

9th Conference – 4th April 2019

Investment, Fiduciary and Pension Division

Gillian Browning, Director

Thank you Eamonn.

Over the next 25 minutes you will be treated to an overview from the Investment, Fiduciary and Pension Division. I will start with insights taken from regulatory returns, followed by a video from Eamonn Finnerty and Alison Gavey covering operations and supervision. Martin McHugh will then present, at the lectern some policy highlights.

Then, having heard from all of my deputy directors we will conclude with a short animation, which is a form of self-assurance, seeking to share what we consider to be key business checks, which we hope will be useful prompts for you to consider too.

Since I have been appointed as Director of the newly merged Division I have been focusing on digging deeper into the data we hold. The accuracy in the data you submit in your regulatory returns is therefore crucial – put simply rubbish in will lead to rubbish out.

I consider that we have collectively entered into a contract – you supply us with data to enable us to be more effective regulators, we analyse the data to identify trends, outliers and to inform our supervisory engagement with you – equally I believe its important that we share with you key findings.

Slide: IFPD Universe

To recap, the Investment Fiduciary and Pension Division supervises approximately 1425 licensees, plus over 800 Funds and around 2400 pension schemes.

The numbers on the slide represent a wide variety of business models, ownership structures, and indeed firms of all shapes and sizes, which is illustrates the diversity and substance of these important sectors.

Currently there are 3,820 staff employed in the Fiduciary Sector and 1,594 staff in the Investment Sector, leading to a combined total of 5,414 staff out of a total working population of 31,062 (17.5%) – a highly significant proportion of our community.

Slide: Funds – Today

So looking a little deeper into our funds:

Most Guernsey funds are closed-ended: 80% by value and 82% by number of schemes and have accounted for most of our fund growth.

This chart illustrates our current fund universe based on the year that the fund was launched.

The columns represent the funds NAV split between closed ended in blue and open ended in orange.

Whilst the dots represent the total number of funds that were launched in that year that still exist today.

This shows that the vast majority of funds that are more than 14 years old are open-ended.

Closed-ended funds, the bulk of Guernsey's fund sector, are almost entirely younger than this and assuming that closed ended funds have an average life expectancy, this slide gives us an indication of our future fund sector, with replacement rates clearly being key.

You will see from the top right dot, 2018 was a bumper year, especially Q4, for new funds being launched – clearly it will take a number of years for the NAV of these funds to build up as for example PE funds will only call investment when an acquisition is imminent, and we understand many funds are still looking for suitable targets. Equally if a fund is authorised/registered in Q4 2018 we would not expect to see a quarterly return until c. Q1 2019, and some 'authorised/registered' funds never take off.

The average fund NAV has risen by a quarter over the last three years to £275 million. Whilst £275 million is the average, 15% of funds have a NAV less than £5 million; 6% of funds have a NAV greater than £1 billion.

Slide: Funds – Tomorrow

We have been analysing the potential future funds picture and have identified three key factors to watch.

- 1) The pie chart shows us that as suspected private equity is the largest type of investment for Guernsey Funds. This is a consistent trend looking back over previous years of data. The impact this concentration in PE could play in our future remains to be seen.
- 2) Secondly the currency breakdown of our funds illustrates that we are not immune from shocks linked to global events (for example Brexit) and need to be conscious of the impact

FX fluctuations can have on accumulated NAV performance. Therefore with 77% of Guernsey Funds being denominated in Euros or US Dollar, if Sterling strengthens we must be prepared for the direct correlation to the Guernsey Fund sector value.

- 3) Gearing is also a factor which can influence asset values and the sectors robustness to economic shocks and the vast majority of Guernsey funds have little or no gearing.

Further illustration of Guernsey's PE focus – and professional investor base - is illustrated by the fact that

- Most Guernsey funds are not listed on a stock exchange (76% by value, 81% by volume);
- And Two-thirds of funds have fewer than 50 investors

So now to turn to Fiduciary:

Slide: Fiduciary – Today

This chart illustrates a trend that has been apparent in both the investment and fiduciary sectors – that as a jurisdiction we have moved towards fewer, more complex, structures for generally the higher net worth.

The Green and Red lines reflect the reducing number of Trustee and Directorship appointments held by Fiduciary Licensees, and yet there is continued growth in the value, as represented by the blue line, in assets under fiduciary regulated activity. Again I would reiterate the impact of currency fluctuations, but also I'm cautious as to the accuracy of asset values, however the trend is clear a continuing move towards fewer, larger, more complex structures.

Whilst the number of Fiduciary licensees remains broadly constant, we continue to observe the growth – in terms of assets and turnover – of the International Finance Groups and we expect to see this trend continue in the future.

Slide: Supervision – Fiduciary – Tomorrow

As in previous years, we share your data reflecting the global geographical source of new Fiduciary business – this chart reflects the residence of the settlor of a trust, founder of a foundation or beneficial owner of a company.

The size of the circles/dots on the map roughly reflects the proportionate size of new business from a particular jurisdiction, and the colour of the circle is significant too.

The black circles illustrate that new business is roughly constant with last year's figures – for example 40% of new business is from the UK,

the red circles illustrate slight decline – for example new business from Europe in 2018 was 8% compared with 14% the year before;

and the green circles indicate moderate growth – for example 8% of new business came from South Africa last year compared to 5% the year before

Slide: Fiduciary – Appointments

We have been drilling down into the Fiduciary annual return data to identify areas of regulatory focus, trends and outliers, including, for example, the average number of appointments held – whether they be by natural persons – which this slide reflects or by corporate legal persons.

Through our analysis of the data we can see a broad spread of the number of personal appointments held by individuals employed by Fiduciary Licensees reflecting the diversity of the client base and practices across the sector.

This chart is based on average personal appointments by licensee – therefore if a firm employs 100 staff and only 10 employees hold 10 personal appointments each this would be a licensee average of 1.

The first column shows us that 44 firms, have on average up to 5 personal appointments per member of staff. Whereas the last column represents that 5 licensees have on average 35 or more personal appointments per member of staff – and it is likely we will be following up with these licensees in due course.

We appreciate that the amount of work associated with each appointment will vary – however as a piece of self assurance we recommend that you consider the number of appointments that either you or individuals in your organisation undertake either directly or through a corporate director (which is not represented on this slide at all), and the appropriateness of those appointments given director responsibilities and other roles these individuals are also likely to be undertaking.

Slide: Pension – Progress

Finally,

Following the extension of the Fiduciary Law in 2017, and the Introduction of Pension Rules, we have started to receive and analyse Pension Returns. We are still in an early phase, having not yet received our first annual return, however the quarterly returns reflect that we currently have 2,400 schemes, with approximately 96,000 members.

This slide provides a breakdown of the average fund value per member – broadly 90% of schemes by number have less than 10 members – although the schemes with the greatest asset value are the International Corporate Schemes.

We look forward to further analysis of the Guernsey Pension Sector in the year ahead as our data and onsite supervision is developed.

And now I hand over to Alison and Eamonn via video link.