

# Guernsey courts Indian investors

Four Guernsey-based finance experts explain why their island could be an ideal place for India's fund managers to do business

**A**s a delegation of fund managers from the island prepares to visit Mumbai, *India Fund Manager* speaks to Joseph Truelove of Kleinwort Benson, Stuart Platt-Ransom of the Legis Group, Paul Christopher of Mourant Ozannes and Robin Fuller of the Dominion Group to discover why Guernsey is an attractive prospect for Indian investors.

**India FM (IFM):** With a delegation from the fund management industry in Guernsey heading over to Mumbai in October this year, how is Guernsey different from other jurisdictions?

**“GUERNSEY HAS BUILT AN IMPRESSIVE SUPPORT STRUCTURE AROUND THE ADMINISTRATION, LEGAL AND ACCOUNTING SERVICES ON OFFER”**

**-Robin Fuller, Dominion Group**

**Joseph Truelove (JT):** In Guernsey, we feel that certain jurisdictions, typically those in the Caribbean, are too lightly regulated and others, often in the EU, are over-regulated. We feel that Guernsey has the balance just right, with the right level of regulation to satisfy investors that their investments are safe without so much regulation that it makes it difficult for managers to get funds approved locally and launched.

**Stuart Platt-Ransom (S P-R):** Guernsey has 50 years of proven experi-

ence in financial services, its finance industry being split into sectors concentrating on banking, funds and investment, insurance and fiduciary and trust services. It has a unique mix of talent, independence and natural assets which facilitate the provision of these services as well as being a well-regulated and highly respected offshore jurisdiction.

**Paul Christopher (PC):** Guernsey has established a reputation for providing a range of financial products and services across the globe to the highest international standards. It offers private banking services, corporate structuring expertise, a world-class

Track record: Guernsey has been at the forefront of financial innovation for more than 40 years and many innovations now accepted as industry standard (the protected cell company, for example) were pioneered in Guernsey.

Infrastructure: As Guernsey has been an important fund management and administration centre for four decades, it has built an impressive support structure around the administration, legal and accounting services on offer. Whatever the size of the potential transaction, customers have a choice of competitive service providers as well as the support of institutions such as the Channel Islands Stock Exchange (CISX).

Geography: Guernsey's position means it operates in a time zone which captures Asia, Europe, North and Latin America in its ordinary working day.

Politics: Guernsey is a crown dependency, outside the UK and the EU, but retaining good working relationships with both. It has a stable form of democratic government.

**IFM:** What advantages does the domicile offer potential clients from the Indian fund management industry? What level of enquiries are being received by practitioners in Guernsey from India?

**JT:** Investors from all around the world would like to invest in India, but the question is, how can they do this in a transparent, cost-effective and tax-efficient way? For India-based



**JOSEPH TRUELOVE**  
head of CI business  
development,  
Kleinwort Benson



**STUART PLATT-RANSOM**  
group managing  
director, Legis Group  
Limited



**PAUL CHRISTOPHER**  
partner, Mourant  
Ozannes



**ROBIN FULLER**  
COO, Dominion Group

fund managers, we have the answer. A Guernsey closed-ended London-listed investment fund will have broad appeal to many UK institutional and high-net worth investors. Guernsey is the domicile chosen by the lion's share of offshore London-listed investment funds. Kleinwort Benson has a long track record of administering London-listed investment funds and will be happy to assist India-based fund managers with the corporate governance requirements of the exchange.

Fund managers who would like to test the water with a closed-ended vehicle listed on a recognised stock exchange could use the CISX. A listing on a recognised stock exchange, such as the CISX, will make an investment fund more marketable to a wider audience of investors than an unlisted fund. Kleinwort Benson was a founding member of the CISX, which is headquartered in Guernsey.

**S P-R:** Guernsey is in the early stages of developing its relationship with India and it is too early to say which part of the business will prove to have the greatest synergy. What we have seen to date in the funds arena is London promoters using vehicles for infrastructure funds which are investing into the Indian sub-continent. We see this as a catalyst for Indian fund promoters using Guernsey as a means of raising capital in the London market, which dovetails with our close ties with the City and the London Stock Exchange (LSE) for raising capital. We have also seen cases of Indian clients using tax-efficient structures to purchase property in the UK.

**PC:** Guernsey's advantages include its experience, its reputation, its time zone and the fact that it has its own stock exchange (the CISX).

Guernsey is seen as a finance centre which has the sophistication to

act and provide all the relevant services required for the establishment of investment funds from administration, audit accounting and legal. It is also the case that Guernsey investment funds may have access to greater markets than other comparable jurisdictions.

Guernsey is still developing its relationship with India, but speaking from experience, for many years we have created investment funds that have invested in Indian assets and

domiciles in order to access particular markets. Guernsey's well regulated but pragmatic regime enables managers to offer innovative fund designs tailored for particular types of investor. Where Guernsey distinguishes itself is that it is not only an attractive fund domicile, it is also an attractive domicile for fund management companies, whether as a standalone fund manager or as an attractive hub in which to base overseas subsidiaries.

**“FOR MANY YEARS WE HAVE CREATED INVESTMENT FUNDS THAT HAVE INVESTED IN INDIAN ASSETS AND ALSO SERVICED WEALTHY (NON-RESIDENT) INDIAN FAMILIES”**

**-Paul Christopher, Mourant Ozannes**

also serviced wealthy (non-resident) Indian families.

The local regulator, Guernsey Financial Services Commission, has a reputation for robust but pragmatic regulation and is regularly reviewed by such bodies as the Financial Action Task Force and the IMF. Guernsey is a tax-efficient location, as investment funds would be eligible for an exemption from Guernsey tax on payment of a fee, or subject to tax at 0%. Non-Guernsey resident shareholders will be exempt from paying tax on income or capital earned on Guernsey-based funds, provided that the income is not sourced in Guernsey.

The most recent figures show growth of the net asset value of total funds under management and administration of 7.2% for the first quarter of 2010, to £197.4bn.

**RF:** The majority of fund managers will manage funds based in different

**IFM:** In what areas is Guernsey currently seeing growth?

**JT:** Guernsey provides services to a wide range of funds covering both open and closed-ended structures, listed and private. There has been a reawakening of the London-listed market recently, which has long been a niche which Guernsey has cornered. Kleinwort Benson has recently been involved in the launch of a closed-ended fund in Guernsey for Prosperity Capital Management which raised \$150m to invest in Russia. The interesting thing about this fund was that it accepted subscriptions in specie.

**S P-R:** Guernsey is growing its private equity work and alternative asset classes generally, including infrastructure, Shariah and green technology funds. There are high levels of innovative structuring expertise within Guernsey's legal sector. For example, funds investing into the Indian sub-continent will generally use

a Mauritian company somewhere in the structure to benefit from Mauritius's double taxation agreement with India, and leveraging a Guernsey feeder into a Mauritian company assists with raising capital investment into Indian investment structures.

## “NEW BUSINESS IS COMING IN, INCLUDING SOME SIZEABLE FUNDS IN THE INFRASTRUCTURE, SHARIAH AND GREEN TECHNOLOGY SPACE”

**-Stuart Platt-Ransom, Legis Group**

**PC:** Guernsey continues to attract the listing of investment funds on the LSE (main market) as well as the junior exchange (AIM).

It has also seen growth in companies which are not regarded as investment funds, using the jurisdiction for the incorporation of vehicles for capital-raising, as Guernsey is tax-neutral and regarded as credible to institutional investors for making initial public offerings on markets.

**IFM:** With the worst of the financial crisis now behind us, how was Guernsey affected and what measures did the domicile take to tackle these issues? Did any challenges become opportunities?

**JT:** Everyone in the investment fund industry has been affected by the drop in fund values and the number of liquidations. With a large number of private equity funds in Guernsey, however, the impact of the crisis was not as immediate as it was with hedge funds. Listed permanent capital vehicles have been able to survive the downturn better than their open-ended contemporaries simply because they do not offer redemptions.

While there are some hedge funds domiciled in Guernsey, these are rela-

tively few in number so the collapse of some prime brokers has not significantly hit the island's industry.

Fundraising has been difficult in the current market and the number of high-profile listings on the LSE has suffered in the last two years, while

the CISX has continued to attract business to the island.

**S P-R:** Like everywhere else, flows of fund business into the island substantially slowed, but we still saw a lot of fiduciary business coming in. There was a clear requirement to restructure some existing funds. During the downturn we have been busy marketing ourselves to ensure that we remained the first port of call when the upturn started. We are seeing so-called green shoots as new business is coming in, including some sizeable funds in the infrastructure, Shariah and green technology space. The challenge at the outset was the inference that the offshore centres were, in part, the cause of the economic crisis so we were pleased to be white-listed by the Organisation for Economic Co-operation and Development (OECD) in 2009. We have come out stronger, both internally and internationally.

**PC:** Possibly the most significant impact of the financial crisis was the unfair focus that was placed on offshore centres as a whole. Guernsey has always sought to place itself in the top rank of offshore financial centres, so to tackle this criticism, it has been necessary to conduct an

education exercise at political levels within the UK, the EU and the US. An office is now being established in Brussels to continue the dialogue that began in the EU. This will give Guernsey the opportunity to be a better understood jurisdiction in the future in terms of how it operates, what it does and the benefit it provides.

**RF:** Speaking from a fund manager perspective, of course Dominion Fund Management was affected by the downturn in valuations. While the overwhelming majority of existing investors remained with their existing funds, a collapse in investor confidence generally meant that little in the way of new investments was being committed to the markets.

However, the credit crisis has offered opportunities to managers with liquidity, to managers prepared to be creative in exploiting the need for income by investors and to those who can create products within the significant margin that exists between deposit rates and the rates banks are prepared to lend at. We are seeing the emergence of hybrid products with equity and debt securities. Dominion has created a convertible bond offering off one of its open-ended funds. To the best of our knowledge, this is the first time this has been achieved.

There is also a much wider picture emerging: indebted major economies with low GDPs and more vibrant economies with demographics supporting growth and much higher GDPs. The growth markets offer exciting opportunities to investors but remain highly volatile and do not offer the same breadth of opportunities as the more mature markets. To Dominion, this speaks of opportunities for boutique managers to offer higher return but low-volatility funds to Indian investors, with the oppor-

tunity to diversify and lower volatility without necessarily committing to low growth developed markets. Similarly, there are investment opportunities in India to offer international investors, which will improve the risk return profile for European investors. Dominion's interest in developing relationships in India is just this: the opportunity to work with Indian managers to identify opportunities for inward investment while offering Indian investors the opportunity to invest in specialist international funds that should improve the risk return profile of their investment portfolios.

**IFM:** What is the domicile and regulator doing to attract business from India? What developments have been made?

**JT:** Guernsey Finance has launched an India initiative. I will be joining a group of other investment fund industry specialists on a visit to Mumbai in October and would be happy to be contacted by anyone who would like to learn more about Kleinwort Benson, Guernsey and the CISX. A number of Guernsey-based service providers and fund managers have made multiple trips to India under their own steam. Our regulator continues to be approachable and sensible and there has been no over-reaction to recent events. There is a good working relationship between the industry and our regulator.

**S P-R:** We are going into India to talk to people on the ground, see what the opportunities are and identify what our people can do and what innovation we can provide for Indian clients, either in the funds or fiduciary sector. I have made a number of trips into India over the past couple of years and there is a lot of interest in Guernsey as a domicile and a lot of contacts have already been made,

but this is the first formal Guernsey delegation to visit.

**PC:** While a number of professionals from Guernsey, including myself, have been visiting India for several years, the purpose of the upcoming visit demonstrates a development in terms of forging stronger links with India. The proposed delegation contains senior members of our government who will be meeting their counterparts in India. I understand discussions are being entered into between the tax office in Guernsey and their India counterparts, with a view to entering a tax information exchange agreement.

**IFM:** What is the future of the fund management space in Guernsey? What are the major opportunities for development?

**JT:** The future is looking bright. The EU seems to be steering a path that will be beneficial rather than detrimental to many in the investment

fund industry and Guernsey, being a nimble and responsive jurisdiction, is well placed to react quickly to the requirements of this new regulation and benefit from its long-standing reputation as a well regulated jurisdiction.

Kleinwort Benson has had a presence in Guernsey for more than 45 years and has recently undergone a change of control and is now part of a revitalised financial services group under new parent RHJI SA.

**S P-R:** We have carved out a position for Guernsey as a specialist closed-ended, alternatives provider - which is where the majority of new fund business seems to be arising. The resolution of the Alternative Investment Fund Managers (AIFM) Directive will potentially offer us wider marketability for Guernsey-based fund products.

**PC:** The future is positive. The fundamentals on which Guernsey has prospered continue to exist along with increased experience in how to manage situations in a credit crisis. It is hoped that the future will see increased access of Guernsey funds to markets.

**RF:** Guernsey's finance industry has thrived because it is prepared to see change as an opportunity. Guernsey has always been prepared to welcome managers with new ideas who want to do things differently. Engaging with these managers helps them get their products launched and into

“GUERNSEY, BEING A NIMBLE AND RESPONSIVE JURISDICTION, IS WELL PLACED TO REACT QUICKLY TO NEW REGULATION”

*-Joseph Truelove, Kleinwort Benson*

the market within a competitive time frame, without compromising on quality. If challenges are opportunities to be seized, we still have a few opportunities. The aftermath of the credit crisis and global trends demanding more financial independence in some markets, savings products and income products in others, gives plenty for fund managers to think about and Guernsey's attitude to change makes it a great place to seize those opportunities.