

A healthy interest in Jersey private equity

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In a news cycle that can seem relentlessly gloomy, there are some positive stories to be told and the increased activity in private equity is one of them. In an article for Jersey's Connect Magazine's August 2020 edition, Partner James Fox looked beyond the financial services industry at the wider social and economic benefits of this growth.

Anyone who has even a passing interest in the Jersey financial services sector will have seen positive news and results for the funds industry in general and the private equity sector in particular.

Jersey's private equity industry saw a 19% year-on-year jump in business according to recent Jersey Funds Association statistics. The Jersey Private Fund goes from strength to strength with there now being over 350 established in the space of a few years.

This makes for a welcome break from the negative news which dominates the headlines and is often over-simplified to have single, one-word root cause. Recent favourites being, of course, Brexit or Covid. The truth, as ever, is more complex. There are positive stories to be told among the doom and gloom of the 24-hour news feed and, in the business world, this is especially true of private equity and the impact it has on a range of industries.

For instance, private equity is becoming increasingly active in the medical and health care sector. The aging population and the fact that we have comparatively fewer workers/taxpayers to support it is a newsroom staple, as is the need for investment in long term health care propositions. Private equity funds have actively embraced the sector and there is significant private equity investment in research and development into new drugs and medical devices.

This, in turn, leads into the huge number of private equity investments in areas like technology, software and data. Investment by private equity funds into companies when they are still at a growth stage – which is the core of what private equity does – allows for opportunities which established household name listed companies may find too speculative to invest in and which may struggle to get traditional bank finance if they do not have a track record and sufficient credit history or cash flow to regularly make loan payments.

For a jurisdiction like Jersey, which is renowned for its good regulatory standards, a strong legal framework and high standards of service, the increase in private equity demonstrates that the industry is taking these things seriously and ascribing a commercial value to them.

Environmental, social and governance (ESG) investing is another positive aspect of private equity news. Many investors are demanding that their money be used in a way which is compatible with these values. We are seeing these principles hard-wired into fund documentation and many well-known institutional investors will simply not invest in private equity funds that do not subscribe to this ethos.

Private equity has been subject to criticism over the years and has had a one-dimensional reputation based on the popular perception that it is about buying cheap, loading a business up with debt and then cost cutting/asset stripping. What such convenient clichés ignore is that private equity is a mature market with a huge diversity in operating models and investor requirements.

This simplistic view of something as either good or bad fails to account for these nuances and differences. It provides a better and broader picture to see the benefit that can be brought to Jersey and elsewhere by the appropriate use of private equity money to enhance and expand businesses and help them thrive.

Jersey is already performing well in the private equity arena and is likely to continue to do so with the many advantages Jersey offers the industry combined with our commitment to appropriate regulation and ESG standards which aligns with what investors increasingly require.

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