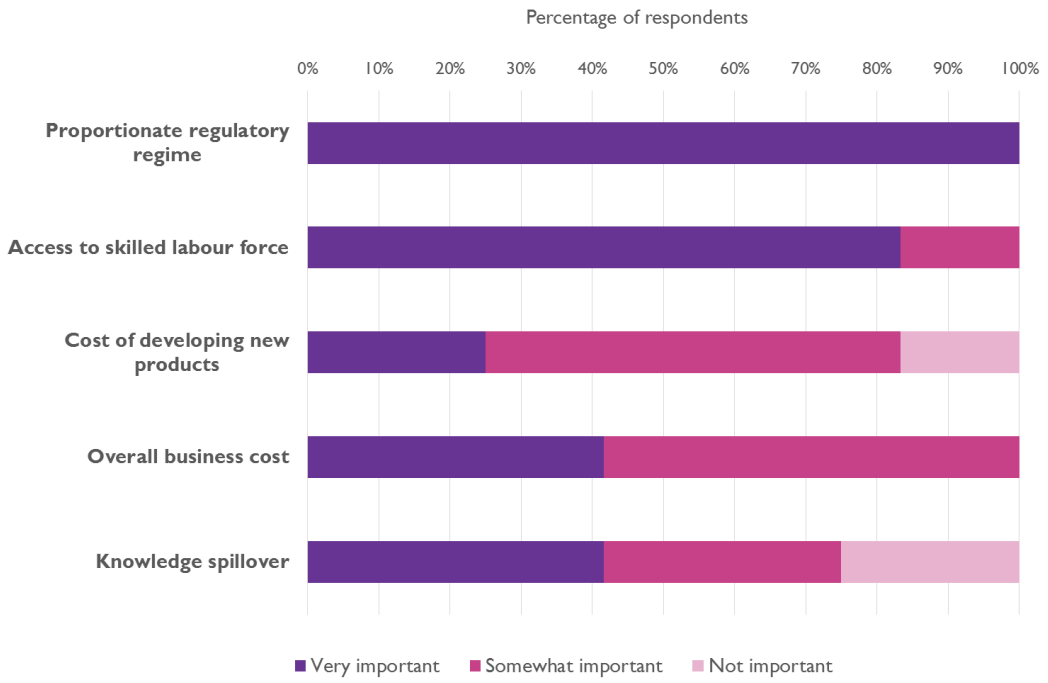
[18] We note again that the benefits of tax neutrality accrue to Jersey-domiciled funds and vehicles, as opposed to non-domiciled funds only serviced in Jersey. As shown in later in this chapter, there are numerous other benefits to non-domiciled funds of being serviced in Jersey.

However, it was also clear that although a necessary condition, tax neutrality is by no means a sufficient reason for tax-exempt institutional investors to invest through vehicles located in Jersey. Jersey has a range of other features which attract tax-exempt institutional investors and provide tangible benefits to them. Other factors such as Jersey's stable and responsive regulatory environment, ease and efficiency of doing business and high level of service specialisation are considered vital to Jersey being an attractive location for tax-exempt institutional investors and hence the promoters of funds marketed to them.

3.3 Jersey as a centre of excellence

Our fieldwork gathered the views of administrators and lawyers on the factors important to the success of their continuing ability to attract business to Jersey, i.e. factors important to themselves and those perceived to matter to their clients. The figure below shows that the proportionate regulatory environment is very important across the board, with other factors such as the skilled labour force and knowledge spill-overs (referring to the diffusion of knowledge and skills between firms in a close geographic environment) and mutual learning between sectors as also very important.

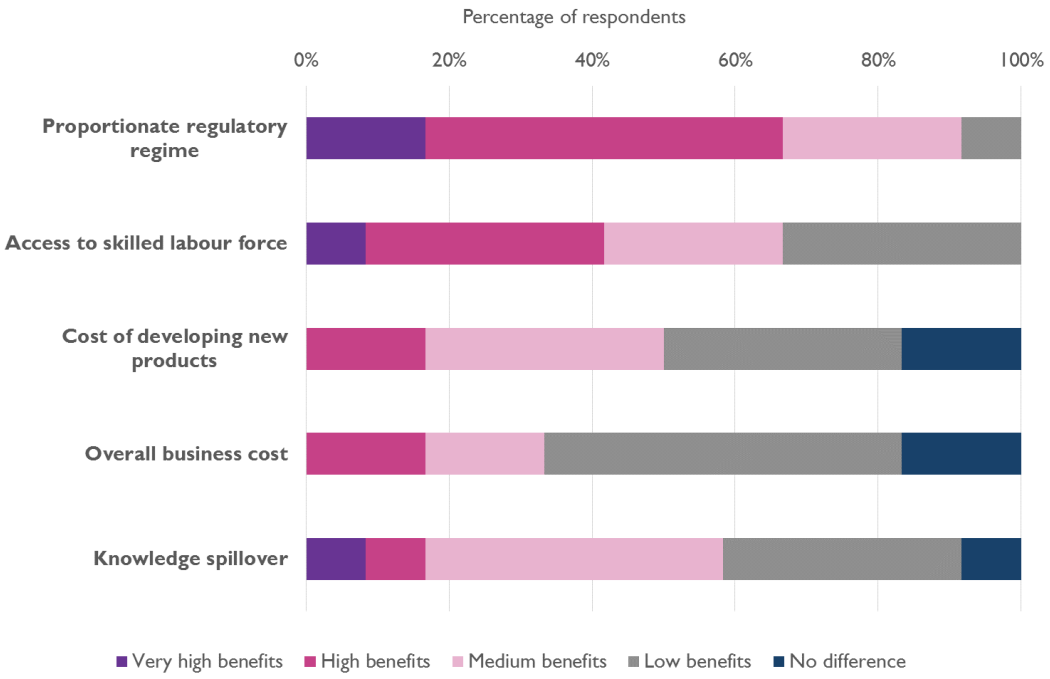
Figure 3.4: Beneficial factors of doing business in Jersey



Source: Europe Economics.

We also explored respondents' views on the differences between Jersey and onshore jurisdictions, specifically the UK. Again Jersey's proportionate regulatory regime was considered to be more beneficial by the largest number of respondents. They also considered the costs of doing business and of developing new products (such as new fund vehicles targeted at certain investor types) to be lower in Jersey than onshore.

Figure 3.5: Benefits of Jersey compared to the UK (i.e. an onshore jurisdiction)



Source: Europe Economics.

Jersey's tax neutrality and its role as a centre of excellence with regard to alternative funds facilitate the investment by tax-exempt institutional investors in a wide range of alternative investments. One such example in real estate is the Battersea Power Station development.

Case study: Re-development of Battersea power station

The Battersea site along London's riverside was bought for £400m by a three-member consortium from Malaysia, which has said it believes the whole development will be worth £8bn by the time it is fully completed in around 2025. The joint venture deal for the project was signed on July 4, 2012 in Jersey and led to the formation of Battersea Project Holding Company Limited as the holding company.

Battersea power station was previously left abandoned for three decades. Several developers have tried and failed to restore the Grade II-listed 1930s landmark, which is the largest brick structure in Europe. The planning consent for the development of the area of the Battersea power station has provision for 3,500 homes and 1.7m sq ft of offices, as well as for hotel and shops. It will also provide London with two new Underground stations, extensions from the Northern line. One of the confirmed tenants would be Apple, which is set to open its UK headquarters in 2021. The rest of the original building will be filled with retail, leisure and apartments, leaving more than 700,000 sq ft of offices planned in the additional constructions.

The developers claim that the overall economic impact assessment of the scheme on the wider UK economy totals nearly £20bn. By the time it is completed around 2025, the once derelict site will house 25,000 people and will have created more than 20,000 jobs – including 2,685 full-time construction jobs and 17,238 full-time roles once the site is operational.[19]

The two biggest investors in the project are Sime Darby, one of the world's largest operators of palm oil plantations, and SP Setia, a large Malaysian property developer. The third investor is a Jersey-incorporated subsidiary of Malaysia's Employees' Provident Fund (EPF).

The EPF traces its origins to a pension fund started in 1951 and is now the sixth-largest pension fund in the world with more than 13 million members and Rm537bn ($169bn) in assets under management. Its growth has been promoted by Malaysian government rules that require 11 per cent of all employees' salaries be channelled into a state pension scheme while a further 13 per cent is paid in by the employer. The EPF invests in a broad range of assets and can also be directly involved in financing national infrastructure projects to provide highways, airports, etc. to the Malaysian public.

The scale of assets under management has encouraged the EPF to turn to international markets in search of higher returns. The EPF has a significant stake in the London commercial property market, helping make Malaysia the sector's second-largest overseas investor.[20] In addition to the EPF's investment in the Battersea redevelopment, the pension fund, together with two other investors, has bought into Britain's second-largest private healthcare provider Spire Hospitals as part of its diversification strategy. This business operates 12 hospitals.[21]

Some beneficial aspects of Jersey are particularly relevant for Jersey-domiciled funds and corporate structures, such as Jersey's tax-neutrality and the regulatory approach associated with setting up funds and SPVs. However, other aspects of Jersey's regulatory and political regime, as well as the full range of benefits from its administration services, are applicable to all funds and vehicles serviced on the island, including non-domiciled funds. Indeed, as shown Figure 1.1 the presence of a notable proportion of funds which are domiciled elsewhere and yet serviced in Jersey is further evidence of the attraction of Jersey as a centre of excellence. We now discuss in turn Jersey's advantages in terms of its regulatory environment and its skills.

[19] See http://www.telegraph.co.uk/property/house-prices/battersea-power-station-desperate-times-or-still-desirable/

[20] See https://www.ft.com/content/f087a9f0-e22b-11e2-a7fa-00144feabdc0.

[21] See https://realestate.ipe.com/investors/investor-interview-epf/realestate.ipe.com/investors/investor-interview-epf/10016267.fullarticle.

3.4 Stable, responsive and flexible regulatory environment

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

- Jersey's stability and good governance provides a good reputation which is important for institutional investors, in particular pension funds, and can reduce risk management costs.
- Jersey's flexible and responsive approach to regulation reduces costs to investors and enables greater innovation. It also increases the ease of doing business.
- Jersey's flexibility regarding EU regulation avoids unnecessary costs to institutional investors.

We discuss these mechanisms below.

3.4.1 Jersey has long been a centre of good governance and stability

Jersey has a stable regulatory and political environment, and the overall political stability and neutrality of Jersey is attractive to institutional investors and fund promoters from around the world. Stakeholders view Jersey's well-established and respected regime, and its good reputation, as having long been a key attraction for tax-exempt institutional investors — in particular pension funds, and that it is considered to be superior to other offshore jurisdictions.

Jersey's regulatory environment is also acknowledged as a good standard of governance. For example, the European Securities and Markets Authority (ESMA) recommended that Jersey be granted a third-country passport under the Alternative Investment Fund Managers Directive (AIFMD) to market AIFs in the EU (one of only five countries granted this status in ESMA's first wave of recommendations). This was on the grounds that there are no significant obstacles or risks impeding the application of the passport to Jersey,[22] based on Jersey's sound regulatory regime and similarities to relevant EU regulation (new regulations were introduced in Jersey in April 2013, mirroring EU requirements and allowing for the creation of an opt-in regime for managers wishing to market to European investors). Jersey's good governance is further highlighted by MONEYVAL's[23] evaluation which placed Jersey in the top tier of jurisdictions assessed on their frameworks for deterring money laundering.[24]

The JFSC's regulation of the various service providers crucial to a well-managed fund or corporate structure (e.g. fund administrators, custodians, auditors) means institutional investors can have confidence in good corporate governance and risk management in Jersey. Risk management refers to the range of actions necessary to identifying and managing the risks involved in fund management such as monitoring and abiding by legal and contractual investment restrictions; ensuring due diligence, including compliance with necessary anti-money laundering procedures; and providing an accurate, independent calculation of the NAV of the fund (which can be complex in alternative investment funds and where errors can have significant implications for the prices/pay-outs for investors entering/leaving the fund and for the overall level of investment of the fund). This has meant that, relative to other offshore locations, Jersey has sometimes been more costly in strict operational and compliance terms. However, any ensuing arbitrage opportunity has steadily eroded

[22] ESMA's advice to the European Parliament, the Council and the Commission on the application of the AIFMD passport to non-EU AIFMs and AIFs, 12 September 2016 states (page 38) "Having regard to the above assessment ESMA is of the view that there are no significant obstacles regarding investor protection, competition, market disruption and the monitoring of systemic risk impeding the application of the AIFMD passport to Jersey." See https://www.esma.europa.eu/press-news/esma-news/esma-advises-extension-funds-passport-12-non-eu-countries.

[23] The Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures.

[24] MONEYVAL (2015) "Anti-Money Laundering and Combating the Financing of Terrorism: Jersey. Report on fourth assessment visit". See https://rm.coe.int/report-on-fourth-assessment-visit-anti-money-laundering-and-combating-/1680716452.

over the past few years as it becomes increasingly unsustainable for other locations to do without proper oversight of these support entities. It would, anyway, be a mistake to characterise this feature of Jersey solely or even mainly in cost terms — to the extent that a regulated environment is de-risked (or, at least, involves lower costs being incurred in reassuring investors a jurisdiction is adequately low risk) then this builds investor appeal — and this matters directly in terms of promoting Jersey as an attractive investment location for SPVs and indirectly by creating a vehicle that meets the relevant needs of as wide a range of investors as possible, with evident appeal to the promoters of funds. Further, a higher quality of risk management in Jersey may also directly reduce costs to funds and other vehicles — the greater assurance funds and their investors have that service providers are regulated, skilled and reliable, the less time and resources they are obliged to invest in costly IT systems and personnel needed for due diligence and other risk management.

Jersey's stability also stems from the commitment of the government to the financial services sector — including upholding tax neutrality. For example, in a post-Brexit referendum address the Chief Minister emphasised Jersey's commitment to being an international financial centre, with an approach to long-term planning to set outcomes that remain through successive governments. Long-term government support is particularly important given funds' lifecycles — now as long as 10 years in private equity.

3.4.2 Jersey's proportionate and responsive approach to regulation minimises costs to investors

There are a number of ways in which Jersey's approach to regulation benefits investors, as summarised below.

Focus on professional investors

As a small island economy largely centred on the financial services industry, which in turn is dominated by professional/expert investors and clients, Jersey has the scope to adopt a flexible and responsive regulatory approach to the funds sector to a greater degree than onshore jurisdictions. The importance of financial services to Jersey also means that the needs of the industry will get political attention — demonstrated by public statements of support from government, for example in its approach to long-term planning for the financial services industry.[25] This does not mean that the quality of regulation is compromised, as has been described above.

Our fieldwork indicated that Jersey's focus on and proportionate regulatory treatment of "professional" investors makes the jurisdiction attractive to institutional investors, who want a good level of governance without the costs and restrictions associated with retail investor protections. Jersey has an established way of doing business that is beneficial for tax-exempt professional investors — it has protocols that have been developed over time with the professional institutional investor in mind. Onshore vehicles are not a substitute for tax-exempt institutional investors, where the regulation can be more akin to that for retail investors, albeit with some exemptions and carve outs for professional investors. The latter cannot compare with the more tailored regulatory approach in Jersey. In Jersey, the regulation very much depends on the services and client base in question (including rigorous retail-level regulation where needed), as demonstrated in the figure below.

[25] The Government of Jersey (2014) "Jersey Financial Services Industry — Policy Framework", https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/P%20Financial%20Services%20Policy%20Framework%2020140402%20LO.pdf.

Figure 3.6: Jersey's tailored regulatory approach

Engaged and skilled regulator

The JFSC invests a lot of time in understanding the alternative space, e.g. understanding the day-to-day processes in a hedge fund or in an infrastructure fund and the complex international structures that sit behind these. This enables the JFSC to better understand the needs of the industry and investors alike and create proportionate regulation accordingly. Stakeholders suggest this enables the JFSC to be more genuinely technocratic compared to some regulators where political motivations can play a major role in agenda-setting and the execution of policy, or where regulators have taken insufficient care to fully understand the mechanics of such firms. This approach by the JFSC has even meant that investment decision-makers in some alternative asset classes have moved into Jersey (i.e. physically locating onto the island).

Cost-effective approach to regulation implementation

Stakeholders noted that the way regulation and legislation evolves and is implemented in Jersey is very constructive. Much of the process is collaborative where applicable and possible, with the Government and JFSC seeking to understand the impacts of its interventions on the industry whilst balancing the needs of investors and reputation of the Island. A collaborative approach to the implementation of regulation ensures

that costs of any given interventions are kept to a minimum — it is well-established that compliance costs, particularly those connected with IT system change, increase significantly when the time between the notification of an intervention and its implementation is compressed, or where the details remain ambiguous until late in the day. With longer lead times and clear details of the required revisions, many changes can be built into business-as-usual practices, for example by coinciding such changes with planned IT overhauls or systems / management changes. If the changes need to take place outside of business-as-usual it can mean significant disruption to the day-to-day running of the business (and associated costs of foregone revenue), high sunk costs of equipment which is not yet at the end of its useful life, and high personnel costs including external contractors where there is insufficient time to use existing staff. A more realistic approach which understands the processes required by firms to undertake changes allows for better quality implementation, and reduced distraction from the day job of IT teams (i.e. improving the facility and security of business systems).

Responsiveness of regulation to industry needs

Regulation is also responsive to the needs of the industry and investors. The new Jersey Private Fund — described as a much-needed simplification from the previous regime — is a recent example of a responsive regulatory change. For instance, the Jersey Private fund captures the industry's shift, post-crisis, towards fewer investors per fund and towards funds being wholly institutional. As described later in this section, the new regime also has the effect of streamlining and clarifying fund requirements, thus saving time and cost of setting up and servicing funds.

Comparative example to Jersey's approach

Jersey's responsiveness can be compared to onshore jurisdictions, for example to the UK. There, calls for a reform of the governing legislation for limited partnerships, the Limited Partnerships Act of 1907, have been largely unaddressed up until recently. UK limited partnerships have historically been popular as fund vehicles in the private equity, infrastructure and real estate space. Yet the relevant law, which dates back over a century, i.e. to a time well before the entity was adopted as a fund vehicle, has been rarely updated. The Legislative Reform (Private Fund Limited Partnerships) Order of 2017, finally revises the situation.[26]

Jersey's targeted, sensible and consistent approach benefits investors directly (described further in the following section), and also indirectly through reducing the costs incurred by service providers (described further in the following section and in Chapter 4). Jersey's regulatory environment also means there is a good dialogue between industry and the regulator, which supports innovation and entrepreneurship. This was characterised by our stakeholders as enabling the launch of new products more quickly: often within a few months rather than the "years" common to, for example, the UK.

3.4.3 Jersey's approach to regulation also increases the ease of doing business

Jersey's regulatory framework contributes greatly to the ease of doing business for funds and vehicles and their investors. Jersey has a well-established and proven pathway to setting up funds and corporate structures. This is quicker and less costly than onshore jurisdictions as well as other offshore locations, as evidenced by industry (administrators and lawyers). This is enhanced by the focused nature of the regulatory framework, whereby administrators can directly approach the JFSC to explain cases and expedite the process.

Respondents to our fieldwork also described the "user-friendly" legislation and regulation as increasing the ease of doing business for funds and corporate structures. For example, returning capital and income is very straight-forward from Jersey structures compared to some other jurisdictions. The responsive and

[26] See https://www.goodwinlaw.com/publications/2017/04/04_03_17-reform-of-the-uk-limited-partnerships-act.

proportionate regulatory environment also enables investors and fund managers to promptly respond to market changes and opportunities, which can translate into lower fixed costs for investors.

Industry participants also hold that Jersey fund laws are amongst the best for converting a fund promoter's ambitions into an actual fund vehicle. For example, Jersey places considerable weight on a self-certification model, with the burden of certifying the compliance of a fund with various criteria placed on the industry (e.g. lawyers and administrators) rather than the regulator. This means that the establishment of a new vehicle can be extremely timely compared to a process varying from weeks or months in other jurisdictions. The recent streamlining of the Jersey Funds Law is also thought by stakeholders to have further reduced the costs and time associated with setting up a fund.

Speed to market can be a crucial factor. For example, such speed can be critical in the UK property sector (a key investment area for funds and SPVs based or administered in Jersey). An SPV may not be formed before a deal has been agreed in principle. Once Heads of Terms on a real estate acquisition have been agreed, there may only be a limited length of time in which to execute, e.g. 20 days. The relatively rapid timeframes in which SPVs and funds can be established in Jersey should not pose any impediment to the ultimate goal here, i.e. securing the investment on time. Jersey compares favourably to some other jurisdictions here — in other words, in the latter there is a risk of the tail wagging the dog. These issues are touched upon further in the case study below. Similarly, public funds are also set up much more quickly in Jersey: around six to eight weeks compared to three to six months elsewhere (such as in the UK).

The case study below of the new Jersey Private Fund product is an example of how Jersey's responsive and proportionate approach to regulation enables valuable innovation and reduces costs.

Case study: the new Jersey Funds regime

In 2017 Jersey introduced a welcomed simplification of its legal regime relating to funds by providing for a single Jersey private fund product, to be called the Jersey Private Fund (JPF). A JPF is a private investment fund involving the pooling of capital raised for the fund and which operates on the principle of risk spreading. The new offering represents a move to a more private and less regulated funds regime, which reflects the institutional nature of investors in Jersey funds.

The JPF will replace the three existing fund products which currently define private funds in Jersey, namely "COBO Only Funds", "Private Placement Funds" and "Very Private Funds". A JPF is granted a quick and simple consent under the Control of Borrowing (Jersey) Order ("COBO") which will enable it to make up to fifty offers to investors who qualify as 'professional' investors. The COBO consent will be issued to qualifying funds within forty-eight hours of the application being received. Respondents to our fieldwork note that this new fund law represents a much needed simplification from the previous regime. The JPF reflects the move of the industry to a post-crisis phase, where there are generally fewer investors per fund, and investment is kept institutional. The Law was also praised for reducing costs and time of setting up a fund.

The process of updating the Private Funds regime was initiated in late 2012 with a Jersey Finance review of the future opportunities and threats to the financial services sector. One of the report's key recommendations was to simplify Jersey's fund regulatory regime. The Government and the JFSC embraced this recommendation and work began to propose a simplified regime and a stream-lined set of products and approach to authorisation and supervision. In 2016, a Guide was published after which a stakeholder consultation took place, allowing interested parties to make comments and suggestions on the Guide's contents. Industry representatives have been consulted closely in the development of this new fund regime, taking into account the evolving needs of international investors and the changing nature of global regulation.[27] This highlights Jersey's advantage of being able to design regulation specifically for the needs of institutional investors, rather than issue amended versions of a regime meant to protect retail investors, as necessarily the case in onshore jurisdictions.

Mike Byrne, Chair of Jersey Funds Association, has said: "As a forward-thinking jurisdiction providing bespoke alternative fund solutions, we recognise that we need to continue to innovate and enhance our funds environment to set us apart from other jurisdictions. The new Jersey Private Fund is an example of that and comes following significant engagement between industry, regulator and government, aimed at making our overall funds offering clearer and simpler whilst at the same time giving fund managers and investors greater choice. We anticipate the regime will find real appeal amongst our institutional and professional investor client base, right across the private equity, real estate, infrastructure and debt and credit fund asset classes."[28]

Some evidence of the effectiveness of the new regime is the June 2017 inception of the CoinShares Fund I. It is the first regulated cryptocurrency-denominated investment fund and the provider of Europe's only bitcoin-denominated exchange traded notes or ETNs.[29] Jersey's Private Fund Regime is thus hosting what is thought to be the world's first regulated investment fund to be denominated in crypto-currencies. CoinShares Fund I is a self-managed fund managed by Global Advisors (Jersey), a Jersey-based investment manager which created the first listed bitcoin fund in December 2016. The fund was launched recently and will receive investment exclusively in "ether", a crypto-currency used as payment on the Ethereum blockchain platform.[30] The new regulatory regime matches the funds' features, such as a small number of very sophisticated investors. It also demonstrates Jersey's practical approach to investment funds and support for innovation in finance.

[27] See http://www.jerseyfunds.org/Documents/Is%20the%20funds%20industry%20the%20future%20of%20Jersey_.pdf.

3.4.4 Jersey's flexibility regarding EU regulation avoids unnecessary costs to institutional investors

Jersey, as a third-country to the EU, is not directly subject to the AIFMD. This is a key point of attraction to funds set up in Jersey which are marketed to non-EU tax-exempt institutional investors (of which there are a large number, as seen in section 2.1.2) and which are able to avoid the costs and restrictions of the AIFMD. This will be particularly relevant for non-EU tax-exempt institutional investors, including pension funds, who are very active in the alternative investment space and who otherwise would encounter high AIFMD-related costs.

Fund promoters also have the flexibility of marketing AIFs to EU investors in Member States. This can currently be done through national private placement rules (NPPRs) — bilateral agreements between the JFSC and other national financial services regulators. Access for Jersey funds to Europe via NPPRs has been tried and tested in key markets such as the UK, Germany and the Netherlands, and market participants responding to our fieldwork note these NPPRs compare favourably in terms of compliance costs to the onshore situation.[31]

This flexibility makes Jersey an attractive destination for funds, who can market freely to both EU investors and those in the rest of the world. This puts Jersey in a distinct position — offering both options will not be available in all offshore centres or in EU Member States.

3.5 Business efficiency and responsiveness

Our fieldwork revealed a range of other factors that serve Jersey well as a location to establish and service funds, in particular for tax-exempt institutional investors. We describe the benefits of business efficiency and responsiveness in this section, and Jersey's sector expertise in the following section.

The ease of doing business in Jersey is a key attraction for funds and their tax-exempt institutional investors. This was held by stakeholders to be particularly the case for UK and USA clients, coming from a relatively business-friendly culture (our survey results suggest around 23 per cent of pension fund investors come from the UK and the USA). There are a number of factors contributing to the ease of doing business.

- Jersey's common law legislative structure has commonality with UK and USA law and is therefore familiar to these investors and, indeed, investors around the world.
- The proximity to London as a large international financial centre expedites access to funds from the UK and the rest of the world. This is enhanced by English being Jersey's business language (i.e. compared to some European offshore jurisdictions).
- Jersey also has historic links with the UK, fostering a direct and productive relationship with the City of London.
- Jersey's time zone supports interaction between a range of markets (e.g. Asian, North American and UK).
- Jersey is long established as a third-country to the EU (with settled third-country access arrangements). Whilst BREXIT is likely to have a large (and uncertain) impact on London, Jersey will be largely isolated from this.

[28] See https://www.jerseyfinance.je/news/jersey-sees-an-increase-in-private-placement-and-consults-on-enhancing-funds-regime#.Waa3oMiGPcs.

[29] See http://www.hedgeweek.com/2017/07/25/254318/global-advisors-jersey-launches-crypto-fund.

[30] See http://www.funds-europe.com/news/first-crypto-denominated-fund-launched-in-jersey.

[31] EU AIFMs wishing to market AIFs across Europe must have a 'passport' to do so, as specified in the AIFMD. The regulations for these passports are considered to be more onerous than the requirements of the NPPRs applicable to Jersey's AIFMs.

Market participants are of the view that because investors are so comfortable with Jersey this drives the presence of fund promoters and the wide breadth of funds.

Jersey has a deep pool of skilled professionals providing a range of expertise necessary for the establishment and servicing of funds and corporate structures, with over 13,000 finance professionals, including administration, fund management and legal services.[32] 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. One stakeholder commented that service delivery is enhanced by the good cultural fit of the professionals, in that most have worked in UK and EU business.

The expertise of service providers, in particular administrators, provides benefits to funds and their investors in terms of risk management. Risk management is an important function for investors and has significant direct costs, namely IT systems and personnel. The greater assurance investors have that service providers are regulated, skilled and reliable, the less time and resources they are obliged to invest in due diligence and other risk management.

The concentration of skills across a range of professions is also a significant advantage of Jersey, and one shown in the literature to be pivotal to the success of firms operating in financial centres.[33] The servicing of funds entails coordination among multiple parties and the strong, concentrated network of professionals makes this process very efficient. Participants in our fieldwork noted that there is a well-established pathway and access to a range of necessary services in Jersey (for example, a deep pool of non-executive directors) which is very valuable to clients without a physical presence on the island — these can rely on their one Jersey service provider to access a breadth of services for them.

Financial literature points to the significant potential benefits of 'agglomeration', or clustering, effects, whereby an industry is concentrated in a geographical area.[34] [35] The localized nature of relationships between skilled labour, customers and suppliers is a critical factor for innovation, development and efficiency in the delivery of new services and products. Especially, on-going face-to-face contact that is possible in a compact geographical space is key. Specialised locations such as Jersey have these dynamic advantages which becomes stronger as agglomeration increases.[36]

Many of the external economies that arise from agglomeration are related to improvements in information flows and, therefore, more precise and competitive pricing of financial services and instruments.[37]

Knowledge spillovers are also significant in this context. Agglomeration in the financial services industry promotes financial knowledge spillovers in terms of industry specialisation and contribute to the development, efficiency and competitiveness of the industry.[38] By encouraging knowledge diffusion among firms, clusters increase the success and returns of research and development activities and innovation.[39]

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[32] Jersey Labour Market Statistics 2015.

[33] Pandit, N. R. and Cook, G. A. S. (2003) "The benefits of industrial clustering: Insights from the British Financial Services Industry at Three Locations", Journal of Financial Services Marketing, 7(3).

[34] Liang, Lin & Lin, Shanglang & Li, Yong (2014) "How agglomeration in the financial services industry influences economic growth: Evidence from Chinese cities" Economics Discussion Papers, 2014-6, Kiel Institute for the World Economy. See https://ideas.repec.org/p/zbw/ifwedp/20146.html.

[35] Krugman, P. (1991) "Increasing Returns and Economic Geography" Journal of Political Economy 99(3): 483–499. See http://www.jstor.org/discover/10.2307/2937739?uid=3738256&uid=2&uid=4&sid=21103335902433.

[36] Gary A. S. Cook & Naresh R. Pandit & Jonathan V. Beaverstock & Peter J. Taylor & Kathy Pain (2004) "The Clustering of Financial Services in London" ERSA conference papers ersa04p49, European Regional Science Association. https://ideas.repec.org/p/wiw/wiwrsa/ersa04p49.html.

[37] Davis, P. (1990) "International Financial Centers: An Industrial Analysis" Bank of England Discussion Paper: 50–57.

[38] Liang, Lin & Lin, Shanglang & Li, Yong (2014) "How agglomeration in the financial services industry influences economic growth: Evidence from Chinese cities" Economics Discussion Papers 2014-6, Kiel Institute for the World Economy.

[39] Romer, P. (1986) "Increasing Returns and Long-run Growth" Journal of Political Economy 94(5): 1002–1037. URL:

Similarly, financial agglomeration can promote mutual learning that reduces transaction costs.[40] Our fieldwork supports the existence of such spillovers and mutual learning in Jersey, as seen in Figure 3.4 above.

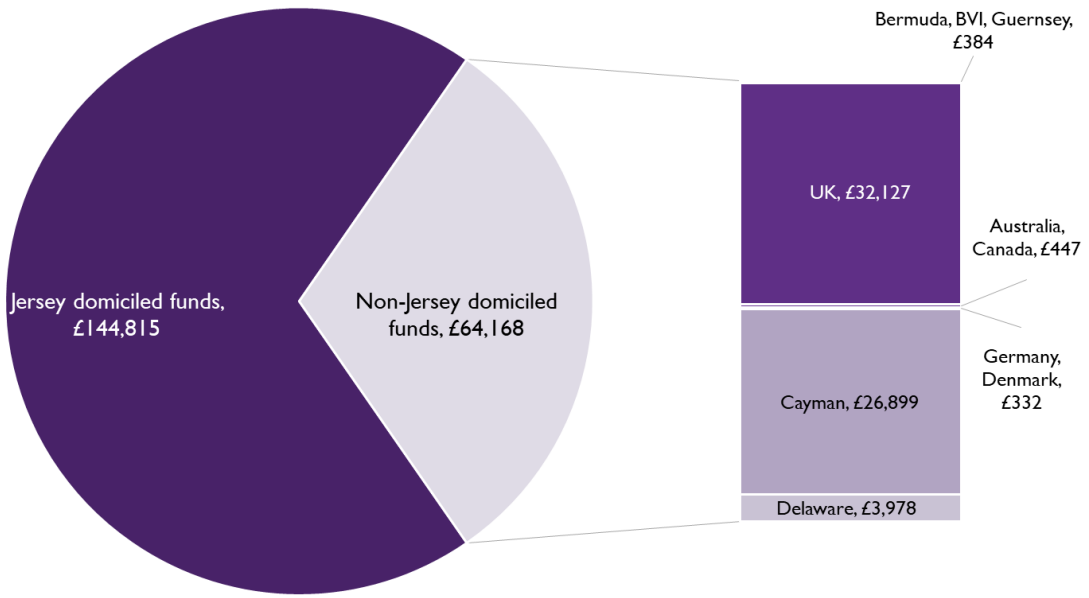
The above factors (as well as those discussed in relation to Jersey's regulatory environment) all contribute to removing barriers to doing business for investors, fund managers and corporate structures, which in turn increases efficiency. Whilst Jersey is not considered a "low-cost" option by most market participants contributing to our study (the focus being rather on value-added and quality of skills), a number consider the increased business efficiency and responsiveness to drive cost savings compared to onshore locations.

3.6 Sector expertise

Jersey is particularly strong in the servicing of real estate and private equity investment. Our survey shows that these asset classes are a significant attraction to tax-exempt institutional investors, accounting for around 83 per cent of NAV under administration for these investors. Professionals understand the economic language and realities of the assets that tax-exempt institutions, in particular pension funds, want to invest in. Jersey is a specialist in areas where the processes are more manual and more dependent on the skills and expertise of the people involved. Stakeholders considered such expertise as particularly important for risk management, and that such specialist knowledge may not be available in other offshore locations or, indeed, even in all onshore locations.

This is highlighted by the fact that a significant volume of fund assets are administered in Jersey whilst being domiciled elsewhere, as shown in the figures below.

Figure 3.7: Proportion of funds administered in Jersey but domiciled elsewhere, and their domicile locations, 2016 (NAV £ millions)



Source: Montery Insight 2016.

http://www.jstor.org/discover/10.2307/1833190?uid=3738256&uid=2&uid=4&sid=21103335902433.

[40] Davis, P. (1990) "International Financial Centers: An Industrial Analysis" Bank of England Discussion Paper: 50–57.

This specialisation may be a particular benefit for pension funds. Investing in funds within these asset classes that are serviced in Jersey helps pension funds and other tax-exempt institutions to access a broader portfolio of investments, realising the benefits of investment diversification. Jersey's asset specialisation leads to a broad range of investment in multiple industries around the world. The case studies below showcase examples in private equity and real estate.

Private equity case study: Softbank's international technology investment fund

The Japanese telecom giant SoftBank made headlines after establishing its Vision Fund, the 'largest ever investment fund' with committed capital at around $100 billion. The Vision Fund was launched in October 2016 with the aim of becoming the biggest investor in the technology industry over the next decade.[41] The fund is both established in Jersey and administered by Jersey administrator Aztec.

The money will be invested in a variety of entities, ranging from multinationals to promising start-ups, focused on technologies like artificial intelligence, robotics and the Internet of Things (IoT). A spokesperson for SoftBank stated that the "common thread among all of these companies is that they are creating the foundational platforms for the next stage of the information revolution" and are working toward "the betterment of humanity." To date, the Fund has backed American-based Brain Corp, a developer of artificial intelligence for robots; Plenty International, an agricultural tech company that promises to revolutionise farming using IoT sensors and machine learning; the biotechnology company Roivant Sciences; Kabbage, a start-up in the small businesses lending sector; and a co-working company called WeWork.[42]

The Jersey-domiciled fund's capital has been raised from some of the world's largest sovereign wealth funds and largest and most recognised technology companies. Investors in the fund include tech giants like SoftBank itself ($25 billion), Apple, Qualcomm, Sharp, Foxconn, and Oracle (each contributing $1 billion); as well as Saudi Arabia's Public Investment Fund and Abu Dhabi's Mubadala Investment Company. The Middle Eastern sovereign wealth funds contribute more than half of the Fund's capital. [43]

Jersey's approach to alternative investment vehicles, including its new Jersey Funds regime, has been praised and credited for the choice of the Fund's domicile. Robert Milner, partner at Jersey law firm Carey Olsen and director of the Fund, has said that "Jersey's flexibility in establishing EU and non-EU funds, together with its stability and international reputation were key factors in the analysis which brought this hugely significant fund to the Island." He also called the venture "a real landmark for Jersey funds." The choice of Jersey for the fund and its general partner further evidences that Jersey funds are understood and accepted by the international investor community and that Jersey provides "fast, flexible and cost-effective solutions for all non-retail funds, from new start-ups right through to the largest and most complex of funds."[44]

[41] See https://www.ft.com/content/59c3a514-6c9c-11e7-bfeb-33fe0c5b7eaa.
[42] See https://singularityhub.com/2017/08/29/japans-softbank-is-investing-billions-in-the-technological-future/.
[43] See https://www.ft.com/content/b6fe313a-4add-11e7-a3f4-c742b9791d43.
[44] See https://jerseyeveningpost.com/news/2017/05/25/93-billion-investment-fund-based-in-jersey/.

Real estate case study: Blackrock Property Fund

BlackRock UK Property Fund (BUKPF) is an open-ended property unit trust domiciled and administered in Jersey, which invests in a diversified portfolio of UK commercial property assets. Most of its investors are small to medium-sized UK pension funds.[45]

The fund has usually been described as a "core" investor, favouring low-risk, low-yielding assets, such as retail and office sectors, as well as industrial and warehouse property. Even so, BUKPF also engages in innovative investment strategies in the real estate sector, investing in alternative sectors such as GP surgeries, marinas and student housing.[46] For example, in conjunction with GPI Primary Care Property Solutions, the BUKPF has set up a £450 million joint venture to invest in the primary care sector. The joint venture aims to support GPs, their staff and other NHS healthcare providers by delivering buildings that are flexible, sustainable and comfortable for patients, staff and ultimately the local community.[47]

The UK student property sector has been a strongly performing asset class since 2011, as institutional and private investors have been attracted by the relatively high yield and low vacancy rates. The flow of investment, in its own right, has allowed for student accommodation to meet even the most rigorous requirements. BUKPF's student accommodation package in Plymouth, for example, delivers state-of-the-art student accommodation for around 500 beds with facilities including cinema, study rooms and surf store rooms.[48] A further example of an investment by the Fund is the site of Tower Thurrock, which is a new speculative development,[49] co-led with Bericote, an English real-estate developer. It totals 275,000 sq ft in area and is designed for distribution or industrial use.

The BUKPF has merged and partnered with other property funds and companies to increase its investment portfolio including additional retail warehouses, trade parks, industrial estates and offices.

Although there have been certain shocks to the real estate funds industry, particularly due to the Brexit referendum, investing in a portfolio of diversified commercial property remains an attractive strategy for pension funds and other institutional investors seeking reliable income flow.

[45] See http://aref.org.uk/funds/blackrock-uk-property-fund.
[46] See http://www.bericoteproperties.com/news/a-property-fund-with-a-rock-solid-future/.
[47] See http://gpgroup.co.uk/our-corporate-investment-partners/.
[48] See http://www.propertymall.com/property-news/article/37273-BlackRock-buys-Plymouth-student-accommodation-package.
[49] The term speculative development describes a process in which unused land is purchased or a building project is undertaken with no formal commitment from any end users.

4 Jersey's Added Value

In this section we draw together the key sources of added value to tax-exempt institutional investors investing in Jersey funds or structures. Quantifying the added value is not straightforward given the absence of a clear counterfactual — i.e. the alternatives available to such investors beyond Jersey, which might involve investing through onshore funds and vehicles, or forgoing certain types of investments altogether.

4.1 Added value from ease of doing business

As described above, the ease of doing business in Jersey benefits all tax-exempt institutions investing in funds and corporate structures established and/or serviced in Jersey. These benefits stem from:

- Jersey's stable, regulated business environment which promotes good governance and risk management.
- Jersey's regulatory regime which is proportionate to the nature of investors, enabling lighter-touch regulation and the swifter and more efficient set-up of funds and vehicles. The regime also minimises the costs of regulatory interventions with its responsive and flexible approach to developing and implementing rules.
- The significant skills, efficiency and expertise of Jersey's service providers, particularly in relation to more complex alternative investments, contribute to business efficiency and risk management, as does the networks that exist between the various service providers.
- Other features such as a familiar legal structure, useful time zone and proximity to the City of London all contribute to the ease of doing business.

Cost savings stemming from the ease of doing business would accrue directly to funds (for example, lower set up and compliance costs) and also indirectly through service providers (such as more efficient processes). Administrators responding to our survey had a range of views about cost savings related to the ease of doing business. The minority view was that, due to the regulation of service providers and the highly skilled nature of employees, costs of doing business were not necessarily lower compared to onshore jurisdictions (for example the UK); and held that clients attraction to Jersey was not about cost but about quality and risk management. The majority of respondents did point to cost savings stemming from increased efficiency due to the regulatory environment and skilled, networked labour force, of between two and five basis point of assets under administration per annum. Looking across all of these viewpoints, we estimate cost savings could be 1–1.5 basis points, equivalent to £17–£26 million of tax-exempt institutional assets under administration per annum (across funds and corporate structures).

In addition to these indirect cost savings, further savings and added value would stem to tax-exempt investors through direct cost savings incurred by funds and vehicles set up in Jersey, as well as lower risk management costs. Risk management is an important function for investors and has significant direct costs, namely IT systems and personal. The greater assurance investors have that service providers are regulated, skilled and reliable, the less time and resources they are obliged to invest in due diligence and other risk management.

4.2 Administrative savings from retaining recognition of tax-exempt status

A significant source of added value for tax-exempt investors investing in Jersey funds and corporate structures is the ability to retain recognition of their tax-exempt status without investing in complex and costly administrative procedures. As described in section 3.2, these could include tax-transparent vehicles like a UK REIT, which would be accompanied by an additional compliance burden, including the need to be listed. Trading venues (e.g. exchanges and multi-lateral trading facilities) can have a variety of requirements for listing,

including minimum operating histories, minimum market capitalisation or free float, ongoing financial reporting, stipulation of accounting standards, and disclosures around management and control functions. Total flotation costs can be as much as nine per cent of capital raised on the London Stock Exchange.[50] This would exclude any brokerage and other related fees. If an investor chose such a vehicle purely to replicate tax neutrality (i.e. and not for other benefits of being listed such as raising liquidity) then these costs are a pure deadweight.

Tax-transparent alternatives also entail administrative costs which may detract from the overall performance of the fund. Finally, many of these alternatives rely on the governments in the various jurisdictions committing to support tax-transparent requirements, which may be an element of uncertainty unacceptable to long-term investors like tax-exempt institutions. Tax neutrality such as offered by Jersey removes this uncertainty and may provide more investment opportunities for tax-exempt institutional inventors.

It is not practicable to quantify the cost savings and opportunities driven by tax neutrality given the significant range and uncertainty of potential benchmarks (i.e. the various investment options that would otherwise have been adopted by tax-exempt institutional investors).

4.3 Reach of benefits

Preserving tax neutrality through Jersey funds and vehicles facilitates tax-exempt institutional investors to invest in a wider range of cross-border investments, including alternative investments, thus contributing to valuable investment diversification as described in section 3.2. The benefits of this can be significant — reducing a home bias in investment can increase returns for a given level of risk, of key importance for pension funds in particular who are seeking reliable returns on long-term investments.

Geographically, investors all over the world stand to benefit from Jersey's fund administration. This includes pension funds from North America (US and Canada), European countries (e.g. UK, Germany, Netherland, France, and Sweden) and Asian countries (Japan, Korea). We estimate that at least 58 million people would benefit from Jersey's administration of pension fund assets, and this figure is an absolute lower bound as based on solely the real estate sector.

4.4 Conclusions

Jersey as a financial centre provides services to a large volume of tax-exempt institutional assets. We estimate that around £52 billion worth of funds under administration in Jersey is attributable to tax-exempt institutional investors, of which around £39 billion comes from pension funds (representing around 16 per cent of the total funds under administration in Jersey). We estimate that a further £120 billion is held by pension funds through Jersey corporate structures, around 20 per cent of all wealth held by corporate structures in Jersey.

The features of Jersey such as its stable and responsive regulatory environment, its business efficiency, asset skills and expertise and tax neutrality all provide significant benefits and added value to tax exempt institutional investors investing in Jersey domiciled and administered funds and corporate structures.

Given the vast reach of such institutions — in particular pension funds — these benefits reach a significant number of people.

[50] Estimate based on previous Europe Economics research on the total flotation costs across various exchanges, and includes monitoring and reporting costs as well as venue fees.

Appendix — Data Used in the Analysis

Jersey's fund sector

Data on Jersey's fund sector come from two main sources: the Jersey Financial Services Commission (JFSC) quarterly fund statistics and Monterey Insight fund statistics. The two datasets are not immediately comparable, as shown in the table below. The main differences between the datasets are that the JFSC statistics show a much larger volume of non-domiciled funds serviced in Jersey than Monterey Insight, but a smaller volume of Jersey-domiciled funds serviced in Jersey.

Table A1: JFSC and Monterey Insight fund data

	JFSC statistics March 2017	Monterey Insight Statistics (all serviced) June 2016	Monterey Insight Statistics (administered only) June 2016
All funds serviced in Jersey (£ billion NAV)	£266 billion *(£223 billion at June 2016)*	£229 billion	£209 billion
Jersey-domiciled funds serviced in Jersey	£127 billion	£159 billion	£145 billion
Non-Jersey domiciled funds serviced in Jersey	£139 billion	£70 billion	£64 million
Jersey-domiciled funds serviced elsewhere	NA	£10 billion	£14 billion

Source: JFSC and Monterey Insight.

The differences can be explained as follows:

Timing differences

The disaggregated JFSC data reflect the situation at March 2017, nearly a year after the Monterey Insight data. Aggregated JFSC from June 2016 is more comparable to the Monterey Insight data (£223 billion compared to £229 billion).

The JFSC has a more limited scope in relation to Jersey domiciled funds

The JFSC collects statistics for all public funds (CIFs),[51] but since October 2003 has not included funds where only a 'minor' function is performed in Jersey (such as distribution). The JSFC also collects statistics on some private funds (i.e. COBOs). However, these statistics do not include the erstwhile "Very Private Fund" where these are not considered an AIF (i.e. they are not alternative investment funds that are marketed in the EU). Further, the newly introduced JPF replaces the Very Private Fund, and the JPF will not be caught in the statistics (regardless of if it is an AIF or not). The JFSC's statistics also do not include funds established under the Unregulated Funds Regime.

Monterey Insight (2016) collects a broader range of fund data, which includes funds established under the Unregulated Funds Regime as well as all private funds. The Monterey Insight data also enables a much more granular analysis of the funds sector than the JFSC data, for example providing information on where each fund is domiciled and the country of its administrator, custodian, auditor and lawyer. The data also include information about each fund's main investment asset group and geographic orientation.

[51] These are Expert Funds, Jersey Eligible Investor Funds, Listed Funds, Unclassified Collective Investment Funds and Recognized Funds.

This all suggests that the JFSC numbers for Jersey-domiciled fund should be lower than Monterey Insights', which is confirmed in the table above.

The JFSC appears to have broader inclusion criteria for non-domiciled funds

On the other hand, the JFSC collects statistics for non-Jersey domiciled funds where a "major function" is performed in Jersey (usually administration or management).

According to Monterey Insight, the JFSC data on non-domiciled funds serviced in Jersey include a greater number of activities, and thus a greater volume of NAV. This data may also include funds which are liquidated or dormant and yet remain authorised, which Monterey Insight does not. In this respect we would expect the JFSC data on non-domiciled funds serviced in Jersey to be higher.

We note that the Monterey Insight data is up to June 2016, and have been converted from US dollars into pounds sterling as at that date.

Pension fund investor details

In order to estimate the number of citizens benefitting from Jersey through pension funds investment through Jersey funds, we drew on Preqin data on pension fund investor details (as per the methodology described in section 2.2).

Preqin is a database covering the alternative assets industry. It provides data on the private equity, real estate, hedge fund, infrastructure, private debt and natural resources asset classes covering funds and fundraising, fund performances, institutional investors, deals and fund terms.

For this study, we looked at the Real Estate Investor Report, which provides a list of institutional investors who invested in real estate funds domiciled in Jersey with some fundraising activities in 2016. The dataset contains the total AUM, the location and the asset class breakdown for each institutional investor.