

EXCELLENCE, INNOVATION AND REACH

The international funds industry in Ireland is poised for significant growth following the unprecedented turbulence of 2008 and 2009, writes **Ian Headon FCCA**

While it may be premature to herald the end of the period of distress in financial markets, one thing is clear: global investment managers are active once again and are looking to Ireland, and Irish service providers, as a solid, well-regulated, innovative and safe centre of investment activity. The Irish industry employs almost 10,000 people directly with thousands more employed in various support activities. On 2 March 2010, Gary Palmer, chief executive of the Irish Funds Industry Association (IFIA) told members of ACCA that Irish domiciled funds have recovered most of the 2008 fall in assets under management. Irish domiciled funds totalled €808bn at the end of 2007, falling by almost 20% to €647bn at the end of 2008. At the end of 2009, the number had increased to €749bn and, while this number is still off its peak, there are encouraging signs that inflows are returning to the Irish funds industry. Palmer's IFIA has identified the key themes of excellence, innovation and reach as the hallmark of the industry for 2010 and beyond.

A centre of excellence

The industry is uniquely positioned in global financial markets as a centre of both fund domicile and fund servicing. Almost 40% of global hedge fund assets are administered in Ireland, many of which are domiciled in the Cayman Islands, Bermuda and elsewhere. As a result, the Irish industry has become a centre of expertise for hedge fund managers globally across multiple disciplines such as fund administration, custody, legal and audit advice, and consulting services in areas such as fund structuring and distribution. This did not happen by chance. The

original trigger for the IFSC and Ireland as a funds hub, centred on the development of an appropriate and focused legal, regulatory and fiscal environment for financial services firms, giving Ireland's financial service business a stepping stone and access to global industry companies. However, any such advantage would have been quickly lost had Irish firms not been able to demonstrate continued innovation, commitment to client service and a track record of expertise, creating solutions and structuring new investment products to allow fund managers to sell to, and manage, their investor base. There has been much comment in the press in recent months on matters regulatory. So, it is worth stressing that the regulatory environment surrounding the investment funds industry has been constructive, well managed and strict in its implementation, but pragmatic, collaborative and transparent in its policy making.

New demands

Recent financial conditions have taken their toll. It was not long ago that the biggest issue facing many Irish firms was the availability of staff and capacity generation, i.e., having the resources to service growing client demand. While a number of firms have had to take tough decisions, the employment market is on the up, with many firms announcing expansion in the last three months. We are also facing new demands. The professional investor is now demanding more from their investment product in terms of governance, control, transparency and flexibility and, as a result, Ireland Inc. needs to continue to demonstrate expertise, innovation and

reach with a view to continuing to attract the global investment product to Ireland.

Contrary to public perception, the global hedge fund industry is already highly regulated but, in many cases, the fund vehicle itself is located in a low-touch regulatory centre such as the Cayman Islands. In response to investor demands, hedge fund managers are now adding Irish qualifying investor fund (QIFs) and undertakings for collective investment of transferable securities (UCITS) to their investment ranges to cater for new investor demand. In terms of how this impacts the Irish industry, the Irish regulated QIF is seeing a resurgence in interest, as is the more traditional UCITS brand (as many hedge fund managers look to create more 'regulated vehicles'). The Irish Government has been quick to support this trend, with minister for finance Brian Lenihan making specific reference to the Irish funds industry in his December 2009 Budget speech, and with tánaiste Mary Coughlan expediting legislation through the Oireachtas to enable fund managers to redomicile funds to Ireland in a quicker and easier manner. Ireland is operating in a competitive market and the industry is working with the financial regulator in responding to the competitive threats and to proposed new regulation.

Challenges and threats

The EU has proposed a directive aimed at hedge funds and private equity funds. Known as the AIFMD, the Draft Alternative Investment Fund Managers Directive would essentially require funds managed in the EU but domiciled elsewhere to operate as if they were domiciled onshore. The Irish industry has, for many years, operated funds in

IT IS IN THE AREA OF INNOVATION, CLIENT SERVICE AND PRODUCT STRUCTURING THAT IRELAND HAS AN OPPORTUNITY TO MAINTAIN AND EXPLOIT THE ADVANTAGES THAT WE CURRENTLY ENJOY

this manner, but many point out that the AIFMD would have serious additional repercussions for US-based managers seeking to distribute funds in Europe, making it harder for US managers to access this key marketplace. As a result, the Irish industry's stance is that, while we welcome appropriately structured regulation, there are aspects to the AIFMD which are problematic and create uncertainty and should, therefore, be changed. This uncertainty is generating further interest in the QIF and the UCITS. However, as fund managers look to launch 'regulated' funds, it is important that Ireland continues to provide the opportunities, solutions and efficiencies to continue to

attract these managers to use Ireland as the base for their internationally-distributed investment funds. Many Irish firms are part of global corporations with operations throughout Europe, but those of us involved in the Irish industry have a vested interest in retaining Ireland's position in the global investment funds industry. A second competitive threat is the natural trend of global firms to extend operations to lower-cost operational centres. Many aspects of the fund administration and custody business have become commoditised and, therefore, lend themselves to migration to lower-cost centres where direct client contact is not a premium requirement. It is in the

area of innovation, client service and product structuring that Ireland has an opportunity to maintain and exploit the advantages that we currently enjoy.

The Irish funds industry has grown exponentially, suffered what appears to be a temporary fall in assets under management and is now poised for further growth and expansion, as we look to demonstrate excellence, innovation and reach to our key client base of asset managers and investors in London, New York, Asia and other global financial centres.

Ian Headon FCCA is senior vice president at Northern Trust
Email: ian_headon@ntrs.com

DUBLIN DOCKLANDS ...VISION BECOMES REALITY



ENTERTAINMENT

EXCELLENT TRANSPORT LINKS

BLUE CHIP COMPANIES

SUPERB CAFES & RESTAURANTS

CONTEMPORARY APARTMENTS

CONTACT THE DOCKLANDS SPECIALISTS FOR FURTHER INFORMATION

RESIDENTIAL SALES | LETTINGS | COMMERCIAL | NEW HOMES

01 6777100

owenreilly
property consultants

www.owenreilly.ie