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Introduction

After approaching a decade of rapid growth, Ireland's hedge fund services industry may be having to face up to new challenges in the form of rising costs, occasional shortages of key skills, and increased competition from other jurisdictions. However, most people in the industry would acknowledge that these are problems born of success.

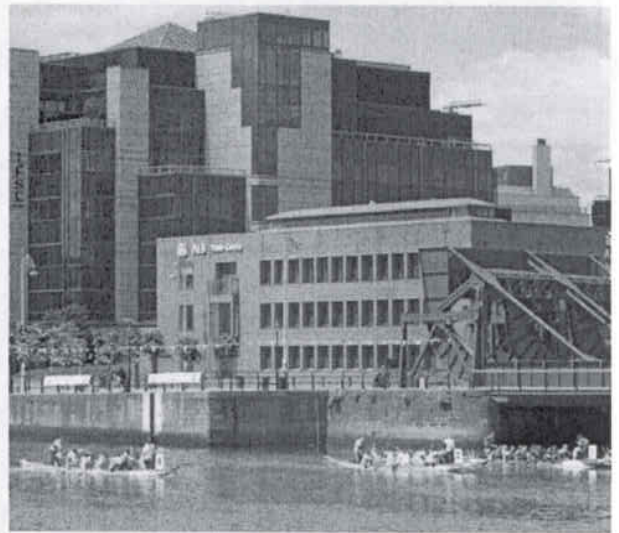
When Dublin emerged as a financial services centre starting in the early 1990s, many international companies were prompted to relocate to the city's International Financial Services Centre at least in part by the prospect of lower costs. But today, with the industry a leading employer and Ireland now one of Europe's most prosperous countries, salaries, office space and other expenses are on a par with, and in some cases higher, than rival centres.

Ireland has also benefited from the availability of a young, well-educated workforce. Although the industry in general - and the hedge fund administration sector in particular - has built up an enviable level of specialist expertise, the growth of the industry has resulted in increased competition for skills and experience, in Dublin at least.

Meanwhile, other financial centres such as the Channel Islands, the Isle of Man and Luxembourg have belatedly latched on to the niche carved out by Dublin in hedge fund services and are scrambling to gain a larger share of this growing market through changes in legislation and regulation.

But there is no sign that these developments are having any significant effect on Ireland's competitiveness. For example, Dublin's higher costs have been matched by growth in the experience and expertise available to an industry which requires much higher levels of skills than traditional long-only fund administration.

Some companies have decided to move all or part of their operations to lower-cost areas such as India - but others are simply setting up shop in other parts of Ireland, where they can still benefit from the country's pool of educated people and its



advantageous corporate tax structure. Besides, none of the competing jurisdictions for hedge fund business can themselves be described as low-cost.

Another sign that the industry is settling into a mature growth pattern is the acquisition of many specialised hedge fund administrators by leading international institutions. This means there is a choice between big global players that may be geared to larger funds and appeal more to institutional managers, and smaller niche players that are willing and able to offer a more individual service to start-up funds.

The national authorities are keen to see the financial sector develop further, and attracting hedge fund managers to set up shop in Ireland has been identified as a potential opportunity for growth. However, industry members believe that legislative changes may be necessary for the jurisdiction to become more attractive as a domicile for alternative funds.

But how crucial this might be to the future of Ireland's financial industry is a moot point. With the benefit of first-mover advantage and a critical mass of expertise unmatched in any other international centre, all the signs are that Dublin is well placed to defend its pre-eminent role in alternative investment servicing into the future. ■

Dermot Butler