

# GUERNSEY GREEN FUND FOUR YEARS ON... A TRUST AND TRANSPARENT PRODUCT

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In 2018, Guernsey launched the Guernsey Green Fund, a world-first regulated green fund product. The regime is trusted, transparent and investors can be assured that their investments have a positive environmental impact on the planet, which is monitored against internationally recognised criteria. Since its launch, the net asset value of Guernsey Green Funds has steadily risen, with a NAV of £5.3 billion recorded at the end of Q2 2022.

The Cibus Fund was the first Guernsey Green Fund and four years on from its launch, Jeremy Alun Jones of ADM Capital tells us why he chose Guernsey – and the impact the fund has had

Why did you choose the Guernsey Green Fund?

ESG and sustainability have been important to ADM Capital for the last 14 years; we've been trying to introduce concepts around caring for environments and for thinking about sustainability during that time.

We've worked with Guernsey for some time, so we know the fund regimes. So, when we heard about the launch of the Guernsey Green Fund, it was clear that it aligned with our investment strategy, so it seemed completely natural to want to get on board and become the first Guernsey Green Fund.

By investing in a Guernsey Green Fund, our investors are assured that their investments have a positive environmental impact, monitored against internationally-recognised criteria.

What we like about the Guernsey Green Fund is that it supports investor access to the green investment space by providing a trusted and transparent product. Investors can feel confident that they are contributing to internationally agreed objectives of mitigating environmental damage and climate change on the path to net-zero.

What is the Cibus Fund current status and investment strategy?

The Cibus Funds invests in rapidly-growing food chain companies that adopt technologies to enable the profitable and sustainable capture of high-growth markets and produce opportunities.

The Cibus Funds have raised a total of £960 million. We are great supporters of the UN Sustainable Development Goals, the SDGs. We rank and measure all of our investments to those criteria on an annual basis and produce a sustainability report that encapsulates that at the individual investment level and aggregated at the fund level.

The second thing that we do is share our approach to ESG and sustainability and our target for net-zero with the executive management of those companies. We want them to share those targets in their businesses' development and future strategy.

And then finally, on a day-to-day basis, we try and influence good practices within those companies. So, for example, one of the first things that we try is to encourage our investee companies to become zero waste.

We tend to invest in food, and it's estimated that up to a third of food produced is wasted somewhere along the supply chain to the consumer. So that's the starting point for making a positive impact.

In terms of criteria, we have a waterfall of standards in terms of what we can or can't invest in.

For example, any company with any form of child labour or slavery in its production is the obvious one we won't invest in.

The softer requirement is that the management team is willing to engage in discussions with us around ESG and sustainability. And that is a philosophical discussion that we get into during the due diligence phase. As long as we are happy that we have a management team that understands the importance of ESG and sustainability, we

are willing to work with a company that may have some challenges in its current practices. As long as there's a willingness to correct and improve, those challenges are not a barrier to investing.

What has been the response from your investors?

Our investors have responded favourably to the Cibus Fund's Guernsey Green Fund status and like the reassurance of the quarterly testing of the criteria.

What type of companies has the fund invested in, and how are they contributing to net zero or a more sustainable future?

One of the most exciting companies that we've invested in is a French company called M2i, which produces synthetic pheromones in large scale. What we find attractive about synthetic pheromones is that they can be used to replace pesticides and herbicides, which are very widely used in agriculture.

Setting up insect traps and cameras in those traps can show when the male insects have hatched and are flying about looking for females. And at that point, you can release the synthetic pheromone. It confuses the males. They fly around in the fit of expectation, and then they expire because they've used up all of their energy. They use up all of their energy, and they effectively expire without having fertilised female eggs.

Regulators are increasingly making many of the commonly used insecticides and herbicides that are now being phased out and the European Union is very much behind this. So, the opportunity for this kind of alternative is very exciting.

What about water?

We think about water not just in terms of usage; we think about water in terms of contamination and pollution; in fact, we are less worried about crops requiring high water levels.

For example, almonds do require a significant amount of water. The way we think about it, though, is that if that water is put back into the earth in an uncontaminated form, that is allowable within our investment mandate.

Water is a valuable resource, and therefore we do everything we can to ensure that we don't waste water. For example, we invested a significant sum of money in reducing water loss from irrigation lines at an almond farm in Australia that the fund has invested in.

Reducing watercourse contamination is also important to us. Fertiliser is water-soluble by design and if that water is not taken up into the crop, and it goes into the water cycle and into the watercourses or the aquifers.

Another one of our invested companies has produced a non-water-soluble fertilizer. This relies on the slightly acidic area around the root which dissolves the fertiliser, so it's acid-soluble rather than water-soluble. That has an incredible impact in terms of efficiency. It reduces fertiliser use, which saves the farmer money, and it doesn't have the detrimental effect of fertiliser leaching into watercourses.

How do you engage with your invested companies and their business models?

We actively engage with our invested companies to improve their ESG credentials or business model to achieve a more favourable impact; it's an active part of our due diligence. In the same way that people do financial due diligence to check the numbers and legal due diligence to check the ownership of assets, we also do ESG and sustainability due diligence. So, even before we've made our investment, the company management is aware of the things that are important to us and areas of their business where they may be scoring slightly below our expectations or potentially even their expectations.

We bring the outcome of that report into what we call an Environmental Sustainable Management Plan. This is like a negotiated and agreed document with the company's management as to what the ESG and sustainability due diligence showed up.

We agree on a plan and a timescale over which changes will be made to improve these weaknesses; we give the company a series of ESG KPIs, which we then measure twice a year and are reported directly to the board.

For example, if we take the Summer Berry Company, a business that operates in the south of England and Portugal and supplies raspberries, strawberries, blackberries, and blueberries to most UK retailers. When we went into that company, we learned that they produced a very high-quality raspberry but that the consequence of the retailers' quality requirements meant that a large amount of that product was being wasted.

Consequently, we introduced a transition towards zero waste. We encouraged another local business, which was previously producing biltong, to change production to make a dried fruit snack. This product uses our wonky raspberries, takes the water out of them, dries it, cuts it into slices and what we have is a natural sweet snack for children. For adults, we have created an apple and fig energy bomb.

We've supported that company through its transition by not charging them rent to operate on our site and have supplied the wonky fruit to them for free.

We also supply them with electricity to build up the scale of this business, and I'm delighted to say it has gone into its first UK retailer. So that's an example of how we've put campus money where our philosophy is to encourage zero waste, which is what we want all of our companies to move towards.

How do you control of ESG principles of the invested company?

If Cibus controls the company, we have much greater leverage than if we are just a minority investor. But, it's not just about leverage; it's about winning hearts and minds. The only way to do that is to spend time in the companies and talk to the executives and explain our ESG and sustainable philosophy.

Generally, if you take the time to explain why this is important, what our long-term targets are, and the targets of our partners who have provided the capital into the fund, we don't have great resistance amongst the management team. Typically, they get what we're asking them to do, and we find that management teams want to make the changes.

What is more important to your investors, an above-inflation return or helping the world transition to net-zero?

We do not think the world can get to net-zero unless the journey can also be profitable. Capitalism is well established in much of the world so the current model needs to be used effectively to get to net zero. Post COP-26, the major capital providers now have net zero on their radar screens and we believe will only be willing to provide capital to companies that have a planned path to net zero.

How do you measure your companies' performance?

In terms of measuring our companies, we have a set of key performance indicators around ESG and sustainability and measure these twice a year. They start with the most basic questions around gender makeup of boards and senior management and workers and go all the way through to highly specific questions and KPIs around the use of resources, particularly fertilisers and water.

We want to see an improving trend in all of those KPIs.

Our top-down philosophy - what we are trying to implore all of our management teams to do - is to produce more product with less input and less waste. So that's how we measure it at the highest level, and then we go down to a more granular level which is highly company-specific.

These results are published at both the company and fund level in semi-annual reports provided to all stakeholders.

WE ARE GUERNSEY is the brand under which Guernsey Finance promotes the island's financial services sector internationally. Guernsey Finance - the promotional agency for the island's finance industry internationally - is a joint industry and Government initiative responsible for the promotion of Guernsey. Under the leadership of Chief Executive Rupert Pleasant, the agency ensures that the core values and competencies of the island's finance sector are accepted and respected by the global community and that financial business development flows are enhanced. Registered Office: Guernsey Finance, Somers House, Rue du Pre, St Peter Port, Guernsey GY1 1LU Company registration number: 38776

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