Hamilton, Bermuda.
Photo: Courtesy Ann Spurling

CONVERGING CURRENTS

BY SEAN MORAN & JESSEL MENDES

Bermuda's funds sector has recorded impressive growth over the past three years, with new incorporations, investment managers and service providers re-establishing the jurisdiction as a major asset management centre.

The trend comes amid a strengthening Bermuda economy, innovative legislative updates for the Island's funds industry and a juggernaut insurance linked securities sector that has proven a cross-sell catalyst, coupling Bermuda's traditional reinsurance market and its alternative funds sphere.

An example of the market's positive momentum came in November 2015 when a hedge fund manager based in New York decided to open a trading operation in Bermuda. The function was previously located in Singapore but the distance between front and back office sites had become untenable and the firm's CEO decided trading should be done closer to his NYC headquarters. After scouting several offshore jurisdictions, he chose Bermuda for its convenient location, sophisticated

infrastructure, business-friendly environment and talented workforce.

Fast-forward to July 2016, when global administrator Centaur Fund Services announced it, too, was setting up on the Island. Already established in London, Dublin and New York with $12 billion under administration, Centaur said Bermuda provided a strategic base from which to service both global and North American-based clients.

Both cases underscored the fact Bermuda had again become a jurisdiction of choice for the industry. The trend is gratifying and points to dedicated efforts carried out by the Business Development Agency (BDA) in liaison with industry partners to invigorate the sector. Starting back in 2013, BDA launched a concerted push with the Government of Bermuda and the Bermuda Monetary Authority (BMA) to carry out key legal and regulatory changes to modernise the way funds could be established.

Importantly, Bermuda's Parliament passed amendments to the Investment Funds Act 2006, making it quicker and less expensive to incorporate funds on the Island, paving the way for immediate growth in this arena.

Since then, Bermuda fund launches have approximated 10% on an annual basis, with a majority of new funds being in the Class A and Class B exempt fund classes created in 2013. Today, Bermuda's regulator has almost 800 funds on its register and reports total assets under administration and management of almost $200 billion.

The BMA also licenses and supervises close to 60 traditional and alternative fund managers, and 30 fund administrators locally. Next year, it will be additionally responsible for overseeing Bermuda-based corporate service providers, a move to satisfy new standards for governance and risk management.

Additional corporate legislation has improved the Island's legal framework further, stimulating growth and keeping the jurisdiction globally competitive amid ever-changing market demands. Industry has welcomed the reforms, including changes to Bermuda's partnership laws, and the passage of the Limited Liability Company (LLC) Act – which introduced a hybrid entity combining features of both corporations and partnerships.

LLCs are commonly used in the US for private equity funds and other asset management structures, as well as trusts and private client vehicles. Closely modelled on Delaware law, Bermuda's LLC legislation is particularly attractive to US counsel and the structure is expected to be a popular vehicle for funds and holding companies incorporating in Bermuda.

Segregated accounts company (SAC) structures are also gaining popularity and legislation is also going through Bermuda's Parliamentary process to create incorporated SACs (or ISACs).

Bermuda remains the top global centre for insurance linked securities (ILS), with more than 70% of the $25 billion in global ILS volume listed on the Bermuda Stock Exchange (BSX). We have 20 fund managers who deal exclusively in insurance linked securities, risk linked securities and catastrophe bonds. Capital markets and (re)insurance have long had a mutually beneficial relationship and this synergy has strengthened with the development of ILS, collateralised reinsurance, industry loss warranties (ILWs) and sidecars, all driving both markets' convergence.

One of the top three global centres for traditional reinsurance, Bermuda – known as 'The World's Risk Capital' – is top of mind for New York law firms dealing in ILS and we have seen a related spike in interest from these in our private equity sector.

The growth experienced in the funds space is proving positive for Bermuda's legal community. New law firms that have recently set up in the City of Hamilton – for example Walkers and Harneys – are leveraging their global relationships to bring business to Bermuda. Existing law firms like Appleby and Conyers are doing the same and also landing new business.

A key mandate for the BDA has been to attract major conferences and events to the Island to stimulate more growth and showcase our jurisdiction's strengths to a global audience. New funds-related events we have helped establish here include: the Regulatory Compliance Association (RCA) Regulation, Operations and Compliance Symposium, which brings more than 250 asset management executives and representatives from global regulators; the Global Fund Forum, a three-day gathering organised by Hedge Connection that registers several hundred hedge fund managers and qualified investors for one-on-one meetings, workshops and informal networking; and the World Alternative Investment Summit (WAIS) Bermuda, which debuted in 2016, attracting 200 investment advisors, family offices, service providers and investors.

Bermuda's own asset management ecosystem is developing as a result of such initiatives. Industry representatives established a branch of the Alternative Investment Management Association (AIMA) in 2016 and 100 Women in Hedge Funds (100WHF), a global association of more than 13,000 professional women in the alternative investment, asset management, investor and broader financial services industry, has also established a location on the Island, with 200 members and growing. Both offer new platforms to expand the funds sector by spreading the word about Bermuda as a premier jurisdiction.

Externally, Bermuda is progressing in its bid for recognition by European regulators under the Alternative Investment Fund Managers Directive (AIFMD). The BMA has signed agreements with most European Union (EU) member states on AIFMD and Bermuda was among the second group of third countries assessed by the European Securities and Markets Authority (ESMA) for passporting rights. If given final approval by ESMA, Bermuda-based AIFMs could then market funds to investors throughout the EU on a cross-border basis.

Bermuda will continue to adapt to changing market environments. We are proud of our jurisdiction's resurgent asset management industry and remain committed to sustaining and building on its success.

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