PRIVATE EQUITY FROM A DIFFERENT PERSPECTIVE

JTC's Group Head of Institutional Client Services and three Managing Directors located in three key fund centres give their take on the deals landscape and outline what they are seeing in Guernsey, Jersey, Luxembourg and beyond.

What are the main types of deals currently being carried out in your jurisdiction?

Stuart Pinnington If we look across all the jurisdictions we operate in, we're seeing a broad range of deals being done, generally at a smaller level, often with a co-investment element. There's been a lot of interest in debt, with a number of new funds launched in the Channel Islands and Luxembourg.

Looking at specific business sectors, there's been interest in fintech due to steady revenue streams. We're also seeing a lot of interest in manufacturing investments targeted in Eastern Europe and other emerging market jurisdictions.

Adam Moorshead In Guernsey, we're seeing quite a bit of action in alternatives assets, such as aircraft leasing, as well as infrastructure and debt vehicles, with some excellent fund raisings being achieved. In the PE space, we're seeing infrastructure and debt as the primary asset class.

Tony Whitney In Jersey, real estate continues to dominate in terms of transaction volume and value. Much of the deal activity is transacted at corporate level rather than at real estate level, with many property structures being recycled between administration service providers. PE continues to see strong activity levels, particularly in the Eastern European small- to mid-market category.

Christophe Lentschat Luxembourg is the domicile for over 25,000 unregulated companies, of which a large amount are used to structure a full spectrum of private equity deals, so there is a lot going on. When it comes to regulated structures, the latest statistics show a preponderance of technology-linked investments. And in general, investments focus mainly on Europe.

What are the average deal sizes?

Adam In the UK listed space this year, IPOs have been in the region of £150m to £250m, with secondary issues between £100m and £236m. On the PE front, they've been more varied and larger, with Park Square raising $2.4bn for their debt fund, Macquarie £739m for an infrastructure debt fund, and Waterland's sixth fund raising €1.55bn, for example.

Tony Just like in Guernsey, there's a lot of variety. Individual deal sizes tend to be smaller, in the region of £10m-£25m – however there have been a number of larger portfolio deals exceeding £100m, particularly in the distressed real estate/debt sector. New follow on funds are currently being launched with target equity raises in the region of £500m, and all managers expect to be fully or overly subscribed.

Christophe It's difficult to put a figure on average deal size, purely because of the diversity of the PE sector in Luxembourg, which goes from private wealth structures to large multi-nationals through to international PE investment managers.

Is this typical or are you noticing any emerging trends?

Tony We do not anticipate the portfolio deals continuing with any increased regularity. More likely they will reduce as managers break up portfolios to focus on the highest value assets, thus returning to more normalised individual transaction sizes. With such a weight of capital currently awaiting investment, and the competition for quality/good value deals, managers are starting to focus on other emerging or less developed markets. For example, Poland has seen enormous levels of M&A activity over recent years, much of it from PE funds, and whilst this is unlikely to change any time in the near future, managers are increasingly broadening their focus on less developed regions of Central and Eastern Europe.

Adam The pattern we're seeing in Guernsey is one of fewer deals with a more concentrated number of managers, but this is a pattern reflected in all jurisdictions. We're also seeing the migration of funds over to the island, such as Investec Asset Management re-domiciling their $1.2bn fund of funds from Ireland.

In addition, existing managers with a proven track record have launched successor funds – Inflexion Private Equity raised more than £1bn late last year, for example. And some big raises are planned for early 2016.

Do these deals differ from the ones your colleagues in other jurisdictions are seeing?

Stuart There's a continued trend for Asian and Middle East transactions to be structured through Cayman using the flexibility and recognition of Cayman structures to close deals in a short time frame. For many managers who aren't looking to raise equity in Europe, Cayman still appears to be the jurisdiction of choice.

Tony From a Channel Island perspective, there is a greater volume of transactions in Jersey particularly in the real estate venture capital sector. However, as I mentioned earlier, Guernsey does tend to see larger value deals/funds.

How do you see the PE landscape developing in the next 12 months?

Stuart From a group perspective, we're already seeing a huge increase in the number of start up funds where managers have broken away from more established set ups. The availability of money and the confidence in the market has been a spur for individuals to develop their own strategies and launch their own funds – this means more competition for target acquisitions and potentially higher risks or more diverse strategies being accepted. From a structuring and administration point of view, this means having to provide more flexible solutions and more cost-efficient delivery of services.

Christophe The introduction of AIFMD led to some convergence between the regulated and non-regulated spaces. With interest in PE investments and tangible assets growing, it will be interesting to see if more PE managers take advantage of the AIFM passport going forward.

What's more, there's been a major change in Luxembourg in the introduction of the new special partnership structure. This widened the range of structuring options available to PE players and has been used to set up a number of sizeable PE funds by players who didn't use Luxembourg before. This new option gets Luxembourg closer in terms of PE to the UK, US and Channel Islands, and it will be interesting to see where this leads.

Adam I believe we will see the larger, more established private equity houses continue to get funds away, but the smaller or new promoters that Stuart talks about will find it difficult to raise capital without having a well-established track record.

One red flag is the level of unspent capital in the worldwide market. This rose by almost 12 per cent to $1.2trn at the end of 2014. With such large commitments, funds will need to find suitable investments to spend the cash, so there's a risk of competition for attractive assets driving prices higher and affecting returns.

With the ESMA recommendation to extend the AIFMD passport to Guernsey and Jersey, we may also see managers looking to move domicile outside of the EU, and jurisdictions such as the Channel Islands would certainly provide a solution. As for asset classes – I expect alternatives, debt, real estate and infrastructure funds will remain dominant.

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Group Head of Institutional Client Services

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