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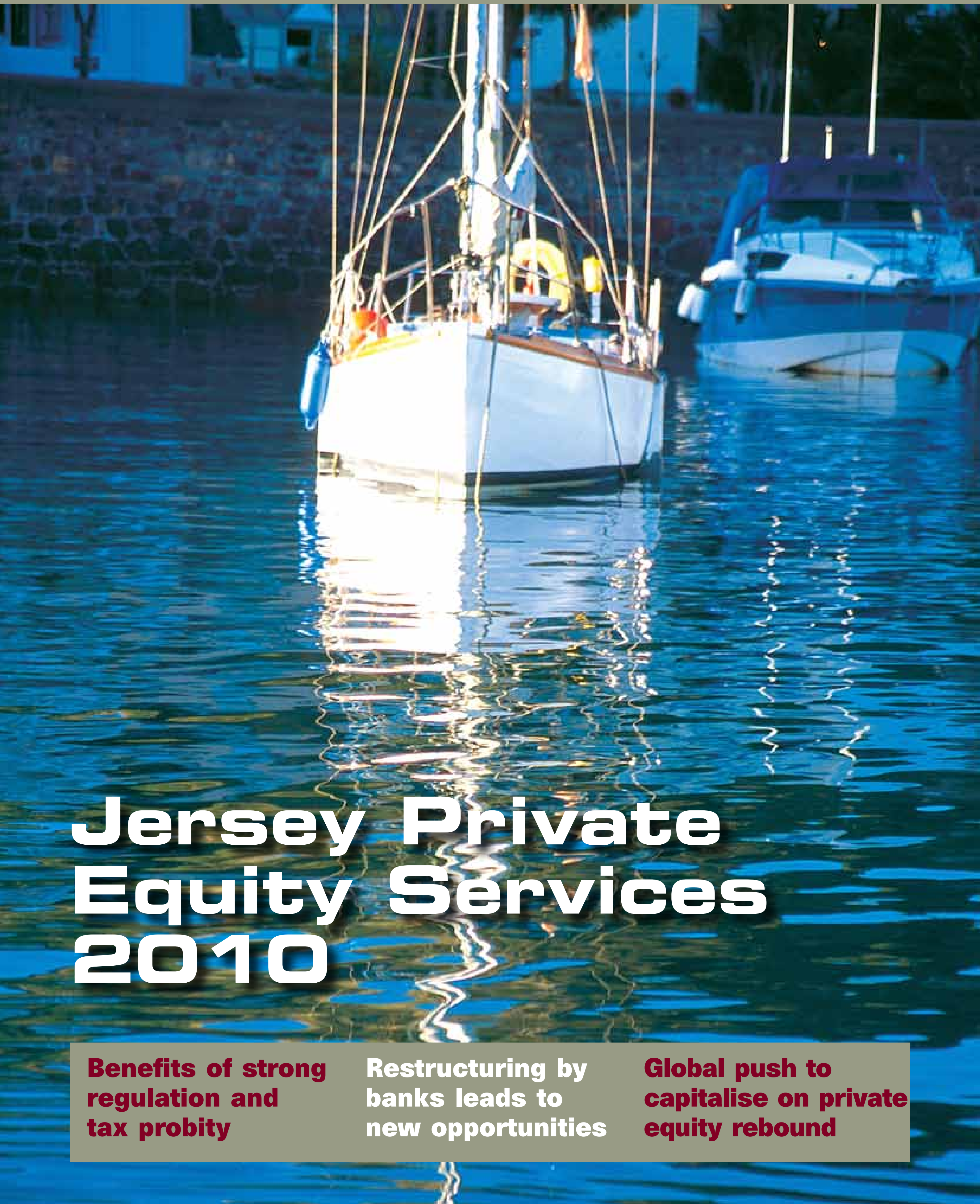
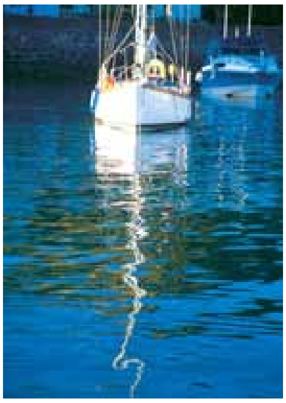


Jersey Private Equity Services 2010

Benefits of strong regulation and tax probity

Restructuring by banks leads to new opportunities

Global push to capitalise on private equity rebound



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Jersey benefits from reputation for regulation and tax probity

By Phil Davis

Jersey has been a significant fund services jurisdiction since the 1960s, but the ground is shifting now more than at any time over the intervening decades. Not only is the global private equity industry a wounded beast in the aftermath of the financial crisis, but Jersey – already called upon to defend its reputation to an international audience time and again – has faced uncertainty about its future attractiveness to European managers and investors as European Union leaders and legislators wrangle over the eventual form of the proposed Alternative Investment Fund Managers directive (see page 9).

Jersey is widely regarded as having made significant progress in upholding its good name. It is currently firmly on the Organization for Economic Co-operation and Development's so-called 'white list' of jurisdictions compliant with international standards of fiscal transparency and exchange of tax information and the island has also received significant endorsements from other international oversight efforts.

David Banks, director of securities at the Jersey Financial Services Commission

David Banks, director of securities at the industry regulator, the Jersey Financial Services Commission, says: "The IMF assessment [under its offshore financial centre programme] has had a greater impact. We are right at the top of the league, and that demonstrates the strength of our system."

Jersey was also placed in the highest category by the Financial Action Task Force ▶ 6

Restructuring by banks leads to new opportunities

Interview with Jane Pearce

Fund formations are few and far between at the moment, but it is still possible to launch niche strategies such as clean energy, high-tech and infrastructure.

These types of funds require specific expertise to set up, says Jane Pearce, a partner at the Ogier Group, which provides advice on all aspects of Jersey, BVI, Cayman, and Guernsey law and includes Ogier Fiduciary Services, which specialises in the provision of full administration services for private equity, real estate, infrastructure and mezzanine funds.

Jane Pearce, Partner, Ogier

Pearce says, "It involves the same legal housing as many other funds, but VC-type funds contain very different provisions because they are typically set up to make smaller investments - in the knowledge that perhaps only one or two out of ten will deliver significant returns."

One of the differences in the set-up is that the fund will be permitted to make seed pool investments that are intended to enable later and larger rounds of venture financing. There is a simplified investment and reporting process. "It is a straitjacket approach," says Pearce. "If the transaction ticks the box, you can do it."

This is distinct from the big buyout fund where there is usually a long approval process, extensive due diligence, negotiations over the contract, timing issues, cashflows and provisions for the management team, as well as transparency issues.

But new funds are perhaps less the story of the current private equity environment than the ongoing restructuring by banks. "There is still activity in restructuring and divestment of balance sheets as banks re-organise themselves," Pearce says.

This can lead to extensive asset sales, such as Lloyds Banking Group's £332m deal to sell about 70% of its Bank of Scotland Integrated Finance portfolio to Guernsey-based secondaries specialist Coller Capital.

Ogier was tasked with setting up new offshore vehicles for the transfer of the assets involved. This was no mean feat given that contractual consent as well as approvals under statute and other regulations were required. For the leading legal teams in London this was a considerable challenge.

Jersey is ideal for this kind of deal, given that it is outside the UK, where the regulatory response times can slow down the transaction.

In addition, where there are professional investors involved it makes sense to be regulated in Jersey on the basis that the structure will be regulated as a very private partnership structure for which there is a lighter regulatory regime. A further benefit is transparency for tax purposes provided by both Jersey and Guernsey.

With little visibility over the future global economic direction, private equity activity may be slow to return, leading to further consolidation among service providers, Pearce believes. "We will see a stop-start approach. Whereas everyone previously anticipated a strong economic uptick by 2010, this could now be 2012 or even 2013.

"This is likely to lead to a certain amount of consolidation in the fund administration sector," she adds. "There is not a huge volume of new funds being launched, so people will try to buy market share by acquiring rivals. You can do this and receive a long-lasting benefit given that the duration of funds is usually 10-12 years." ■

3 ▶ for its efforts to counter money laundering and terrorist financing, meeting or exceeding 44 of its 49 requirements to achieve the best result attained by any jurisdiction. Geoff Cook, chief executive of promotional body Jersey Finance, says: "We want to be known as a brand with good governance, transparency and regulation. Big international brands seek us out for this."

The island appears to have been successful in managing reputational risk. "In late 2008 and early 2009, there was an attempt to link the financial crisis to so-called tax havens," Cook says. "One or two countries got a lot of stick, but we did not because we took the view decades ago that we wanted to manage only disclosed tax assets. We have the highest anti-money laundering standards in the world and tax evasion has been a crime here since 1999. In most parts of the world, it is not a crime even now, just a civil offence."

Jersey Finance has worked for the past two years with the media and think-tanks including the Adam Smith Institute, the Centre for the Study of Financial Innovation and the Fabian Society to help diffuse the messages about how international finance really works. "The work reached its zenith with the G20 in 2009," says Cook, who was also present at this year's Conservative Party conference. "If politicians have written critically we will write to them and challenge them politely." Jersey Finance has held discussions with UK politicians including Lord Wallace and Mark Field, the Conservative MP for London and Westminster.

Ironically, Jersey continues to win business from promoters attracted to its unregulated fund regime, introduced in 2007, but Banks say that in the current environment there is greater readiness to embrace the island's regulated options. "Unregulated sounds attractive, but post-Madoff it is in many people's interest to be regulated," he says. "Once they consider it, they realise it is more marketable and that the Expert Fund regime is not as difficult to navigate as they may have thought."

Jersey continues to introduce new measures to enhance its attractiveness to fund promoters. A limited partnership law due to come into force at the end of this year will

"We want to be known as a brand with good governance, transparency and regulation. Big international brands seek us out for this."

Geoff Cook, Jersey Finance

create new kinds of partnership with separate legal personality distinct from that of its partners, unlike traditional limited partnerships. "We may even grab some business from Scotland with this law," says Kate Anderson, a partner at law firm Voisin. "It allows the partnership to transact in its own name and also provides tax transparency."

The innovative nature of the new regime and its newly-created separate limited partnerships and incorporated limited partnerships makes it popular as a test-bed for new funds. Justin Partington, group commercial director of specialist private equity administrator Ipes, says: "It might be a big real estate manager looking to do private equity for the first time or a large corporation – such as a professional services firm – looking to dip its toe into fund management."

Jersey is also starting to gain traction in its quest to attract investment professionals and their firms to move to the island, a longstanding but elusive ambition for international financial centres. "We have been successful in attracting investment managers here," says Eve Kosofsky, a partner at law firm Carey Olsen. "They are often initially attracted by the tax differential but the final decision is usually about the quality of life."

In this area the island is competing with other European jurisdictions, not least its close neighbour Guernsey. There is a perception among some in the market that Guernsey has stolen a march on Jersey, at least in terms of its image within the industry.

But Jersey is carving out its own areas of dominance, according to Partington, whose firm also has offices in Guernsey, London and Luxembourg. "Our pipeline suggests there is a distinct level of interest in Jersey AIM-listed structures as opposed to [those in] Guernsey and Luxembourg," he says. "The main reason for this is demand for listed funds, for which Jersey has built a reputation. A Jersey listed structure responds to investors needs for greater liquidity and reporting."

For all the inter-island competition for business, there is also a strong spirit of co-operation between the Channel Islands. "We have a very good relationship with the Guernsey Financial Services Commission, and there is no rivalry between us at all," Banks says, arguing that competition at the regulatory level could be deleterious to both camps.

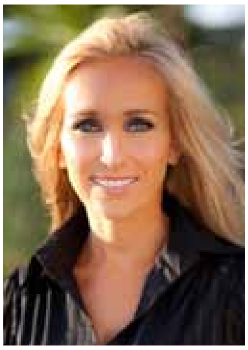
"We don't want there to be any possibility of regulatory arbitrage. So we meet to discuss fund applications. A fund might say if we don't agree with them they will go to Guernsey instead. But we know that Guernsey hears the same thing from funds, so we talk between us to iron these things out."

Many firms have business operations spanning the two jurisdictions. "We operate a successful pan-island business and make an effort to share information," says Lisa Le Gresley, a director at Kleinwort Benson in Jersey. "Law firms on both islands also conduct impact analyses which are hugely beneficial in terms of sharing briefing notes and data."

With similar regulatory regimes, product offerings and service provider infrastructure, the choice between the islands can often come down to personal preference. Says Kosofsky: "It can be as simple as a fund manager going on holiday to one of the islands as a child and having a good memory of it."

A sound reason for the Channel Islands to collaborate is to present a united front as they seek to avoid being disadvantaged by the EU's proposed AIFM Directive. At times the various drafts of the directive have included third-country provisions that could in theory bar the Channel Islands from European business, although this now appears less likely as EU member states grapple toward a compromise.

The two governments have emphasised to European governments that they are not loosely-regulated jurisdictions that would offer dubious fund managers a back door into the EU marketplace. Jersey has opened an office in Brussels and appointed representatives to hold regular meetings with EU officials and explain the island's position. Jersey Finance is co-ordinating with the UK and European governments, investors and trade bodies such as the European Private



"We operate a successful pan-island business and make an effort to share information."

Lisa Le Gresley, Kleinwort Benson

Equity and Venture Capital Association, and has commissioned an impact study from PricewaterhouseCoopers.

"We are confident we can meet whatever tests are established," Banks said. "However, if an equivalent route to EU standards is to be brought in, we would side with the UK's Financial Services Authority and argue that the chosen standard should be Iosco's. The difficulty would be if the EU decides to set up its own standards and that took two to three years. The biggest fear is prolonged uncertainty. At least if we know the good or bad news, we know where we stand."

There is some evidence that the uncertainty is already hurting Jersey's fund sector. "There have been a lot of inquiries from across the board asking what Jersey's position is on the directive," Banks says. "I have been told by law firms that some businesses have not proceeded with Jersey and have gone to Luxembourg instead."

Adds Le Gresley: "A significant amount of business is currently on hold. Fund managers and investors are being cautious not only on types of structure, but also on the jurisdiction of that structure and are seeking more clarity."

But other industry members are more sanguine. "More than 90 per cent of London lawyers say there has been no impact and it's business as usual," Partington says. "They have deep relationships with the Jersey law firms and there are tried and tested structures here. To move business away from here would be hasty."

In fact, Jersey may even benefit from the impact of the directive in the longer term. "There does seem to be an opportunity for custodians to pick up more mandates," Kosofsky says. "Many of these are in Dublin, but it will be cumbersome under the new regime, so they could move elsewhere and Jersey would be a prime candidate. This would lead to more recognition for the island and more work for everyone." ■

Regulatory uncertainty ...the certain solution

By Heather MacCallum and Robert Kirkby

Over the last couple of years, there have been dramatic changes to the landscape we all operate within and the forthcoming years look like just as changeable. With such uncertainty on the horizon, how is it possible to determine operational strategy and deal with those thorny issues: Where should I domicile the fund? What are the new opportunities?

The European Union is on the brink of introducing the revolutionary Alternative Investment Fund Managers Directive ('AIFMD'). The US Securities and Exchange Commission and the International Organisation of Securities Commissions are continuing to amend and introduce rules as well.

On top of these changes we are also seeing individual territories introducing restrictions to specific activities. How can you best position your business to manage this uncertain landscape?

The common thread running through these changes is the mission to enhance the protection afforded to investors. The starting point of any new proposition is to consider the needs and desires of the investor. Even in this uncertain world the investor is a critical element. It is clear that EU and non-EU investors will soon begin to split into two groups: those seeking AIFMD compliant structures with their associated reporting, leverage and custodian requirements, and those seeking alternate approaches.

One pragmatic option available is to address their needs with an environment that provides appropriate regulation at an international level, and Jersey in the Channel Islands provides that. The ability to add substance to the structure and utilise a highly skilled workforce of 13,000 is an attractive proposition particularly when added to the proximity of London and excellent quality of life.

Heather MacCallum, Executive Director, Audit and Robert Kirkby, Director, Advisory, KPMG Channel Islands Limited

The proposition of establishing the fund with suitable 'parachute clauses' and a legal framework that allows outbound migration, can help provide comfort over the coming years. The consideration of 'NewCITs' for institutional clients is certainly one option. However, the limitations imposed by the UCITs regime and the additional costs incurred, plus the issue of low leverage restrictions, positions the 'offshore' vehicle as a strong alternative approach.

Over time there is also likely to be a distinction made with US investors with the possibility of three types of investment vehicle in addition to the commonly used feeder vehicles.

Agile jurisdictions such as Jersey are not encumbered by a supra-national oversight regime. This allows them to provide adaptable legal strategies, with the support of strong regulation and tax neutrality offering comfort to investors, managers and promoters alike.

Jersey has worked hard over the years to achieve a leading position with its international 'good citizen' reputation. At the same time, it has developed a robust legal, regulatory and employment framework for new businesses and structures. With significant representation by the Island in key international regulatory forums and a willingness by Industry and the Government to embrace change, the future is positive.

Whether you wish to establish a structure in the Island serviced by Island businesses, or whether you wish to establish your own local business with key principals, the options are there. Keeping them open is one of the best ways in the current climate to manage uncertainty. ■

Cautious optimism as service providers look for launch rebound

By Simon Gray

Jersey-based service providers to the private equity sector and the broader alternative fund industry mostly describe themselves as "cautiously optimistic" as they look forward to a long-awaited rebound in fundraising that may come early next year and a reduction in the number of new projects that fall by the wayside or are slow to crystallise because of caution among potential investors.

With the deadlock over the European Union's controversial Directive on Alternative Investment Fund Managers apparently broken and the most potentially damaging aspects of the legislation for non-EU jurisdictions seemingly removed or mitigated, industry members believe the ending of uncertainty may prompt a surge of new business for promoters that were waiting to see how the island would be positioned under the new EU rules.

Meanwhile, at a time when the sudden decline in available leverage has cut off the mega-buyout industry at the knees, Jersey has been carefully cultivating specialised sectors such as green technology funds and a range of so-called 'alternative alternatives' that not only chime with the mood of the times but take advantage of the intellectual capital and capacity for innovation that represent the island's most important competitive advantage.

"The number of niche or esoteric funds is clearly growing, and the range of assets underlying the funds is incredible," says Ernst & Young audit partner Chris Matthews. "This work is coming here because Jersey is perceived to have the expertise to deal with these products, and they play to our strengths. We will never be a jurisdiction that can compete on mass resources – we're not a number-crunching centre. Instead we want to be known as an innovative and professional centre for top-end niche products and services."

Ian Gobin, a partner at international law firm Walkers, concurs: "I'm now seeing for the first time asset classes that I didn't know existed. They are becoming ever more esoteric. There's a lot of private equity activity around Russia and the former Soviet Union, which is a relatively new market. The sector is bouncing back."

Robert Milner, a partner with law firm Carey Olsen, says that Jersey's staple of closed-ended fund structures is attracting wide interest from current or potential fund promoters – including managers preparing to spin out from big institutions. "The appeal of closed-ended listed structures is that they give access to a broad investor base, from institutions large and small down to IFA-advised individuals," he says. "These vehicles can be set up in Jersey with an absolute minimum of fuss."

Next year could see private equity benefiting from a significant uptick in capital raising and new fund formation. "The past 18 months have been characterised not so much by new fund launches but by lots of funds being restructured," says Nigel Strachan, chairman of the Jersey Funds Association. "No-one's really been on the road this year for fundraising, but next year promoters anticipate being on the road from January 1 onward. They are looking to attract money allocated to alternatives but sitting on the sidelines as investors wait for an upturn."

He is echoed by William Webbe, director of the corporate services division within Deutsche Bank International's trust and securities services business, who says the sector is bubbling up nicely. "Many funds have undergone restructuring over the past couple of years, but the word is that 2011 will be a big year for private equity fundraising," he says.

"I'm now seeing for the first time asset classes that I didn't know existed. They are becoming ever more esoteric."

Ian Gobin, Walkers

Nigel Strachan, chairman of the Jersey Funds Association

Robert Milner, a partner with law firm Carey Olsen

This is partly because investors are looking for better yields than they're currently obtaining from cash, but also because managers are at last in a position to look beyond issues within their existing portfolios. "Many managers have had to do a lot of work on their existing portfolios over the past couple of years, and therefore have not been in fundraising so much as portfolio management mode," Webbe says. "They've been spending a lot more time working on the underlying assets to try to realise some value within their portfolios."

A number of factors have compounded the logjam, he argues, including investors unwilling to sign up to new funds until existing commitments are drawn down, and a slowdown in deals because of an expectation gap in terms of asset prices between vendors and purchasers over the past 12 to 18 months. But he says: "The majority of the dry powder has now been used up. New funds have been launched, and there are reports that fundraising during the final quarter of 2010 may be fairly robust."

The signs of a rebound are welcome ▶ 12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10 ▶ for an industry that has had to tighten its belt over the past couple of years. Says Matthews: “Opportunities remain subdued compared with two or three years ago. It’s taking longer to get things to market, but having said that our pipeline of new business is probably the highest it’s been in three or four years. The frustrating thing is it’s taking longer to convert those opportunities into actual business.”

He notes that a recurrent feature of the past couple of years for Jersey service providers has been the establishment of fund structures in the island that were subsequently wound up because the promoter could not attract sufficient capital to create a viable investment proposition. “That’s to be expected in the current climate, but it’s not what you want to see,” he says. “It’s a big one-off investment for providers to establish a new relationship, and it’s unfortunate if it does happen to sink after a short period.”

Equally, the downturn has intensified the competitive climate in the industry. “There is more pressure on pricing than ever before,” Matthews says. However, he argues that it’s often worth persevering with clients struggling to get funds off the ground because the picture may change once more favourable market conditions return. “We need to be supportive during that process and not close the doors, because one day they may come back with USD2bn.”

One area of the industry that has not yet shown signs of revival is the listed funds sector, which surged in the mid-2000s as managers sought ‘permanent capital’ not subject to the whims of asset allocation, while offering access to a much broader range of investors. The latter in turn were supposed to enjoy daily liquidity through trading on public markets as an alternative to the long lock-ups inherent in traditional private equity investments.

However, the listed funds sector lost much of its lustre over the past couple of years as some of the biggest alternative fund listings, especially on Euronext Amsterdam, failed to deliver the promised liquidity. Many such funds have been plagued by large differentials between their market price and net asset value.

Peter Rioda, director of the funds division

Ed Devenport, a partner with law firm Mourant Ozannes and vice-chairman of the Jersey Funds Association

“We are not currently seeing funds listing on the London Stock Exchange main market or AIM for liquidity in the secondary market. It is uncertain when or if new placements will be possible in the medium term.”

Peter Rioda, Sanne Group

at trust company and fund administrator Sanne Group, says that the current market is not open to promoters in listed funds other than for ‘technical’ listings designed to satisfy the requirements of certain investors. “We are not currently seeing funds listing on the London Stock Exchange main market or AIM for liquidity in the secondary market,” he says “It is uncertain when or if new placements will be possible in the medium term.”

However, it’s not all bad news. Milner cites the case of income fund GCP Infrastructure Investments, whose projected income was so impressive the fund started trading at a premium to NAV. “This will probably be addressed by way of a tap issue,” he says. “It’s an unusual situation but one we’re very pleased to be involved with.”

Ed Devenport, a partner with law firm Mourant Ozannes and vice-chairman of the Jersey Funds Association, notes that the service provider market has been characterised by a number of merger and acquisition deals – many of them indeed involving his own firm. “Over the past 18 months Mourant has been at the centre of a lot of changes,” he says. “The private wealth business went to RBC at the beginning of 2009 and the fund administration to State Street in April, then the law firm merged with Ozannes in June.’

Devenport says the changes represent at least in part the maturity of the market, which now includes groups of the scale of State Street, JP Morgan and BNP Paribas as well as independent service providers. “One reason why the law firms ended up with these big administration outfits is that when they were starting off, there wasn’t really anyone else to do it,” he says. ■

Global push aims to capitalise on private equity rebound

By Phil Davis

Even the most cautious private equity professionals are starting to believe that the industry is poised to bounce back amid a number of indicators that dealmaking and fund launches are on the rise. According to Mergermarket, the value of global buyout deals totalled USD62.9bn in from July to September, the highest quarterly total since the second quarter of 2008, before the financial crisis struck in earnest.

In fact, private equity groups have seen year-on-year deal value increase for four consecutive quarters, and old hands such as Michael Queen, the chief executive of 3i, believe that dealmaking could return to levels last seen between 2005 and 2007 if a substantial portion of firm's uninvested 'dry powder' capital is put to work.

Even fundraising, which remains well down on its historic highs, has seen an uptick in recent months. According to data provider Preqin, a total of USD57bn was raised globally for new funds in the third quarter of 2010, a modest increase from USD49bn in the second quarter.

Signs that the industry appears to be recovering its momentum are good news for Jersey and its many intermediaries and service providers active in the global private equity market. The Jersey Financial Services Commission says asset values are higher so far this year than in 2008 and 2009, and director of securities David Banks says: "We have seen net inflows of capital in the first half of this year."

Eve Kosofsky, a partner at law firm Carey Olsen, says: "There has been a serious period of consolidation. The private equity

▸ 16

Investor caution drives changes to fund structures

Interview with Kate Anderson and Ashley Le Feuvre

After nearly two years of subdued private equity activity, signs of movement can be detected. "Projects that have been in the pipeline for 12 months or more are now close to launching and fundraising," says Kate Anderson, Associate at Voisin, the Jersey law firm.

While the industry waits for conventional fund launches to return, there is plenty of work for service providers in other areas. For a start, there has been a resurgence in commercial property transactions. "Funds investing in the UK property markets are buying in quite specific geographical areas: within the M25 belt, Glasgow, Edinburgh, Leeds and Manchester," says Anderson. "There are still some distressed – at least undervalued – deals taking place outside these areas for those with readily available funds. However, for most others there is still believed to be value in certain niche sectors of commercial property such as student accommodation and residential care."

While fundraising is slow, it is not moribund. Anderson notes: "Some umbrella funds are adding new sectors to their portfolios. It is a lot easier to raise money this way than from a brand new start-up."

But brand new funds are a rare breed these days, as investors require much more time to become comfortable with allocating new funds in the post-crisis period.

Fund promoters are well aware of the current reticence and many are in the process of implementing changes in order to become more attractive to investors. "We are giving ongoing advice with regards to particular issues such as suspensions, gating and increased liquidity measures," says Anderson.

Kate Anderson, Associate at Voisin, and Ashley Le Feuvre, Senior Manager Funds/ SPV Group at Volaw Trust & Corporate Services

"Fund managers wish to improve liquidity for investors: an increase in dealing days, reductions in minimum subscriptions and reduced notice periods for redemptions."

While there has been a decline in the establishment of regulated funds, smaller private structures continue to be formed away from the public arena. "A lot of new funds are private vehicles that are not registered as funds," says Anderson. "These are below the regulatory radar as they contain a small number of sophisticated investors. As such they are not expensive to establish and are attractive in the current economic climate."

With so many changes afoot and the structures of funds and individual investments in flux, it is useful for law firms to be able to work closely with administrators to speedily solve problems and challenges as they arise.

Ashley Le Feuvre, Senior Manager Funds/ SPV Group at Volaw Trust & Corporate Services, which works closely with Voison and provides fund administration services to the investor market, says: "Ready access to a law firm is an advantage because we can talk through issues any time we want, often at no expense to the client at the initial stages of discussion. If a client phones Volaw and seeks advice on the more technical aspects on a fund structure or needs regulatory advice, then we can get an answer more or less straight away. Equally, for the law firm, it is important to know not only if structure works, from a legal standpoint, but to be able to access timely advice on issues of practical implementation and expense." ■

13 ▶ market was sorting out issues with previous acquisitions and there has been very little new activity until recently." However, she says that while Jersey suffered along with the rest of the industry in the dark days of 2008 and early 2009, service providers had fewer worries than their counterparts in many other jurisdictions.

"While there has been a downturn in the market, Jersey has been cushioned by the calibre of its clients," Kosofsky says. "Some of their investments may have suffered, but the businesses themselves have weathered the storm. Within our law firm, activity shifted from fund formations to restructuring and advisory work."

This experience compares favourably to those of some law firms based in major onshore jurisdictions, which endured a distinctly rougher ride. "There have been no lay-offs in our pan-islands team," she says. "In fact, we have just appointed a new private equity partner."

Administrators also appear to be in good shape. Justin Partington, group commercial director of specialist service provider Ipes, says: "We set up in Jersey in early 2008, shortly before the financial crisis hit. We seeded the office with existing mandates but we have also added some clients since then to reach what we consider to be critical mass. If the current pipeline of opportunities converts, we will be looking for still more staff."

All the same, there is residual caution. "We have set reasonable targets for growth to enable us to build the business while maintaining high standards of client service and real substance in each of the jurisdictions in which we operate," Partington says. "We are not trying to achieve world domination."

One of the reasons for the wariness is that fund formation is not recovering with the same speed as dealmaking. Says Geoff Cook, chief executive of promotional body Jersey Finance: "I can't see many more launches at the moment, not until there is a much stronger trend in the economic indicators. It is all about confidence. Although in the first quarter we saw a big uptake in fund formation, funding is taking a bit longer at the moment because investors are more cautious."

There are certainly plenty of promoters looking to get vehicles off the ground, and

"While there has been a downturn in the market, Jersey has been cushioned by the calibre of its clients."

Eve Kosofsky, Carey Olsen

this may feed through in the coming months. "We are seeing three to four applications every week," says Banks, "although it may be that not all of them proceed to full funding."

Ipes Jersey director Kenneth Whitney says interest from potential new entrants to the industry is a signal of confidence that the sector will recover strongly. "We are getting inquiries from people with no track record at all," he says. "Inquiries are running at more than one a week, a two- or threefold increase on this time last year."

At the same time, the continued interest in launching distressed debt funds could presage further economic shocks ahead. Says Kosofsky: "There is a feeling among some of our clients and in the markets that there is a new wave of distressed debt ahead. Many of the big houses targeting the UK market are focusing on this."

A continued strong uptick in deal volume will depend upon both the economic climate and on the ability of general partners to deploy uninvested funds. Lisa Le Gresley, a director at Kleinwort Benson in Jersey, says: "On the downside there is political risk and interest rates could rise and hit struggling companies. On the positive side, there is a significant amount of uninvested private equity capital that needs to be invested in the next 18 months

"Fund managers have been very active over the past 12 months sourcing good quality investments at low prices, having taken more time over the selection and negotiation of deals in a market where there are currently excellent opportunities. Some private equity firms out there that have not relied exclusively on leverage are in incredibly good shape, and they will be the ones who can pick and choose the great deals available now."

The slowdown in new business has offered an opportunity for restructuring and consolidation within the service provider industry. At the beginning of this year State

"We have set reasonable targets for growth to enable us to build the business while maintaining high standards of client service and real substance in each of the jurisdictions in which we operate. We are not trying to achieve world domination."

Justin Partington, Ipes

Street substantially increased its footprint in Jersey with the acquisition of Mourant International Fund Administration.

US-based ACA Compliance Group acquired a controlling stake in Blueprint Compliance, a compliance consultancy with offices in Jersey and London, while in January Ipes took over back office services for the private equity business of an international French bank in a deal involving 13 entities and total assets of USD800m.

In order to benefit from the hoped-for recovery in private equity activity, Jersey recognises it must continue to innovate. For instance, Jersey Finance has made a shift from pure marketing of the island to fostering product innovation as well.

Says Cook: "When we were set up in 2001, it was mainly about marketing and promotion for the financial services sector. Now we have a technical unit of two lawyers and an economist to work on new product design, legislation and implementation of legislation and international standards. We make sure the offering stays fresh and relevant to make sure we keep pace with other international financial centres – competitor matching is critical."

Jersey Finance also helps firms tailor their offering to local regulations. "We carried out a review with London Business School in 2008 where we interviewed 72 finance professionals from around the world," Cook says. "On the back of this, we created Strategy 2015 to maintain our strength and to evolve. We want to be the leading international financial centre in our chosen markets."

Those markets increasingly extend beyond the core regions of the UK and Western Europe as Asia and the Middle East have become a major focus. A bilateral deal enabling Jersey companies to list on the Hong Kong stock exchange has led to some high-profile listings including West China Cement, a Jersey company that is now one of the biggest companies on the Hong Kong exchange. Service providers are jockeying for position in these burgeoning markets; Carey Olsen recently seconded a lawyer to a Chinese firm in a reciprocal arrangement in order to obtain greater knowledge and understanding of East Asian markets.

Jersey Finance is also pouring resources into overseas activities. "We talk to professional gatekeepers around the world such as tax advisors, prime brokers and lawyers," Cook says. "We make sure we listen to what the market wants." The organisation has recruited a local banker in Hong Kong to explore the Chinese market and recently received funding approval for a Middle East office that will also cover India. "3i has structured some of its Indian investments through Jersey," he notes.

Cook believes the work the industry is doing now will pay off handsomely over the long term. "Jersey now has business in 200 countries," he says. "We are a global – not just a European – player."

In the shorter term, ambitions may be more modest, but Le Gresley says the island is strongly positioned to attract future business. "Although fund promoters may continue to struggle to raise money in the short term, we positively encourage them to visit the island and seek information," she says. "Jersey provides first-class financial services within a robust regulatory environment. It has built a reputation for being efficient, competitive and providing excellent levels of service that we hope will continue to attract fund promoters." ■