Over the past 20 years, the value proposition in private wealth has changed beyond all recognition. Sustainable finance today is central to the private wealth agenda in a way that would have been unforeseeable at the turn of the millennium.

Sustainable finance itself has deep roots, the agenda of the UN’s Brundtland Commission reaching out to us from the mountain of decades past to become what have been the ‘tablets of stone’ of the United Nation’s Sustainable Development Goals – a list of 17 objectives for capital investment in the middle of the last decade.

The serendipitous timing of events significant to the climate change movement – COP 21 in Paris in the same year as the Task Force on Climate-related Financial Disclosures – created what was arguably a tipping point in 2015.

Guernsey made a key strategic commitment to the sustainability movement, with both government, industry and financial services regulator making separate commitments to strategic action, and is a member of several United Nations Environment Programme initiatives.

As a result, Guernsey has been able to be at the forefront of the development of sustainable finance and, from the experience gained and its expertise in private wealth, has developed a thriving ecosystem of sustainable finance services.

We have transposed our leadership in the development of product and services in the funds sector – the Guernsey Green Fund being a world-first regulatory regime – to the private wealth space, and have quietly introduced several bespoke tools and services to the private wealth market.

We have spent much of 2020 evangelising the sustainability agenda, and we bring to this STEP Journal some highlights of our ‘private wealth financing sustainability’ campaign over the past year.

DR ANDY SLOAN, Deputy Chief Executive, Strategy, WE ARE GUERNSEY, and Chair, Guernsey Green Finance
What has happened to Extinction Rebellion? And has Greta Thunberg gone rather quiet?

They are both still around. Though at the time of writing, Extinction Rebellion’s most recent protests have been in Ipswich and Truro, rather than bringing central London to a halt.

Greta was last spotted commenting on the US Presidential election candidates.

However, arguably, their impact lives on in financial services and, indeed, it might be argued that their time has come.

Guernsey Finance commissioned research in mid-2019, when the two campaigners’ profiles were at their highest. The results indicated that we were approaching the tipping point. At the time, those high-profile protests had not yet significantly mobilised private capital into sustainable finance.

Now, it seems that we have moved on. The agenda is changing.

The private wealth sector is increasingly important for attracting investment generally.

Guernsey Finance’s research showed that although significantly more capital was finding a home in green investments, individuals and family offices appeared to be looking for greater confidence in returns.

The research involved some 20 family offices and high-net-worth individuals, with a combined estimated worth of GBP25 billion, and 50 service providers.

It showed that more focus is needed on engagement with investment managers and investors on the aims of green and sustainable finance and the benefits of responsible investing.

Importantly, the research discovered that investors also wanted greater certainty in the green credentials of their investment. A framework for private capital in the unregulated space, analogous to the Guernsey Green Fund regulatory framework, which would provide confidence to investment managers and investors, was key to unlocking the flow of investment capital from private investors, family offices and private equity into the green and sustainable investment space.

It was clear that significantly more capital was finding a home in green investments, driven by the increased concerns of the younger generation of wealth owners. However, greater confidence in returns and in the ‘greenness’ of the underlying investment – the ‘twin confidences’ – were both required to catalyse a modal shift in deployment of private capital to climate finance.

The research also showed that only half the owners of wealth surveyed were considering increasing asset allocations into green and sustainable finance, and the enthusiasm for doing so was being driven by the younger generation (under-40s).

Wealth professionals said that they felt green finance was evolving slowly – their views may well have changed in the intervening 18 months – and while it was starting to capture the imagination of the family office sector, levels of understanding on the topic remained low.

Meanwhile, owners of private wealth suggested that it would be beneficial if their advisors took the lead in driving understanding of the topic and greater responsibility for raising awareness.

Guernsey Finance launched the research report at a London event with Guernsey resident Stephen Lansdown, co-founder of Hargreaves Lansdown, who runs his family office business from the island and has considerable interest in green and sustainable investing and investing in Africa.

‘We have to make it easy for people to invest,’ he said. ‘The Guernsey Green Fund [a regulated green fund with certified green assets, available to all classes of Guernsey funds] is helpful in that it identifies funds and areas for investment that people can consider. At the moment you’ve got to search and investigate and it’s hard work.

‘People in the industry are going to need to develop ways of matching buyers and sellers, as this sector is going to be important and is certainly going to grow.’

To read the full report, go to: www.weareguernsey.com/literature/reporting-global-developments-family-offices-financing-sustainability
BLENDED FINANCE CAN ACCELERATE PRIVATE WEALTH OPPORTUNITIES IN SUSTAINABLE INVESTING

Giles Neville, CEO at Cazenove Capital in Guernsey, reports on a suggested direction for this sector arising from Guernsey’s Sustainable Finance Week earlier this year.

Returns remain a critical factor for investors who may be looking at green and sustainable investment for their portfolios – and COVID-19 may have accelerated the opportunity to achieve financial returns and to do some good.

The opportunity for direct investing is also critical for family offices and private investors to make a difference in this sector, and making an impact, rather than simply adhering to environmental, social and governance (ESG) criteria, will be increasingly important in driving family office money into green and sustainable finance.

In short, there is no doubt that there is a role for private capital to finance the sustainability agenda. But there is still plenty of work to be done.

Issues include investors being held back by lack of advisor knowledge, concerns about greenwashing and funding strategies and worries surrounding ESG reporting. Many of these concerns were raised by Guernsey Finance research from 2019 (see opposite).

During Guernsey’s Sustainable Finance Week this summer, a panel including Guernsey private equity veteran Jon Moulton, David Bain, editor of Family Capital, and Taeun Kwon, Head of Private Wealth Programmes at the University of Zurich’s Centre for Sustainable Finance and Private Wealth, considered these issues and more.

On change induced by the pandemic, Taeun Kwon said: ‘COVID-19 has accelerated a lot of things. A lot of individuals and families started to question the purpose of their wealth and how they can have impact, and realise that in investing their capital, there can be no moral neutrality of it.’

Bain once wrote that billionaires would be the ones to solve climate change, not Extinction Rebellion. Common sense says no government is going to commit to such drastic cutbacks on economic growth to meet Extinction Rebellion’s target of net-zero greenhouse gas emissions by 2025, he wrote.

‘It’s a pity most public opinion scorns billionaires, because it just might be through their efforts we will deal effectively with climate change,’ he added.

The debate touched on the need for mixing public and private capital to accelerate developments in this area.

Taeun Kwon said: ‘There’s a distinctive role that private capital can play. Public finance has the scale but it’s extremely slow and extremely bureaucratic, for good reason, because it needs to be held up to a higher standard. But then, at the same time, it cannot experiment as much.

“So, the thing with private capital is that you can forego some return and go more into the concessional part of it, and create innovative result-based financing to incentivise more green infrastructure. Even in large-scale infrastructure it’s pretty clear that public capital alone is not going to be enough.’

Bain welcomed the moves towards blended finance.

‘I think that’s better for society because the families are risking their capital, and not taxpayers’ money. And so if it doesn’t work out, the families lose out, not the taxpayer.’

Moulton said that the UK government had moved from being a ‘hard-nosed capitalist’ to seeing corporations in a much wider nature. ‘They’re trying to make sure big business knows it’s got responsibilities.’

Our speakers agreed that collaborative family office investment networks would be an enabler for private capital to move into the sustainable space.

Bain said the opportunities that could be driven from the private wealth and family office sectors were huge.

‘I don’t see the impact of single-family offices easing off. There will be a big transfer of wealth from baby boomers to millennials over the next 10-20 years, and those individuals are more driven around sustainability issues,’ he said.
LESSONS IN ROUTING PRIVATE CAPITAL INTO SUSTAINABILITY

Four Guernsey practitioners in funds and private wealth discuss the island’s role in green and sustainable finance, including its structuring, service and products.

WHAT PROGRESS IS BEING MADE IN GREEN AND SUSTAINABLE FINANCE IN GUERNSEY AND MORE BROADLY?

FRANCES WATSON
Partner at law firm Mourant

It’s been five years since Paris (COP 21) and sometimes you can think: what have we achieved? But actually, I think what we can all say we’ve achieved is that investment and products in this space have become mainstream.

AA
Partner at law firm Carey Olsen

The Guernsey Green Fund, a Guernsey innovation and the world’s first green fund product, has channelled an enormous amount of private wealth into the green space and into sustainable investments. It is a robust, transparent product in a number of ways – 75 per cent of the fund must be invested with the objective of mitigating environmental damage and the other 25 per cent must do no harm. The investment must comply with international standards, and we will shortly add the EU taxonomy to that list.

We see all sorts of green investments – solar, wind farms, agriculture, forestation – and managers, whether existing or first-time managers, have had no trouble fundraising; their funds have often been oversubscribed.

FW A lot of this is about verification and authenticity. That’s a very powerful conversation to have and is very effective.

AA I’m getting probably one or two cold calls a week on the Green Fund alone. That doesn’t mean we’re translating all of them, but the interest is there. Five years ago in this sector it was more a sense of people doing this because they wanted to. Now in Guernsey, and globally, it’s being driven by the regulators and the service providers. We’re moving towards international standards and the effect of regulation.

In Guernsey we see everything from the high-net-worth individuals through to the institutions through to the pension funds. Five or six years ago, when we were looking at impact and green, the institutions were largely ticking a box. Now they are much more active, not just in budget allocations but in consideration of environmental, social and governance (ESG) factors and impact in every investment.

WHAT CAN BE DONE TO HELP ROUTE PRIVATE CAPITAL INTO SUSTAINABILITY?

EMMALENE HOLDEN
Director, Albany Trustee Company

Guernsey is a hub for wealth planning structures, and with the increasing professionalisation of family offices, we’re seeing a strong focus on corporate governance, which is increasingly extending into environmental considerations and impact investing.

Families want to work with our fiduciaries for wealth structuring and bespoke structures. Guernsey can offer to help articulate their beliefs and values and facilitate sustainable investments alongside the targets of financial return.

Guernsey’s trust law is very flexible, and with a discretionary trust you can have a specific provision in there that might allow the trustees to invest in sustainable investments. Or you can go perhaps a bit further and have prescribed directions within the trust documents that would enable a certain person to direct particular investments.

Guernsey is very well positioned to offer a variety of flexible solutions to help clients achieve their goals. We have charitable trusts, purpose trusts and foundations, which lend themselves to more philanthropic investing and impact investing.

REBECCA BOOTH
Client Director, Carey

Guernsey has the right products and services for this market. Our trust companies, fiduciaries, lawyers, custodians and the banking system are all plugged into that agenda for helping private capital invest in sustainability. It means that we’ve got an ecosystem here in Guernsey that really enables positive climate change.
We have had a twofold increase in investment in sustainability in the past two years, which really shows that our clients are interested in making that positive impact. Our private wealth clients feel that Guernsey is a safe and like-minded jurisdiction.

It means that we are really getting traction with people wanting to set up their foundations, trusts and funds in Guernsey because we’re all on the same page, with the right products, access to services and positive change that Guernsey can help to make.

**EH** Guernsey’s focus and joined-up thinking on sustainability goes through to our fiduciary service providers. All our businesses are thinking about it and we are educating ourselves so we can initiate these conversations with our clients across all generations.

There is a growing interest in ESG, and the intergenerational nature of trust structures means that we are now increasingly working with the younger generations at the forefront of our client relationships. It’s a key topic for them. They have much greater environmental concerns and they are looking for trustees and their professional advisors to help them develop strategies that are aligned with their personal values.

This can extend to longer-term investing, which works for trustees, given the long-term nature of trust structures.

**FW** We’re now seeing impact funds here in Guernsey. Traditionally this has been the preserve of the private world, and we used to call it philanthropy. We have some fantastic structures here, particularly trusts, which have facilitated that over the years. We are seeing increased use of alternative structures, moving away from trusts into private trust companies and foundations, which allows the family to have more of an administrative role in the impact investment.

On the funds side we have really good regulatory products that suit impact investing: our private investment funds for fewer than 50 investors who are sophisticated, or if there are going to be more than 50 investors, you are probably looking at a registered fund product. Both of these are quick to market and have a lighter regulatory touch.

**GUERNSEY’S INFLUENCE ON SUSTAINABILITY**

**FW** Guernsey has had more than 40 years of experience of international engagement as a specialist centre for global finance. We have signed up to anti-money laundering, the Foreign Account Tax Compliance Act, the Common Reporting Standard and economic substance requirements, and as a result we have been whitelisted by the EU and OECD. Our regulator is accustomed to having international cooperation agreements.

So it’s in our DNA. And when you take that concept of international engagement in the sustainability finance sector, we have continued this journey.

Aligning ourselves to international standards has helped us to bring in a financial system network. We’ve learned from that, and we’ve also learned how to regulate it. We are really good at product development and so we’ve been able to share that expertise with our international partners, as evidenced by the Green Fund.

**EH** It is fair to say at the moment that there isn’t really any global alignment in terms of what is a consensus for measuring impact.

Each impact fund investment or family will really set their own objectives here and then decide how they want to measure it.

In the future, the way we measure impact will become more internationally aligned, and the important point here is that Guernsey is well placed to assist with that journey.

**AA** ESG was mainstream before the pandemic, and what the pandemic has highlighted to us all are the systemic risks of the way we live and the consequences of our society. It has certainly brought it to the front and centre of people’s minds and it is now mainstream. I hope that what happens now is that it generates into more investment in this space. We certainly see more enquiries, and this topic has joined the everyday conversations.

**RB** Corporate governance has always been at the heart of what Guernsey offers and what the financial services industry offers globally. Every jurisdiction has a corporate governance code. Who’s to say, in the future we might see an ESG code, where those corporate governance basics are expanded.

Our panel were speaking at a Guernsey Green Finance conference, hosted as an official event of Climate Week NYC 2020. To watch the webinar in full, go to: www.weareguernsey.com/finance-events/2020/private-wealth-financing-sustainability/on-demand
How does impact address the eternal conflict of outcomes and returns?
The narrative around tension between returns and achieving non-financial outcomes, whether they be environmental or social, and the argument that if you want to achieve good, you have to sacrifice returns, well that paradigm is pretty much dead and buried.

As the sustainable thematic grows, so does the range of sustainable and impact investment opportunities, and those opportunities are expanding along a continuum of risk and return and impact.

It is possible to invest with no tradeoff between impact and financial return. It just depends on the nature of the investment. Lower-risk investments can still achieve meaningful financial and environmental returns.

Often investors are willing to make an investment we call ‘impact first’ – the impact is the priority to them over the financial returns. It really depends on the investors’ requirements.

Where is sustainable finance today?
Over the past few years we’ve seen a rapid broadening of the market and of the investor types interested or actively deploying capital into sustainable and impact investing.

This is seen as an opportunity for high-net-worth individuals to enhance their long-term philanthropic and charitable objectives. By investing in impact and receiving a return, they can grow the pot of wealth that can ultimately be deployed for philanthropy.

We’re now starting to see asset managers and banks really looking at the sustainable finance market as an opportunity to identify new investments in emerging markets and to respond to a growing demand from clients to invest in a way that achieves positive impact for people and planet.

How can new structures enhance the attraction of this sector?
We are seeing very strong growth in the development of new instruments – funds, capital market instruments, and front-line businesses we call ‘impact SMEs’, where there is exponential growth.

But when we look at financing the UN Sustainable Development Goals and achieving those targets, we need to move from the billions that currently flow from the world’s richer markets to the poorer, to trillions.

We get there through innovative financing structures. Blended finance is really fascinating – a concept where, if an investment may create challenges for an investor on issues such as risk return or liquidity, you create capital stacks that bring different types of capital into the deal. But we need to get these structures operating at the level of not hundreds of millions, but billions.

Is it time for a standardised assessment framework?
With regard to climate, there’s no question that mandatory reporting is coming – the writing’s on the wall.

If we go back five years, it very much was an alphabet soup of standards. Now we’re beginning to see coalescence around a smaller group of core standards that are starting to become industry practice. That’s helpful to make signals to the market and for investors in making it easier to understand the space.

How important is measurement in this sector?
Measurement of impact is absolutely critical for us. It defines this whole space.

If you are unable to measure a clear impact, outputs and ultimately outcomes, it’s very difficult to defend against greenwashing or impact-washing.

We sit down with the fund manager bringing a new impact or sustainable fund to market and have a tough conversation about authenticity and intentionality. If you put the words impact or sustainable in your fund, you are telling the market that you are planning to achieve a whole range of non-financial and financial returns. Immediately that language has weight and consequences. You’re holding yourself out to the market to, in effect, deliver a double bottom line, or even potentially a triple bottom line to investors. You are not only on the hook for financial returns but also for environmental and social returns.
Simplicity is Key for Sustainable Investment

Kate Hodson, Partner and Head of ESG Funds at law firm Ogier in Hong Kong, says keeping it simple was the key message from a joint webinar between WE ARE GUERNSEY and the HKGFA.

Guernsey has seen an increasing flow of business with Hong Kong in recent years, particularly in private wealth. The two jurisdictions also share a leadership position in green and sustainable finance. Both are members of the United Nations’ Financial Centres for Sustainability network and WE ARE GUERNSEY linked up with the Hong Kong Green Finance Association (HKGFA) for a webinar on funds structuring and the financing of sustainability.

It is impressive to see the progress that both jurisdictions are making as a centre of green and sustainable finance. The learnings that I took from our chat on the webinar with Tracy Wong Harris, Deputy Secretary General at the HKGFA, were the need to keep things simple – we can take inspiration from that for what is happening with green investments on the bond market – and to learn to do all we can to avoid concerns about an ‘explosion’ of reporting demands, which could potentially create confusion in the market.

The development of this sector in Hong Kong has been rapid over the past couple of years, fuelled by a mix of green finance policy enhancements, strong project financing and seeking to meet investor demands for environmental, social and governance (ESG) across Hong Kong and China. Recently the Securities and Futures Commission (SFC) of Hong Kong issued a consultation paper suggesting changes that would require fund managers to consider climate-related risks in their investment and risk management processes, thereby looking to align the Hong Kong funds industry with other international developments.

The market in the global financial centres pioneering these developments is clearly poised for a wall of new capital flows.

We have to look at ways to unlock this fresh capital, and we can learn from the experience of the bond market. But we can’t stop there, we need to look at all areas of the finance supply chain, and the SFC’s latest move shows that this is the direction Hong Kong is headed.

Certainly, the bond market is at the more mature end of the green and sustainable finance wave. In Hong Kong at the end of last year, total green bond issuance was HKD26 billion. The Hong Kong government has issued its first HKD1 billion green bond, which was oversubscribed four times, and it has since announced plans to issue a further HKD66 billion over the next five years.

Hong Kong’s green bond programme seeks to demonstrate government support for the sector, position the jurisdiction as a global market leader and set a benchmark for green bond products.

Aside from encouraging market developments, we also hear concerns that the complexity of the ESG, green and sustainable finance landscape could cause confusion and create extra costs.

ESG reporting has, for some, grown from a page of the annual report to 20-30 pages, or even a separate report, says Guernsey-based Kevin Smith from fund administrator Ocorian. Other challenges for the sector include increasing reporting demands on portfolio companies, and the subjectivity in the process, driven by a lack of a global standard, which is an issue raised worldwide.

‘There are so many taxonomies and principles out there, different for each region, so it’s really difficult for the investors themselves to know and to get a clear picture of what’s going on across countries across funds and across different regions,’ he said on our webinar.

A key part of Guernsey’s contribution to the debate has been the development of the Guernsey Green Fund, the world’s first regulated green fund, which was introduced to the market in 2018. The product has created interest from managers worldwide, attracted by its simplicity, transparency and robust nature, and the ability to structure further, including sidecar arrangements and co-investment.

The first such Green Fund manager, ADM Capital, which attracts interest from managers worldwide, has announced plans to structure further, including sidecar arrangements and co-investment.

To view the webinar in full, go to: www.weareguernsey.com/finance-events/2020/hong-kong-masterclass-funds-structuring-and-financing-sustainability/on-demand
Four key factors make ‘environmental, social and governance (ESG) investing’ and sustainable finance particularly relevant to private wealth managers, trustees and those advising high-net-worth families:

- A growing societal awareness and commitment to environmental causes;
- A demographic transfer of wealth to a younger and more socially conscious generation;
- Increasing pressure on reporting ESG metrics by governments and regulators; and
- The opportunity to ‘build back better’ with significant infrastructure investment as the world recovers from COVID-19.

While ethical investing may have been little more than a buzzword in years gone by, in today’s world it has taken on a growing significance. As it has done so, 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 – and not as a tradeoff against them. As we enter a 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 purpose and impact in the commercial world, there has been a growth in the design of investments that seek, intentionally, to generate a measurable, beneficial social or environmental impact alongside a financial return. These are known as impact investments, and their focus includes tackling global issues such as climate change, poverty, education, healthcare and the diversity and inclusion agenda.

More and more family offices that we deal with have these issues at the heart of their wider agenda, with consultants advising on social and environmental measurables and deliverables of investments in the same way that they might report on financial performance.

In the private wealth sphere an increasing number of families and ultra-high-net-worth individuals, often via their family office, are looking to deploy capital into investments that may have a personal and/or geographic connection with the family, and which at the same time will have a positive impact on the world around them. 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.

It has been 15 years since the term ‘ESG investing’ was first used in an International Finance Corporation report, and all available evidence suggests that responsible investing is poised to grow far quicker in its second 15-year phase than its first. That change is driven partly by demands on institutional investors (particularly those managing capital for pension funds or sovereign wealth funds). But, at the same time, there are changes in the behaviour of those controlling the growing amount of capital in private hands to push it further in the direction of responsible investing.

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 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.