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# A centre with the capability to service a full range of global investor strategies

*Ireland's funds industry is far from limited to hedge funds, ETFs and cross border pooling funds, and the industry has expertise also in servicing private equity funds, real estate funds, and infrastructure funds, writes CLIVE BELLOWS, Northern Trust's country head in Ireland.*



As the IFSC reaches its 25th anniversary, it finds itself at an important junction in its history. The road ahead is filled with the challenging obstacles of

regulatory uncertainty, a fragile Eurozone and uncertain economic times. Conversely as the IFSC pushes forward, it is those very challenges which are mapping out the road ahead. In these testing times, Ireland's reputation as a robust, well-regulated and innovative investment centre is encouraging more global investment managers to look to Ireland as a place to establish, launch and service their diverse fund ranges.

While this statement can be broadly applied to Ireland's diverse fund sectors, it is especially illustrated by examining the key sectors of hedge funds, exchange traded funds and tax-transparent cross-border pooling vehicles.

## Hedge Funds

From being appointed administrator for one of the first Irish domiciled hedge funds in 2004, Northern Trust has seen Ireland grow into one of the major global centres for the domiciling and servicing of hedge funds. Approximately 43 per cent\* of the world's hedge fund assets are administered in Ireland, as a service location of choice for hedge fund managers in the established centres London and New York as well as other important international locations (\*source IFIA). This reflects not only the strong foundations laid by the IFSC but also an ongoing commitment by the industry to evolve and demonstrate its ability to support investment managers to respond to their investors demands for new products and hedge fund structures.

Today the Irish hedge fund story is a clear reminder of how challenging times can present tangible benefits for well-established jurisdictions. Ireland has been well positioned to support the dramatically changed investor focus on risk,

transparency and operational governance since the financial crisis of 2008. This has driven transformational changes in the industry which Ireland has leveraged as follows:

*Move to regulated fund jurisdictions:* Ireland has benefited from a shift to more widely recognised regulated hedge fund domiciles as investors value the greater layer of investor protection and regulation offered. Ireland was quick to recognise this opportunity, responding by enacting a highly streamlined process for re-domiciliation of funds from other jurisdictions.

*Shift to UCITS vehicles:* In tandem with this trend, investors have also been changing the way they access hedge funds with a focus on highly regulated products such as Undertakings for Collective Investment in Transferable Securities (UCITS) vehicles. Investment in these so called 'Newcit' vehicles has expanded dramatically with the top ten platforms supporting approximately US\$8.5 billion (as reported in HFMWeek, November 2011). As both a highly established UCITS and alternative funds centre, Ireland is attracting strong inflows from this trend.

*Alternative Investment Fund Managers Directive (AIFMD):* Uncertainty over the implications of the AIFMD which seeks to enhance transparency and impose greater control over the European alternative funds industry has generated flows to Irish products, as investors and managers seek clarity in an uncertain world. With the publication of the European Securities and Market Authority's (ESMA) final report on Level 2 Measures, there is now more clarity over pressing issues such as the appointment of the depositary, the role of the external valuer and capital requirements. This is likely to give alternative investment managers more certainty for their more exotic strategies going forward.

Ireland is also well positioned to support this trend through products such as the Irish Qualifying Investor Fund (QIF), for which investment and borrowing constraints are waived and regulatory approval can be obtained within 24 hours.

In addition, the potential for a pan-European passport for alternative funds is also a new feature of the AIFMD which is likely to prove very attractive for managers who have traditionally used centres outside of Europe to domicile funds. This has also led to increased interest in the alternative area and will ultimately lead to additional activity in Ireland for alternative funds establishment.

However, opportunities do not come without their responsibilities – and it remains incumbent on the industry and the regulator to ensure that the business, legal, regulatory and operational environment in Ireland is structured to ensure that investors and managers are attracted towards Ireland. While Ireland cannot afford to be complacent about the challenges ahead, it has a clear head start in terms of the complexity of hedge funds administered out of the jurisdiction.

***“While ETFs had been established in the US, in the mid 1990s, Ireland was pioneering the way forward for Europe.”***

## Exchange Traded Funds

When Northern Trust supported the launch of the first major European exchange traded funds (ETFs) in 2000 on behalf of our ETF investment manager clients, this was the start of a big success story for Ireland. While ETFs had been established in the US, in the mid 1990s, Ireland was pioneering the way forward for Europe. Today Ireland is domicile to approximately 32 per cent of the European ETF industry which has total assets of US\$267.4 billion. (At 30 September 2011, source: *Blackrock ETF Landscape Report Q3 2011*).

The market entry reflected a strong level of co-operation between service providers, accountants, lawyers and regulators to establish a strong infrastructure and framework. This was built in a relatively short space of time to meet the opportunity and has continued to evolve to meet

changing requirements and market nuances.

From those early days, ETFs have expanded from an initial narrow focus on indices such as the FTSE 100 Index to exposure to a broad range of global assets including fixed income, real estate, infrastructure, listed private equity and sector specific ETFs with both physical, cash and swap-backed dealing methodologies.

The adoption of UCITS III in 2001/2002 created the opportunity for synthetic ETF products which have proved very popular. While these strategies are currently attracting some regulatory attention, we believe there is a strong market for both the physical and synthetic ETF products.

As predominantly UCITS products, UCITS IV is creating similar opportunities through the enhanced distribution possibilities through the master feeder fund structure.

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**“UCITS IV: as a leading UCITS centre, Ireland is poised to benefit from the new master feeder fund structure”**

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It is not surprising that a number of other European jurisdictions are actively looking to boost their ETF market shares. Ireland is able to differentiate itself through its experience and highly established infrastructure. As such it is well-positioned to respond to current European regulatory reviews around transparency, ETF activities and counterparty exposure.

**Cross-border pooling**

In 2005 Northern Trust supported the launch of Ireland’s first tax-transparent cross-border pooling solution for a multinational. This reflected the foresight of the Irish Government to enhance its bespoke Common Contractual Fund (CCF) pooling product to provide for the establishment of a non-UCITS CCF and an expanded eligible investor base.

As a measure of industry growth, Northern Trust now services tax-transparent cross-border pooling funds with assets in excess of US\$58.9 billion from our European offices of which Ireland is a key servicing centre (as at 30 June 2011). The market has expanded well beyond multinationals to encompass insurers/reinsurers, corporations and fund managers.

The Irish CCF has been specifically developed with pooling requirements in mind to offer pension and institutional

funds the opportunity to invest assets in a tax efficient manner. As it is transparent for Irish legal and tax purposes, investors are able to achieve the same withholding tax outcomes as if they had invested directly in the underlying assets.

While Ireland has been joined by a number of European domiciles, key differentiating factors include a comprehensive toolkit of funds for investors which are priced sensibly, a stable fund regime and a flexible approach from the regulators.

As the IFSC celebrates its 25 year anniversary, there are a combination of factors triggering further growth opportunities, including regulatory developments such as UCITS IV as well as pension funds’ broader focus on achieving economies of scale, tax efficiencies and enhanced governance.

UCITS IV: As a leading UCITS centre, Ireland is poised to benefit from the new master feeder fund structure which is highly suited to a tax-transparent pooling vehicle as it permits feeder funds in different domiciles to invest in the same master vehicle, whilst maintaining withholding tax outcomes.

*Fund rationalisation:* Cost trimming is an important theme in the post-financial crisis environment, encouraging multinationals, insurance companies and fund managers alike to explore pooled structures.

*Enhanced governance:* There is growing awareness for the benefits of a streamlined approach to asset monitoring and plan oversight through a centralised pool of assets. The Irish industry’s deep experience with these structures plays out to these trends as promoters consider where to domicile their structures.

It is clear these positive drivers are well understood by other European fund servicing locations which are looking to enhance their competitiveness in anticipation of this growth. At Northern Trust we believe Ireland will continue to be an important centre and have invested a significant infrastructure in Ireland to support cross-border pooling.

**The bigger picture**

Of course, Ireland’s fund industry leadership is far from limited to hedge funds, ETFs and cross-border pooling funds. The industry has expertise at servicing the full spectrum of global investment strategies, including – but not limited to – private equity funds, real estate funds and infrastructure funds.

Today the IFSC is a key engine for economic growth and prosperity for all of Ireland.

The domestic benefits have spread far

beyond Dublin to encompass regional centres of excellence such as Limerick, where Northern Trust opened an office in 2007. The growth of these regional centres has the double benefit of providing operational scale whilst providing local employment and training opportunities.

As an organisation which traces its origins in Ireland back to 1989, Northern

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Trust has seen dramatic growth in the scale and operation of our business which now employs in excess of 800 staff with assets under administration of US\$216.2 billion (as at 30 June 2011) as reported in the 2011-2012 Lipper Ireland Fund Encyclopaedia.

While the path ahead will be challenging, the IFSC’s pioneering qualities of excellence, innovation and reach as promoted by the Irish Funds Industry Association will ensure its continued success as follows:

**Excellence:** Throughout its 25 years, Ireland has been committed to excellence in financial services, and now has an enviable track-record for establishing and servicing of funds with the widest range of investment strategies

Ireland has shown its ability to support emerging global investment themes, and today is at the forefront of thought-leadership, devising product solutions to meet changing investment manager needs; and

**Reach:** From the outset the aim was to be a leading global fund centre and today Ireland is home to the world’s major fund promoters and fund service providers with distribution opportunities to the widest range of markets and servicing assets from over 70 countries.

While it is impossible to predict with certainty what the Irish funds industry will look like in the next 25 years, I am certain these attributes will continue to position Ireland as one of the world’s leading fund centres for many years to come.

*Clive Bellows is country head of Northern Trust in Ireland.*