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## Growing 'green funds' in Guernsey

*By Andrew Boyce, Partner, Carey Olsen*

*Carey Olsen is witnessing an ongoing trend for 'green funds' whose investments are focused on sustainability and 'clean' technology or energy, which is an evolution from the 'ethical' funds that have been present in the investment market for some time. This trend coincides with a similar theme spreading across the European investment market. With the environmental impact of organisations and individuals a hot topic at present, Andrew Boyce, Partner at Carey Olsen, will discuss the types of funds that are out there for investors and what projects are being invested in.*

Guernsey has a sterling reputation as a financial jurisdiction and, particularly, as a funds centre and, while it has not been immune to the economic crisis, the island and the professionals working here have adapted and found new markets. Indeed, according to the figures from Guernsey Finance ([http://www.guernseyfinance.com/news\\_room](http://www.guernseyfinance.com/news_room)) the second successive quarter of growth takes the total value of investment fund business in the island to £184.2bn at the end of December 2009 and Carey Olsen is involved in over 50% of all funds established in Guernsey.

This ability to seek out new markets means Guernsey is one of the first offshore jurisdictions to see a real evolution in the concept of ethical investing. The idea of investing ethically is nothing new but now a growing number of investors are seeking more from their investments, making the impact on the social and natural environment a priority and key decision-making factor in placing those investments.

There are an increasing number of investors who want to do more than simply *not* invest in ethically questionable funds. They are now taking a positive approach and the emerging new trend in funds points towards socially responsible investment (SRI) in funds with a 'green' or 'cleantech' focus or element.

It is worth considering why there is this rising trend in green funds. The optimist in me hopes that it is as a consequence of a growing global conscience. In reality, the move in this direction started with the US government putting considerable pressure on the large state pension funds to be more socially responsible in the way they invested. The concept of the 'double bottom line' was introduced where the primary aim was a strong financial return, known to you and me as a profit, but with a secondary gain of fulfilling some element of social responsibility. For the US state pension funds, investing for the man on the street, it has become the norm to allocate a percentage of monies to SRI.

So the groundswell started in the US and the pressure began with the government. This in turn made the fund promoters and managers sit up and consider this new opportunity. While clearly still driven by the aim of a financial return, the decision making process for investment is changing. With world governments increasingly focused on world poverty, the environment and climate change more and more investors, both institutional and private client, are considering these elements in determining where they are putting their money, and managers are attempting to provide fund vehicles which facilitate this aim.

As the optimist turns a bit cynical it is clear that it is not all altruism. Canny investors and promoters have identified that there are significant returns to be made in these areas. There are also governments offering incentives for this type of investing, for instance, China is offering tax breaks to funds which invest in "clean" technology and affiliated industries.

Big name financiers are leading the way. In 2009, venture capitalist Vinod Khosla (who has been investing his own money to date in cleantech) raised \$1.1 billion in two funds in the US to invest in green technology and information technology start-ups – the largest amount raised by a venture capital firm in the last three years. If the inevitable spin is to be believed he had investors clamouring to be involved.

Make no mistake; at this point in the development of this asset class, this is not your run of the mill investing. There is reasonably high risk but, depending on what is being invested in, there is also the possibility of high returns with the attendant benefit of doing one's bit for the world. Mr Khosla was quoted as saying: "Harnessing technology to address climate change will require the big risks that venture capitalists were once known for... We're reinventing the infrastructure of society which is the only way we'll get the carbon footprint down and we're not afraid to fail." (*Source: New York Times, Sept 09*)

As a direct result of fund promoters trying to attract investment from increasingly socially aware high net worth individuals and institutional investors, Carey Olsen has been involved in the creation of a number of funds with an SRI focus ranging from sustainable forestry and clean technology to African development micro loans.

Turning for a moment to the practical side, essentially fund establishment principles are the same regardless of what the investment is in. So there is nothing specifically different about our regulations at the moment that is attracting green funds. The reason we are seeing the increase is a combination of the reputation of Guernsey and Carey Olsen's reputation. Fund promoters and investors have confidence that we have the experience and they know that Guernsey has the solid infrastructure, flexible laws and regulation and tax efficiency to get it right. Guernsey ticks all those boxes for traditional funds and promoters are therefore confident in our ability to host green funds. With so many of the funds created in Guernsey coming through Carey Olsen, it stands to reason that our increasing experience with sustainable funds will lead to a growth in this area within the firm and that is exactly what has happened.

Returns in this evolving area are highly speculative and investors must have both patience and a high risk appetite. By its very nature green investment needs to gain a critical mass quickly, but some projects are just looking for the first £1million to get their idea off the ground so it does not necessarily mean enormous amounts of money initially. Footballers and the newly-wealthy as well as institutions and old money are attracted to the variety available within green funds and more and more people are looking to give something back.

Just as everyone wanted exposure to property funds in the property boom, others invested in dot.com or the funds created from mobile technology, green funds are creating the current buzz. The big difference is that this asset class is much broader and multi faceted with more scope to invest widely from renewable energies, to research and development in new forms of farming and sustainability.

The global focus as well as the very breadth and scope of the asset class makes it more unlikely that this area will suffer a bubble (with the inevitable 'bust') effect and provides good reason to think that Guernsey will continue to be at the forefront of establishing these funds. Fund managers feel secure here because they can access flexible and effective structures and highly professional advisors. Investors are happy with Guernsey domiciled funds because of the existing international level of regulation applied in a pragmatic and flexible manner by a knowledgeable regulator.

I will end this with the optimist taking control again and with a view of a world where SRI becomes mainstream and the search for ethical, environmentally friendly and globally beneficial processes is embraced by governments globally, a world where companies engaged in industries that do leave a mark will feel compelled to offset their carbon footprint on a major scale. The pebble has been cast into the global pond – let's see where the ripples take us.

## Case Study

Carey Olsen was instructed to advise on the establishment of a multi jurisdiction sustainable forestry fund for MSS Capital and Oxigen. The Guernsey-based fund is an Incorporated Cell Company with three initial incorporated cells of varying terms – 15 years, five years and one year with the aim of £100m in each cell.

Taking the 15 year cell as the example, this fund will invest in the acquisition and management of Agarwood and Teak plantations. Teak is known for its high end furniture production while Agarwood has different, highly lucrative applications.

It takes 15 years for the teak cycle to complete. The trees are thinned at 8 years when only the strongest are kept. It is expected that there will be a dividend to investors at this point when the harvested trees are sold. The trees grown to maturity will be harvested at 14 years and sold internationally, after which a final return will be made to investors.

Agarwood, reported to be the most expensive wood in the world, is created by a parasitic infestation of the Aquilaria tree which occurs naturally in only a very small proportion of Aquilaria trees. The Fund will use scientific methods to create the infestation in a much greater percentage of the trees. The combination of this type of tree and the parasite makes Ude Oil – the most expensive cosmetic oil in the world used in perfumes and very popular in the Middle East for bathing and burning. It is expected that the trees will be harvested at 8 years and a second crop will be planted, to be harvested alongside the Teak trees at year 14.

Aquilaria trees may only be traded with a permit which is only granted if the trees are grown on a sustainable basis.