Capital Flows: Analysis of Guernsey's Investment Funds Sector

A report prepared for the Committee *for* Economic Development

August 2020

Key insights from this study

Guernsey-domiciled funds are highly international in nature

The UK was the source of more than one-third of investment into Guernsey funds in mid-2019 (£72 billion), with the Rest of Europe (almost £49 billion) and the USA (almost £44 billion) each, accounting for more than one-fifth.

Guernsey-domiciled funds enabled a capital flow of £41.6 billion into the UK in mid-2019

Half originated in the UK (£20.7 billion) and half (£20.9 billion) in other jurisdictions. The overall flow of capital to the UK from Guernsey funds has increased from £34.4 billion in 2013 – a growth of almost 21% since 2013.

Guernsey funds helped UK investors deploy £51.3 billion into overseas investment opportunities in mid-2019

This included £23.8 billion into Europe, £12.2 billion into the USA and £10.6 billion into the Rest of the World. Small amounts were also invested into Guernsey and Jersey (likely into feeder funds).

The total flow of investments from UK investors facilitated by Guernsey funds has roughly doubled since 2013

UK investors were the source of around £36 billion of investments in Guernsey funds in 2013. The Rest of Europe is an increasingly important destination for UK investors using Guernsey funds.

The Rest of Europe remains a key geographical area for Guernsey funds

Guernsey-domiciled funds enabled a capital flow of £77.1 billion into the Rest of Europe in mid-2019. (Non-UK) European investors were the source of £48.7 billion of investment. In total, Guernsey funds helped European investors deploy around £25 billion to the UK and other overseas markets.

Key insights from this study

Guernsey-domiciled funds enabled a capital flow of £43.0 billion into the USA in mid-2019

Only around one-third originated in the USA (£13.2 billion). The rest came from other sources including the UK (£12.2 billion) and the Rest of Europe (£7.1 billion).

US investors were the source of £43.6 billion of investment into Guernsey-domiciled funds in mid-2019

More than one-third of this (£14.9 billion) was invested into the Rest of Europe, with £5.3 billion invested in the UK and £7.2 billion in the Rest of the World.

Private Equity remains the dominant asset class for Guernsey-domiciled funds

More than half of the value of Guernsey funds in mid-2019 was Private Equity (£119.7 billion of £212.2 billion). Private Equity is particularly critical for US investors: more than 94% of the capital invested in Guernsey funds in mid-2019 from the US was into Private Equity funds.

Funds generate a range of economic and social benefits in the jurisdictions where they are deployed

This includes creating employment, providing opportunities for investment in green and sustainable technologies through Guernsey's emerging 'green funds' offer, and supporting business productivity and innovation through Private Equity investments.

The quality of regulation and supporting services are strong attractors for domiciling investment funds in Guernsey

Regulation and the high-quality supporting services (including legal, accounting and consulting) were felt to help keep the funds sector innovative and fairly 'nimble' in reacting to new opportunities.

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Our report provides up-to-date evidence on the economic contribution of Guernsey's funds sector to key jurisdictions around the world

Scope of the study

The Committee *for* Economic Development (**"C*f*ED"**), on behalf of the States of Guernsey, engaged Frontier Economics (**"Frontier"**) to provide evidence on the economic benefit that Guernsey's investment funds sector (the "**Sector**") provides to different jurisdictions, including:

- the United Kingdom (UK);
- the Rest of Europe (excluding the UK);
- the United Sates of America (USA); and
- the Rest of the World.

The focus of our analysis has been to:

(i) estimate the value of **capital flows** between different jurisdictions through Guernsey-domiciled funds, as the key measure of the economic benefits enabled by the Sector; and

(ii) estimate, and quantify, the value of **management fees** earned by investment managers in each jurisdiction.

Both of the above estimated based on data as of **mid-2019**. Data collection took place in December 2019 and January 2020, so mid-2019 represented the most recent point at which data was available on a consistent basis.

Our estimates are based on a 'point in time' assessment of capital flows as of mid-2019. We recognise that, in practice, the total flow of investment into and out of a fund over its lifetime will be different to any snapshot estimate of Net Asset Value (**"NAV"**).

Our report focuses on capital flows associated with **Guernsey-domiciled funds** regulated by the Guernsey Financial Services Commission (the "**GFSC**").[1] In mid-2019 the total NAV of such funds was £227.7 billion.

1 Note that it is technically possible, though rare, for a Guernsey fund to be incorporated in another jurisdiction. We use "Guernsey-domiciled funds" or "Guernsey funds" in his report as a shorthand for the coverage of the report to include "Guernsey authorised or registered collective investment schemes."

We based our analysis on quantitative data collected from fund administrators and qualitative interviews with sector stakeholders

Approach taken

Working with fund administrators, we collected data on geographic capital flows associated with funds, covering around 70% of the market. Our final dataset was scaled by asset class to align with aggregates identified by the GFSC. To avoid double counting, we excluded Funds of Funds and Funds of Hedge Funds from our total. Our final dataset covers funds with a **total NAV of £212.2 billion**.

We asked administrators to provide a geographic breakdown of the origin of NAV for each fund (where investors are located) and the destination (where investments are deployed). In some cases flows via Guernsey may not reflect the ultimate origin or destination of funds; however in practice, few administrators were able to provide data on final destination in the format requested. This report therefore focuses on the initial geographic flows to and from Guernsey-domiciled funds.

We complemented our quantitative analysis of the Sector with 15 qualitative interviews held with administrators, service providers and promoters.

The broad nature of the economic contribution of the Guernsey funds industry

Our focus on the geographic flows, of capital, via Guernsey-domiciled funds demonstrates the Sector's key economic contribution: **a conduit for international investments** that combine funds from multiple jurisdictions and invest assets into diverse geographic areas, **helping to connect investors with profitable overseas investments all over the world**.

Our report also highlights other key contributions of the Sector:

- **flows of fees**, in particular fees associated with fund management, which generate incomes and tax revenues globally;
- the **tax neutrality** of Guernsey helps to maximise returns, including for institutional investments like pension funds and sovereign wealth funds; and
- capital deployed around the world in businesses, infrastructure, property and other assets helps **create high-quality jobs and wider social benefits**.

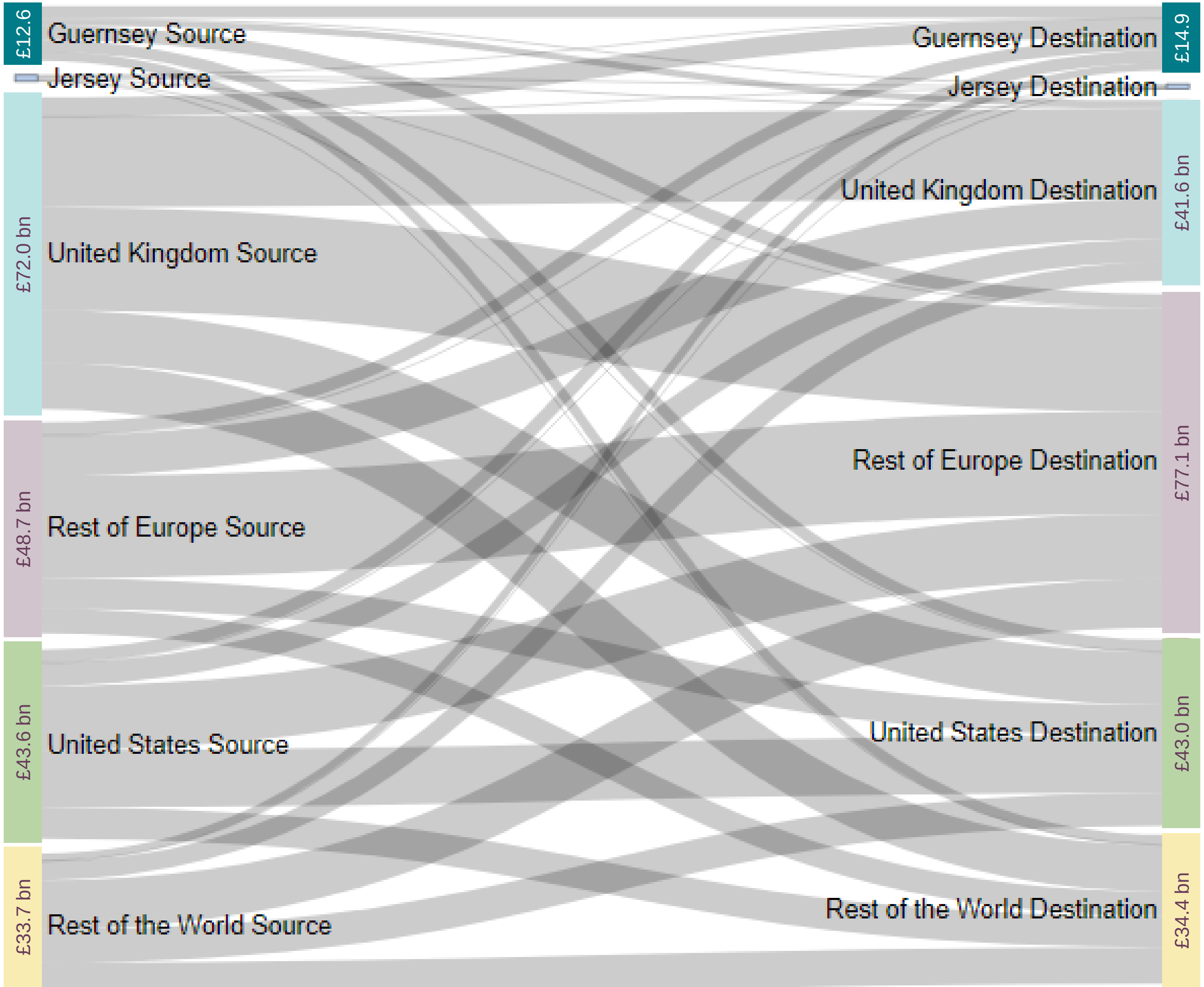
Methodological note

Throughout this report, we use the term 'capital flows'. As highlighted on Page 5, estimates are based on 'point in time' data on the value of Guernsey funds as of mid-2019. The 'flows' therefore represent our best estimates of the geographic source and destination of funds at that point in time. The figures do not reflect estimates of the total value of investments flowing into or being deployed by Guernsey funds by geography over a period of time. Reported flows of fees are also based on these point in time estimates of fund values, rather than being estimates of total fees over a period of time.

We report on capital flows by geography and asset class. Data presented in charts and tables is typically rounded to the nearest £0.1 billion such that the totals reported in the main body of the text (which are based on unrounded data) may not always be the precise sum of the figures in accompanying charts.

All data and evidence in the report is current to the information available as of 12th August 2020.

Overall summary of capital flows by origin and destination



- The UK was the source of more than one-third of Guernsey funds in mid-2019 (£72 billion), with the Rest of Europe (almost £49 billion) and the USA (almost £44 billion) each, accounting for more than one-fifth.
- By destination, the Rest of Europe was the biggest jurisdiction, attracting more than £77 billion. The USA attracted £43 billion and the UK almost £42 billion.
- The figure illustrates the **international nature** of capital flows with global investors reaching opportunities all around the world via Guernsey-domiciled funds.
- The economic benefits to jurisdictions include the inflows of capital and the returns on assets. The UK, for example, saw an inflow of almost £42 billion of capital in mid-2019 via Guernsey funds. UK-based investors will also receive short- and longer-term flows of returns on the £72 billion invested into Guernsey funds.

Source: Frontier Economics analysis of data returns.

Overall summary of capital flows in mid-2019 by origin, destination and asset type

Destination of capital flows	UK		Rest of Europe		USA		Rest of the World[1]		Global	
	£ bn	%	£ bn	%	£ bn	%	£ bn	%	£ bn	%
Private Equity	17.8	*42.8%*	44.6	*57.9%*	28.6	*66.6%*	19.3	*56.1%*	**119.7**	***56.4%***
Infrastructure	6.1	*14.7%*	11.3	*14.7%*	0.0	*0.0%*	0.2	*0.6%*	**17.6**	***8.3%***
Property	10.4	*25.1%*	5.9	*7.7%*	0.0	*0.1%*	0.3	*0.8%*	**19.3**	***9.1%***
Equity	3.3	*8.0%*	4.6	*6.0%*	3.1	*7.2%*	8.4	*24.5%*	**22.5**	***10.6%***
Debt	2.2	*5.4%*	9.8	*12.7%*	2.8	*6.4%*	1.1	*3.3%*	**16.8**	***7.9%***
Other	1.6	*4.0%*	0.8	*1.0%*	8.5	*19.7%*	5.1	*14.8%*	**16.2**	***7.6%***
Total	**41.6**	***100%***	**77.1**	***100%***	**43.0**	***100%***	**34.5**	***100%***	**212.2**	***100%***

Source: Frontier Economics analysis of data returns. Figures within columns may not sum to the 'Total' row due to rounding. See footnote 1.

- The table shows how investments from Guernsey funds break down by destination and type.
- More than half of the value of Guernsey funds in mid-2019 was Private Equity.
- Almost three-quarters was 'real assets' – including Infrastructure and Property as well as Private Equity.
- Two-thirds of funds invested into the USA via Guernsey were Private Equity.
- More than a quarter of funds invested into the UK, via Guernsey, was in Property.
- One in every £7 invested into the UK and Europe via Guernsey was in Infrastructure.

- The table shows how investments into Guernsey funds break down by origin and type.
- Non-UK investors into Guernsey funds in mid-2019 were much more likely to invest in Private Equity funds than UK investors.
- UK investors also more heavily invested in Infrastructure funds.
- By contrast, US investors almost exclusively put capital into Private Equity funds, with very little invested into other asset classes.

Origin of capital flows	UK		Rest of Europe		USA		Rest of the World[1]		Global	
	£ bn	%	£ bn	%	£ bn	%	£ bn	%	£ bn	%
Private Equity	20.8	*28.9%*	29.6	*60.7%*	41.3	*94.9%*	21.2	*62.8%*	**119.7**	***56.4%***
Infrastructure	12.9	*17.9%*	4.7	*9.7%*	0.0	*0.0%*	0.0	*0.0%*	**17.6**	***8.3%***
Property	9.1	*12.7%*	6.1	*12.4%*	0.1	*0.2%*	1.0	*3.0%*	**19.3**	***9.1%***
Equity	10.5	*14.6%*	2.2	*4.5%*	0.5	*1.2%*	7.0	*20.6%*	**22.5**	***10.6%***
Debt	7.9	*10.9%*	3.5	*7.3%*	0.9	*2.0%*	2.6	*7.8%*	**16.8**	***7.9%***
Other	10.8	*15.0%*	2.7	*5.4%*	0.8	*1.7%*	2.0	*5.8%*	**16.2**	***7.6%***
Total	**72.0**	***100%***	**48.7**	***100%***	**43.6**	***100%***	**33.7**	***100%***	**212.2**	***100%***

Source: Frontier Economics analysis of data returns. Figures within columns may not sum to the 'Total' row due to rounding. See footnote 1.

1 Note that the 'Rest of the World' column does not include capital which was reported to be invested into the Channel Islands (top table) or originated in the Channel Islands (bottom table); much of this may represent flows into feeder funds. As a result the 'Global' column, which does include these flows, does not sum to the total of UK, Europe, USA and Rest of the World.

Summary of capital flows to, and from, the UK via Guernsey funds

In total, we estimate that **Guernsey-domiciled funds enabled a capital flow of £41.6 billion into the UK** in mid-2019. Half originated in the UK (£20.7 billion) and half (£20.9 billion) in other jurisdictions.

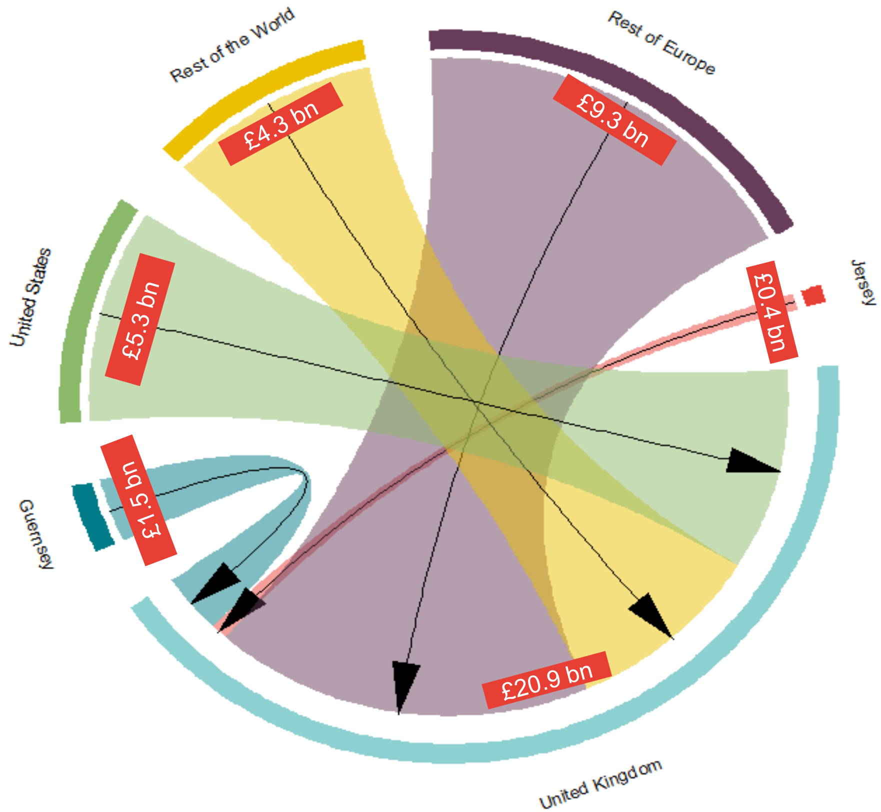
The chart, right, breaks down these flows to the UK from non-UK jurisdictions. The Rest of Europe (£9.3 billion) and the USA (£5.3 billion) were the key sources.

Compared with previously-published estimates,[1] the overall flow of capital to the UK from Guernsey funds has **increased from £34.4 billion in 2013** – a **growth of almost 21%** over this period.

UK investors were the source of **£72 billion of investment into Guernsey-domiciled funds** in mid-2019. Europe attracted around one-third of the total (£23.8 billion). Almost 30% (£20.7 billion) was re-invested in the UK, £12.2 billion (17%) into the USA and £10.7 billion (15%) to the Rest of the World. The rest went into Guernsey and Jersey (likely into feeder funds). Taken together, **Guernsey funds helped UK investors deploy £51.3 billion into overseas investment opportunities in mid-2019**.

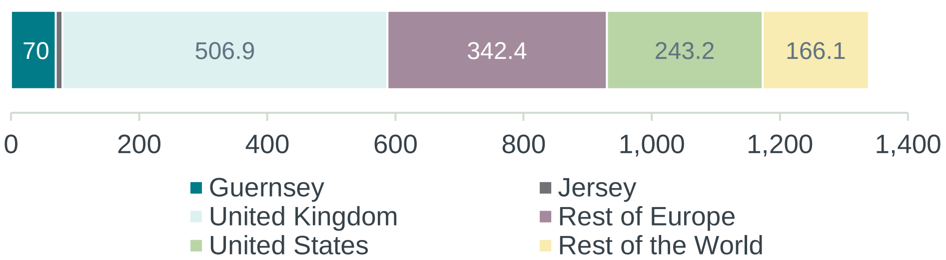
The total flow of **investments from UK investors facilitated by Guernsey funds has roughly doubled since 2013**, from around £36 billion.

Capital flows to the UK from non-UK origins via Guernsey-domiciled funds, mid-2019 estimates



Source: Frontier Economics analysis of data returns. Figures may not sum to totals quoted in the text due to rounding.

Estimated management fees flowing to the UK, by capital origin (£ million, based on mid-2019 fund values)



Source: Frontier Economics analysis of data returns. Jersey figure is £10.5 million.

We conservatively estimate that **fund managers based in the UK earned around £1.3 billion in fees from Guernsey-domiciled funds** based on fund values as of mid-2019. We estimate that around 62% of these fees originated from overseas (see chart, left), based on the location of investors into Guernsey-domiciled funds managed in the UK.

1 KPMG (2015), *International Capital Flows: International Investment into the UK and Europe – the role of Guernsey's investment funds sector* (available at https://www.weareguernsey.com/media/2979/international-capital-flows-kpmg-report.pdf)

Summary of capital flows to, and from, the Rest of Europe via Guernsey funds

In total, our analysis finds that **Guernsey-domiciled funds enabled a capital flow of £77.1 billion into the Rest of Europe in mid-2019**. Around one-third originated in Europe (£23.6 billion), one-third in the UK (£23.8 billion) and almost one-fifth from the USA (£14.9 billion).

In total, **£53.5 billion originated outside Europe**. The chart, right, breaks down these flows to the Rest of Europe that originated from outside Europe.

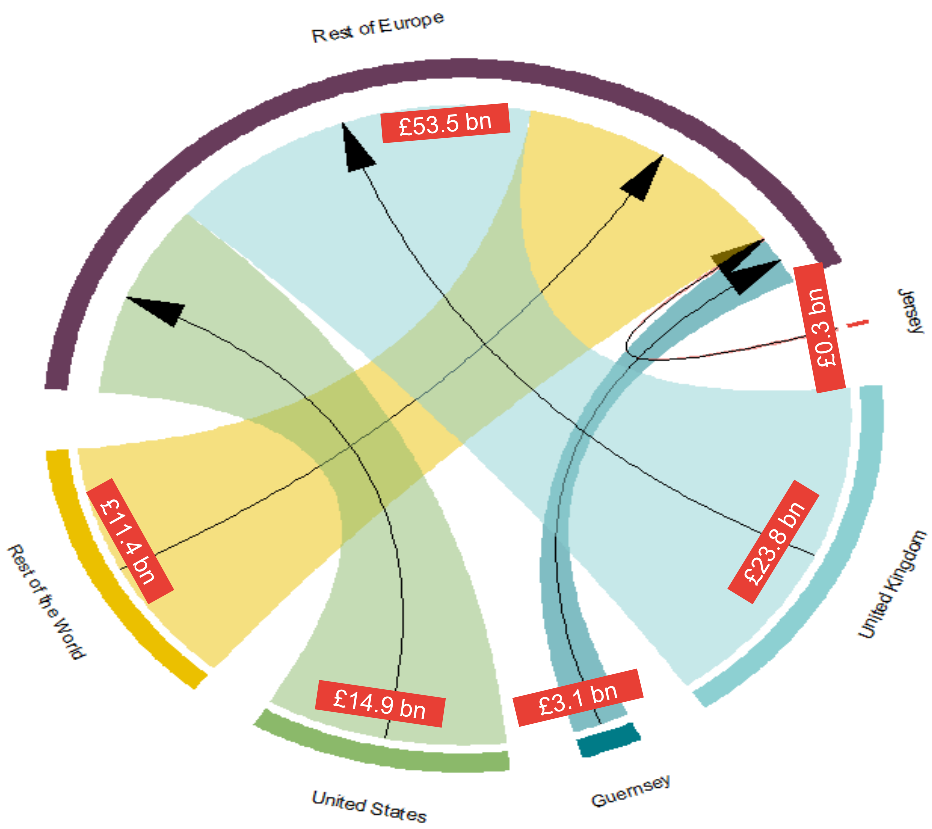
Compared with previously-published estimates,[1] the overall flow of capital to the Rest of Europe from Guernsey funds **fell from £105.3 billion in 2013.**

European investors (non-UK) were the source of **£48.7 billion of investment into Guernsey-domiciled funds** in mid-2019. Almost one-fifth (£9.3 billion) was invested in the UK, and 15% (£7.1 billion) into the USA.

In total, Guernsey funds helped European investors deploy £25.1 billion into investment opportunities into the UK and non-European destinations in mid-2019.

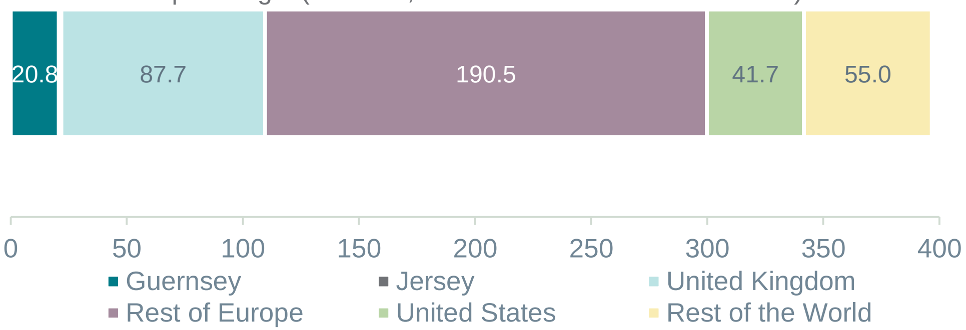
The total flow of **investments from European investors facilitated by Guernsey funds has fallen since 2013**, from around £77 billion.

Capital flows to the Rest of Europe from other origins via Guernsey-domiciled funds, mid-2019 estimates



Source: Frontier Economics analysis of data returns. Figures may not sum to totals quoted in the text due to rounding.

Estimated management fees flowing to the Rest of Europe, by capital origin (£ million, based on mid-2019 fund values)



Source: Frontier Economics analysis of data returns. Jersey figure is £1.1 million which is too small to visualise.

We conservatively estimate that **fund managers based in the Rest of Europe earned around £397 million in fees from Guernsey-domiciled funds** based on fund values as of mid-2019 as of mid-2019. Just over half (52%) of these fees originated from jurisdictions outside the Rest of Europe (see chart, left), based on the location of investors into Guernsey-domiciled funds managed in the Rest of Europe.

[1] KPMG (2015), *International Capital Flows: International Investment into the UK and Europe – the role of Guernsey's investment funds sector* (available at https://www.weareguernsey.com/media/2979/international-capital-flows-kpmg-report.pdf)

Summary of capital flows to, and from, the USA via Guernsey funds

Our report provides the first specific evidence on capital flows to, and from, the USA via Guernsey funds.

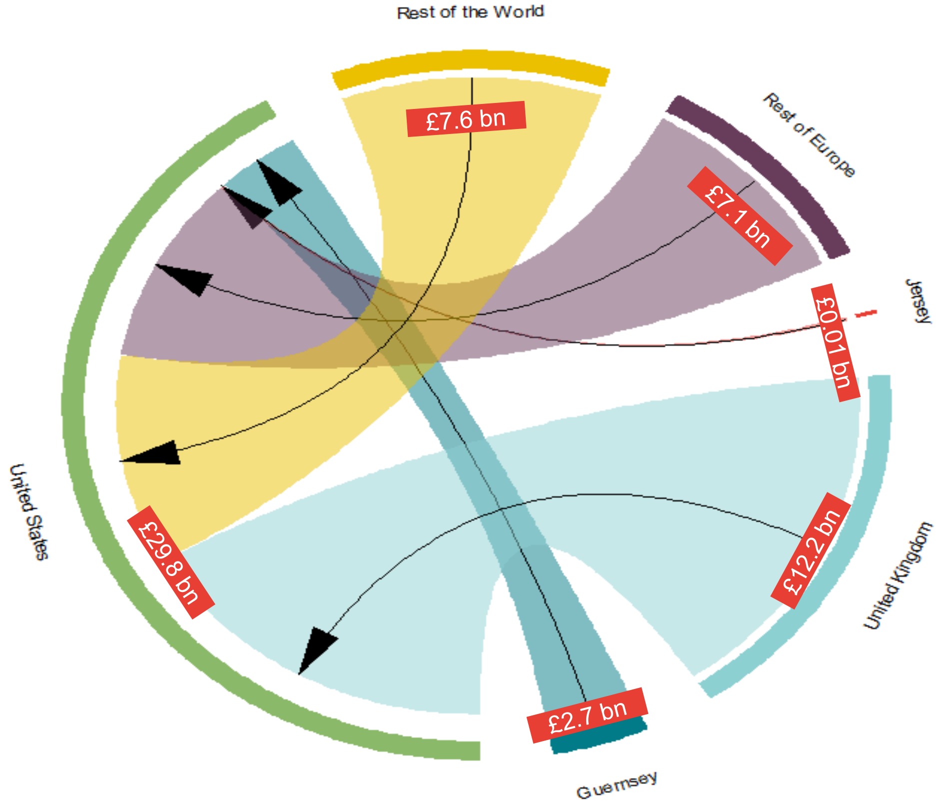
We found that **Guernsey-domiciled funds enabled a capital flow of £43 billion into the USA** in mid-2019. Of this, only around one-third originated in the USA (£13.2 billion). In total, **£29.8 billion originated outside the USA**.

The chart, right, breaks down these flows from outside the USA to the USA via Guernsey funds. The UK was the largest source, at £12.2 billion, with £7.1 billion originating in the Rest of Europe and £7.6 billion in the Rest of the World.

US investors were the source of **£43.6 billion of investment into Guernsey-domiciled funds** in mid-2019. Europe attracted around one-third of the total (£14.9 billion). Almost 30% (£13.2 billion) was re-invested in the USA. The UK attracted more than £5 billion of investments (12%) and the Rest of the World more than £7 billion (17%).

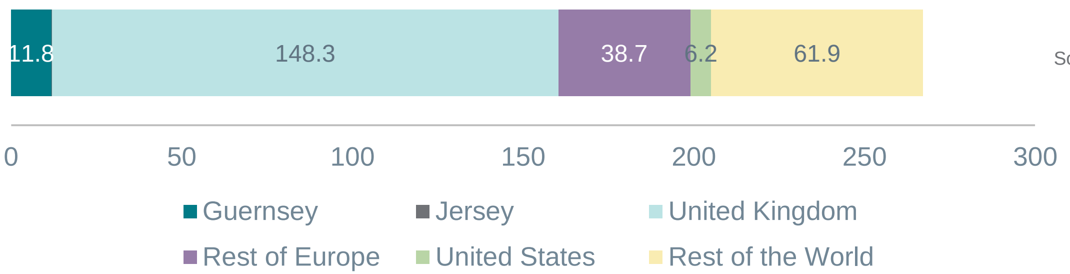
In total, **Guernsey funds helped USA-based investors deploy over £30 billion into overseas investment opportunities** in mid-2019.

Capital flows to the USA from other origins via Guernsey-domiciled funds, mid-2019 estimates



Source: Frontier Economics analysis of data returns. Figures may not sum to totals quoted in the text due to rounding.

Estimated management fees flowing to the USA, by capital origin (£ million, based on mid-2019 fund values)



Source: Frontier Economics analysis of data returns. Jersey figure is £0.25 million which is too small to visualise.

We conservatively estimate that **fund managers based in the USA earned around £267 million in fees from Guernsey-domiciled funds** based on fund values as of mid-2019. The vast majority of this originated from outside the USA (see chart, left) based on the location of investors into Guernsey-domiciled funds managed in the USA.

The C*f*ED asked Frontier to explore the economic benefits of Guernsey's funds Sector to different jurisdictions

Aims of the study

The study seeks to:

- Provide accurate, updated evidence on the size of the Sector in Guernsey and the economic contribution made to each key jurisdiction (the UK, Rest of Europe, the USA and the Rest of the World); and
- Help C*f*ED and industry stakeholders articulate, and promote, the economic contribution of the Sector in external discussions.

The focus of our analysis has been to estimate the value of **capital flows** between different jurisdictions through Guernsey-domiciled funds as the key measure of the economic benefits enabled by the sector. We also sought to quantify the value of **management fees** earned by investment managers in each jurisdiction. Details of our approach to measuring these are given on Pages 15 and 40 of this report. We also sought **qualitative views** from a range of industry stakeholders and carried out desk research.

Structure for reporting the analysis

Section 4 presents a broad summary of the capital flows data by geography and asset class.

In analysing capital flows for each jurisdiction (presented in Sections 5 to 7 for the UK, Rest of Europe and the USA, and the Results Annex for the Rest of the World) we present our results in three parts.

1. First we summarise **overall flows** (inward and outward) by geography and asset class.
2. Second we present estimates of the flow of **management fees** to that jurisdiction, broken down by the origin geography of those fees based on the location of investors in funds that are managed from each jurisdiction.
3. Finally, we present results focused on ***international flows***, that is, excluding flows that originate and end in the jurisdiction of interest (e.g. UK to UK).[1]

Disclaimer and acknowledgements

Our report draws on data provided to Frontier by local fund administrators and views expressed by stakeholders consulted throughout the study. While we have sought as far as possible to validate information provided to us, Frontier do not accept responsibility for the reliability of information provided. We are grateful to all those who provided evidence to support this study and for input from industry bodies in scoping and refining the work. We report only aggregated data in this study.

We report on capital flows by geography and asset class. Data presented in charts and tables is typically rounded to the nearest £0.1 billion such that the totals reported in the main body of the text (which are based on unrounded data) may not always be the precise sum of the figures in accompanying charts.

The report is based on data and evidence available as of 12th August 2020 and as per the periods collected for purposes of the study (see Page 15). Any new information available after this point will not be reflected in this report.

This study substantially updates work previously published in January 2015 prepared by KPMG which provided data for 2013. While we have attempted where appropriate to conduct a similar analysis to the previous study, we did not have access to the underlying materials or analysis for that work and therefore cannot be certain that the figures in our report are directly comparable to the previous data. Some caution should therefore be exercised in comparing data across the studies. Note that the scope of the KPMG study excluded the USA as a distinct jurisdiction.

1 For purposes of the report we treat 'Rest of Europe' as a single geographic jurisdiction but note that international flows will therefore exclude flows from one (non-UK) European country to another. For the 'Rest of the World' analysis we do not present international flows as this analysis would lack meaning – there is no sense in which the 'Rest of the World' could be treated as a single geography and we do not have more granular geographic data on the origin or destination of funds.

Our work explores a key part of Guernsey's financial services sector, by far the largest contributor to the island's economy

The financial services sector in Guernsey

Guernsey's finance sector covers a wide range of services. As well as funds, it includes insurance, fiduciary, pensions, investment management and banking. The finance sector in Guernsey has the highest sectoral Gross Value Added (GVA) by far of any economic sector on the island (see chart, upper right). In 2018, the finance sector accounted for 41% of island-wide GVA (£1.32 billion of a total £3.20 billion). The next largest sector, professional services, accounted for just 11%.

The finance sector records the highest average earnings across sectors and is the largest employer on the island. In March 2019, median earnings in finance were more than £46,000 and the sector employed more than 6,300 people, almost 20% of total island-wide employment.[1]

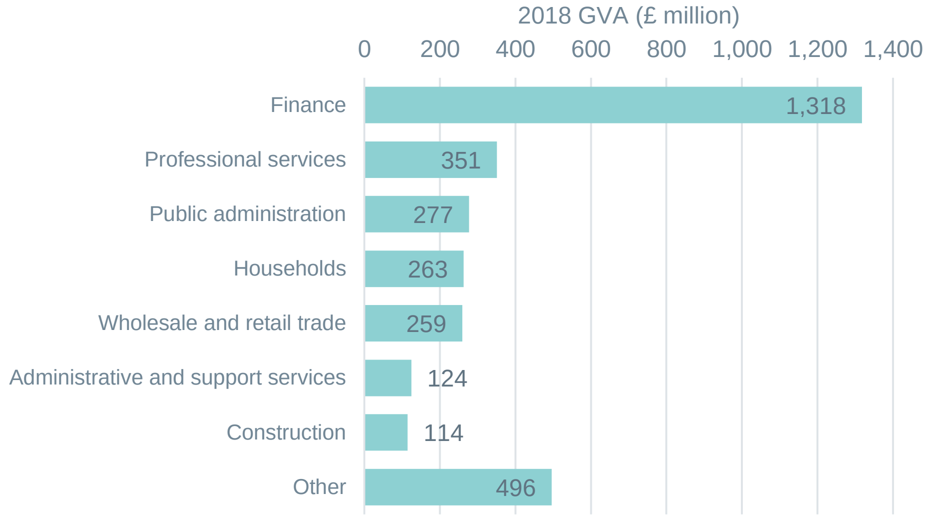
The funds industry as part of the wider finance sector

The investment funds industry is a major part of the wider finance sector. The main activity in the funds industry in Guernsey is fund administration, but Guernsey is also home to the full range of industry activities including fund management, and a wide range of supporting services including legal, audit, accounting and so on.

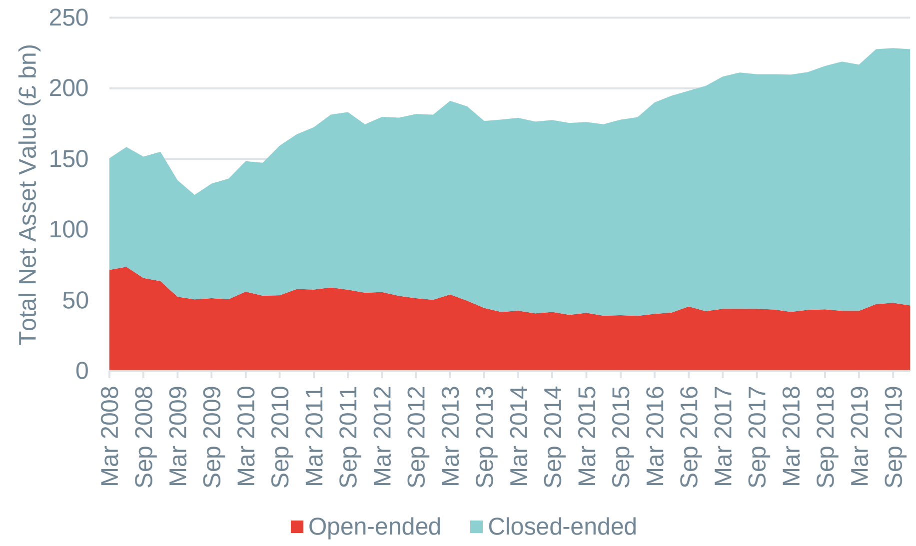
The industry includes **open-ended** funds (such as hedge funds and equity funds) and **closed-ended** funds (such as private equity, real estate and infrastructure) domiciled in Guernsey. These make up the bulk of funds activity on-island. In 2019 Q4, the value of assets under administration (AuA) or management (AuM) in such structures made up around £228.4 billion, of a total of £268.3 billion recorded in funds regulated by the GFSC.[2]

There are a large number of other structures in Guernsey not classified as collective investment schemes that have similar features to traditional funds, including private wealth. One legal service provider we consulted estimated that these *could add up to 100% to the value of AuA/AuM* reported by the GFSC.

Figures available from the GFSC paint broad trends in the value of open and closed-ended assets in Guernsey-domiciled funds over the last decade (see chart, lower right). The Net Asset Value (NAV) of open-ended funds has fallen and stabilised over this period, from over £70 billion in 2008 to around £45 billion in recent years. Closed-ended funds, by contrast, have grown markedly to more than £180 billion NAV in late 2019 compared with around £80 billion in early 2008. The NAV of closed-ended funds domiciled in Guernsey grew rapidly between 2009 and 2010 before stabilising. Growth resumed from around 2015 onwards.



Source: Guernsey Annual GVA and GDP Bulletin 2018 (https://gov.gg/CHttpHandler.ashx?id=120674&p=0)



Source: Guernsey Financial Services Commission (https://www.gfsc.gg/industry-sectors/investment/statistics/archive)

1 Guernsey Facts and Figures, 2019 (available from https://www.gov.gg/CHttpHandler.ashx?id=121362&p=0)

2 GFSC Statistics (https://www.gfsc.gg/industry-sectors/investment/statistics) for 2019Q4, accessed March 2020

Our work was carried out in three broad stages

1 Scoping

2 Data collection

3 Analysis and reporting

Scoping

- We held face-to-face meetings with representatives of key industry bodies including the GFSC, the Guernsey Investment & Funds Association (GIFA), and Guernsey Finance (GF) to seek views on the scope and approach of our work and identify relevant data and evidence.
- We also reviewed existing literature and materials provided by C*f*ED, industry consultees and based on desk research, to help give a wider context for our work.
- We developed draft research instruments to capture quantitative data (a data template) and qualitative data (a topic guide) which were iterated based on feedback from both C*f*ED and GIFA.

Data collection

- Our data collection template was rolled out to fund administrators. Data collection took place between December 2019 and March 2020.
- Initial requests to participate were made via GIFA to help identify the right individuals to speak to and to ensure that we complied with data protection legislation.
- The template was tested with four trial administrators before being rolled out fully.
- We held interviews with stakeholders from 15 organisations including fund administrators, providers of supporting services and fund managers / promoters. These were a mix of face-to-face and phone-based interviews held between January and March 2020.

Analysis and reporting

- We developed an Excel-based framework to clean and analyse the quantitative data provided by individual fund administrators.
- Where necessary we went back to administrators to ensure our interpretation of the data return was accurate.
- Data cleaning ensured that all returns were consistent and subject to aggregation by class of fund and geography.
- Qualitative interviews were professionally transcribed and subject to a thematic analysis.
- Initial findings were presented at a workshop held in March 2020 including representatives from C*f*ED, the GFSC and GIFA.

Our quantitative approach was based on a data collection template circulated to fund administrators capturing data on capital flows

Broad data collection approach

- The details of the key information we requested from fund administrators is shown in the box below.
- A data template to capture this, and an accompanying guidance note, was circulated to a total of 45 fund administrators in Guernsey.
- We asked administrators to provide details for each **Guernsey-domiciled fund** that they managed and/or administered as of **June 2019**. These include the GFSC-regulated collective investment schemes such as open-ended funds, closed-ended funds, and investor licence schemes.[1]
- We received completed returns from **25 administrators**, covering a total of **469 funds** with a total **NAV of £160.4 billion**.
- Discussions with the GFSC suggested that total AuA for relevant funds in mid 2019 was **£227.7 billion**. Our returns accounted for just over **70%** of the value of funds.
- We **scaled** the fund-level returns using asset class-specific weights so that the total value of funds matched the GFSC aggregates at class level.

Data requested as part of the quantitative data template

- Net Asset Value of each administered fund and the location of the investment manager
- The main asset class into which the fund invests. Administrators were asked to choose from the following asset classes, representing the most significant classes of funds:
  - Private Equity
  - Property
  - Infrastructure
  - Equity
  - Debt
  - Funds of Funds and Funds of Hedge Funds (FoF)
  - Other
- An estimated breakdown of the NAV by geographic origin and destination of funds. The breakdown is conducted for the following jurisdictions:
  - Channel Islands (Guernsey and Jersey)
  - United Kingdom
  - Rest of Europe (excluding UK)
  - United States of America
  - Rest of the World (all jurisdictions not already listed above)

Further details of our approach can be found in the Methodological Annex (Page 40).

Assessing capital flows

- To measure the flow of capital we asked administrators to provide a geographic breakdown of both the origin of NAV for each fund (where investors are located) and the destination of the funds (where investments are deployed). We sought in both cases to distinguish between the initial and ultimate geographies – recognising that in some cases, flows into and out of Guernsey may go through other jurisdictions (e.g. via Special Purpose Vehicles) that do not reflect the ultimate location of the investor base or where assets are ultimately deployed.
- In practice, relatively few administrators were able to provide data on the ultimate origin or destination of funds. Given the lack of complete data, this report focuses on the initial geographic flows to, and from, Guernsey-domiciled funds. In some cases the ultimate geographies may differ.
- We excluded Funds of Funds and Funds of Hedge Funds as these are investments into other funds and may therefore risk double-counting. Excluding Funds of Funds and Funds of Hedge Funds reduces the total NAV by £16.2 billion.
- We also note that our data collection is a **point in time exercise** looking at the current NAV of funds and attempting to estimate associated geographic flows of capital based on values at that time. In practice, funds raise and deploy funds over a period of time which will differ from the snapshot NAV. It would have significantly complicated the data collection process to attempt to quantify this. In using the term ‘capital flows’ in this report, we note this represents our best estimates of the geographic source and destination of funds as of mid-2019, rather than the total value of investments to and from Guernsey funds by geography over a period of time.

Estimating the flows of fees

- The funds industry generates a range of fees. Fees flowing from Guernsey-domiciled funds to other jurisdictions are a key source of economic benefit. Our early discussions suggested that the key overseas flows of fees are for **management**. Most other fees (legal, audit, administration) remain in Guernsey.
- It would have been burdensome to ask administrators to report individual fee flows. Based on expert advice, we adopted an **assumed percentage (1.5%)** of NAV as an estimate of the associated management fee, and assigned this value to the jurisdiction in which the investment manager was based. The origin of these fees was assumed to be in proportion to the origin of the fund’s NAV. These are point in time estimates consistent with fund values in mid-2019, not estimates of total fees paid over a period.
- We note this will **underestimate** flows of fees, both because some other functions may take place off-island, and because we ignore performance bonuses which may increase the value of management fees in some periods.

1 Note that it is technically possible, though rare, for a Guernsey fund to be incorporated in another jurisdiction. We use “Guernsey-domiciled funds” or “Guernsey funds” in this report as a shorthand for the coverage of the report to include “Guernsey authorised or registered collective investment schemes.”

We also conducted qualitative interviews and desk research to provide additional evidence on capital flows

The data gathered from fund administrators provides a snapshot picture of the Sector and the main geographic capital flows as of mid-2019. The data alone cannot contextualise that evidence.

To fill that gap, we held in-depth interviews with 15 organisations. We extend our thanks to all those who spoke with us.

We spoke with:

- 8 Guernsey-based fund administrators;
- 3 Guernsey-based providers of legal services;
- 3 fund administrators and promoters based outside Guernsey; and
- The International Stock Exchange.

Interviewees were chosen purposively to provide a range of viewpoints. Administrators were selected based on intelligence regarding their size (estimated value of AuA), types of funds administered and historical attachment to Guernsey.

Interviews were semi-structured, based on a topic guide used flexibly with different interviewees. All interviews were recorded with the permission of the interviewees, and were later professionally transcribed for analysis.

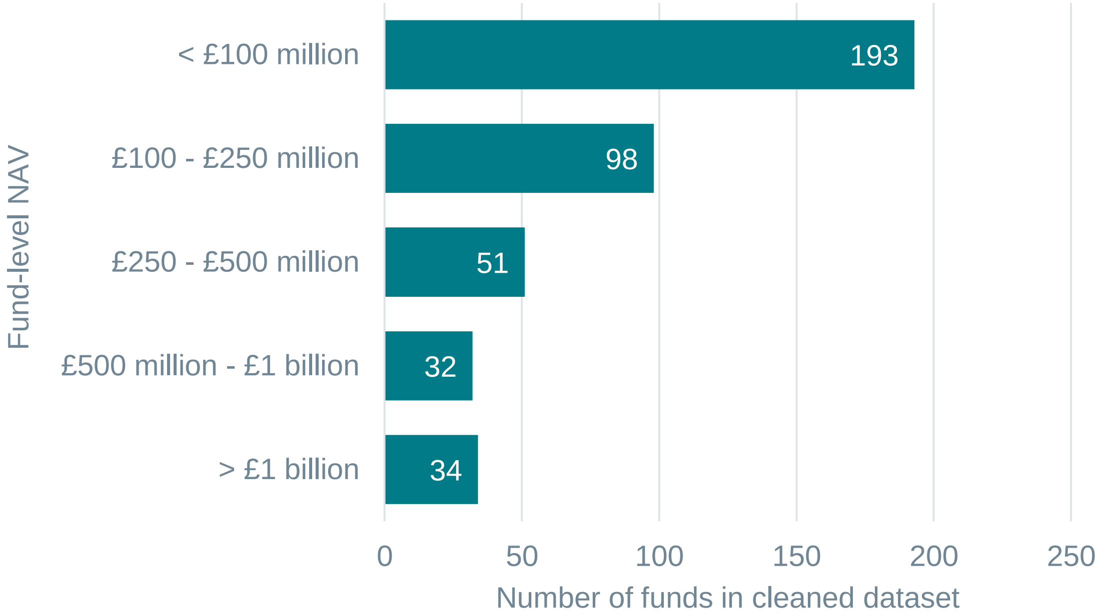
To draw insights from the interviews, we used a thematic approach informed by framework analysis.[1]

- We reviewed transcripts to code ‘fragments’ of evidence (quotes or key pieces of information) from each interview. We built a framework to organise these fragments against a number of themes, based on the structure of the topic guide and additional themes emerging from the interviews themselves.
- We interpreted the key features of the evidence identified in each theme by comparing findings and insights within each column across the different interviews, assessing any variation in the findings by interviewee type and identifying any commonalities in the conclusions that could be drawn.

1 Ritchie, J. & Spencer, L. (1994), ‘Qualitative Data Analysis for Applied Policy Research‘ in A. Bryman and R.G. Burgess [eds.] *Analysing Qualitative Data*, London: Routledge.

Guernsey-domiciled funds are varied in size. The vast majority are truly international, channelling funds to, and from, multiple jurisdictions

- Having cleaned and analysed the data on the Guernsey-domiciled funds provided by the 25 administrators who responded to our data request, we reviewed the overall distribution of NAV at the level of individual funds to assess whether any outliers in our returns may be driving the overall picture. This was not the case: there is a wide distribution of NAV across all the funds for which we collected data (see chart below).
- Of the funds in our final dataset (excluding Funds of Funds and Funds of Hedge Funds), the majority (291) had a NAV of £250 million or less. 66 had a NAV in excess of £500 million (see chart below).
- We also explored how often funds reported origin or destination of capital flows that spanned multiple jurisdictions. The **vast majority of funds receive capital from or invest capital into more than one jurisdiction.** Fewer than 10% of all funds confine their investor base and their investment geographies to just one jurisdiction.
- In terms of investor base alone, 77% of all funds received capital inflows from investors located in more than one geographic jurisdiction. Similarly, 76% of all funds invested into assets located in more than one geographic jurisdiction.
- This demonstrates a key economic contribution of the Guernsey funds industry – as a conduit for international investments that combine funds from multiple jurisdictions and invest assets into diverse geographic areas, helping to connect investors with profitable overseas investments all over the world.

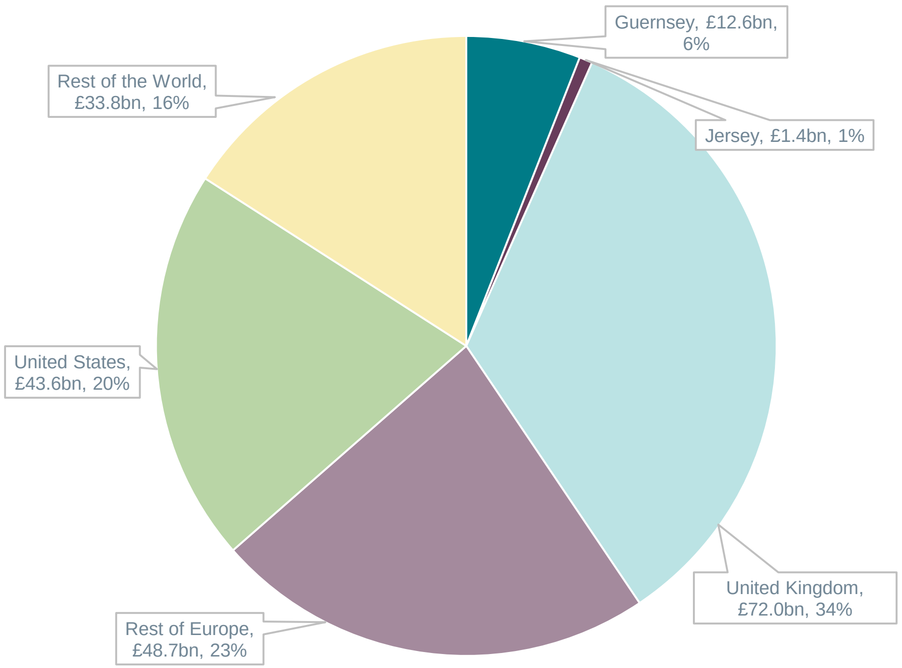


Source: Frontier Economics analysis of data returns

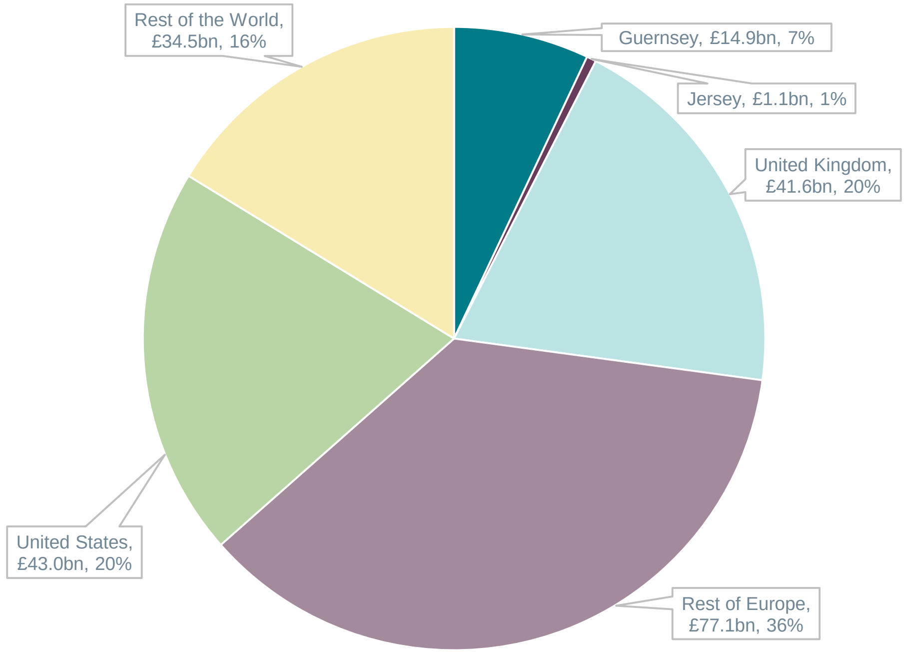
4. Overall summary of data

The UK, USA and Europe are all important sources and destinations of funds

Allocations of total reported NAV by origin of funds



Allocation of total reported NAV by destination of funds



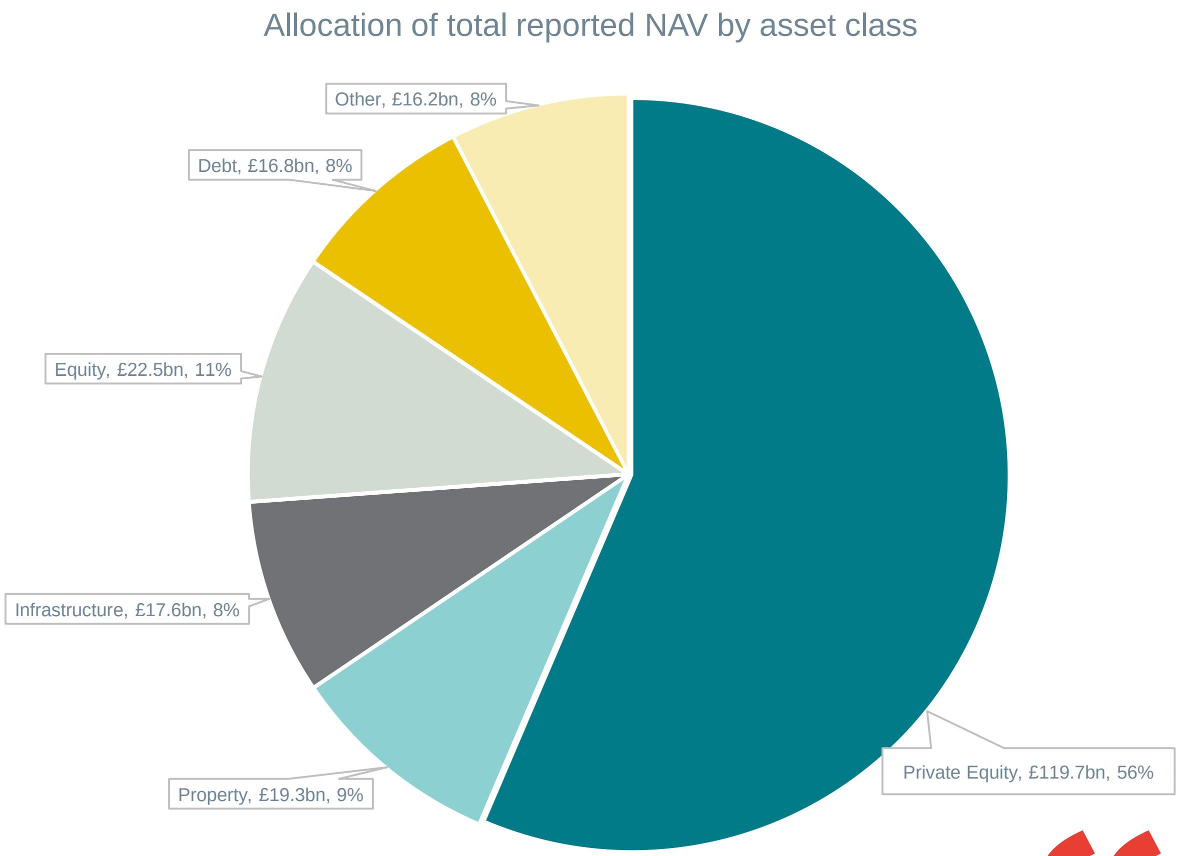
Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total NAV. Figures may not sum to totals quoted in the text due to rounding.

- The largest single jurisdiction from which investment funds **flow into** Guernsey-domiciled funds is the UK (see chart, top-left). Of the £212.2 billion flowing through Guernsey in mid-2019, £72 billion (34%) originated in the UK. The Rest of Europe and the United States also provide large sums of capital into Guernsey-domiciled funds, with totals of £48.7 billion (23%) and £43.6 billion (20%) respectively. The Rest of the World accounts for £33.8 billion (16%) of total inflows.
- The largest jurisdiction from which investment funds **flow out of** Guernsey-domiciled funds is the Rest of Europe (see chart, top-right), which attracted £77.1 billion (36%) of total outflows in mid-2019. The amount flowing to the US (£43 billion) is larger than to the UK (£41.6 billion), both around 20% of outflows. The Rest of the World receives £34.5 billion (16%).[1]
- The importance of the UK as a source of investments was noted by stakeholders who suggested that historical ties to the UK were a key driver of this. Stakeholders also noted the importance of European and US investors. European investors were felt by some to have declined in importance, in part because of a switch to other European destinations (Luxembourg and Ireland, for example) and in part because the distribution of global wealth was changing.

> "Why do people use Guernsey? Because they've been here for a long time, it's in the same time zone as the UK, it's English-speaking, it's Anglo-Saxon, the law is similar to the UK...So traditionally the UK promoters will use the Channel Islands for their fund businesses.
>
> *Large fund administrator*

1 Note that while some of the £16 billion or so recorded as flowing into Guernsey or Jersey may ultimately be deployed there, it is likely that most of this represents flows into vehicles which ultimately deploy investments elsewhere in the world.

Private Equity is the largest asset class for Guernsey-domiciled funds

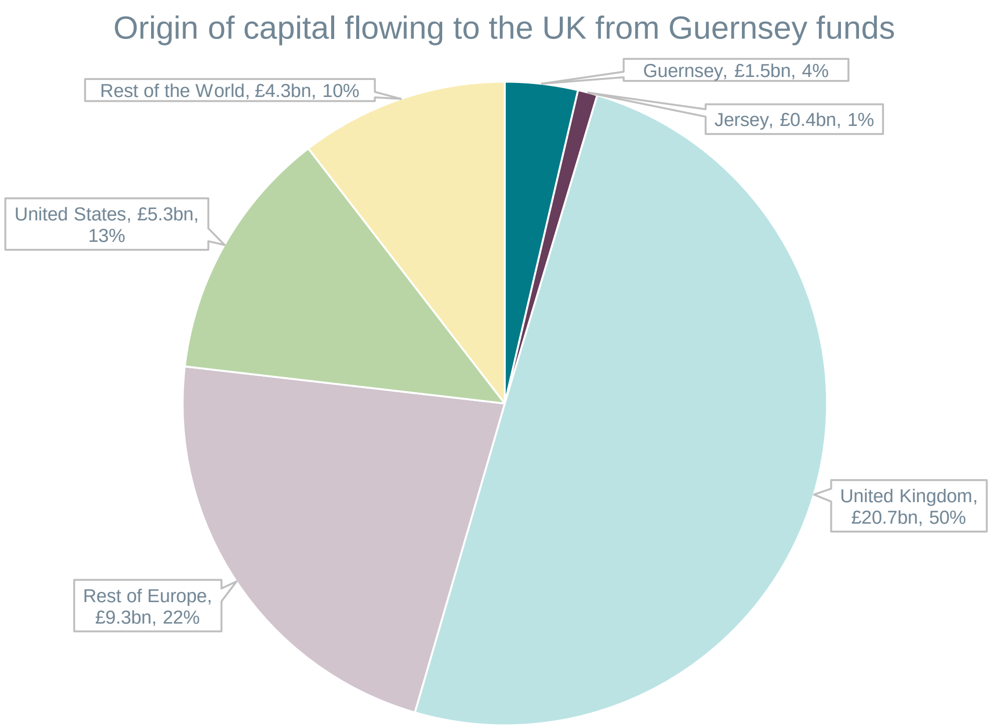


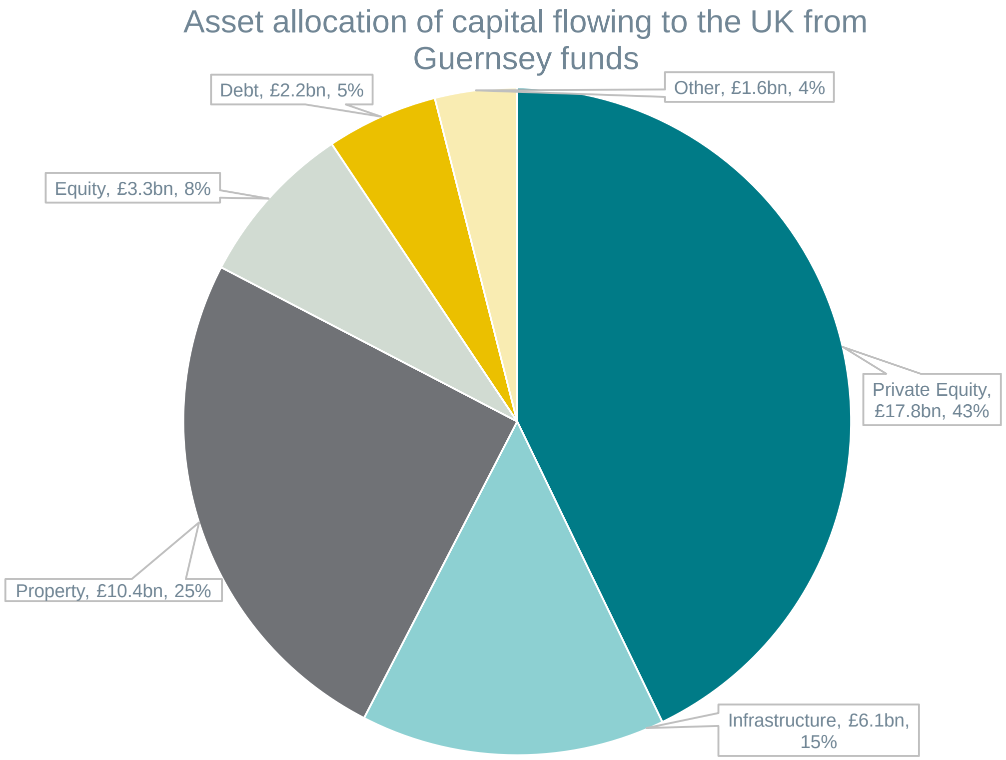
Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total NAV. Figures may not sum to totals quoted in the text due to rounding.

- Following the data cleaning and scaling exercises outlined in Page 15, our analysis revealed that Private Equity is the predominant asset class for Guernsey-domiciled funds.
- Of the total NAV of £212.2 billion in our scaled dataset, we estimate that £119.7 billion is invested into Private Equity – 56% of the total.
- Other asset classes are somewhat smaller, with Equity making up around 11% of total NAV, Property 9%, Infrastructure and Debt around 8% each, and all other asset classes a further 8% (see chart).
- Comparing these figures with those reported by KPMG for 2013, the share of Private Equity in the total value of Guernsey-domiciled funds appears to be lower – falling from around 70% of the total in the previous study. The shares of Debt (from 3%) and Equity (from 6%) have risen while the shares of other asset classes remain broadly unchanged.
- The continued pre-eminence of Private Equity in Guernsey's funds industry aligns with evidence provided in qualitative interviews, though few stakeholders felt that the share of Private Equity had fallen in recent years suggesting some caution is needed in comparing our returns with the KPMG estimates. Many stakeholders noted that Guernsey had enjoyed a 'first-mover advantage' in Private Equity and become known as a global centre of excellence for this class of fund, explaining its importance in the wider industry.

> Private Equity remains a very much client-driven, relationship-driven, partnership approach, which is what we do as a business, and I know our competitors do as well. That's going to carry on, that won't change.
>
> *Large fund administrator*

Overall **capital inflows to the UK** from Guernsey funds in 2019





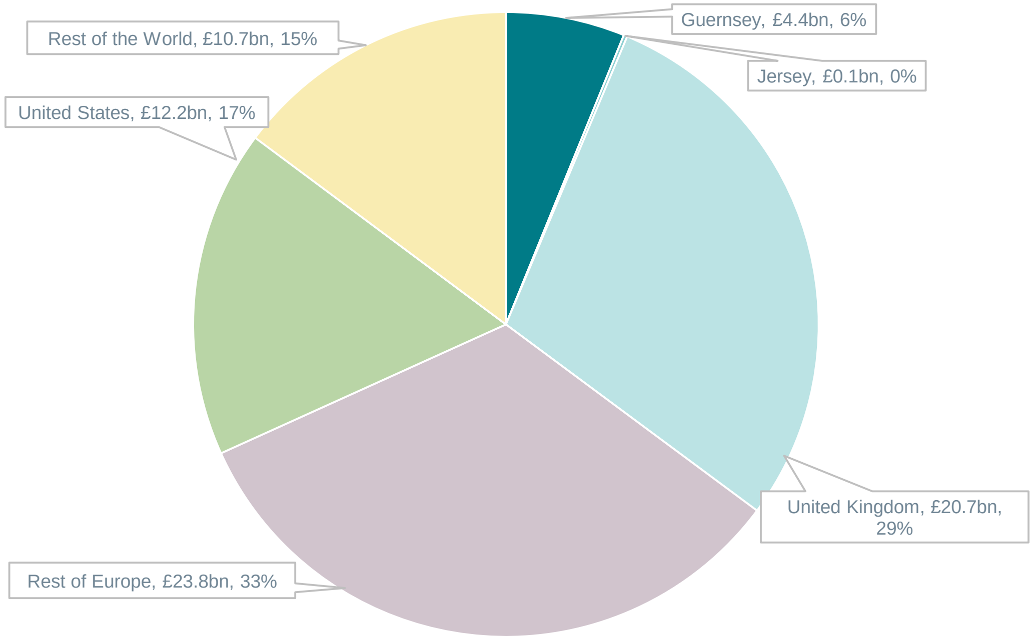
Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total. Figures may not sum to totals quoted in the text due to rounding.

- Our data suggests that **Guernsey-domiciled funds saw a flow of £41.6 billion into the UK in mid-2019**. Of this, around half originated in the UK (£20.7 billion) and around half (£20.9 billion) in other jurisdictions (see chart, top-left). Other than the UK, Europe accounted for most of the inflow (£9.3 billion or 22%) and the USA was also an important jurisdiction (£5.3 billion, 13%).
  - In the 2015 KPMG report, the inflow into the UK in 2013 was £34.4 billion, suggesting that Guernsey funds now invest more into the UK. The growth between 2013 and 2019 is almost 21%.
- Of the £41.6 billion deployed into the UK through Guernsey-domiciled funds, **the vast majority (83%) flows into 'real assets'** – Private Equity, Property, and Infrastructure (see chart, top-right).
- The largest single class is Private Equity (£17.8 billion, 43%). Property accounted for £10.4 billion (25%) and Infrastructure for £6.1 billion (15%). Equity, Debt and other asset classes accounted for less than a fifth of total inflows.

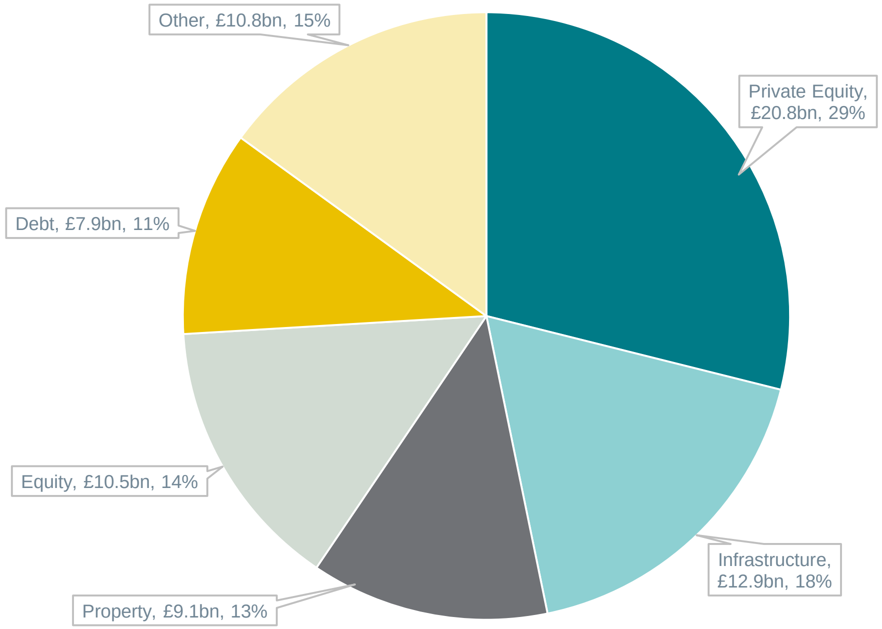
> A lot of our clients have very large investment into UK infrastructure, be that water utilities, rail, motorways, housing… all of that is facilitated through that inward investment into the UK through Guernsey structures, so Guernsey facilitates that inward investment.
>
> *Provider of legal services*

Overall **capital invested by UK investors** into Guernsey funds in 2019

Destination of capital flowing from the UK into Guernsey funds



Asset allocation of capital flowing from the UK to Guernsey funds



Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total NAV. Figures may not sum to totals quoted in the text due to rounding.

- Of the £72 billion invested from the UK via Guernsey-domiciled funds, **Europe attracted around one-third of the total in mid-2019** (£23.8 billion). Almost 30% (£20.7 billion) was re-invested in the UK, and £12.2 billion (17%) into the USA (see chart, top-left).
  - This means that in total, Guernsey funds helped UK investors deploy £51.3 billion in mid-2019 into overseas investment opportunities.
  - Compared with the previous estimates from 2013, the total outflow of investments from the UK facilitated by Guernsey funds has roughly doubled from around £36 billion. The share going to the Rest of Europe has risen significantly, from 24% to 33%.
- Private Equity was the largest single asset class, accounting for £20.8 billion (29% of the total from the UK). When looking at outflows from the UK via Guernsey funds, there is however a relatively mixed set of asset classes, with all classes accounting for at least 10% of total investments (see chart, top-right).

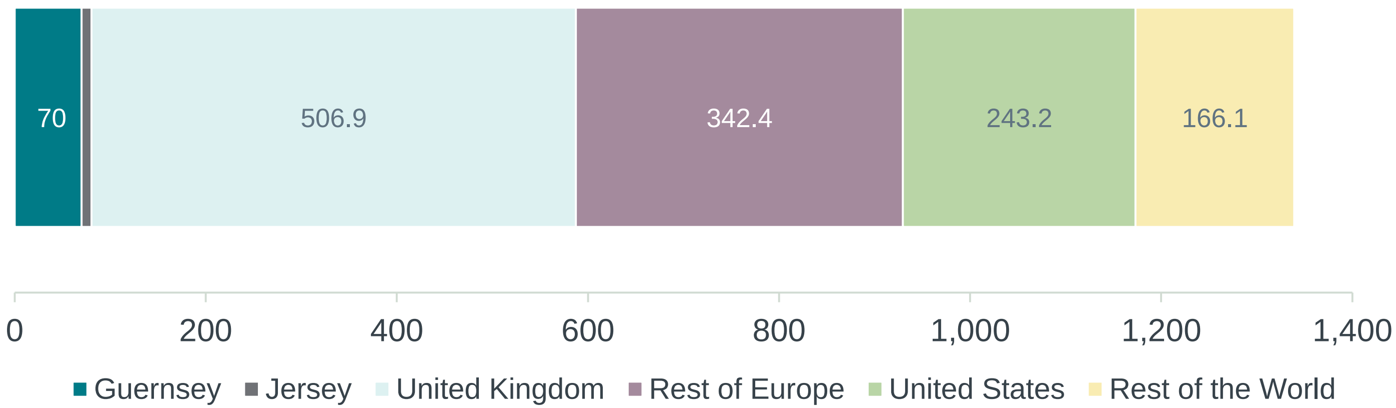
> The private equity industry is huge in the UK and Guernsey has … lots of firms that do private equity really well. That benefits the UK in terms of allowing UK investors to invest globally through really efficient tax efficient vehicles.
>
> *Mid-sized administrator*

Analysis of **management fees flowing to the UK** from Guernsey funds, based on fund values as of mid-2019

- Using the approach detailed in the Methodological Annex, we estimate that, based on fund values as of mid-2019, **fund managers based in the UK earned around £1.3 billion in fees from Guernsey-domiciled funds**.
- This compares with estimates from the 2015 KPMG report of a £1.1 billion flow of fees to the UK from Guernsey funds in 2013. Between 2013 and 2019, fees to the UK increased by around £200 million, or more than 8%.
- As noted on Page 15, this is likely to be a conservative estimate as it ignores non-management fees for supporting services that might be carried out in the UK, as well as performance bonuses.
- Based on the jurisdiction from which funds that use UK-based managers originate, we estimate that of this £1.3 billion, just over £500 million originates from the UK. The rest, around £800 million, comes from other jurisdictions (see chart, below).
- Of these, the largest is the Rest of Europe (around £340 million) followed by the USA (£240 million) and the Rest of the World (almost £170 million).

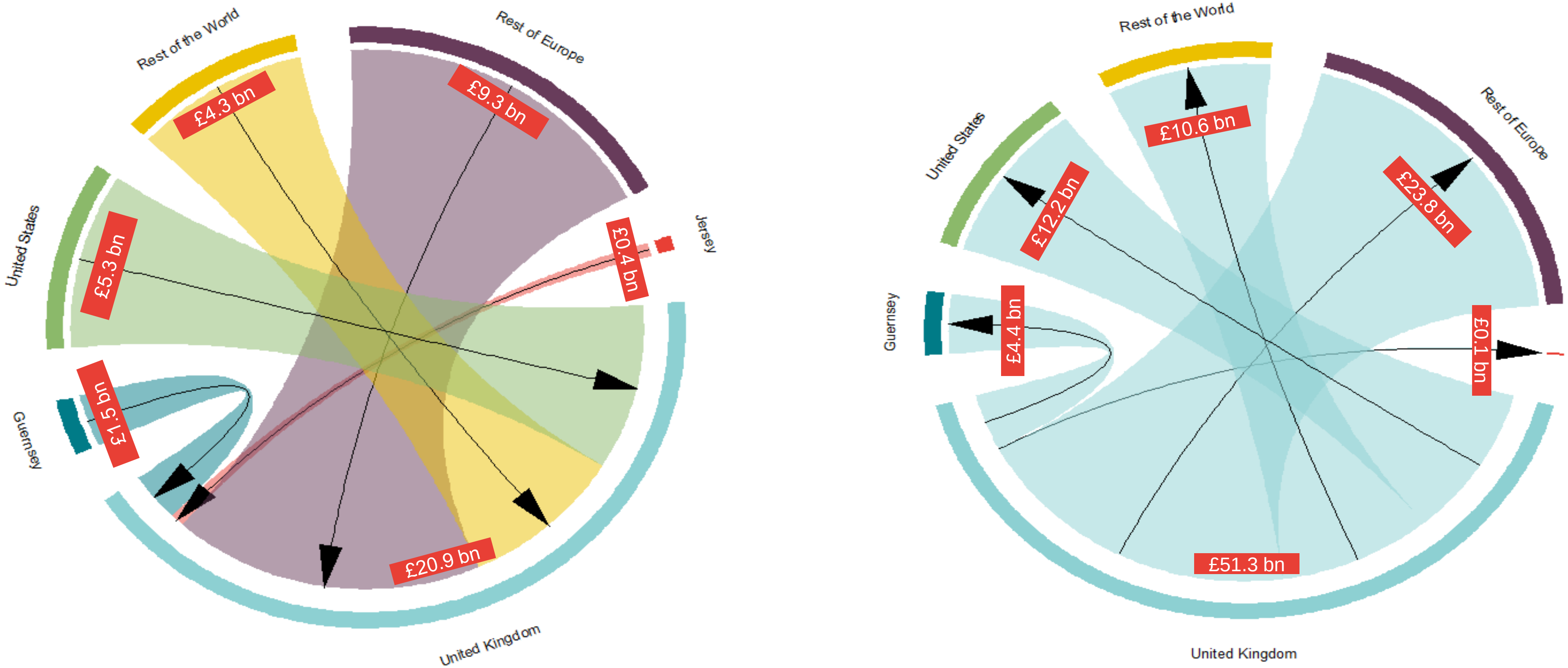
> The hundreds of millions and the billions that are paid out from funds in performance fees and investment management fees are quite staggering. That is definitely a huge benefit to the city of London.
>
> *Mid-sized administrator*

Estimated management fees flowing to the UK, by capital origin
(£ million, based on mid-2019 fund values)



Source: Frontier Economics analysis of data returns. Jersey figure is £10.5 million.

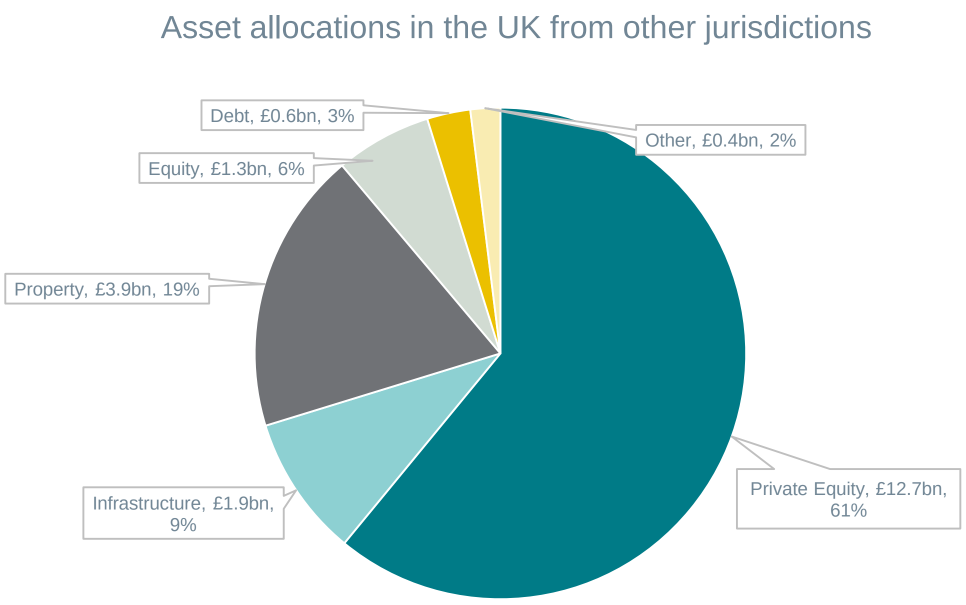
Geographic analysis of capital flows to, and from, the UK via Guernsey funds in 2019, **excluding UK to UK flows**

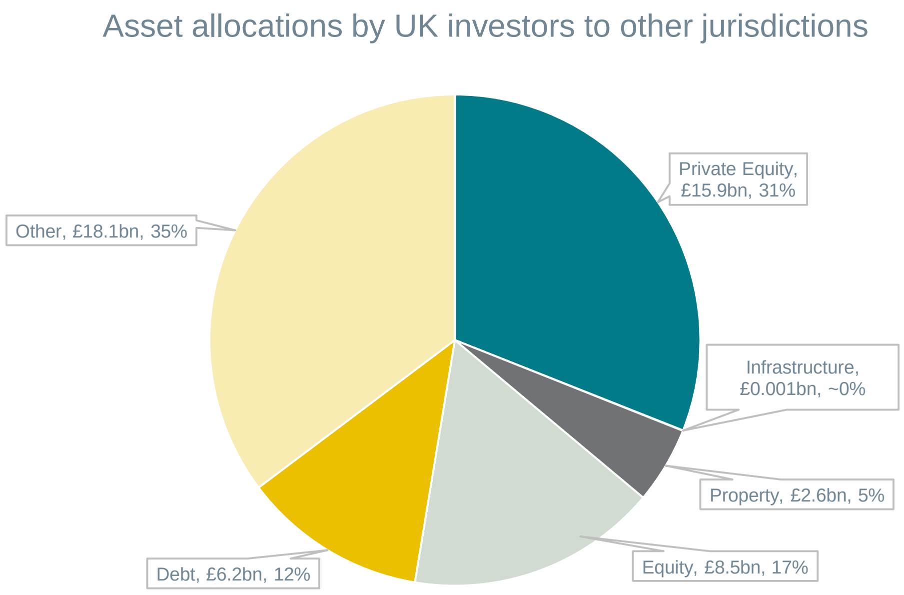


Source: Frontier Economics analysis of data returns. Figures may not sum to totals quoted in the text due to rounding.

- To focus on *international* capital flows through Guernsey-domiciled funds, the charts above look at capital flows into and out of the UK ***excluding UK to UK flows.***
- Of the £20.9 billion invested into the UK from other jurisdictions (see chart, top-left), the Rest of Europe makes up £9.3 billion, over 44% of the total. The USA and the Rest of the World invested £5.3 billion (25%) and £4.3 billion (21%) respectively.
- Of the £51.3 billion invested from the UK into other jurisdictions (see chart, top-right), around £23.8 billion (46%) flowed into the Rest of Europe. £12.2 billion (24%) went to the USA and £10.6 billion (21%) went to the Rest of the World.
- The pattern of flows to, and from, the UK to overseas jurisdictions is therefore very similar – with Europe the most important overseas jurisdiction followed by the US.
- Compared with estimates from 2013 (taken from the 2015 KPMG report) the inflow to the UK from overseas jurisdictions has fallen slightly, from £24.6 billion. This suggests that the overall growth through Guernsey funds of investments into the UK has been driven by UK to UK flows, which in 2013 were estimated at just £9.8 billion. The total outflow to other jurisdictions from the UK has increased markedly, from £27.5 billion to £51.4 billion.

Asset-based analysis of capital flows to, and from, the UK via Guernsey funds in 2019, **excluding UK to UK flows**



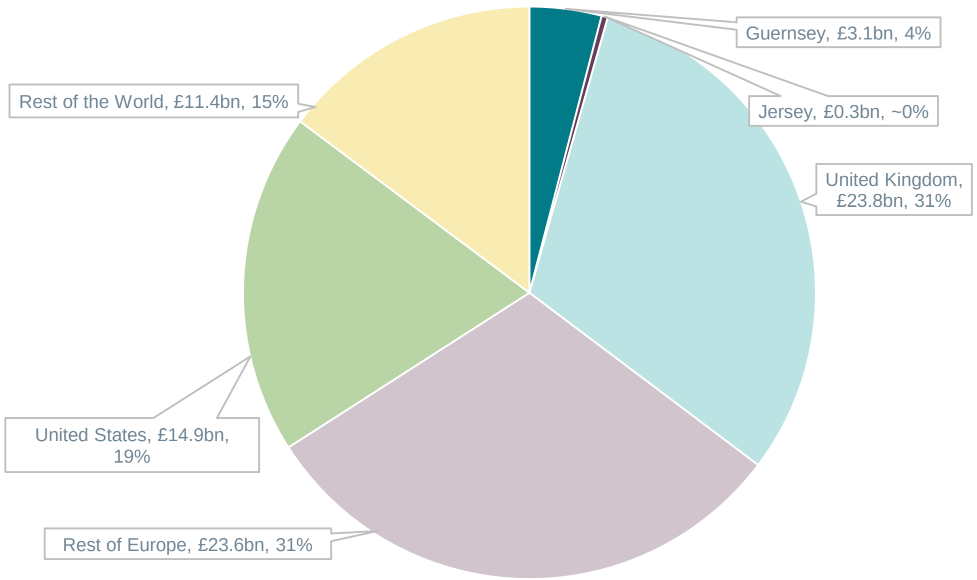


Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total NAV. Figures may not sum to totals quoted in the text due to rounding.

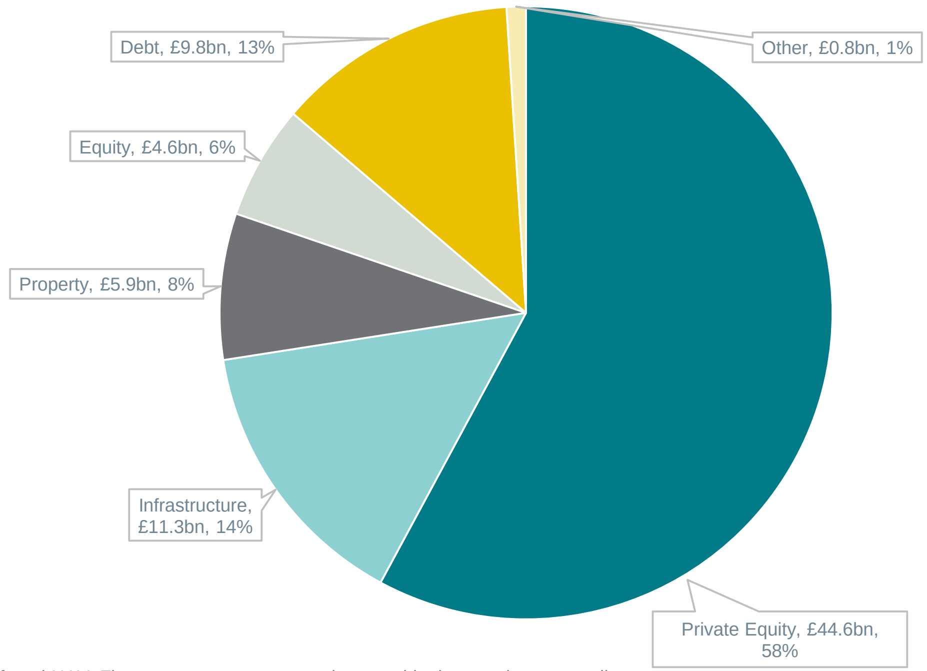
- Of the £20.9 billion in investments flowing to the UK from other jurisdictions (see chart, top-left), **£12.7 billion (61%) is allocated to Private Equity**.
  - Other 'real assets' made up £5.8 billion of inflows (Infrastructure and Property accounted for £1.9 billion (9%) and £3.9 billion (19%) respectively).
  - This is similar to the distribution of inflows from overseas observed in 2013, when Private Equity also made up 61% of the total.
- The pattern of the £51.3 billion investment from the UK to overseas jurisdictions is markedly different (see chart, top-right). Only 31% of the total is in Private Equity and other real assets make up only 5%. Equity, Debt and other classes make up around two-thirds of the total.

Overall **capital inflows to the Rest of Europe** from Guernsey funds in 2019

Origin of capital flowing to Europe from Guernsey funds



Asset allocation of capital flowing to Europe from Guernsey funds

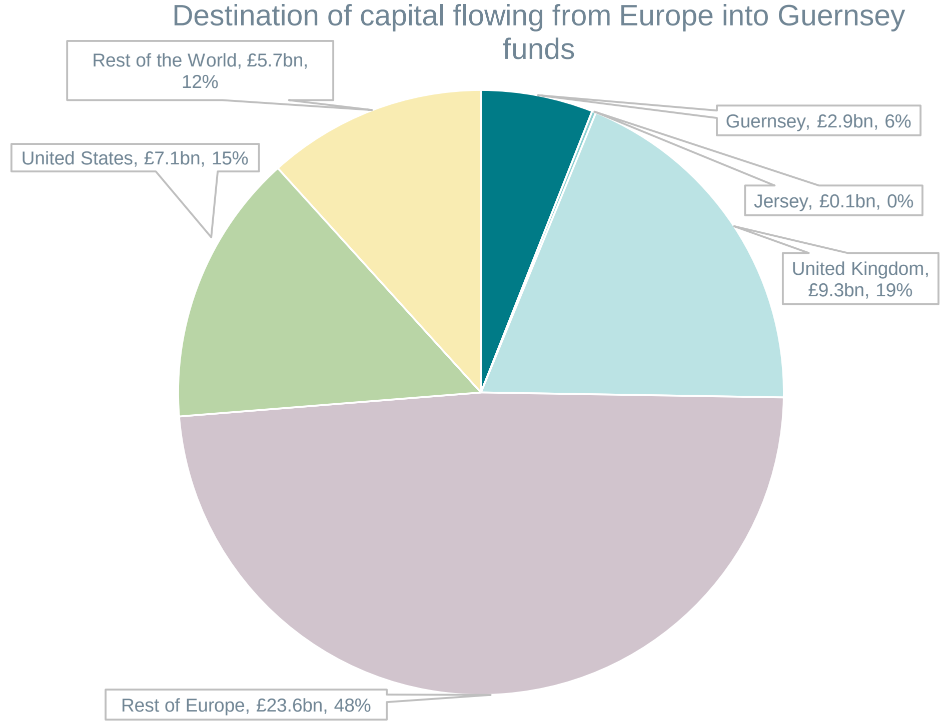


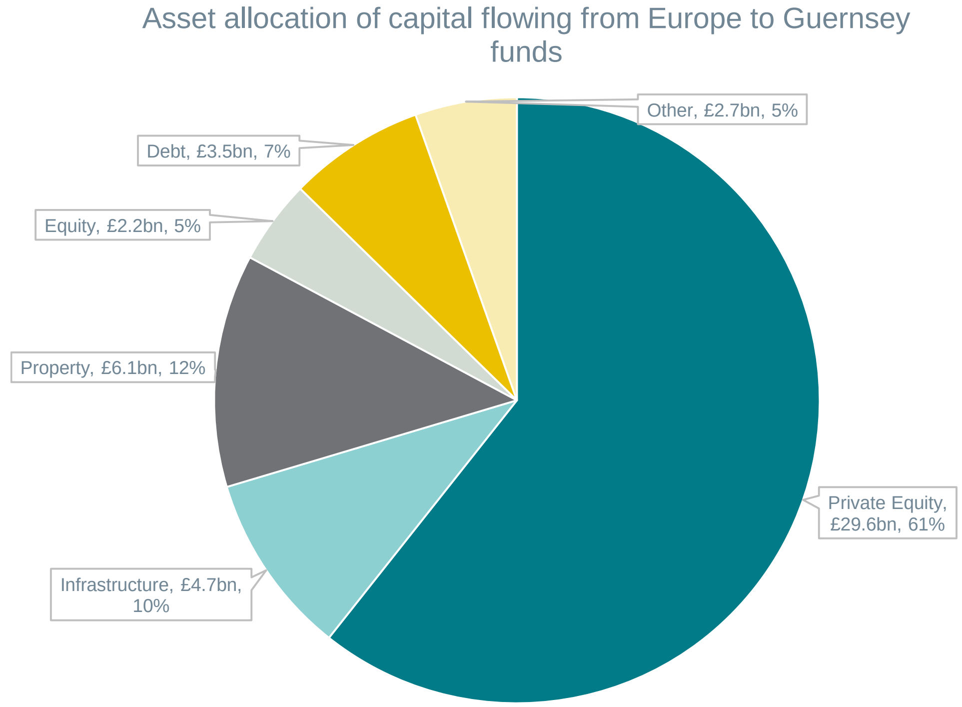
Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total NAV. Figures may not sum to totals quoted in the text due to rounding.

- Our data suggests that **Guernsey-domiciled funds saw a flow of £77.1 billion into the Rest of Europe in mid-2019**. Of this, around a third originated from the Rest of Europe itself (£23.6 billion), around another third originated in the UK (£23.8 billion) and almost a fifth (£14.9 billion) from the USA (see chart, top-left).
  - The overall flow into the Rest of Europe appears to have fallen since the 2013 data, when the figure was estimated at £105.3 billion. In 2013, around half of the flow via Guernsey funds into Europe originated in Europe, suggesting that a larger share of Guernsey funds flowing into Europe now come from outside Europe.
- Of the 2019 flows into Europe, **the vast majority (80%) flows into 'real assets'** – Private Equity, Property, and Infrastructure. The largest single class is Private Equity (£44.6 billion, 58%). Equity, Debt and Other asset classes accounted for a fifth of total inflows (see chart, top-right).
  - In the 2013 data, around 92% of flows into Europe were in real assets, suggesting the mix of asset classes is now somewhat more diverse.

> European investors have declined which means Guernsey needs to find investors outside Europe.
>
> *Mid-sized administrator*

Overall **capital invested by investors from the Rest of Europe** into Guernsey funds in 2019





Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total NAV. Figures may not sum to totals quoted in the text due to rounding.

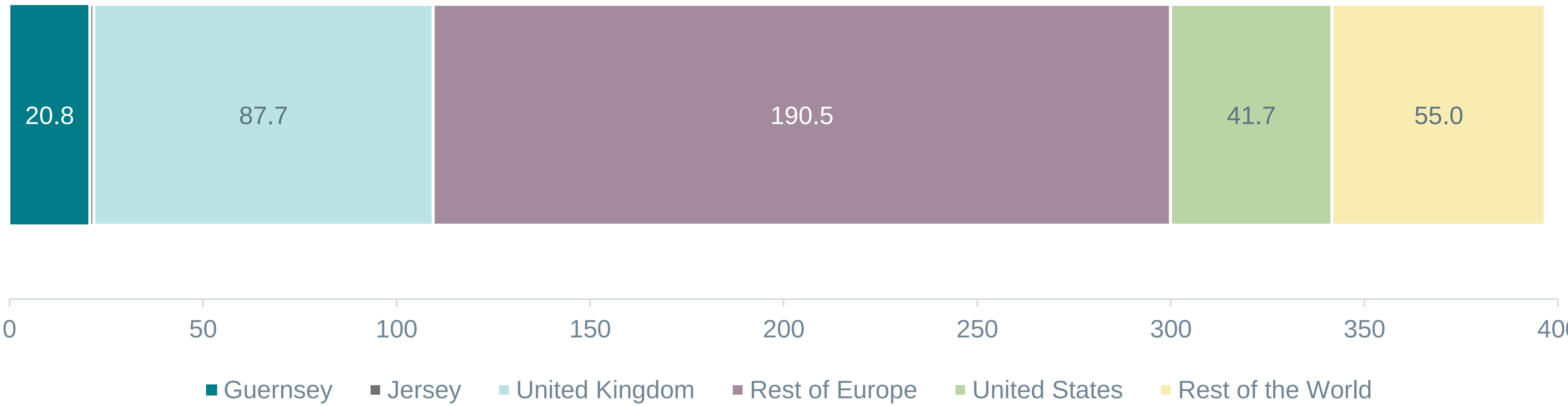
- Of the £48.7 billion invested from the Rest of Europe via Guernsey-domiciled funds in mid-2019, **Europe (non-UK) attracted nearly half of the total** (£23.6 billion). Almost a fifth (£9.3 billion) was invested in the UK, and £7.1 billion (15%) into the USA (see chart, top-left).
  - In total, Guernsey funds helped European investors deploy £25.1 billion in mid-2019 into investment opportunities outside Europe.
  - The £48.7 billion outflow in mid 2019 compares with around £77.4 billion estimated in 2013. This is consistent with qualitative stakeholder views that European investments into Guernsey funds have declined in recent years.
- Private Equity was the largest single asset class, accounting for £29.6 billion (61% of the total from the Rest of Europe). The two other real asset classes made up 22% of total investments (£10.8 billion) from European investors. The remaining £8.4 billion flowed into Equity, Debt, and an assortment of other asset classes (see chart, top-right).
  - The share of European investments into Private Equity was similar in 2013, at 65%.

> There's tens, if not hundreds of thousands of people that are employed in the UK and Europe from the investments made by our funds.
>
> *Large administrator*

Analysis of **management fees flowing to the Rest of Europe** from Guernsey funds, based on fund values as of mid-2019

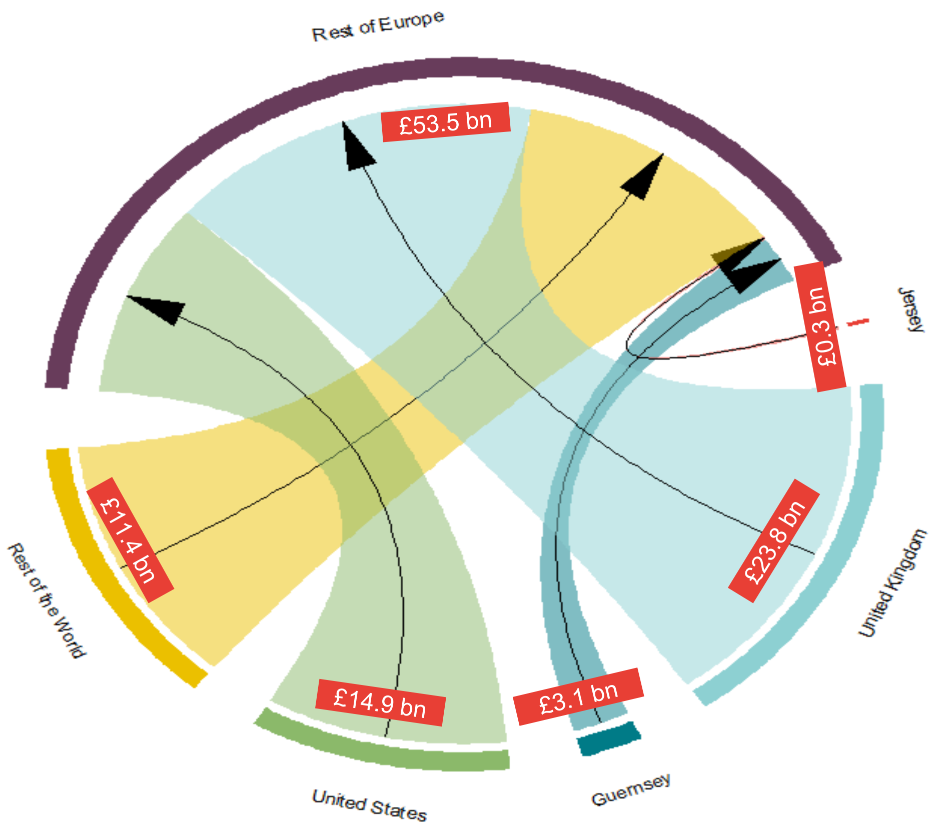
- Using the approach detailed in the Methodological Annex, we conservatively estimate that, based on fund values as of mid-2019, **fund managers based in the Rest of Europe earned around £397 million in fees from Guernsey-domiciled funds**.
- Based on the jurisdiction from which funds that use European managers originate, we estimate that of this £397 million, just over £190 million (slightly less than half) originates from the Rest of Europe. The rest, around £206 million, comes from other jurisdictions (see chart, below).
- Of these, the largest is the UK (around £88 million) followed by the Rest of the World (£55 million) and the USA (around £42 million).
- Compared with the estimates for 2013, **we found that fees flowing to the Rest of Europe from Guernsey funds have decreased**. In the KPMG study, the estimated flow of fees to the Rest of Europe was £1.6 billion. This is consistent with the overall decline in European investments flowing into Guernsey-domiciled funds and suggests that fund management activities for Guernsey funds are now less often carried out in (non-UK) European jurisdictions.

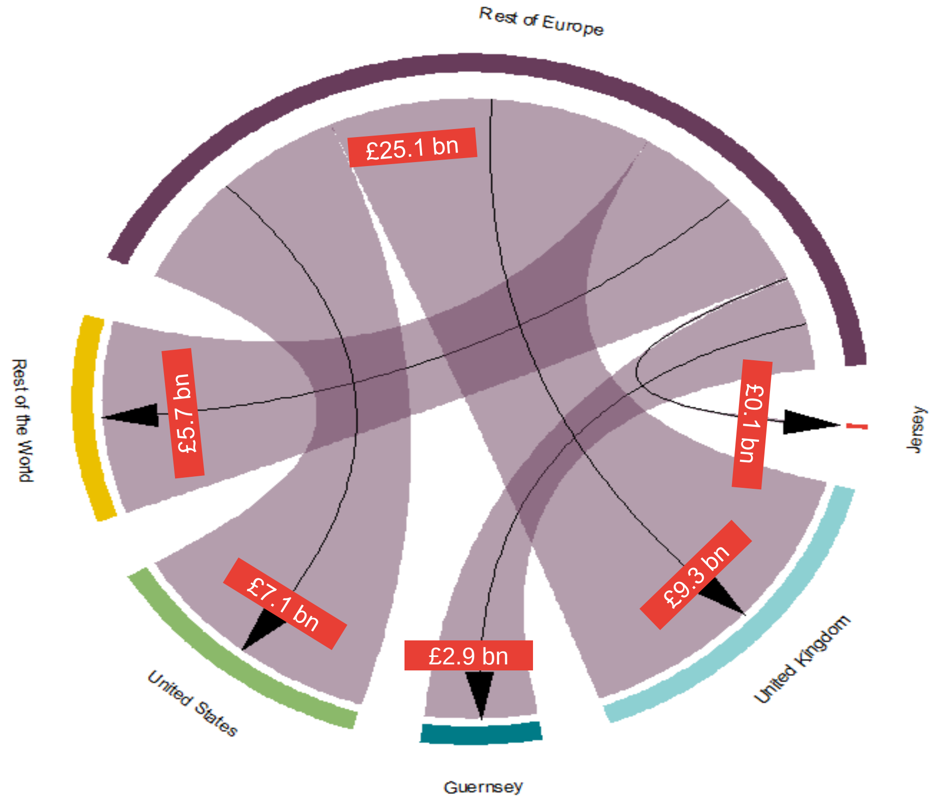
Estimated management fees flowing to the Rest of Europe, by capital origin
(£ million, based on mid-2019 fund values)



Source: Frontier Economics analysis of data returns. Jersey value is £1.1 million which is too small to visualise.

Geographic analysis of capital flows to, and from, the Rest of Europe via Guernsey funds in 2019, **excluding Europe to Europe flows**





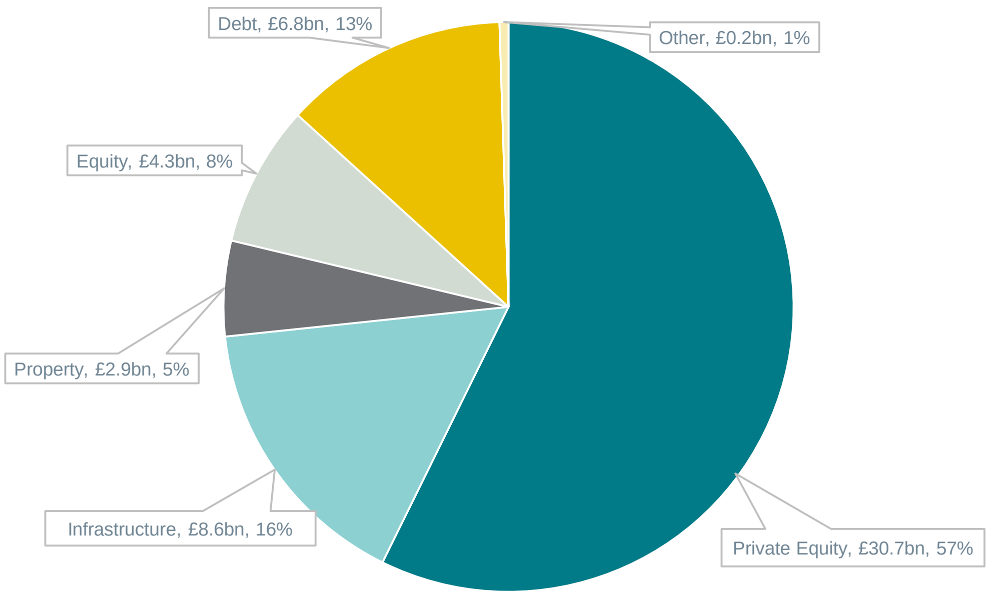
Source: Frontier Economics analysis of data returns. Figures may not sum to totals quoted in the text due to rounding.

- To focus on *international* capital flows, the charts above look at capital flows into and out of the Rest of Europe via Guernsey funds ***excluding Europe to Europe flows***.[1]
- Of the **£53.5 billion invested into the Rest of Europe from other jurisdictions**, most originates in the UK (£23.8 billion, 44%). £14.9 billion (28%) originates from the USA and £11.4 billion (21%) from the Rest of the World (see chart, top-left).
- Of the **£25.1 billion invested from the Rest of Europe into other jurisdictions** (see chart, top-right), the biggest single destination is the UK (£9.3 billion, 37%) though there are also significant outflows from Europe via Guernsey to the USA (£7.1 billion 28%) and the Rest of the World (£5.7 billion, 23%).

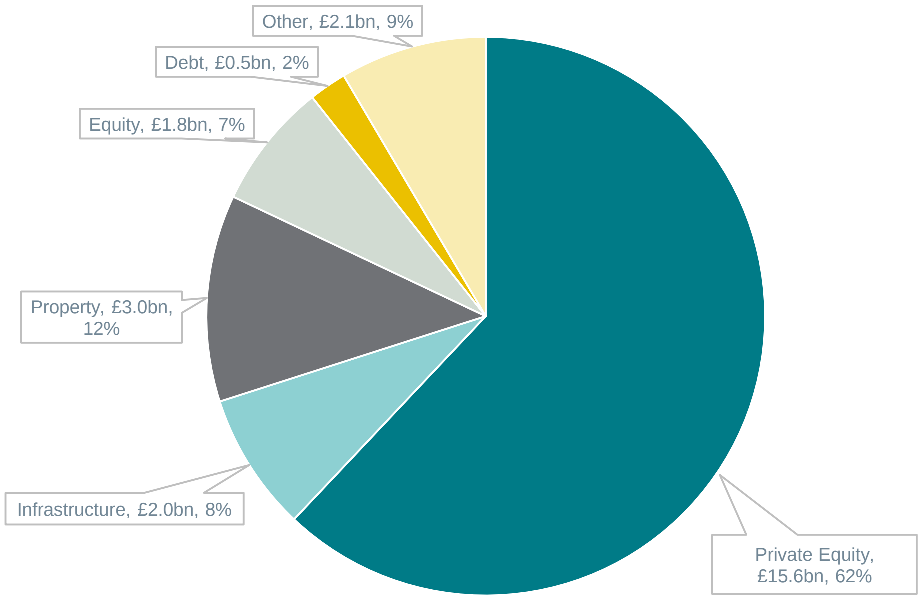
1 As noted on Page 12, this analysis treats the Rest of Europe (non-UK) as a single jurisdiction. Therefore this data will exclude capital flowing between European countries.

Asset-based analysis of capital flows to, and from, the Rest of Europe via Guernsey funds in 2019, **excluding Europe to Europe flows**

Asset allocations in the Rest of Europe from other jurisdictions



Asset allocations by European investors to other jurisdictions



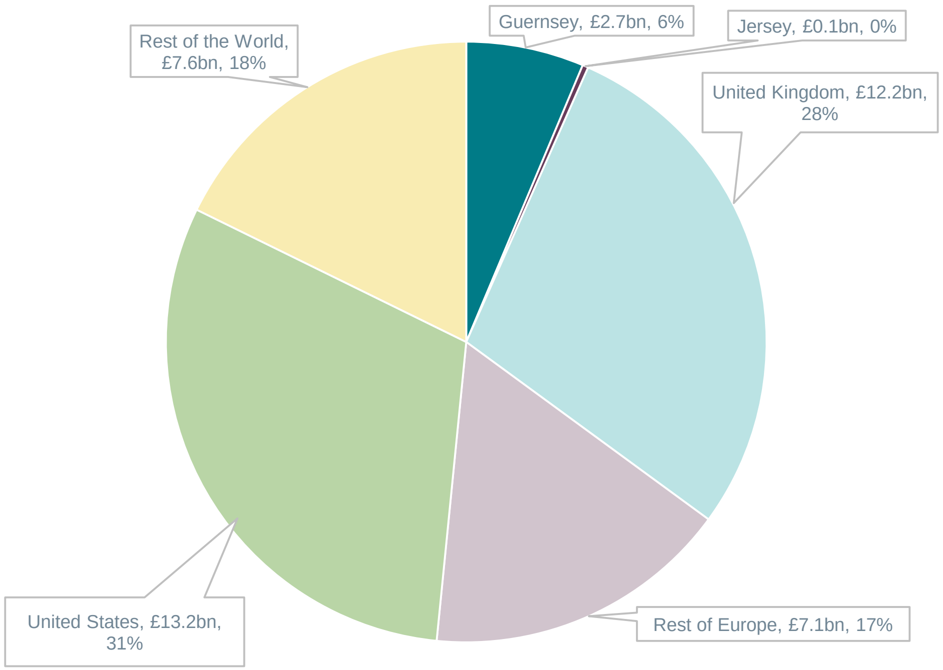
Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total NAV. Figures may not sum to totals quoted in the text due to rounding.

- Of the £53.5 billion flowing to the Rest of Europe via Guernsey from other jurisdictions in mid-2019,[1] more than half (£30.6 billion, 57%) was in Private Equity. Other real assets made up a further 21% of the total. Equity and Debt accounted for around a fifth of inflows to Europe (see chart, top-left).
- Looking at the £25.1 billion of outflows from Europe to other jurisdictions via Guernsey, Private Equity again made up the majority (£15.6 billion, 62%). Other real assets were just over a fifth of outflows, though Property made up a larger share of international outflows than inflows. Equity, Debt and other asset classes made up about 18% of outflows (see chart, top-right).
- These class-based breakdowns for international investments to, and from, the Rest of Europe via Guernsey are similar to those including Europe to Europe flows (see Pages 25 and 26). This suggests that domestic and international investments to, and from, Europe have a similar class breakdown.

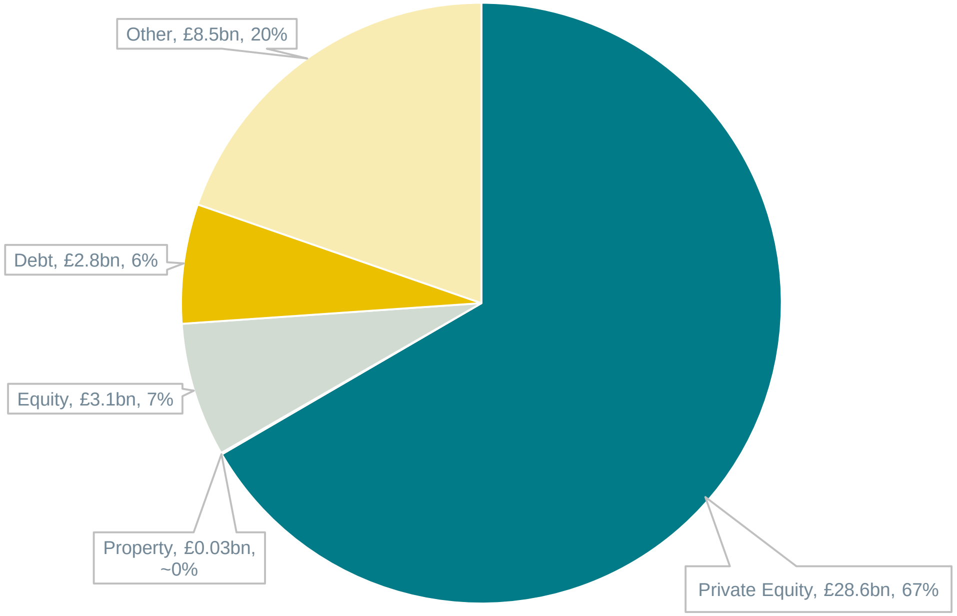
 1 As noted on Page 12, this analysis treats the Rest of Europe (non-UK) as a single jurisdiction. Therefore this data will exclude capital flowing between European countries.

Overall **capital inflows to the USA** from Guernsey funds in 2019

Origin of capital flowing to the USA from Guernsey funds



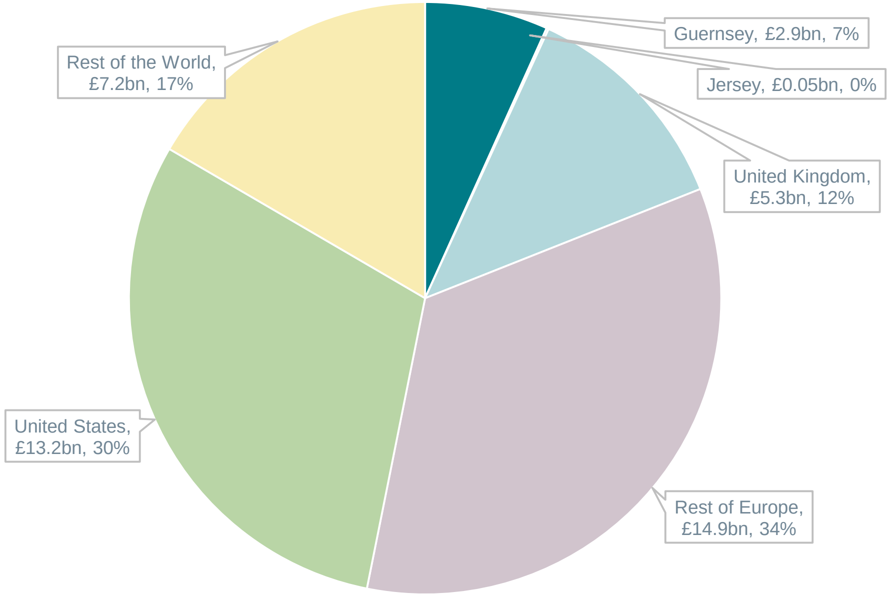
Asset allocation of capital flowing to the USA from Guernsey funds

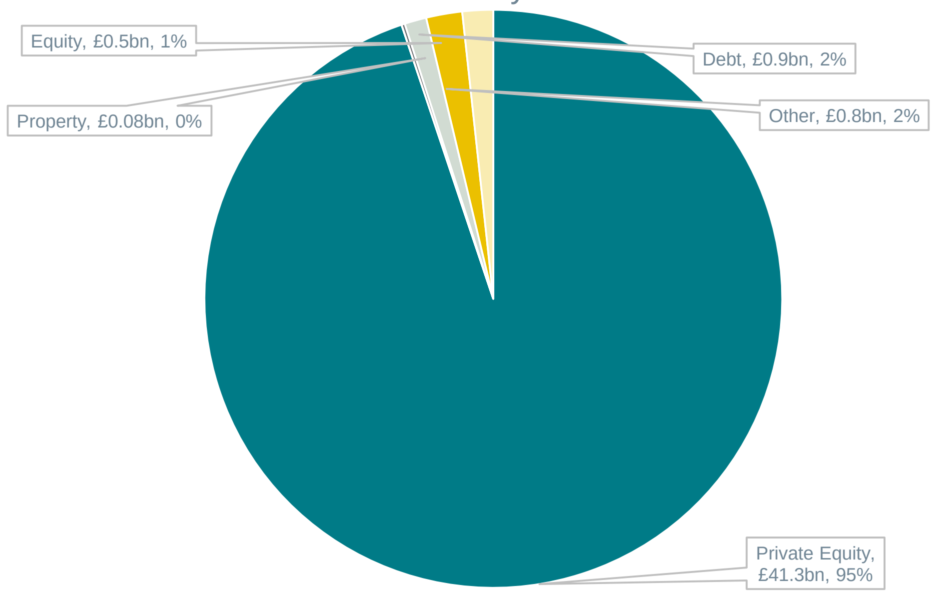


Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total NAV. Figures may not sum to totals quoted in the text due to rounding.

- Our report provides the first specific evidence on capital flows to, and from, the USA via Guernsey funds. The 2015 KPMG report did not specifically break out the USA from non-European jurisdictions so we are unable to make comparisons between the data in this report and the previous study.
- Our data suggests that **Guernsey-domiciled funds saw a flow of £43 billion into the USA in mid-2019**. Only around one-third originated in the USA (£13.2 billion). Guernsey funds saw more than £12 billion flow from the UK to the USA in mid-2019, with other European funds accounting for around £7 billion (see chart, top-left).
- Of the £43 billion deployed into the USA, through Guernsey-domiciled funds, **the vast majority (67% or £28.6 billion) flows into Private Equity.** Other Real Assets like Property and Infrastructure received almost no investments at all. Equity and Debt made up around 13% of flows into the USA via Guernsey, with other asset classes making up the remaining 20% (see chart, top-right).

Overall **capital invested by USA-based investors** into Guernsey funds in 2019





Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total NAV. Figures may not sum to totals quoted in the text due to rounding.

- Of the £43.6 billion invested from the USA via Guernsey-domiciled funds in mid-2019, non-UK **Europe attracted around one-third of the total** (£14.9 billion). Almost 30% (£13.2 billion) was re-invested in the USA. The UK attracted more than £5 billion (12%) and the Rest of the World more than £7 billion (17%).
- Qualitative views from stakeholders suggested some felt the USA was an increasingly important part of Guernsey's funds sector investor base.
- Strikingly **almost all investments from the USA into Guernsey funds went into Private Equity (95%)**. This is by far the largest share going into Private Equity from any single jurisdiction in our analysis. This suggests that Guernsey has successfully attracted USA-based investors into Private Equity funds domiciled in Guernsey.

"

…we have more Asian and US clients now than we did five years ago...That's where the demand is, that's where the wealth is...the sense within our business is that Europe is declining and North America and Asia is increasing.

Provider of legal services

"

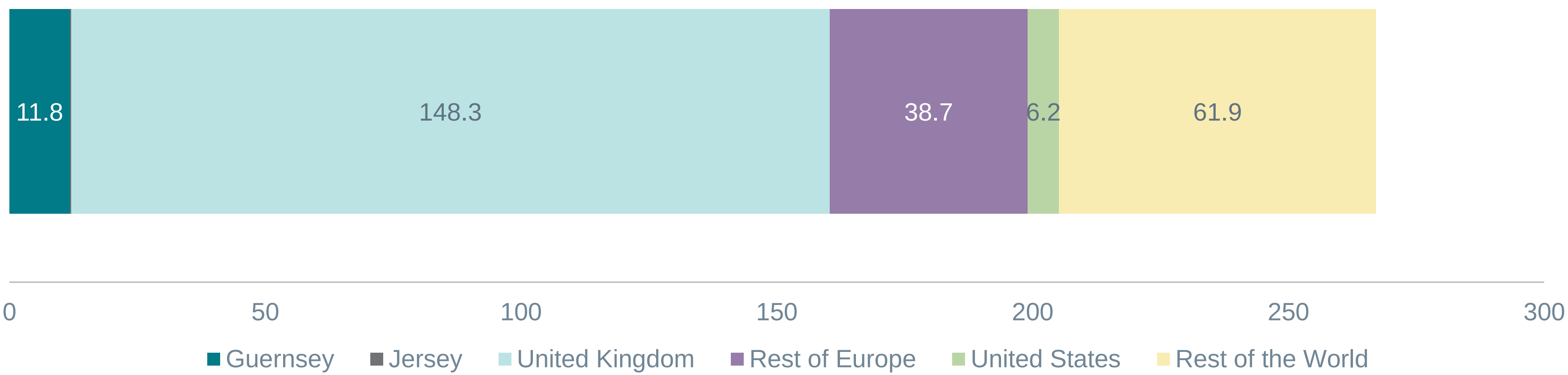
US investors were probably the majority of capital flowing into Guernsey because we have these … private equity funds. A lot of it was coming from the US. I think the US is still, by far, the most important market in the whole for us.

Provider of legal services

Analysis of **management fees flowing to the USA** from Guernsey funds, based on fund values as of mid-2019

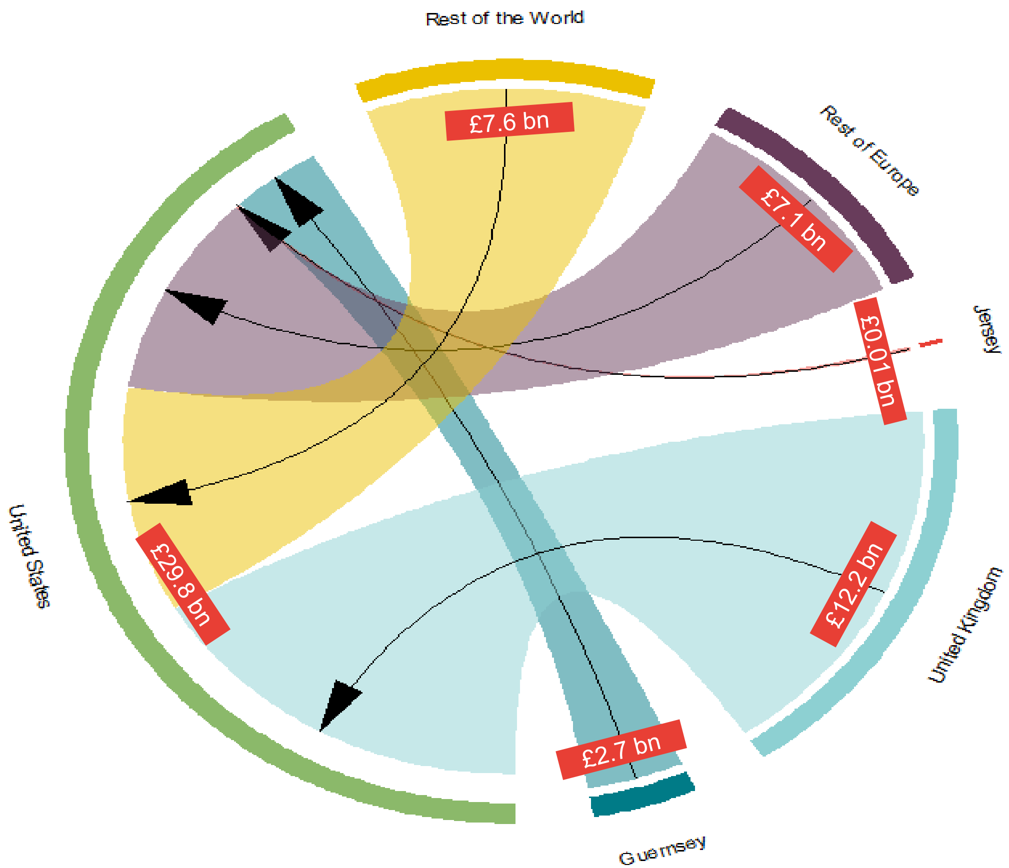
- Using the approach detailed in the Methodological Annex, we conservatively estimate that, based on fund values as of mid-2019, **fund managers based in the USA earned around £267 million in fees from Guernsey-domiciled funds**.
- We estimate that of this, just over £148 million originates from the UK, almost £39 million from the Rest of Europe and almost £62 million from the Rest of the World. Only £6 million originates from the USA (see chart, below). This is based on the origin of investors for Guernsey-domiciled funds that use USA-based fund managers.
- This suggests that Guernsey-domiciled funds using USA-based managers attract a large share of investment from UK investors.

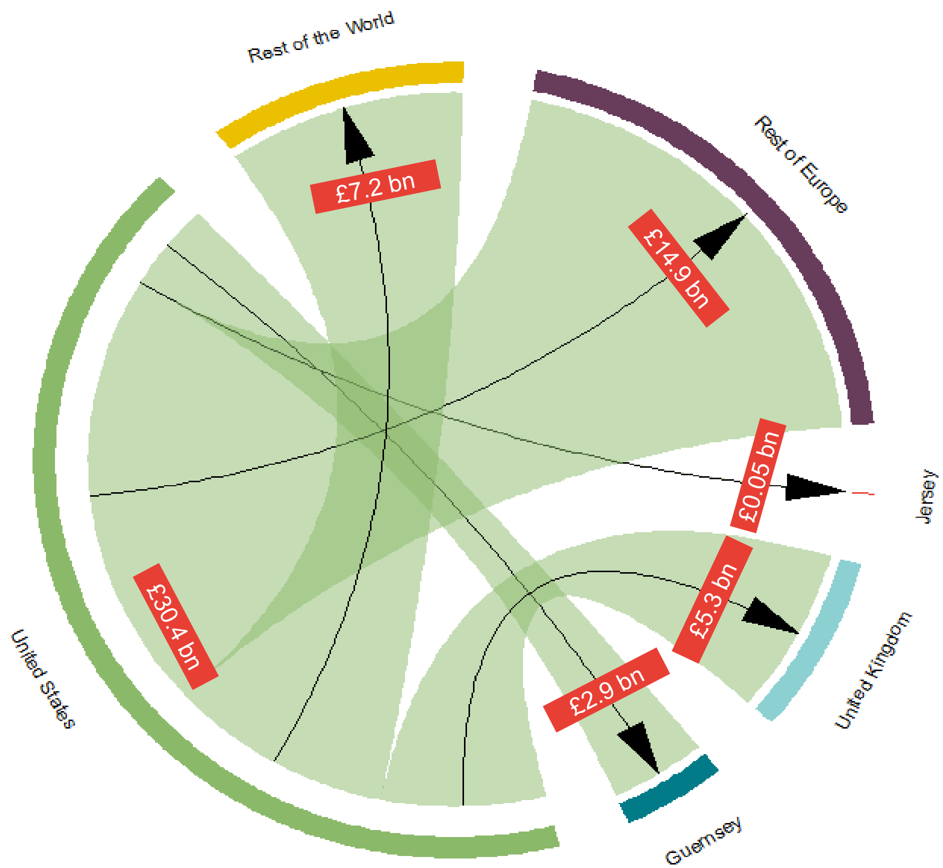
Estimated management fees flowing to the USA, by capital origin (£ million, based on mid-2019 fund values)



Source: Frontier Economics analysis of data returns. Jersey figure is £0.2 million which is too small to visualise.

Geographic analysis of capital flows to, and from, the USA via Guernsey funds in 2019, **excluding USA to USA flows**



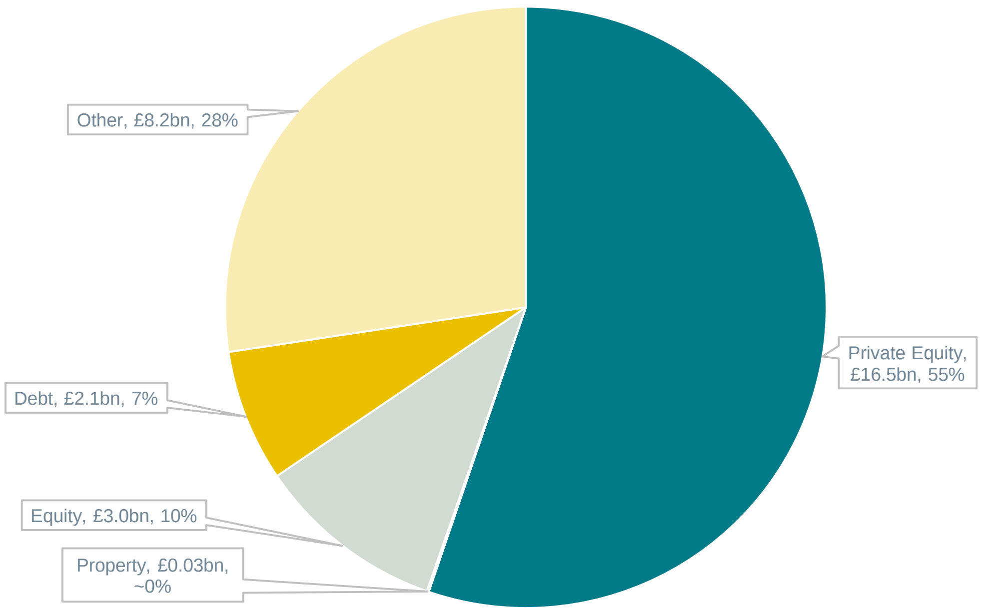


Source: Frontier Economics analysis of data returns. Figures may not sum to totals quoted in the text due to rounding.

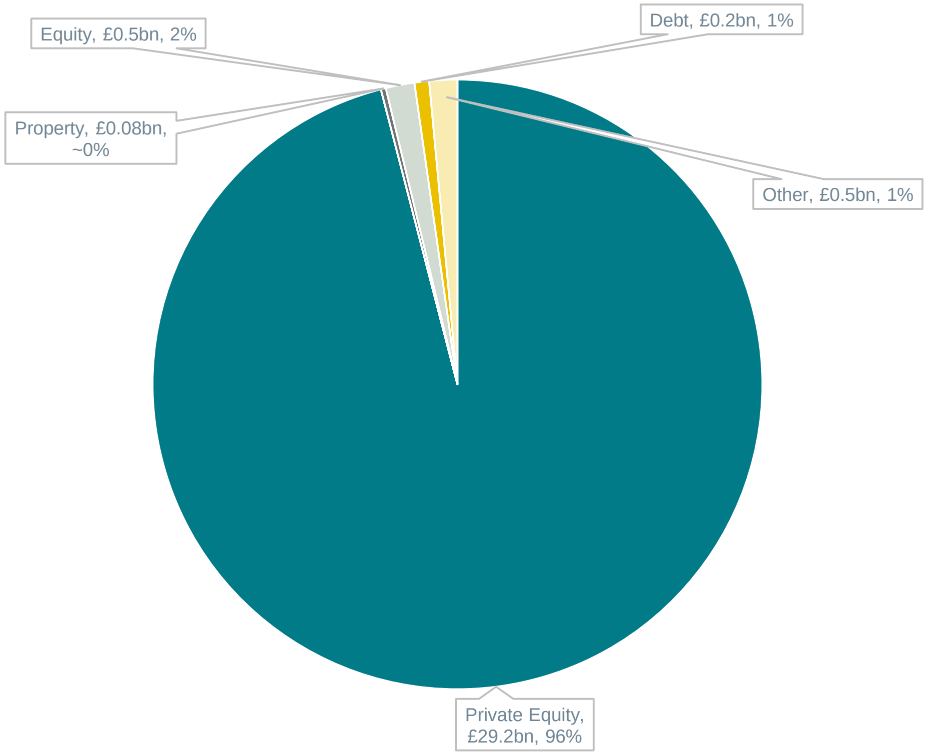
- To focus on *international* capital flows, the charts above look at capital flows into, and out of, the USA via Guernsey funds ***excluding USA to USA flows***.
- Of the **£29.8 billion invested into the USA from other jurisdictions via Guernsey funds** (see chart, top-left), the UK accounts for £12.2 billion (41%). The Rest of the World accounted for almost £8 billion and Rest of Europe for just over £7 billion.
- Of the **£30.4 billion invested from the USA via Guernsey funds into other jurisdictions** (see chart, top-right), Europe is the largest destination, accounting for £14.9 billion (49%). The Rest of the World accounted for over £7 billion (24%) and the UK around £5.3 billion (17%).

Asset-based analysis of capital flows to, and from, the USA via Guernsey funds in 2019, **excluding USA to USA flows**

Asset allocations in the USA from other jurisdictions



Asset allocations by US investors to other jurisdictions



Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total NAV. Figures may not sum to totals quoted in the text due to rounding.

- Of the £29.8 billion in investments flowing to the USA from other jurisdictions in mid-2019, **£16.5 billion (55%) is allocated to Private Equity**. Other 'real assets' of Infrastructure and Property receive little to no investment. Debt and Equity accounted for around 17% of inflows to the USA from overseas, and other asset classes around 28% (see chart, top-left).
- Of the £30.4 billion flowing from the USA to other jurisdictions, via Guernsey, in mid-2019, the **vast majority (96%) went into Private Equity** (see chart, top-right).
- These breakdowns for international investments to, and from, the USA via Guernsey are similar to those including USA to USA flows (see Pages 30 and 31). This suggests that asset allocations for USA to USA flows are roughly the same as those for flows between the USA and other jurisdictions.

Stakeholder interviews identified a range of channels through which Guernsey's investment funds sector generates economic benefits

The Sector enables funds to flow internationally, matching global investors with profitable investment opportunities overseas

- International financial centres (IFCs) such as Guernsey are recognised hubs facilitating global investment flows. Many stakeholders commented on Guernsey's strength and reputation, particularly in Private Equity, in this regard.
- Stakeholders saw this function of Guernsey, and other~~,~~ IFCs, as a significant economic enabler – ensuring that investors could access high-return opportunities all over the world.
- One legal service stakeholder also noted that Guernsey funds facilitate investments on to the main market of the London Stock Exchange, with clients having large infrastructure inward investments, including utilities, transport and housing, to the UK facilitated in this way.

Guernsey offers tax-neutrality – investors are taxed in their home domicile, but not taxed again for the movement of capital, maximising returns

- Guernsey was viewed as transparent regarding its tax arrangements for funds, combining this with high quality regulation in respect of AML and CFT.
- Many stakeholders noted that tax neutrality also maximises returns for 'ordinary investors' including global pension funds and large sovereign wealth funds.

Funds generate a range of economic and social benefits in the jurisdiction where they are deployed

- Interviewees noted that the economic benefits of the investment funds sector stem from the benefits of what is ultimately enabled by the deployment of funds in international jurisdictions via Guernsey. Guernsey's strong international focus means that Guernsey, even more than other IFCs, helps to bring together investors from all over the world to support global investments that enhance economic performance. This is evidenced by the quantitative data gathered for this report.
- Funds deployed from Guernsey around the world would help support tens or hundreds of thousands of jobs, in the view of some stakeholders. Wider environmental benefits of investments in sustainable energy were identified as a clear social benefit where Guernsey's funds would make a critical global impact. Access to Private Equity investments were also seen to promote business development and productivity, in line with previous Frontier analysis of the value of Private Equity.[1]

> We firmly believe that Private Equity contributes to business development and helps to fund the development of businesses in ways that … even being privately owned doesn't always allow...the cross border nature of our presence contributes globally outside of the island, and we provide access for investors into investments in a number of different countries.

Large fund administrator

> ...major investors are pension funds providing pensions for huge organisations which employ tens or hundreds of thousands of people … those pension funds are looking for the best possible return to their investors … [Guernsey's] ability to offer investment funds that are tax neutral allows them to … get the best return for the investor and hopefully get the best return for the pension fund.

Legal service provider

> Guernsey can sit here and go carbon neutral and that won't make one iota of difference to the carbon in the world. However, through green funds, it can facilitate the flow of money which will help reduce carbon… [in a way] that's way above its weight for a small island with 60-odd thousand population.

Mid-sized fund administrator

1 Frontier Economics (2013), *Exploring the impact of private equity on economic growth in Europe*, a report prepared for the EVCA (https://www.investeurope.eu/media/1110/frontier_economics_report.pdf)

While there have been trends in the sector globally, and in Guernsey, stakeholders felt that geographic flows of funds were fairly stable

The Sector has seen recent consolidation, with Private Equity remaining the key asset class (in line with our empirical findings)

- Many interviewees commented on consolidation in fund administration in Guernsey, pointing to global competitive pressures (for example, a shift towards low-cost passive funds) generating a need to realise economies of scale to reduce cost. This was expected to continue. The Sector is now characterised as being made up of larger players and smaller 'niche' administrators.
- In line with the GFSC's data, and the evidence gathered for this report, almost all stakeholders noted the continued pre-eminence of Private Equity and closed-ended funds in Guernsey. Stakeholders cautioned that Guernsey's 'first mover advantage' in Private Equity was being eroded by increasing competition, including from Jersey.
- Many stakeholders noted that Luxembourg (and to a lesser extent Ireland) has been growing as a destination base for European funds, with regulatory changes (such as Undertakings for the Collective Investment in Transferable Securities (UCITS) and the Alternative Investment Fund Managers Directive (AIFMD)) leading some decision-makers to conclude that they needed to be domiciled in the EU in order to market funds across Europe. Many commented that this was more of a perceived need than a real need – many funds are not marketed in multiple European countries.

Broad geographic flows were not felt to have changed much in recent years, with different views on where future opportunities might be found. Brexit uncertainty was also seen as a bottleneck for UK investors which had impacted Guernsey.

- Most stakeholders commented that, for various historical reasons, the UK remains the key source of investment into Guernsey funds. This aligns with our findings (see Page 18). European investors were felt by some to have declined in importance, in part because of a switch of fund domiciles to EU jurisdictions, and in part because the distribution of global wealth was changing.
- Prolonged discussions over the UK's future relationship with the EU were seen by many as a source of uncertainty which had inhibited UK investor confidence and caused investments to be held back, potentially inhibiting the growth of the Sector in Guernsey in recent years. Some felt this was now starting to be resolved as the Brexit uncertainty unwound.[1]

1 Note that interviews and data collection took place before the Covid-19 pandemic.

Green funds were seen as a potential growth area for Guernsey, though a broader 'sustainability' focus may be needed

Most stakeholders were positive about the future opportunities of green funds

- Most stakeholders felt that green investment would be a strong growth area with a high degree of likely interest from investors looking for more sustainable opportunities to invest. Guernsey was felt to be a leader in this space and had been heavily promoting its green fund offer, building on a flexible approach to innovative investment funds. Competition was expected to grow. One service provider noted that both London and Luxembourg were starting to develop reputations in the green and sustainable investment space.
- Some green funds are already administered in Guernsey, though on a small scale.[1] Most people we interviewed felt there was significant growth potential, though some noted that green funds would need to demonstrate returns that would not deter investors. Guernsey's high-quality regulation could be a value-add, in regulating and certifying green investments based on objective benchmarks.
- A number of interviewees felt that 'green' funds may risk being too narrow and that Guernsey should be broadening its approach to the wider Environmental, Social and Governance (ESG) funds space. One view expressed was that while green was the right starting point (because of the availability of global benchmarks to judge funds against), there would be a need to develop the green offer into a wider ESG offer to capture the full range of 'ethical' investments in future. Guernsey Finance is addressing this through its existing programmes such as Sustainable Finance Week.

Stakeholders also discussed other opportunities for the sector in the future

- Stakeholders noted the potential for growth in investments from other jurisdictions. Most interviewees felt that Asia was starting to grow as a source of investment, but that it was not yet that significant. A number of interviewees noted that South Africa was becoming an important source of investments for Guernsey. The USA was cited several times as an attractive potential market for further growth, given the scale of investments sourced there.
- Some stakeholders felt there was a degree of 'regionalisation' in the potential for Guernsey to attract fund investors from Asia and North America – with investors focused on using regional hubs such as Singapore, Bermuda or the British Virgin Islands. Others, particularly smaller administrators, felt the potential to attract investors from all jurisdictions was there with a concerted-enough effort.
- There were also mixed views about the potential to 're-grow' European investment. While some stakeholders felt there would continue to be a strong regulatory pull to Luxembourg, others felt that Guernsey could demonstrate advantages over Luxembourg and, in time, win back funds. One fund manager felt strongly that Guernsey was well-positioned as a bridge between the UK and Europe.

> Green finance is a massive opportunity ... every single fund manager's starting to focus on that ... It might even be [Guernsey's] biggest opportunity ... [but] all jurisdictions have now recognised the importance of that.

Mid-sized administrator

> … the Guernsey Green Fund is … really well designed in the way that it adopts these international standards, and then it says that they have to be certified.

Provider of legal services

> Green is too niche and is also associated with what the US investors call 'greenwashing' ... I think a broader discussion around ESG and sustainability is definitely one that we're having with investors …

Provider of legal services

> ... we're seeing people enquire again about the National Private Placement Regime ... 'do we really need to go to Europe and do full passporting?' [Hopefully] we'll get some of those to convert back to Guernsey because I do think the regulations in Guernsey are more flexible with the National Private Placement Regime and it still works.

Provider of legal services

1 Statistics from the GFSC show that in 2019 Q4 there were 5 regulated Green Funds in total with a NAV of £2.65 billion (see https://www.gfsc.gg/industry-sectors/investment/statistics, accessed 3rd April 2020).

Compared with other IFCs, Guernsey was seen to have both relative strengths and weaknesses as a domicile for funds

Most stakeholders felt that the quality of regulation and supporting services were strong attractors for domiciling investment funds in Guernsey

- A strong theme was that Guernsey placed a high value on reputation, and quality, which was attractive for many people choosing a domicile, for example the value placed on demonstrating substance requirements.
- Many interviewees noted that Guernsey's track-record in the Sector had enabled a high quality supporting service infrastructure to emerge (including legal, accounting and consulting). Most also agreed that that regulation of the Sector was proportionate, though some commented that costs and burden had increased over time and there was a risk of 'gold-plating' that could be unattractive for some potential funds.
- One theme was that both regulation and the high-quality supporting services were felt to help keep the Sector innovative and fairly 'nimble' in reacting to new opportunities.

Transport links, skills and sector promotion were the most commonly-cited relative weaknesses of Guernsey as a jurisdiction

- Many interviewees cited air links as a relative weakness of Guernsey, given substance requirements requiring physical presence. Some felt this was a particular constraint when compared with Jersey.
- Not all interviewees felt this was a significant barrier, and some felt that technology would mean that the need for physical connectivity could be reduced even with substance rules.
- Some interviewees felt it was hard to recruit, and retain, skilled labour in Guernsey, in part because of a limited local population and in part because it can be hard to attract people from outside Guernsey. Employment Permit requirements were not seen to be a barrier.
- Several interviewees noted that other jurisdictions, in particular Luxembourg, invest larger amounts in a joined-up promotion of their local funds sector, whereas the promotion in Guernsey was seen to be a bit more piecemeal. The lack of a full-time, sector-specific promotional agency (distinct from the wider finance sector bodies) was also seen to be a relative weakness.

"

Guernsey really values and protects its reputation…[it] is something that we won't compromise on. You won't find anybody in the industry who would want to dilute that...If you're looking for a safe haven, a safe harbour for your assets, then Guernsey's as good as you can get, really.

Large administrator

"

... there needs to be appropriate vetting of who goes into funds and we're not prepared to compromise on it. Sometimes it can feel a little bit gold-plated. We do spend a lot of time trying to balance that debate with our clients.

Large administrator

"

We have to have a stable flexible regulatory and legal environment…such that we've got an up-to-date company law, limited partnerships law…so we keep adding the products that investors and promoters want. I think we do that quite well, certainly compared to our competitors.

Provider of legal services

Annexes

Our quantitative analysis requires some assumptions to be applied to fund-level data returned by administrators

Approach to cleaning and analysing the data returns to estimate geographic flows of funds

- Administrators received the data template by email and were asked to complete the return and upload it to a secure folder. To ease the burden we stressed that administrators could provide the data requested in any format building on existing data returns provided to the GFSC and/or Monterey.
- Where returns were incomplete or inconsistent, we followed up by email and phone to attempt to fill in gaps where possible and review queries.
- Administrators reported the NAV of each of their funds as of June 2019.[1] A small number provided data for other adjacent periods (most often September 2019) which we assumed to be applicable to June data. Where data were submitted in currencies other than GBP we converted using exchange rate data from the Bank of England as of June 2019.
- Administrators reported the main asset class of each fund according to the options we included in the template. Total returns were £160.4 billion NAV. To avoid double counting, we excluded Funds of Funds and Funds of Hedge Funds. The total NAV for such funds is £10.6 billion. Subtracting this from our total collections results in a total NAV of £149.7 billion.
- We scaled this to match the GFSC's account of total AuA/AuM. The GFSC estimated that the total value of funds, excluding Funds of Funds and Funds of Hedge Funds, was £212.2 billion. Working with the GFSC, we broke down that aggregate to match the set of asset classes captured in our data return and then developed class-specific weights applied to each fund in our return such that the total NAV of data returns matched the GFSC aggregates in total and broken down by asset class.
- This approach assumes that the data returns we received were broadly representative of the wider Sector. Our returns accounted for more than 70% of Guernsey-wide totals and came from a range of fund administrators by size, specialism and experience in Guernsey. We therefore had no good reason to believe that the returns we received were not representative of the wider industry in Guernsey, though this remains an assumption in our analysis.
- As noted on Page 15, few administrators reported ultimate origins and destination geographies. We consider initial origin and destination only and assume it captures the true location of the investor base and of where the assets are deployed. Discussions with administrators confirmed that the initial jurisdiction provides a fair estimate of ultimate origin and destination.
- In a small number of cases, administrators did not report initial geographies or were unable to provide full estimates of the origin or destination. We used returns from administrators who could provide these breakdowns to impute this information where the data was missing. This was done at the asset class level.

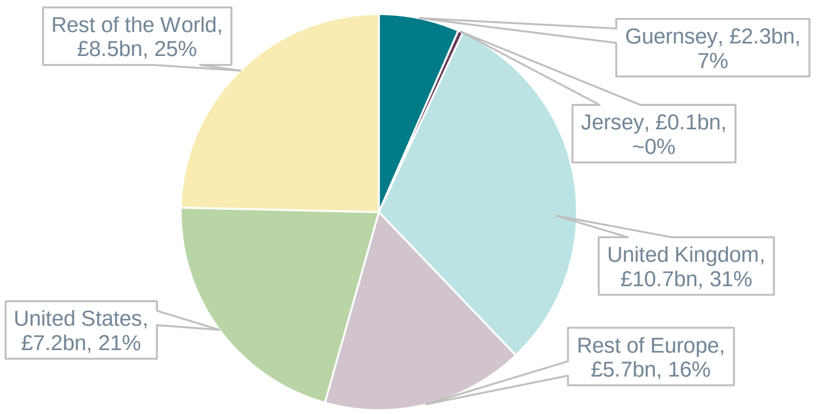
Approach to estimating flows of fees

- Fees associated with the funds industry represent a major flow of money from Guernsey to other jurisdictions and are therefore a key channel of economic impact.
- Following discussions as part of the initial round-table meetings with Sector bodies, we agreed that attempting to collect detailed information on flows of fees for individual funds was likely to be too cumbersome and risked non-response given the sensitivities about individual fee structures.
- We therefore engaged in specific discussions with Sector experts to identify a way to estimate flows of fees. Through these interactions, we identified four major categories of fees that funds pay and/or earn: management fees, administration fees, audit fees and legal fees. It was also noted that for all fee categories other than management, fees are likely to be paid to entities in Guernsey, hence not representing a flow of fees to other jurisdictions. We therefore focused on an approach to estimating the flow of management fees.
- Investment managers can be located in other jurisdictions and thus earn fees there. Our discussions with experts suggested that a 'typical' management fee was 1.5% of NAV. We therefore apply this value to each fund's NAV to estimate the total value of management fees.
- To estimate the origin of these fees, we apportion them to jurisdictions by the breakdown of initial origin for each fund.
- To estimate the destination of these funds, as part of the data request we asked administrators to tell us the geographic location of the fund manager / promoter. We assume that all the fees flow to this location.

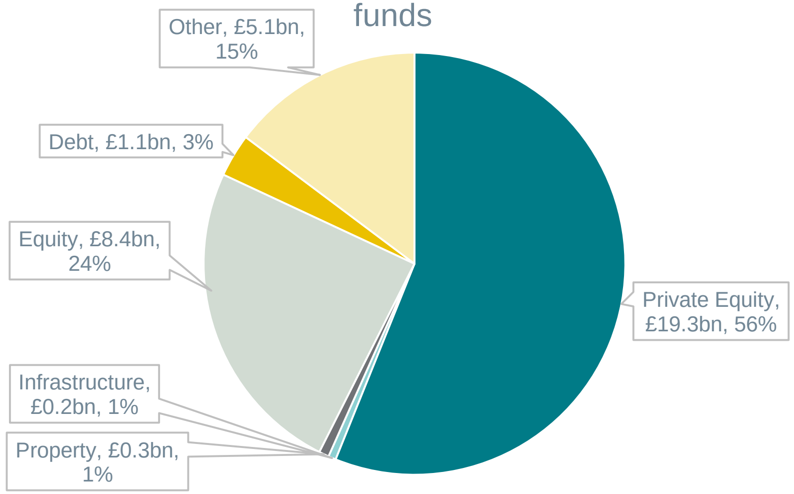
1 June 2019 was chosen as it represented a point in time at which all GFSC-regulated administrators were required to submit quarterly regulatory returns and many administrators also submit returns to Monterey.

Summary of overall capital flows to, and from, the Rest of the World via Guernsey funds, by geography and asset class

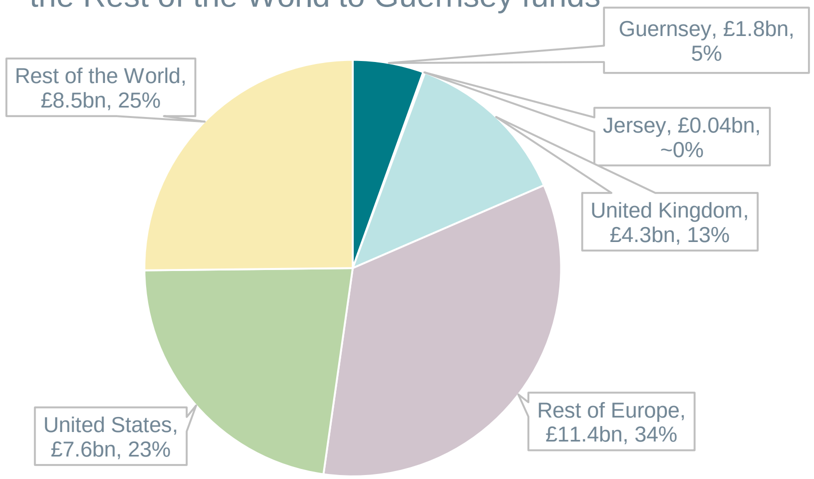
Origin of the £34.5 billion of capital flowing to the Rest of the World from Guernsey funds



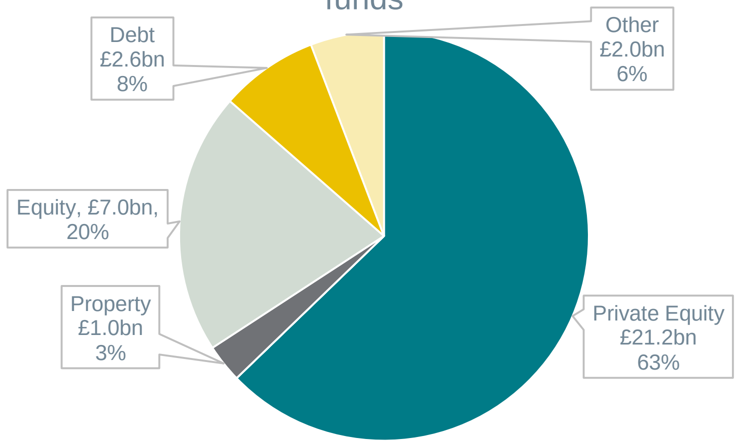
Asset allocations of the £34.5 billion of capital flowing to the Rest of the World from Guernsey funds



Destinations of the £33.8 billion of capital flowing from the Rest of the World to Guernsey funds

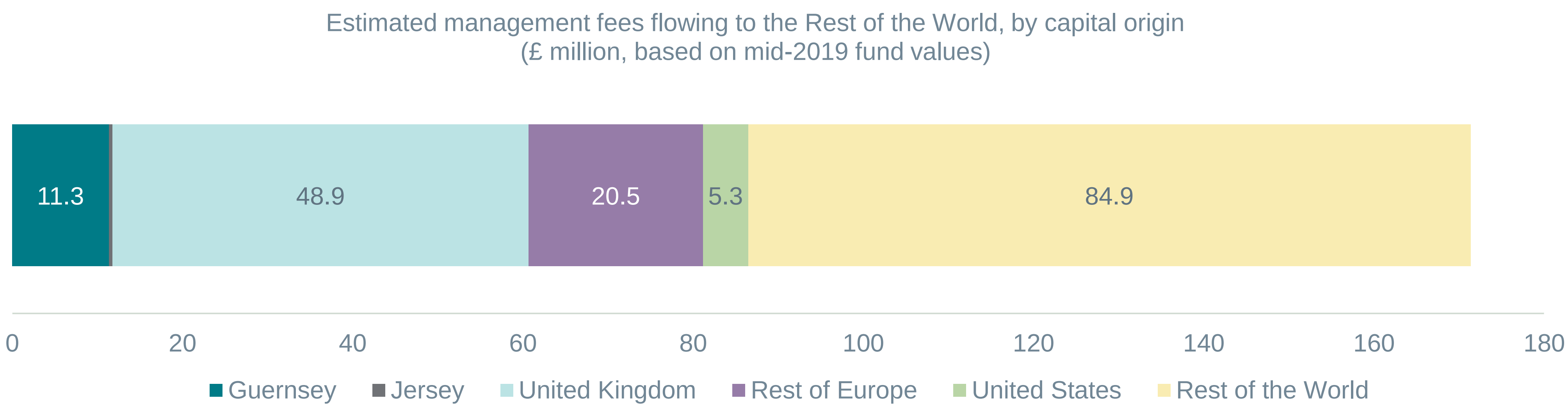


Asset allocations of the £33.8 billion of capital flowing from the Rest of the World to Guernsey funds



Source: Frontier Economics analysis of data returns. Note values break down total in cash terms (£ billion) and percentage of total NAV. Figures may not sum due to rounding.

Estimated management fees to the Rest of the World from Guernsey funds, based on fund values as of mid-2019



Source: Frontier Economics analysis of data returns. Jersey figure is £0.4 million.