

The Guernsey Green Fund: spearheading a once-in-a-generation opportunity

Cara McErlane, Associate Director of Private Equity at the Aztec Group, explains why the Guernsey Green Fund - the world's first regulated green investment product - is such an attractive proposition for fund managers and investors alike.

The demand for green investments is here to stay. An investment survey carried out by PwC late last year suggested assets into environmental, social and governance (ESG) and impact investments could reach €7.6 trillion over the next five years, overtaking investment in 'conventional' funds. Of the 300 pension funds and insurers PwC surveyed, more than three-quarters said they planned to stop investing in conventional funds in favour of ESG-focused products by 2022.

Such demand has been reinforced by the realisation that investing with 'green' principles no longer means sacrificing returns. In fact, sustainability has proved something of a safe haven in recent years, as companies with strong ESG principles offer long-term stability and greater efficiency in managing underlying risks, as well as making a positive impact on the environment and the wellbeing of society.

Even so, investors are sceptical of investment managers making bold claims about sustainability, and fears of 'greenwashing' persist. Legislation such as the European Union's new Sustainable Finance Disclosure Regulations (SFDR), are designed to promote investment transparency and ensure fund managers provide more rigorous information on the green credentials of portfolios. But the rules are also designed to direct more capital towards those funds that truly deserve their green status. For those fund managers who are genuinely passionate about offering sustainable and impact investments, this is clearly a once-in-a-generation opportunity. Which is why initiatives such as the Guernsey Green Fund serve a critical dual purpose.

The Guernsey Green Fund (GGF)

Launched in July 2018 by the Guernsey Financial Services Commission (GFSC), the GGF is the world's first official green fund designation. Not only does it help fund managers build innovative sustainability-led investment mandates, but it also gives investors renewed confidence that the fund is being managed to clear, transparent and verifiable green guidelines.

The GGF designation applies strict eligibility criteria with the objective of a net positive outcome on the planet's environment. For example, at least 75 percent of the portfolio must be invested in assets within the following areas:

- Renewable energy
- Lower-carbon and efficient energy generation
- Energy efficiency
- Agriculture, forestry and land use
- Non-energy greenhouse gas reductions
- Waste and wastewater
- Transport
- Low-carbon technologies
- Cross-cutting issues

The remaining 25 percent of the portfolio can be invested in other asset classes, provided they don't lessen or reduce the fund's overall objective of mitigating environmental damage. The GGF can also voluntarily apply ESG principles to its investment analysis and decision-making processes.

Obtaining GGF Certification

GGF certification is available for existing as well as new funds, and can be established using any of the existing Guernsey fund structures.

A three-step process must be followed which includes (i) establishing the fund; (ii) compliance with the GGF Rules must be demonstrated, which includes notification requirements, disclosure and reporting requirements and compliance with the elected green criteria; and (iii) assurance must be provided that the fund is being run in accordance with its green criteria, verified either through a suitable independent third party, or via declaration from a Guernsey licensed fund manager or administrator, such as the Aztec Group.

The Aztec View

Aztec is currently helping several investment managers through the GGF certification process, and our experience so far tells us that fund transparency and regulatory reporting doesn't have to be onerous or expensive. In our experience, we've found the certification process to be very straightforward. The GGF application can be submitted in conjunction with a new fund regulatory application, and it only takes an additional five days for the Guernsey Financial Services Commission to reach its decision on certification.

That said, the process is definitely made easier where fund managers work with an administrator with a good understanding of their client's investments and ESG principles. Our clients also benefit from the fact our experienced administrative team has strong links with the Guernsey Financial Services Commission and Guernsey Finance.

Investing with a Purpose

We've clearly come a long way from the days when investment managers would consider corporate social responsibility as primarily a box-ticking exercise. Today, not only is there increased appetite from investors, but there are several exciting investment areas such as renewable energy, food technology and low-carbon technologies, that investors of all sizes want to play an active part in.

It's a clear and recognisable benefit for our client to be able to display the GGF kitemark on their product literature. It gives would-be investors the assurance that the fund manager has a clear vision, that the portfolio features investments that align with this vision, and that the fund will continue to be managed in accordance with its principles.

This year looks set to be the tipping point for ESG. Investor appetite is growing, and we're in a period of exciting innovation across a number of different sectors. This virtuous circle is the emergence of initiatives such as the GGF, which lets investors compare green funds and make more informed choices. The demand is clearly there, it's now up to investment managers to create more of the green investment products that investors want to participate in.