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THE ROUTE TO GOING GREEN

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In an article for HedgeWeek's Guernsey Fund Services 2019 Special Report, Estera Director Kevin Smith takes a more in-depth look at setting up a Guernsey Green Fund, which was launched in 2018 as the world's first regulated green investment fund product.

The introduction of the Guernsey Green Fund ('GGF') has given both investors and managers a transparent product through which investments into green initiatives can be made. Most significantly, it effectively creates a 'kitemark', assuring investors that specific green criteria have been met and that their investments are having the desired, positive environmental impact.

Unsurprisingly, there are certain factors that a manager or sponsor needs to take into account when establishing a fund that will be designated a GGF. These are the key points as we see them.

Choice in setting up a Guernsey fund

One of the biggest advantages of the GGF is that any type of Guernsey fund structure can receive certification – be it authorised, registered or private investment funds, closed or open-ended, or manager-led. This gives sponsors and managers the flexibility of establishing the most effective structure to meet their specific requirements.

A further major point worth noting here is that funds applying to be designated as GGFs don't need to be newly established structures. Existing funds are able to apply, providing they prove they meet the Rules.

Compliance with GGF Rules

There are a number of rules that funds must comply with in order to be designated as a Guernsey Green Fund. The Guernsey Financial Services Commission (GFSC) lists these as:

- Notification requirements;
- Disclosure and reporting requirements;
- Compliance with the elected green criteria.

The latter is arguably the most important as this is at the heart of what a GGF is. Schedule 2 of the Guernsey Green Fund Rules has a list of green criteria endorsed by the GFSC as qualifying green standards. A Guernsey Green Fund has to comply with one of the criteria listed and must set that out in the notification to the GFSC and in the prospectus, along with the criteria for the spread of risk.

Seventy-five percent of the funds assets must meet the chosen criteria – the remaining 25% can be invested elsewhere but 'must not lessen or reduce the overall objective of mitigating environmental damage' and also shouldn't invest in certain excluded asset classes.

The GFSC endorses international standards known as the Common Principles for Climate Mitigation Finance Tracking. These internationally accepted standards mean that a broad spectrum of environmental funds could gain GGF certification.

Choice of how the fund is certified

The purpose of certification is to provide certainty to investors that the GGF is invested in accordance with the recognised green standards. The Green Fund Rules allow funds to be established using one of two routes:

- 'Route 1' funds require certification from a suitable independent third party that the prospectus meets the chosen green criteria – examples would be qualified audit firms or ratings agencies.
- 'Route 2' allows certification by the Guernsey-licensed administrator or manager for the fund.

Again, this provides the fund with flexibility in the way it is established. Investors are now increasingly concentrating on making investments with a positive environmental impact – and the GGF makes it easier for those investors to see that a fund meets specific green criteria.

In allowing different types of Guernsey fund to apply for certification across a broad range of specific green criteria, in a straightforward manner, the GGF has made itself not only flexible, but very attractive to managers and sponsors alike. In providing certainty, it positions Guernsey at the forefront of the growing demand for environmental investing.

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