

A TRUE OFFSHORE FINANCIAL CENTRE

GRAHAM BLYTH AND WILL KOUTNEY, OF CML, PROVIDE THEIR VIEWS ON HOW TALENT ACQUISITION HAS RENDERED THE CAYMAN ISLANDS A TRUE OFFSHORE FINANCIAL CENTRE



Graham Blyth has led CML's legal recruitment practice from the Cayman Islands since 2013. He is responsible for all fee-earner recruitment from newly qualified through to partner level, across all practice areas in the offshore legal market with a geographical remit covering Cayman, BVI, Bermuda, the Channel Islands, Hong Kong and Singapore. Prior to joining CML, Blyth spent three years in a similar role with a leading international recruitment business in London.

Much has been made of the Cayman Islands as an offshore financial centre by the mainstream media and financial insiders alike. We'd be remiss if we didn't mention our brethren in Bermuda, the Channel Islands, the British Virgin Islands, Luxembourg and Hong Kong – we'll be touching on them later. We'll spare our esteemed readers the history lesson on our role in smoothing global transactions and providing liquidity, as any of our clients are defter at doing so in these pages anyway. Our aim here is to illustrate the key trends and implications of the global flow of funds and private equity talent in their particular specialisations.

First off, some numbers. The Cayman Islands houses approximately 1,600 qualified accountants and 800 qualified lawyers, of which some 70% are fully or partially wrapped into the sphere of hedge funds. On top of those, another 1,800 professionals exist throughout corporate administration, legal secretarial, fund administration, and fiduciary/independent directors further support the hedge fund industry. Although still paling in comparison to London and New York/Connecticut as financial centres, or for that matter San Francisco or Tokyo, these personnel figures are not insignificant.

So, why the fuss? The answer is twofold. One, Cayman has historically and continues to provide the skeletal backbone to the hedging brains (investment managers) in New York, London, et al. and the beating hearts of the NYSE, FTSE, Nikkei, DAX, or even less liquid assets, wherever they may lay. Two, as global regulation continues its thundering march, Cayman becomes increasingly important in lockstep to provide fiduciary, legal and accounting talent to secure the industry's risk profile. No small task.

Why is all of this important in the grand scheme of talent acquisition, whether organically cultivated or headhunted from other jurisdictions? Let's take one step back before taking two forward and look at the origin and meaning of the phrase 'to hedge'. If the Oxford Dictionary is to be believed, the simple noun meaning "a fence or boundary formed by closely growing bushes or shrubs" transformed colloquially around the 16th century in Old English to become a verb meaning "protect oneself against loss on (a bet or investment) by making balancing or compensating transactions". Historically, we all know that putting a fence

around one's assets (or stuffing them in the mattress, for that matter) proved a fantastic strategy for growing and safeguarding them. However, as globalism expands in 2018 and onwards, the sharing of knowledge and talent seem to be the only viable answers to embrace new opportunities, grow our assets and business, and hedge against losses and downturns.

So, let's talk about this increasing global interconnectivity and how it's affecting talent availability, mobility and knowledge transfer in a way that can add value to our funds client base.

AUDIT

In a business that is one of the three historic pillars (alongside legal and administration) of the offshore funds industry, changes have been fairly dramatic over the past

five to 10 years. As recently as the late 2000s to early 2010s, the Big 4 and mid-tier firms in Cayman and Bermuda were accepting the vast majority of their entering staff as recently qualified CAs and CPAs with no financial services experience. In the last five years there has been a seismic shift in that the majority of candidates have now been entering from jurisdictions in other financial centres such as New York, London, Toronto, Dublin and Johannesburg.

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The implications of such may not seem all that noteworthy, but within the firms themselves the changes have been palpable. What was once viewed as a dusty (or in our case salty, I suppose) backwater of the global financial services machine that operated on "Caribbean time" has become competitive and on pace with the jurisdictions we are deriving a significant portion of our talent from. Knocking on, this has had the effect of preparing a more mobile talent pool suitable to take their funds and private equity knowledge to more 'front office' locales where financial analysis and accounting can add value for investment managers and consulting firms establishing best practices.

LEGAL

Cayman Islands law firms have always set a high bar when hiring legal talent from overseas. Traditionally, this has meant hiring Oxbridge educated 'magic circle' lawyers from London. As the hedge fund industry began to expand rapidly in the mid-nineties, the hunting ground for Cayman law firms seeking top talent expanded to Australia,



New Zealand, Canada and beyond. The trend has always been to hire the brightest lawyers with the best training from the most recognisable onshore law firms.

However, the bar is set even higher today. Prior to 2008, practice area and specific funds knowledge was not a major concern when hiring lawyers from overseas. Many of today's senior Cayman funds lawyers started life as general corporate lawyers in their home jurisdictions before re-tooling upon arrival in Cayman.

Today, the hiring landscape is different, and, in most cases, Cayman law firms are demanding candidates with existing funds experience. While there are still a significant number of fresh legal brains arriving in Cayman each year, lateral on-island hiring has increased dramatically, as has hiring from other offshore funds jurisdictions such as Jersey and Guernsey. This should be welcome news for the onshore law firms, investment managers and funds who rely daily on Cayman legal counsel. Only the very best lawyers, with existing industry expertise, are now making the cut.

A final point of interest is the increasing demand for regulatory lawyers in the last 12-18 months. Five years ago, there were only a handful of regulatory lawyers in the Cayman Islands. Twelve months from now, it is very likely that every firm will have a regulatory team or practice group.

ADMINISTRATION

The shift in the final pillar of the offshore funds industry has been the most eye-opening of all. Dating to a nascent funds industry some 25 years ago, administration was always the 'moneymaker' as few had the horsepower to properly provide the support to emerging funds that was needed to prove returns to subscribers and illustrate promise to potential investors. As technology and software platforms have improved, margins have undergone uncomfortable squeezing.

What we've seen here is the combination of a nearshoring of talent to more inexpensive jurisdictions such as Halifax, Cape Town and Mauritius, along with the aforementioned technological efficiencies. An interesting note here is that Dublin was formerly one of these jurisdictions, but with Brexit causing a rush out of the UK, Ireland has become increasingly expensive. This has all created somewhat of an awkward over-supply of fund administration talent, with the most valuable of the bunch skewing to-



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wards more IT-savvy, or at least tech-capable, accountants who understand how the sausage of a NAV gets made.

FIDUCIARY AND CORPORATE SERVICES

As social and regulatory forces continue to press fund managers for accountability, there has been a growing appetite for independent company directors who not only have enough legal, accounting, investment and regulatory funds knowledge to be deadly, but also typically carry the gravitas to handle potentially awkward investor issues with the board. Whereas many moons ago directors were often related parties to the fund, serious structures in 2018 almost universally have at least one independent director.

Why we find this relevant to the overall talent pool is that the demand for high-performing, highly educated and seasoned funds professionals are increasingly recruited from all disciplines for their varied specialities and expertise, be it valuation, structured finance, private equity, cross-border tax, strategy, investment, risk or legal. What was formerly an auditor's career progression in funds has opened up to lawyers and various finance professionals deriving from some of the traditional front office jurisdictions.

SOME FINAL THOUGHTS WITH AN EYE TOWARDS THE FUTURE

The training, standard of care and reliability of performance in the above disciplines is now on par in the Cayman Islands with the magic circle, or the Big 4 of New York. In some areas, such as fiduciary, we're a global leader offering unmatched expertise and services. This has been evidenced in the past five years or so in a way that never has been before – by the interoperability of skills when experienced candidates seek to 'take their talents' to other jurisdictions. Just plug and play.

We've also seen some signs that more progressive onshore jurisdictions are beginning to apply pressure to offshore-domiciled funds to prove a case of 'nexus'. This issue becomes relevant for domestic funds seeking to access global capital markets. This is a trend that takes some of the above commentary to an inflection point whereby more localised operational talent may become necessary to justify a global offshore domiciling standard. Perhaps in the ensuing five years we'll know more about which governments will hold sway between the globalists and protectionists. Stay tuned! ■