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## TAKING THE BAIT

**Chris Gambrell** of Praxis Fund Services says that Guernsey continues to attract new fund managers in a wide variety of shapes and sizes

With the background of a well-regulated, established jurisdiction that is close to the European financial centres and that enables fund managers to exercise offshore management and control, Guernsey offers an attractive package to new fund business.

As well as a well-established infrastructure, in terms of administrators, custodians, lawyers, bankers and accountants, the jurisdiction has implemented some enterprising regulatory enhancements to attract new fund managers. The qualifying investor fund (QIF), that was introduced two years ago, the registered funds regime that's already applicable for closed-ended funds and the new proposed regulated funds regime all indicate a proactive quality in Guernsey's approach.

Looking back even further, the island was the first jurisdiction to have PCC legislation. And, of course, the Channel Islands Stock Exchange is also based in Guernsey.

### **Fast Track Fund Application**

The registered fund, although currently only applicable to closed ended funds, resembles the QIF, which can still be applied to open ended funds. It enables us to submit a new fund application to the Guernsey Financial Services Commission (GFSC) and to receive approval within three working days. This is achievable through the certification of the parties involved being undertaken by the administrator.

The administrator is separately reviewed by the GFSC to see that their controls and procedures in adopting these application methods on behalf of their clients are reliable. The relative novelty of the closed-ended fund

regime means that, despite the streamlined authorisation process, the number of funds registered has not yet reached a significant level.

Having worked on a substantial number of QIFs in the past, for which the application processes are virtually identical, we have previously experienced impressive turnaround times, with some funds even being granted regulatory approval within a day. Praxis Fund Services is working on our first registered fund.

The self-certification regime for QIFs has also proved very successful in attracting hedge fund business to Guernsey, as well as being used extensively for property and closed-ended funds. One of Praxis' largest clients is a fund of hedge fund manager who was specifically attracted to the domicile by the fast track qualifying investor fund regime.

### **Tax Benefits**

The tax structure is always a part of the package for offshore domiciles so long as it can be demonstrated that the fund is controlled and managed from Guernsey.

This typically involves: careful structuring at the fund launch stage; a majority of offshore resident directors constituting the board; frequent and properly minuted board meetings evidencing the decision-making process taking place in Guernsey; and perhaps an offshore domiciled fund management entity enabling certain marketing, compliance and accounting activities of the manager to be performed.

From an investor perspective, Guernsey is attractive as, unless an investor is resident in Guernsey, then they too, like the fund, will suffer no Guernsey tax.

### **Channel Islands Stock Exchange**

Another draw for new fund managers is the Channel Islands Stock Exchange (CISX). The exchange is a proactive and go-ahead organisation offering competitive listing fees.

The application process is extremely efficient, which gives certainty to clients looking to list on the exchange. You only have to look at the statistics for the stock exchange's growth – 2007 is looking like another record year – to see that it has a continual upwards chart.

It is a good 'one-stop-shop' selling point to hedge fund managers to say that in Guernsey we've got the administration, we have got the lawyers, accountants and other service providers – and we've got the administration, the lawyers, accountants and other service providers – and we've got the CISX.

The CISX is more of a technical listing than a trading listing, of course. Accordingly, funds may decide to dual list between the CISX and AIM.

The trade-off in Guernsey's favour is that AIM is not a recognised stock exchange for Inland Revenue purposes, whereas the CISX is recognised by not only the Inland Revenue but also notably the FSA and SEC, amongst others. Hopefully, we will see other market participants make more of a market with the CISX.

### **London Listed Guernsey Funds**

With Guernsey's long track record of dealing with London-listed funds, one of the trends that we have seen in recent months is the attraction of several fund managers whose hedge strategy may involve slightly illiquid assets. In an open-ended arena, this makes liquidity management quite difficult because of the possibility of redemptions - and the knock-on effect those redemptions have on the illiquid assets.

We are seeing a significant number of funds coming to Guernsey and creating a closed-ended fund which then lists on the London Stock Exchange or even AIM. Being closed-ended aids that liquidity management because there are not going to be any redemptions. Because it is a London-listed fund, it also helps the profile of the manager. This is proving quite attractive for both fund of hedge fund managers and certain hedge fund managers as well as other illiquid asset class fund managers.

### **Outsourcing of Services**

The outsourcing of services is undeniably something that is happening from Guernsey. There are various pros and cons in this debate, but Guernsey needs to look to outsourcing simply because the demand for fund product is very high.

The crucial issue with outsourcing is making sure you retain total control over the outsourcing - be it a segment of your own organisation that you have established in another jurisdiction or some form of third party. From the clients' point of view you have to make this relationship and process seamless. The client will want to telephone someone in Guernsey to ask questions and seek advice - they will not want to phone someone in another part of the world.

We must also ensure that responsibility for Guernsey funds, regardless of where certain administrative tasks are undertaken, remains in Guernsey. In this way we can best protect the reputation that Guernsey has developed as well as ensuring that there is a seamless service for the fund manager.

### **Praxis Fund Services Limited**

When you first knock on the door of prospective clients, there are factors that distinguish Praxis. One is that the business is owner-managed. Most boutique-type investment management companies are also owner-managed, so they can appreciate what that concept involves.

They can also understand our very short 'decision tree'. If you are a smaller organisation, you do not have to go through various other offices within the group simply to make a decision about doing the business.

We are more of a niche personal-based organisation and that is often synonymous with how some of our clients run their business as well. There is a commonality of approach to how we do our respective bits of the job.

Consequently we can react to a client's issues that much faster, not only at inception, but throughout the life of the fund.

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