WALKERS

As more funds hit headlines over climate change and fossil fuel pledges, how Guernsey is showing the way forward

by Zoë Hallam, Senior Counsel, Walkers (Guernsey) LLP

From the coining of the term "ESG" in an IFC report in 2005, the integration of Environmental, Social and Governance factors into financial investing has gone from strength to strength. In 2014 the United Nations identified 17 Sustainable Development Goals (SDGs) with the intention of eradicating the most pressing global problems by the year 2030, and 2016 saw the accession of 175 nations (representing 88% of global greenhouse gas emissions) to the Paris Agreement.

In 2020 it is now well accepted among investment professionals that ESG is no longer a "nice to have" nor is it a trade off against economic return. Over the years the responsible investing continuum has expanded from the principle of "do no harm" to one where investors are now seeking to achieve positive environmental and social impact alongside financial returns. As we enter this new decade, the focus is now very much on integrating an even deeper commitment to positive societal impact within investments.

Responding to concerns about the climate crisis and society's increasing expectations of corporations, there has been a growth in the design of investments which seek to intentionally generate a measurable, beneficial social or environmental impact alongside a financial return. These investments are known as impact investments, and the focus of these investments include tackling global issues such as climate change, poverty, education, healthcare and gender equality.

Justin Sykes, of specialist local sustainability and impact consultancy, Innovest Advisory, sees a growing demand from investors for a more detailed understanding of the social and environmental impact of their investments; "Investors, particularly private clients and millennial investors, want to make sure that their investments have a positive impact on people and planet as well as generating good financial returns" he said.

These issues are not new to Guernsey. The jurisdiction has played a leading role in the responsible investing field over the years, taking an early leadership position in the clean tech sector (including pioneering a number of solar funds) and then in 2018 becoming a member of the United Nations' Financial Centres for Sustainability (FC4S) Network. The creation of Guernsey Green Finance and TISE GREEN, and the launch of the first Guernsey Green Fund designated investment scheme later that year all reflect the jurisdiction's efforts to remain at the forefront of global responsible finance efforts. The Guernsey Green Fund is a world-first regulated green fund regime with defined green investment criteria and 5 funds have been kitemarked in the 18 months to 31 December 2019.

The funds industry in Guernsey is now embracing impact investing principles with a number of impact funds domiciled on island and numerous others in the pipeline. Kate Storey of Walkers has advised several fund managers looking to launch impact funds: "We have seen investment strategies ranging from forestry, national disaster relief, UK local educational/social initiatives and international healthcare centres, all with ESG principles at their core. Guernsey's pedigree in investment fund management combined with its flexible range of investment structures and proportionate, cost effective regulation, which is EU and OECD "whitelisted", make it the perfect domicile for impact funds."

In the coming months and years Guernsey will turn its attention to further cementing its responsible finance credentials by integrating green and sustainable best practices into its market leading sectors of investment funds, private wealth and insurance.

Kate is also a leading legal adviser to Guernsey's Insurance Linked Securities (ILS) industry. ILS include "catastrophe bonds" and other means of investing in insurance of losses caused by natural catastrophes, for example, hurricanes. "Guernsey is the leading domicile in Europe for establishment of special purpose insurers for these ILS transactions" says Kate, "and as an Island we are well positioned to play host to the whole ILS structure, not only the insurance vehicle but also the investment vehicle investing into the insurance linked securities - Guernsey offers a structure which combines both in one hybrid vehicle. Pairing that with the local sustainability advisory expertise we have, makes Guernsey the ideal domicile for natural disaster relief projects."

In the private wealth sphere more and more families and UHNWIs, often via their family office, are looking to deploy funds into investments which may have a personal and/or geographical connection with the family, and which at the same time will have a positive impact. Rajah Abusrewil of Walkers in Guernsey says "Families are allotting significant importance to impact and sustainable investing within their businesses and investment portfolios. Creating a common set of family goals, acceptable to each of the generations, is becoming more achievable due to the increased metrics that can highlight their success or failure. As a result those impact and sustainability goals, together with the methods for testing them, can be incorporated successfully into the investment strategy of the modern family office".

Guernsey Finance research published at the end of 2019 suggests that private wealth transfer in the next couple of decades could be as high as $40 trillion, and the number of 20 to 30 year olds who will inherit that wealth is significant. Private capital is a significant source of funds for specialist managers, and if the next generation is demanding responsible investment options then managers can provide those solutions via products kitemarked under regimes such as the Guernsey Green Fund.

All available evidence suggests that responsible investing is poised to continue to grow exponentially, and to grow far quicker in its second 15-year phase than its first. Institutional investors, and particularly those managing capital for pension funds or sovereign wealth funds, face more demands (and larger enforced allocations). At the same time, pressure is coming to bear on the growing amount of capital in private hands to push it further in the direction of responsible investing.

Sykes sees an inherent risk for the investment industry; "The responsible finance sector is seeing a goldrush, particularly in relation to investments focussed on climate change mitigation, and there is real concern of green-washing amongst discerning investors. Fund managers that are unable to transparently and credibly prove how their investments will achieve any stated non-financial impacts face reputational risk, divestment our even potentially legislation on the basis of mis-selling. The creation of responsible investment kitemarks such Guernsey Green Fund speak directly such concerns by creating international standards and norms".

Guernsey's role in the international picture is clear – it is a jurisdiction that combines the innovative structuring tools, quality professional expertise and financial services infrastructure to support cross-border responsible investment into the new decade and beyond. These efforts will mean the island is primed to position itself as the jurisdiction of choice to deliver the professional services and responsible finance solutions that a new generation demands.

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