



Article

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HFM Week – Guernsey Report

Making custody one of your pillars of strength

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The sustained strength of Guernsey's funds sector has brought with it a number of opportunities for Guernsey-based banking organisations and the sophisticated custody and complementary solutions they can offer the investment fund community.

Having had an established custody service through its Channel Islands offices for more than 35 years, Deutsche Bank has played no small part in positioning Guernsey as a major European centre for custody business and believes strongly that custody is one of a number of crucial pillars that can support the fund industry.

It is becoming increasingly clear that fund administrators and investment managers are demanding complementary services in addition to their existing custody facility. Guernsey benefits from being home to the kind of global institutions, like Deutsche Bank, that have the capability to act as a 'one-stop-shop' and meet these demands.

Custody Growth

The rise of custody business in Guernsey accompanied the growth of the retail funds industry in the 1970s, allied to the growing accessibility of the stock market to the general public as a result of privatisations in the 1980s. Subsequent UK tax legislation changes have also fuelled the growth and attractiveness of the Channel Islands' custody services.

Today, Deutsche Bank has a formidable reputation for global custody solutions, looking after in excess of 13 trillion Euros of assets globally, with the Channel Islands offices alone acting as custodian for assets valued at several billion Euros.

There is scope for further growth for custody business in Guernsey too. The hard work Guernsey has put in to establish itself as a jurisdiction for specialist funds is proving valuable, with alternative asset class, including real estate, hedge and private equity funds, now representing a major proportion of the total value of funds business in Guernsey. This has been a major growth area for Deutsche Bank, with recent new custody business encompassing Sharia'h compliant funds, property, new energy, green and sustainability funds, as well as more traditional fund of funds structures.

In addition, expected changes to Guernsey's rules for non-Guernsey funds will mean that rather than those funds having to go through a long approval process with the Commission, a Guernsey licensee will take responsibility for the due diligence process. This will enable custodians in Guernsey, like Deutsche Bank, who have the right corporate governance and oversight processes in place, to offer non-Guernsey funds a quicker turnaround time.

Having the right infrastructure is also important in managing the transfer of business from other custodians. Deutsche Bank's custody, client adoption and relationship management teams have developed a wealth of experience in working together to ensure the efficient transition of business. For instance, by having that appropriate framework in place, the Bank in Guernsey recently took on a complex Protected Cell Company structure comprising 70 cells, with only minor interruptions to the day to day operation of the fund and the investment manager's ability to trade.

Holistic Service

With the kind of custody services demanded by investment managers becoming more sophisticated, there has to be a flexible approach. As well as seeking custody solutions, there is also a need for bespoke support in other areas, such as lending, banking, foreign exchange and hedging, and if that can be managed by one organisation, it can be a compelling proposition.

Lending, for instance, is an area where funds increasingly require support. Access to liquidity assists the investment manager to effectively manage their cash flow, giving them the flexibility to take advantage of investment opportunities as and when they arise, without the need to wait for proceeds to become available through subscriptions or from the sale of other assets. A liquidity facility can also be a valuable tool for the fund administrator when it comes to managing investor redemptions.

Whilst a lot of banks and credit organisations have been pulling back on lending, Deutsche Bank, which has managed to maintain a strong balance sheet and Tier 1 capital ratio throughout the credit crisis, is actually strengthening its credit offering. This is equally the case in the Channel Islands, where the Bank has the capabilities to provide appropriate lending services to funds, including private equity and mutual funds.

Foreign Exchange (FX) hedging is another area of increasing importance to investment managers who want to protect themselves against the currency risk which may arise when the fund is holding assets which are not denominated in base currency, or in instances where there are different currency share classes in issue.

This is a facility that can be readily accessed through Deutsche Bank's Channel Islands based Treasury Team. Globally, Deutsche Bank is a dominant force in the FX market – with around 15% of the market - enabling it to top the Euromoney FX Survey for the past seven years.

Bespoke reporting is also high on the wish list for fund administrators, which is why a system like Deutsche Bank's Private Port can be so attractive, offering timely and accurate reporting and valuations of cash and custody assets.

Partnerships

This year Deutsche Bank celebrates its 40th year of being present in the Channel Islands. In those 40 years, what has helped achieve success has been a willingness to form long term, strategic partnerships with our clients. As well as acting as custodian and banker for large and well-established funds, it has also been important to support more bespoke custody business, such as alternative asset classes and new fund launches.

Tailored solutions are crucial, which is why it is important to become the custodian of choice to the fund administrators and managers that we work in partnership with. We pride ourselves on getting to know their business inside out, so that we can adapt our custody and banking services, as well as a range of additional facilities to meet their needs. This is why the global reach offered by custodians in Guernsey such as Deutsche Bank are so attractive – it means that our clients can benefit from a worldwide network and access complementary specialist financial solutions.

With Guernsey's growing reputation as a centre for specialist funds, its network of fund managers and administrators will continue to require a responsible partner to provide them with secure, appropriate custody services. Alongside this, it is becoming more and more important to

have complementary pillars in place to ensure success in a challenging environment, and Deutsche Bank in the Channel Islands is well placed to support the fund industry in all these areas.

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Biographies of the Authors

Keith Johnson

Keith Johnson, Head of Custody, Deutsche Bank International Limited, joined Deutsche Bank in 2007 as director to focus on developing the custody offering. He supports the businesses in the Channel Islands and Cayman. Keith is also responsible for custody business reviews and leads the development of the online banking platforms.

Lisa Haggarty

Lisa Haggarty joined Deutsche Bank in May 2007. She is currently Relationship Manager within the Financial Intermediaries Team and has responsibility for custody and fund clients. Lisa has worked in the finance industry for nearly 20 years, beginning her career with NatWest Bank. She spent ten years with MeesPierson in various banking and credit roles before moving to Investec Bank and subsequently joining Deutsche Bank. Lisa is IMC qualified and holds a Diploma in Fund Administration.