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ASSOCIATION

Tim Morgan, Chair, Jersey Funds Association

JFA Update – 3 June 2020

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Your hosts will be with you shortly

In the meantime, please familiarise yourself with the controls

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JFA Update – 3 June 2020

Tim Morgan, Chair, Jersey Funds Association

Introduced/moderated by Martin Paul, head of education subcommittee

Agenda

- The Jersey Funds Association – who are we?
- Macro perspective of funds market – and application to Jersey
- Recap on key jurisdictional advantages
- 2019 Members survey update
- Covid 19 – impacts
- Updates on subcommittees: legal and technical, tax, compliance, training/education, ESG, Communication and marketing
- Training/Events
- Q&A



Overview of Jersey Funds Association

Practitioner/industry group. Approx 100 members.

Cross-industry engagement, from all sections of funds ecosystem.

Work with Jersey Finance, Government, JFSC & Industry. Regular committee meetings.
Interact via:

- Financial Services Advisory Board (JFSC, Government, JFL and industry bodies)
- Direct meetings with JFSC
- Various ad-hoc meetings & commentary
- Close partnership with JFL



JFA Executive and Sub-Committee structure

Tim Morgan - chair



Michael Johnson – vice chair



Legal and technical – Niamh Lalor



Education/training - Martin Paul



Treasurer – Chris Marshall



Marketing – Steve Cartwright



Also:

ESG – Tom Powell

Compliance – Sarah Sandiford

Tax – Martin Rowley

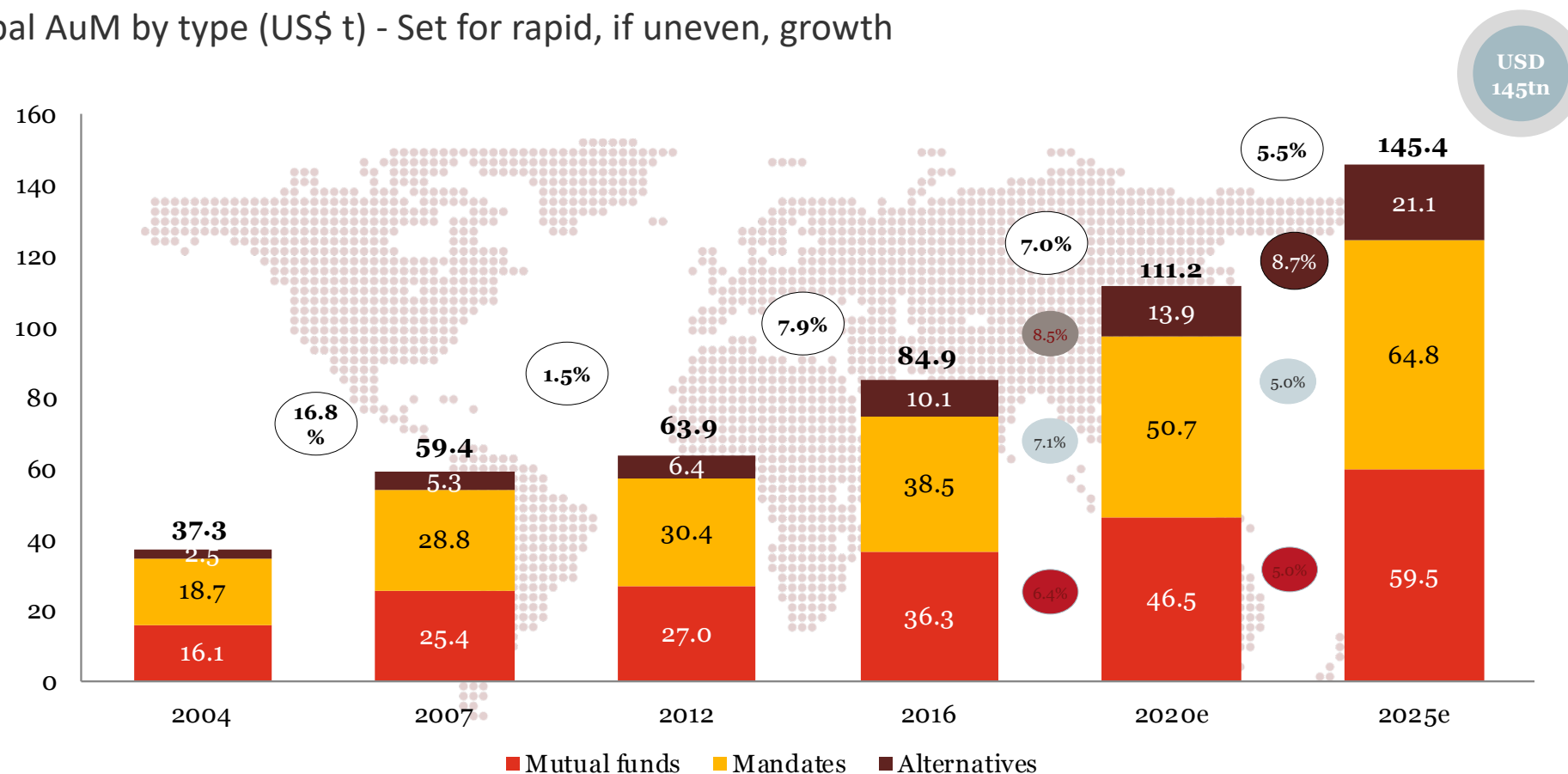


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Global Macro view – an expectation of significant growth

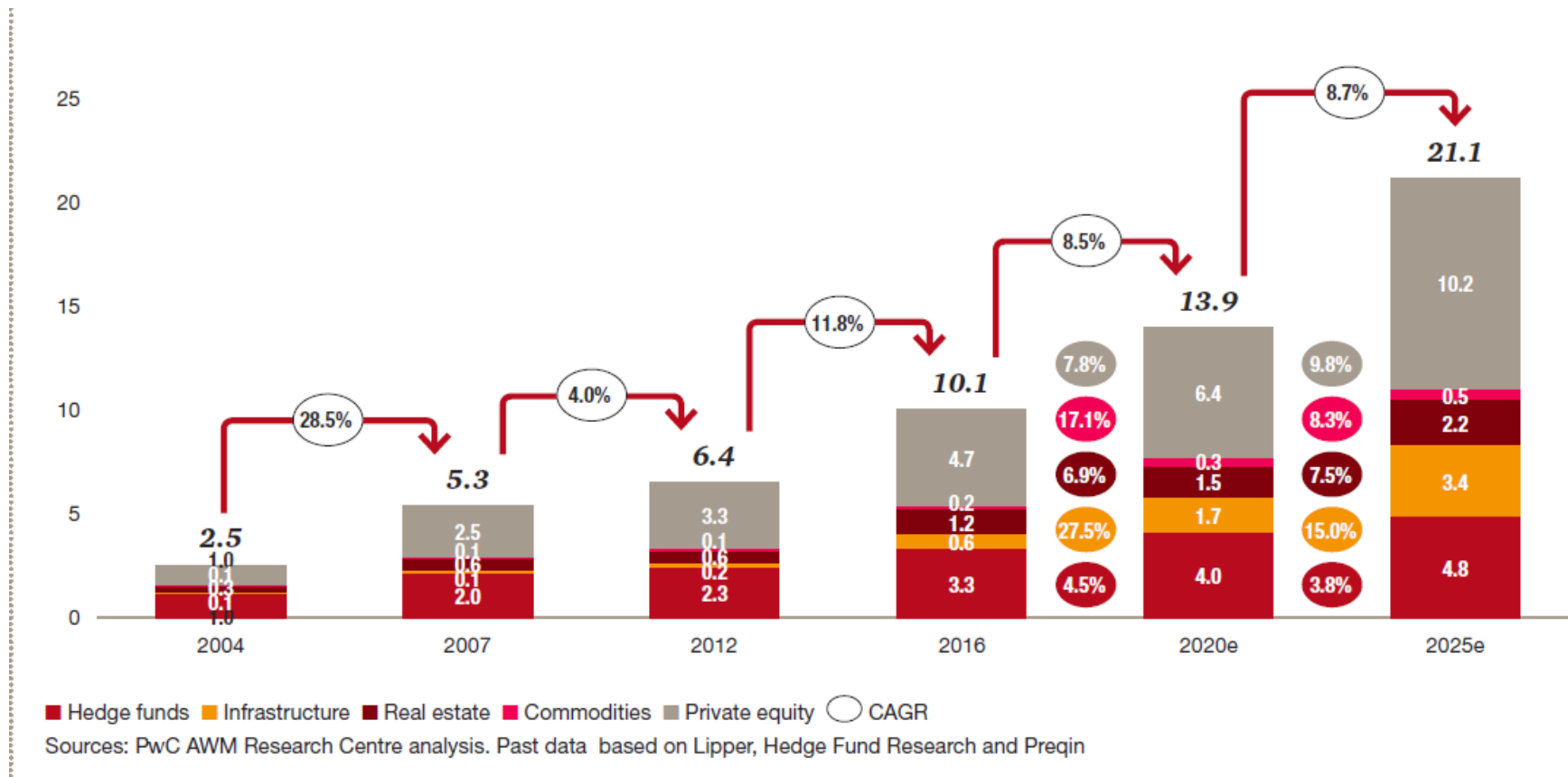
Global AuM by type (US\$ t) - Set for rapid, if uneven, growth



Sources: PwC Market Research Centre analysis
Past data based on Lipper, ICI, EFAMA, the City UK, Hedge Fund Research, UBS, and Preqin

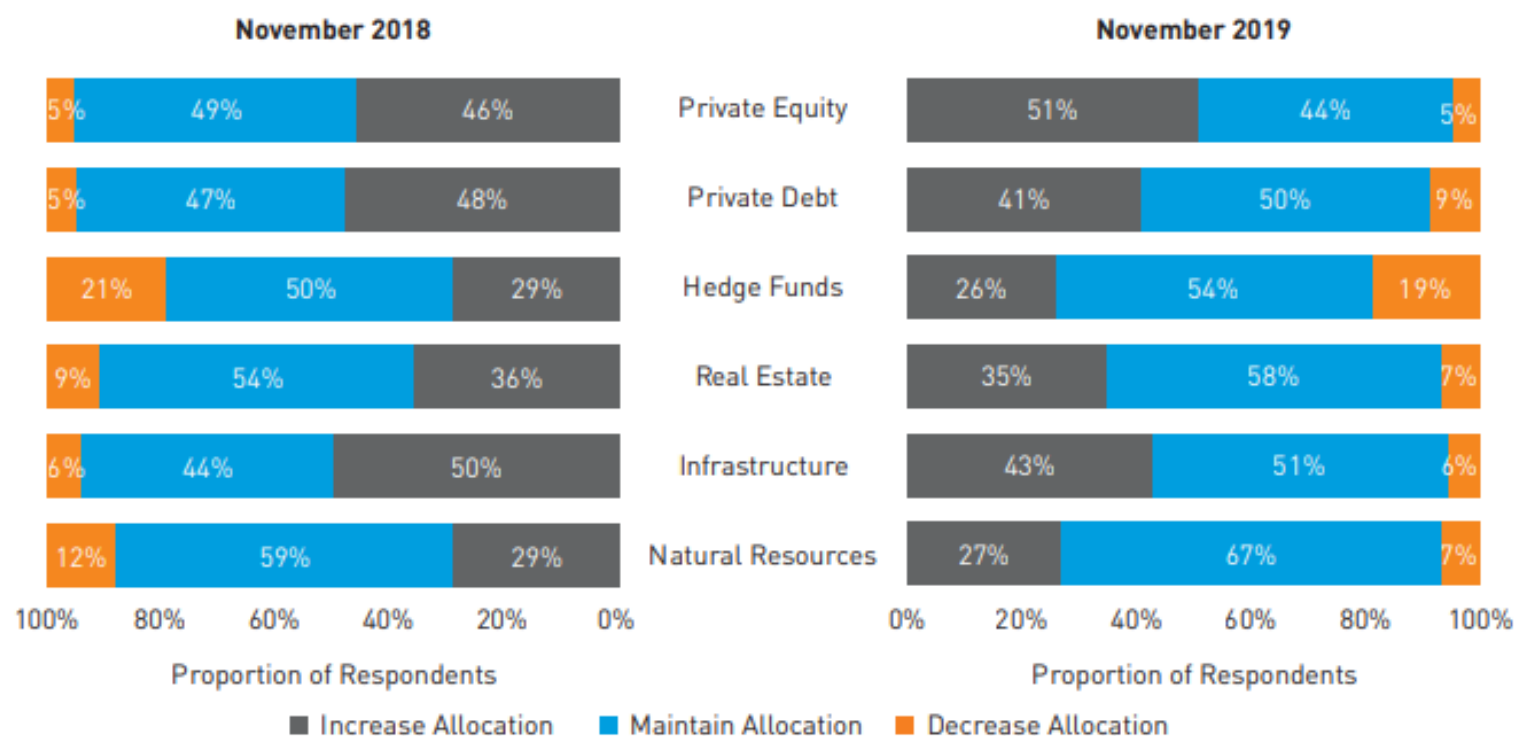
Global Macro view – an expectation of significant growth

Alternatives by type in USD trillions



Global Macro view – an expectation of significant growth

Institutional Investor appetite varies by Alternatives sub-sector



Source: Preqin Investor Interviews, November 2018 - 2019

Global Macro view – The fundraising market in 2019 Institutional

Investor appetite varies by Alternatives sub-sector

Globally – a strong year for global fundraising

But – concentrated amongst fewer (“winner takes all”)

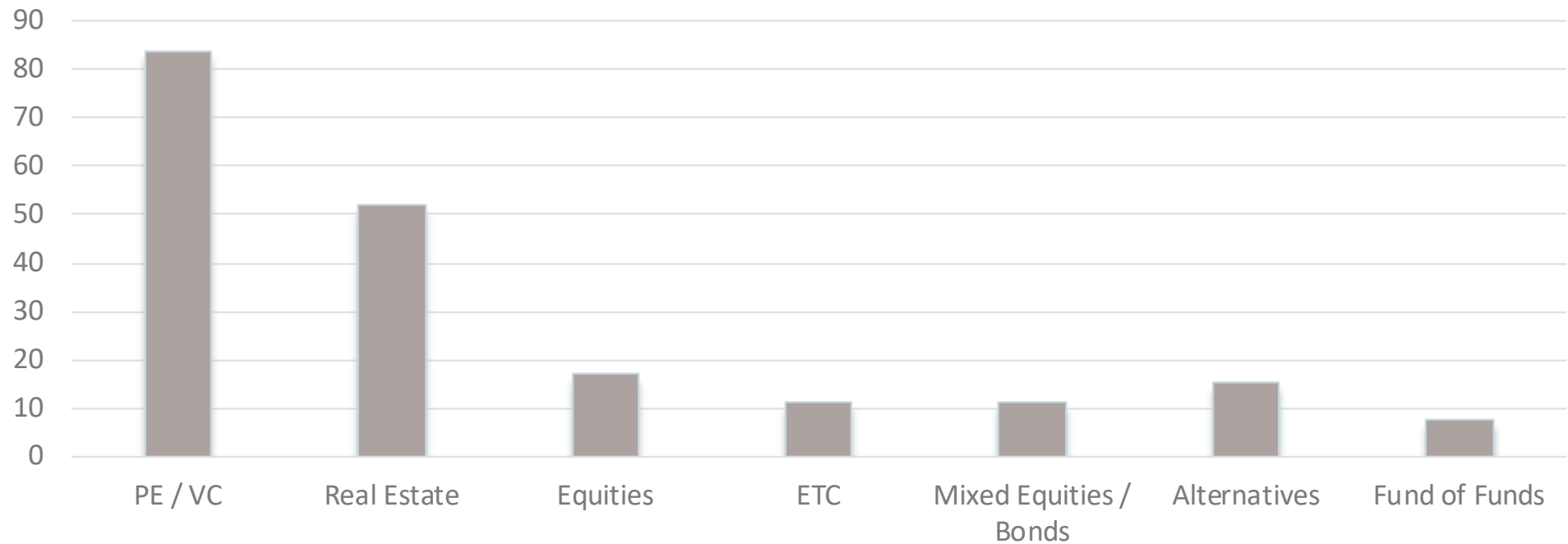


*Source: Preqin

Global Macro view – how does this growth align with Jersey?

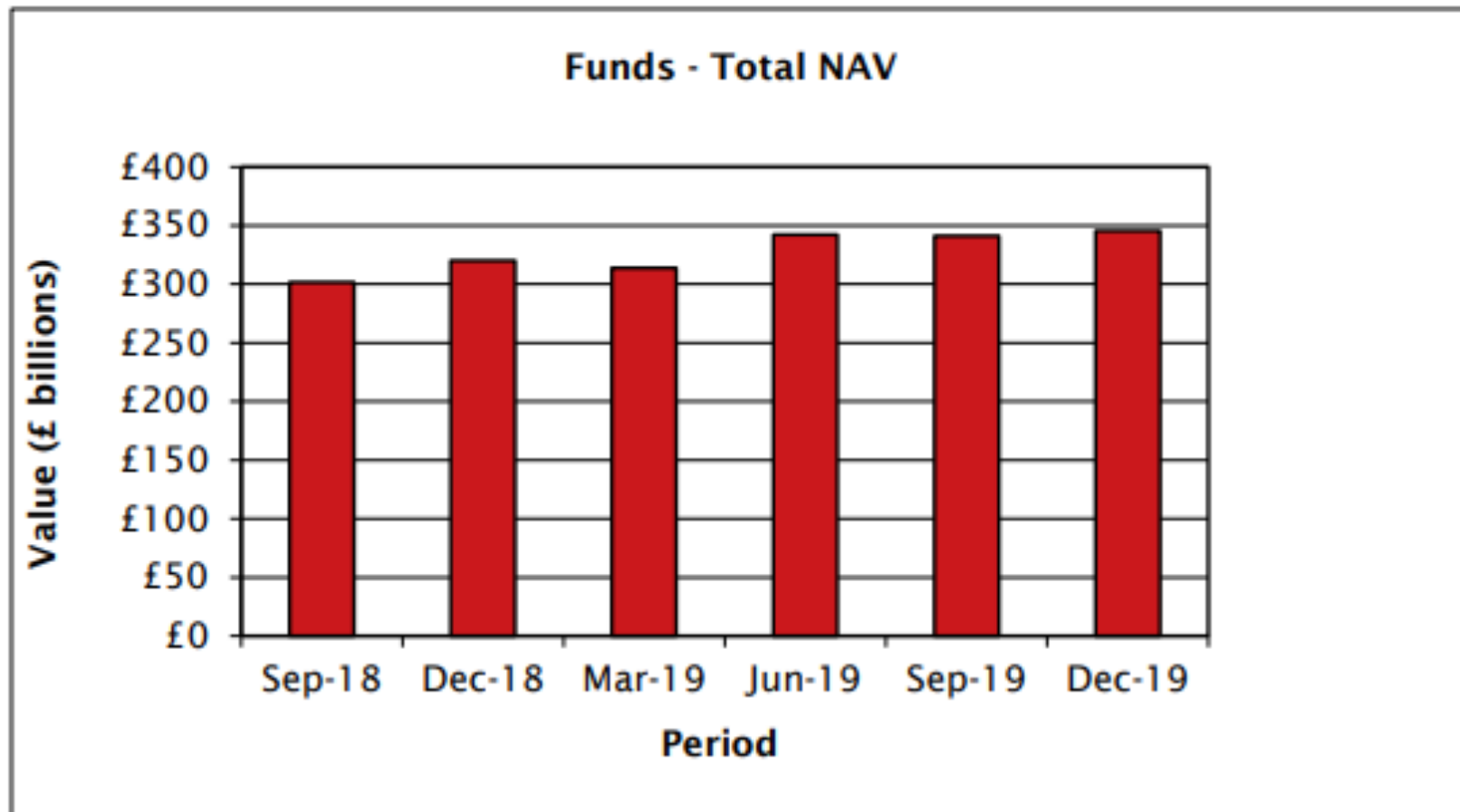
Strong alignment of our Jersey funds industry focus with growth areas

Jersey Funds - US\$ billion per asset class



Source: Monterey Jersey Insight Report

Figures at start of 2020 for Jersey:



2020 figures for Jersey :

- NAV of regulated funds under admin grew by 8% over 2019 to £345.7bn
- Alts: over 85% of Jersey's total funds business.
- Private equity pivotal, rising by 19% over the year
- Jersey funds being marketed to EU through NPPR – 320
- JPFs – the success story continues - significantly over 350 [, with AUM of £43bn (FY2018 £19.4bn)
- Large funds significant
- But – good supply of new funds, various drivers



Recap on Jersey market developments

Key trends in 2019/20

- "steady" demand for Jersey funds - existing managers continuing to launch their (usually larger) successor funds
- relative decline in regulated (CIF) fund numbers; due to maturity of Jersey's funds market – historic CIFs coming to the end of their life and new funds increasingly launched as JPFs - contributes to a dip in CIF fund numbers but not overall fund formation activity
- Success with which smaller/start up/spin out managers have adopted the JPF model for their funds – e.g. in niches such as tech, venture capital and impact investing
- competition from Luxembourg remains intense: some attrition but longer-term users of Jersey tending to remain – and cost delta assists
- co-investment and fund finance activity increasing
- a resurgence in the use of Jersey property unit trusts



Recap on jurisdictional advantages of the Channel Islands

What kind of factors influence domicile choice?

- Investor base & distribution – AIFMD v NPPR a key issue
- Tax structuring – treaty access, impact of BEPS and underlying fund strategy
- Cost – increased competition from Lux, UK & elsewhere
- Service quality in Jersey – Administrators, NEDs, Law Firms – capacity & quality
- Onshore v Offshore perception

What attracts these clients to Jersey?

- Flexible and selective access to EU investors through NPPRs
 - Reduced operational and reporting requirements
 - Often no need for a depositary
 - No AIFMD compliance issues or costs if no EU marketing (attractive to non-EU investors)
 - ESMA approved for third country AIFMD passport if/when that becomes available
 - Reduced exposure to future EU regulation – AIFMD II etc.
- Brexit
 - Not directly impacted by Brexit as already a “third country”
 - Not directly exposed to direction of EU post Brexit (loss of UK influence on EU financial services regulation)

What attracts these clients to Jersey?

- Regulatory clarity / efficiency
 - JFSC globally respected and co-operative regulator, focused on the industry sector
 - Consistently meets all international standards (IMF, IOSCO, ESMA, FATF)
 - Jersey government is a strong supporter of financial industry
- Tax simplicity and certainty
 - Simple tax neutral regimes – no VAT and no capital gains tax
 - No reliance on tax rulings / exemptions and deductions / hybrid financing or DTA networks
 - White-listed by EU Code Group in relation to new substance requirements commensurate with established regulatory/governance practice.

What attracts these clients to Jersey?

- Speed to market and cost effectiveness
 - Streamlined products, lower regulatory and advisory fees
 - Efficient establishment and regulatory approval processes with no prolonged timetables or overly formal procedures (eg no notarial requirements)
 - Ability to opt up to increased regulation during fundraising if desirable
- Tested and reliable legal system
 - Legal certainty with applicable precedent
 - Common law court system – highest court of appeal in Jersey is still the Judicial Committee of the Privy Council (all Justices are also current Justices of the UK Supreme Court)
 - Anglo-Saxon service ethos
 - Transactibility

What attracts these clients to Jersey?

- Service quality
 - Experienced and stable workforce
 - Alternative asset management has been a key industry sector since the early 1980s and over 13,000 of Jersey's residents work in the 'financial sector'
 - Long track record of delivering on bespoke alternative funds services rather than commoditised retail offerings
- Global familiarity
 - Leading global managers in alternatives continue to structure their products through Jersey and Guernsey - locks in investor familiarity and CI exposure to best practice
 - Channel Islands remain global hubs for capital from key investor markets: North America, UK, Asia, Middle East, Switzerland and continental EU

2019 JFA Members Survey Overview (1)

- Reflection of evolving Jersey market - Assistance with formulation of industry/regulation policy
- Testing of priorities and further development/innovation
- Areas of focus included:
 - Asset classes
 - Geographies/target markets
 - Brexit/political confidence
 - Impact of substance regime
 - Attitude to regulatory development
 - Ever increasing focus on technology/outourcing

75
Total Responses

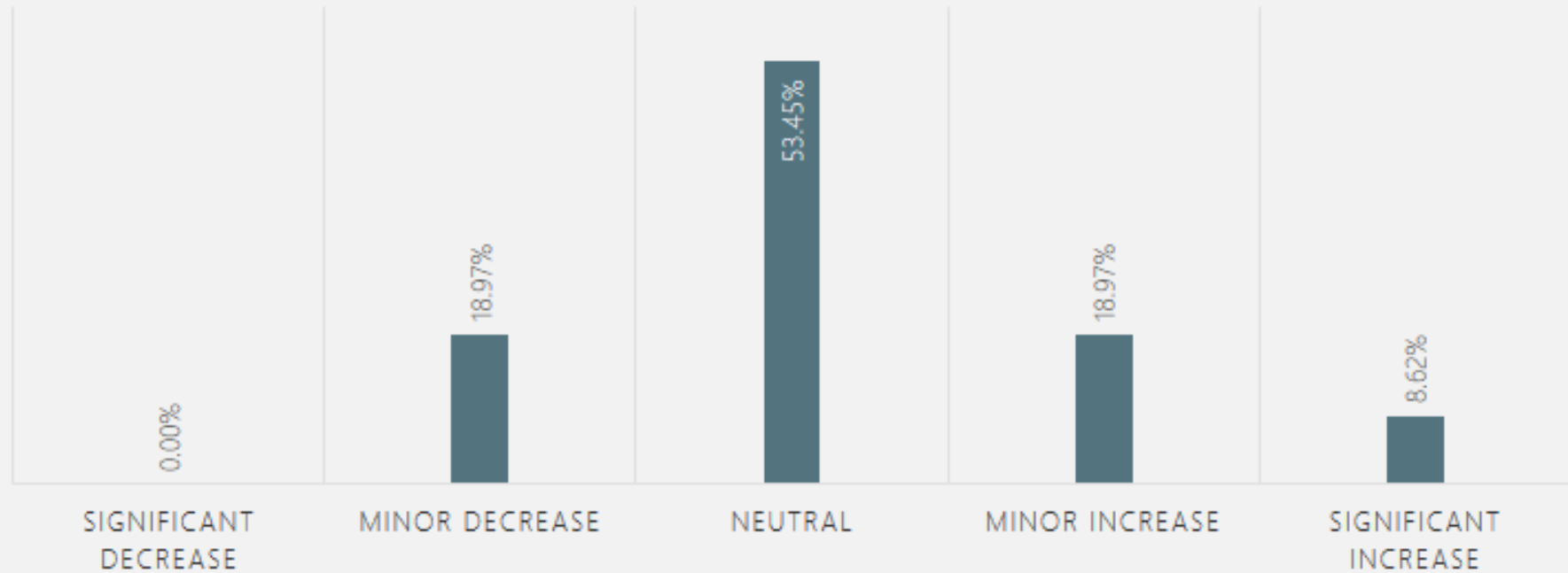


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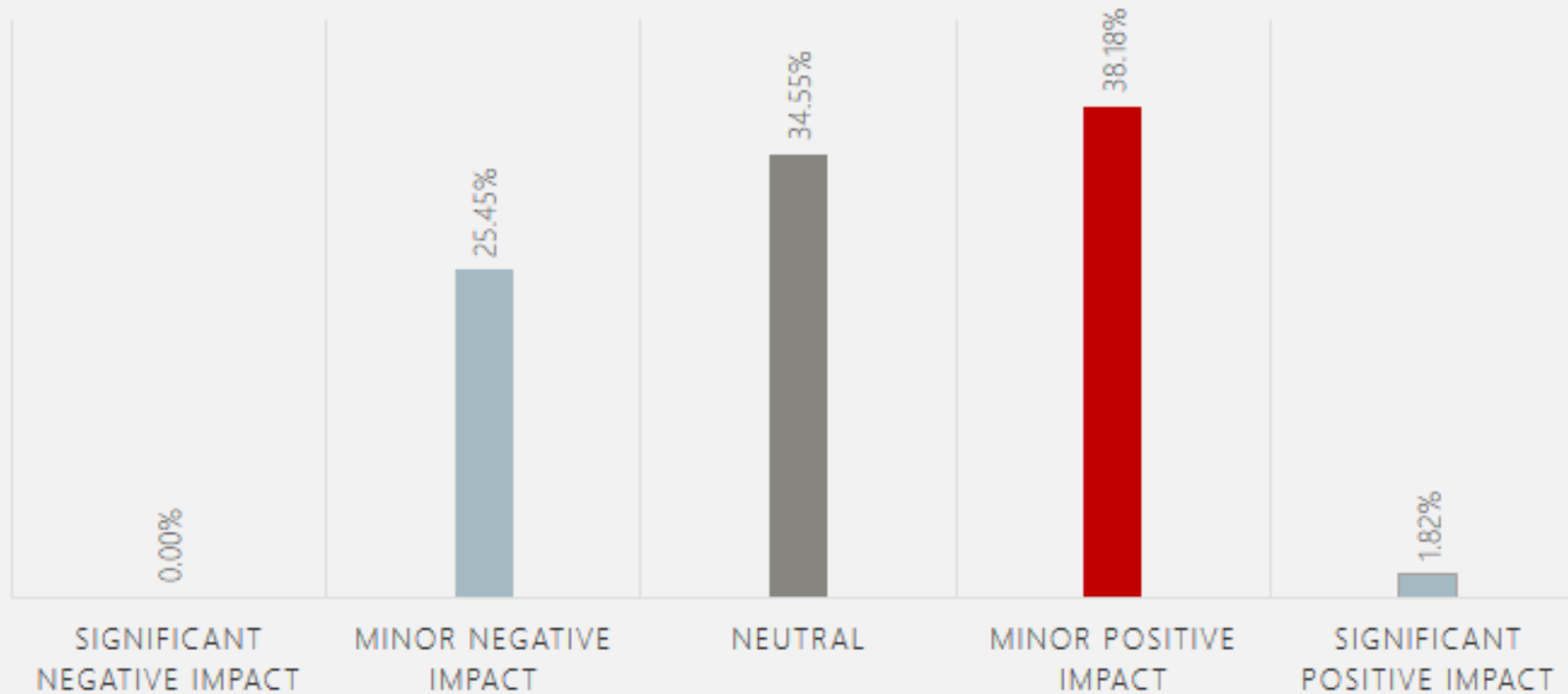
2019 JFA Members Survey (2)

Do you expect an increase / decrease in Jersey Fund business as a result of Brexit?



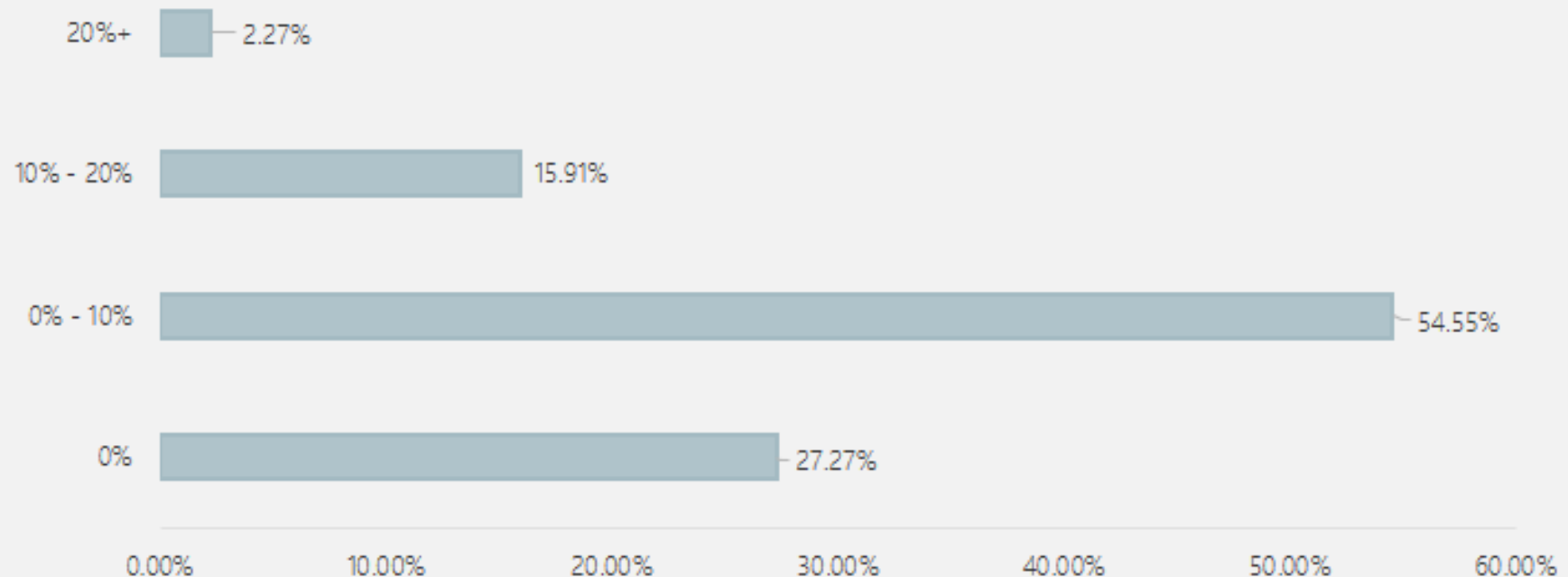
2019 JFA Members Survey (3)

How significant will the impact of the new economic substance rules be on the Jersey funds industry?



2019 JFA Members Survey (4)

How much additional ring-fenced fees would you be willing to pay to fund JFSC fund related product development and innovation? (As a percentage of current fee levels)



2019 JFA Members Survey (5)

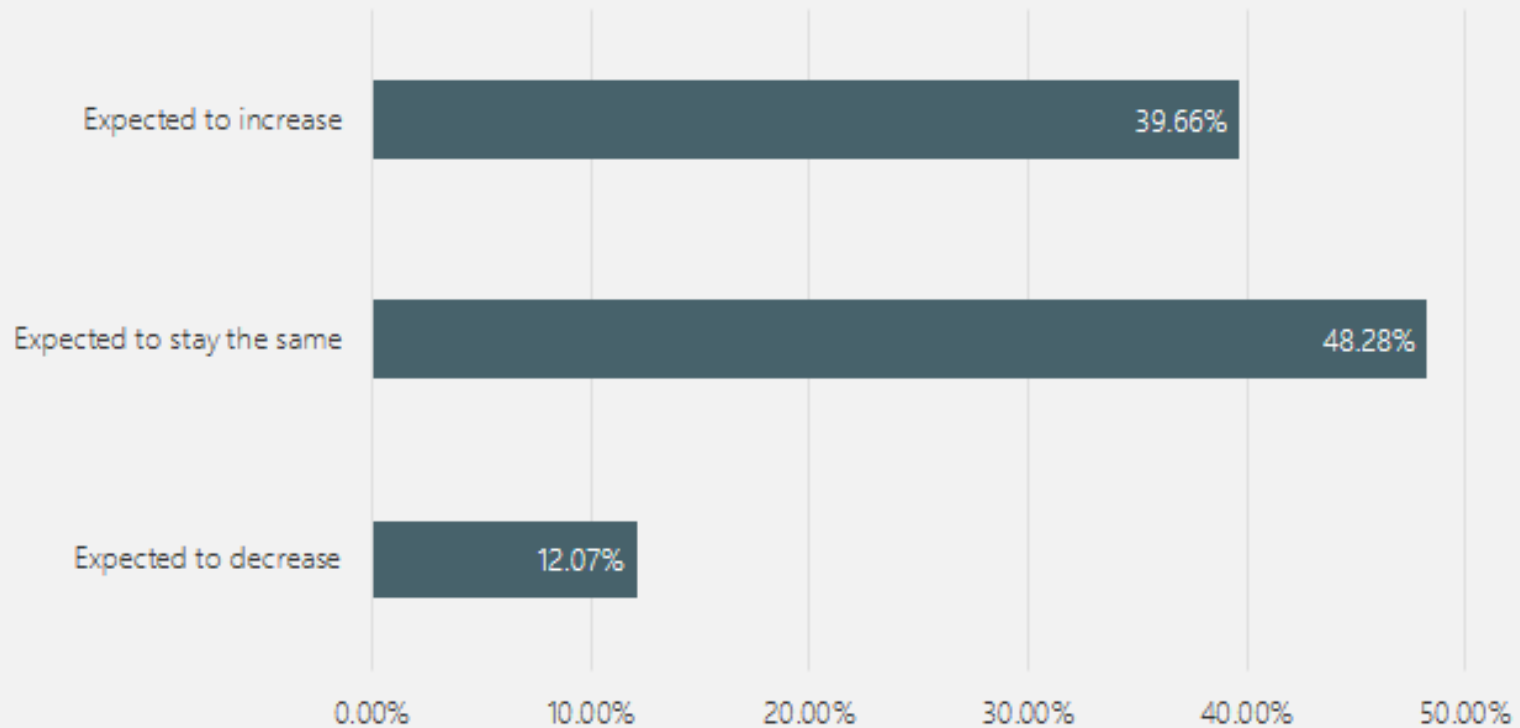
What specific projects would you be willing to support?

Greater innovation regarding KYC

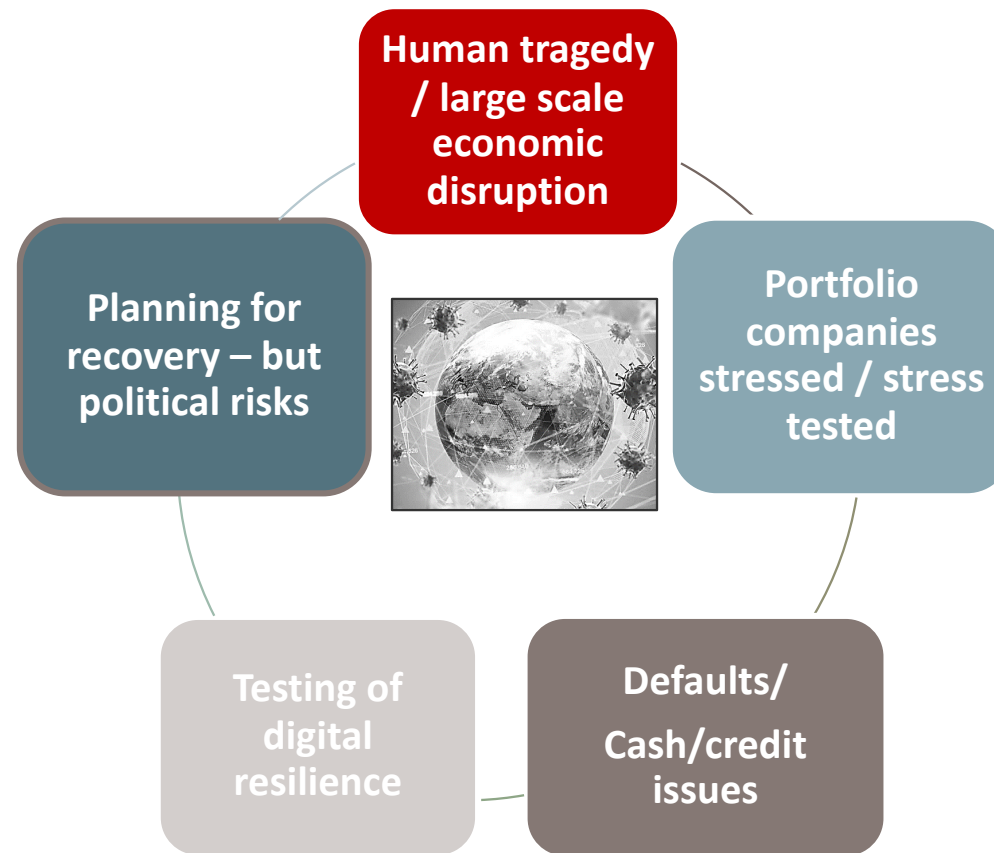
More AML clarity
Better training for staff
automated data collection processes
market assessment of products to ensure we are remaining competitive
Automation
Anything that will make
Jersey more attractive
as a jurisdiction
central data base to remove duplication
3rd country passport

2019 JFA Members Survey (6)

Do you expect the level of outsourcing to change over the next 3 years?



Coronavirus impacts



Coronavirus – how have we responded ?

Weekly updates to JFL/government:

- Working environment
- Workflows (new business, and business lost)
- Business sentiment: on and off island
- Staffing situation and sentiment
- Competitor analysis
- JFSC/government issues

Modifications of technical priorities

- Focus on digital/electronic capability
- Reordering of technical priorities



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Coronavirus – how have we responded ?

Digital-friendly policies

- JFSC timing changes
- Revenue Jersey clarifications

Modifications of technical priorities

- Electronic powers of attorney
- Reordering of technical priorities

Resilience of Jersey's digital model

- Opportunity to build on successful working models and infrastructure
- Significant fund-raising



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Legal and technical

Current priorities :

- Registry law
- COBO amendments
- JRAIF
- Simplification of products
- Clarifications on AML handbook
- LP Law changes
- BAU – consultation papers on IB changes, fee changes etc

Compliance

- NRA – published June/July - residual AML/CFT risks
- Action plan - produced from NRA. Including AML/CFT risks re additional steps
- Moneyval – scheduled 2021/2022.
- AML/Onboarding working group JFSC paper - e-ID
- Open consultation on the AML/CFT Handbook.

Tax

Continued focus on Tax across Asset Management

- Economic substance
- BEPS, CRS, FATCA, Tax risk – all ever increasing impact
- Close liaison and participation in Fiscal Strategy Group
- HMRC Consultation on bringing UK commercial property into capital gains tax net
- EU Code Group and individual third countries positions

ESG

- Building on existing strengths in Jersey
- Best practice

Technical - What to Look Out For in 2020

OECD EU and UK tax initiatives

- assessing and navigating potential impact of OECD Pillar 2 and the global minimum tax debate..... funds carve-outs?
- Pandemic public debt and bail outs
- EU Blacklistings

Unilateral EU Member State actions

- driving adherence to developing transparency initiatives and pressurising low tax centres – anti-offshore agenda?
- eg on-going Dutch black-listing of CDOTs – recently up-held; recent French black-listing of BVI
- as Brexit trade negotiations develop, will UK support or concede the CDOTs?

Competition

- Irish partnerships; UK fund structures; Lux partnerships....

Marketing activities

Drive towards greater voice

- JFA / JFL collaboration – working together to promote our industry
- London masterclasses – joint JFL/JFA venture
- Widened to other geographies
- Digital based marketing significantly increased
- New website launched



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Branching into New Markets

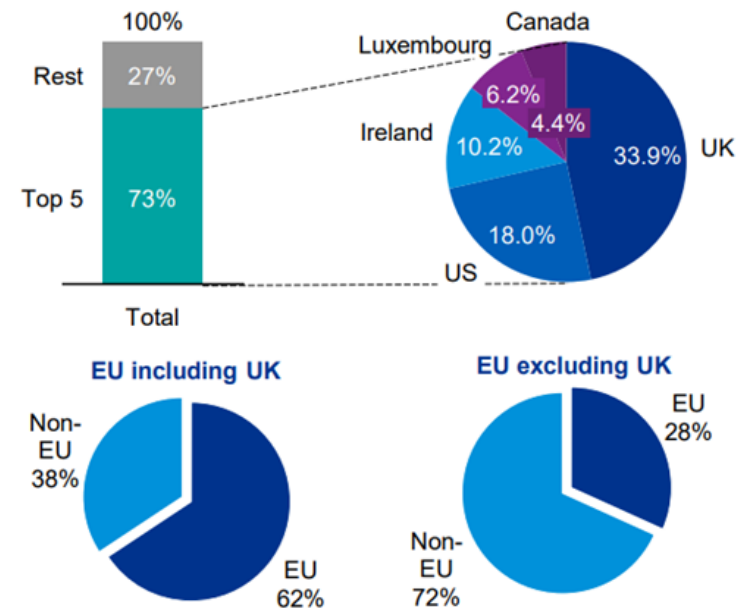
- Around 50% of new business attracted to Jersey now comes from outside Europe
- Jersey mediates around £1.3 trillion of global assets from Europe, the Americas, the Middle East, the Far East, Australasia and Africa
- Stability: Jersey can provide valuable services in terms of asset protection and secure investment structuring for regions such as the Middle East and Africa
- Jersey became the first IFC to open an office in the Dubai International Finance Centre (DIFC) last year



Branching into New Markets

- Five biggest sources of capital committed into Jersey alternative funds: Canada, US, UK, Ireland & Luxembourg
- Once the UK ceases to be part of the EU, 72% of capital committed into Jersey AIFs will derive from non-EU countries
- US promoters' assets under administration in Jersey have increased by 148% over the past five years according to Monterey
- Jersey-based fund promoters include US managers such as Blackrock, Kennedy Wilson, Citigroup and Blackstone
- Jersey Finance: New York office launched 2019

Top 5 jurisdictions of capital committed into Jersey AIFs (%)



Source all: Online survey, KPMG analysis

JFA Training/events

Free CPD Program

Town Hall based programme
– now virtual
2020 program on website



JFA CPD Master-Class Series – “deep dive” events

Annual dinner – 15 October



Conclusion - Opportunities for Jersey in 2020 and beyond

Leveraging the successful JPF product for new managers – a scaleable model

Levelling of the playing field with Cayman?

- new Private Funds legislation for closed ended funds
- extension of Mutual Funds regime for open ended funds
- fund AML, GDPR and Economic Substance biting too

Proving Economic Substance works

- tension in the Luxembourg substance model?
- sustainability of the Jersey “governance” model relative to other IFCs?

Opportunities for Jersey in 2020 and beyond Continued

Substantial RE, PERE, Infrastructure and restructuring activity plays to our strengths

- capitalising on positive NRCGT outcome – steady use of JPUTs and UK REITs
- Positioning for post crisis recovery

The challenge and opportunity of **melding people and technology** – an enhanced service proposition

Jersey as an ideal ecosystem for funds.....



Questions

Thank you for attending - please contact JFA if we can help support you

Contact details

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