

Baringa's Climate and Sustainability Trailblazers Podcast

Sustainable Finance: Learnings from Guernsey

Emily Farrimond, Baringa: Welcome to our Climate and Sustainability Trailblazers podcast with me, Emily Farrimond. Today, I'm delighted to be joined by Rupert Pleasant, chief executive of Guernsey Finance, an industry and government initiative established to promote Guernsey's Financial Services sector internationally. Rupert has a long standing history with the island having grown up there and is passionate about driving towards a proactive sustainability agenda, further cementing Guernsey's position as a leading centre for financing the just transition. I'm also joined by Simon Connell from Baringa, an expert in sustainability and ESG who is passionate about supporting the financial institutions as they integrate climate and sustainability into their strategy and operations. Welcome both. Rupert, we're delighted to have you on our podcast. I'm really interested to learn a little bit more about you and your passion for Guernsey and financial services more broadly. Could you start by telling us a little bit about your personal and professional interest in sustainability?

Rupert Pleasant, Guernsey Finance: Absolutely. Well. When did it all start? I guess personally, my interest in sustainability started when I moved to Switzerland in 2006. I was only supposed to be going there for a year, ended up being there for eight years between Zurich and Geneva. What really struck me is there's a huge interest in the wellbeing of the ecosystem and really how to best preserve the biodiversity. I was completely blown away by this and just really how much people seemed to care. This really extended not only to the environment, but more practical things like efficient ways of heating houses, efficient ways of eco-friendly insulation. And to be perfectly honest, I've not seen this before. From a professional point of view. It's really been my time with Guernsey Finance that my interest has piqued. Hopefully, as many people will know, Guernsey has been the forefront of sustainable finance for a number of years now, so we haven't just jumped on the bandwagon. We've been doing this for a time. So Guernsey Finance itself has been really leading the charge here. We've been promoting a whole host of different initiatives, some actually being world first, which is fantastic for innovation, for an island way, for the Guernsey Green Fund with the green insurance kitemark. And we look at the new Natural Capital Fund that was recently launched by the GSFC at our Sustainable Finance Week. And again looking at sustainable Finance week - we've had three of these so far. They've been an absolutely huge success and what we try and do is we try and couple this with the likes of education. We try and couple it with the arts as well. So we try and make a fully immersive experience for both the speakers and the attendees who come to the island. So we'll be really hoping that it becomes a fixed event on the global sustainability calendar. And I guess finally from a Guernsey Finance consideration, we've got a very strong office culture of walking the walk, talking the talk. So we've got an internal group within the agency itself that looks to actively monitor and reduce our carbon footprint. I guess you'd understand being an island, we have to do a lot of travel. So when we're looking to go into our strategic target markets, whether that be in the UK, USA, South Africa, wherever it be, this is a certain amount of flying involved and has to be there. So we always look at how we can best utilise travel, how we can best utilise the resources at our availability and then to a kind of carbon offset at the same time. We also have carbon offsets sponsors at all our events, but there's obviously ways that we can do more.

Emily Farrimond, Baringa: Fantastic. Thanks for sharing that Rupert. And Simon, could I ask you to just do a brief intro and explain to us about your passion? I know you're so

passionate about sustainability as a topic, and particularly the change we can drive in financial services.

Simon Connell, Baringa: Thank you, Emily. So if we go back in time, I originally studied politics and economics and always wanted to work in financial services because it's a wrapper around the economy. But in that context can either be a passive wrapper around the economy or it can be an active wrapper and help shape economies. And so about five years into my banking career and about 15 years ago, I had a really lucky opportunity to be part of a foundational sustainability team within a leading bank. And I haven't looked back because to me this is always about how do you try and move from that passive to that active change mentality? How do you win hearts and minds? How do you use information and insight to try and do so? And one of the things that I think has always been a hallmark of the things that I've been lucky enough to be involved in is the power of that collaboration. So whether that's collaboration with international actors, things like the UN ecosystem, where I was very lucky to be the founding chair of the Net Zero Banking Alliance, or the NZBA, or with academia, where I've had the opportunity to chair the University of Cambridge Banking Environment Initiative and still have links into the University of Cambridge, I think there are things that each individual organisation needs to do, but as Rupert spoke to with Guernsey, there's also a significant amount that you can do by convening people and bringing them together.

Emily Farrimond, Baringa: Thanks for sharing that, Simon. Now, Rupert, in your intro you talked a lot about Guernsey Finance and the ambitions that you have, both from a Guernsey Finance point of view, but also from the island, really. Thinking about the clarity and the position that you're taking in the market around sustainable and transition finance. Can you talk a little bit more about how that complements Guernsey's role as an international finance centre and where you see yourselves being really differentiated in that space?

Rupert Pleasant, Guernsey Finance: That's a very good question. Guernsey itself has been a hub for international financial services for over 50 years. The main industry here is really on the private wealth side, so that's on the trust corporate services, pension investment management side. But we've also got a huge funds industry here and a leading insurance sector as well. So we're not just focussed in one specific areas, we've got a very broad financial services industry here and we've also got very proud heritage here. We're extremely well regulated. We're very fortunate that we've got the Guernsey Financial Services Commission over here and we'd like to think, and certainly from feedback I've had when I've been travelling widely, that we do have a great international reputation as a financial centre. But early on, we really saw the challenges of sustainability and it needs input from all sides. It's not just one part of industry that needs to focus on this. You need input from the likes of accountants, lawyers, governance professionals, fund managers, bankers, etc. Luckily we have all of these on island and luckily we've got a huge expertise in all these areas. So I think we knew pretty quickly that we could certainly meet this challenge of really bringing sustainability to the forefront. It's clear that the transition to net zero really needs this kind of fundamental rethink on the total global energy system, which I think is, well, inevitably it's going to cause huge global disruption. The knock on effects of this is that it represents an enormous financing opportunity. I'm just looking at some figures here. We look at estimates ranging from 125 to \$350 trillion of total investment required to reach that net zero target by 2050. Luckily, again, Guernsey is a huge global facilitator of capital flows. Many of these go to good causes. There's great opportunity for the Guernsey Finance Industry to lead and be proactive in the sustainability agenda too. As a leading global centre for financing, we really think that we can help get to this transition to net zero.

So we're looking at the traditional sectors, as I mentioned, such as insurance, investment management, fiduciary and corporate services. But I think we're also looking at development of new specialist areas of expertise and the kind of support services that surround them. So looking around ESG, looking at data collection and looking at fintech. So I mean, areas where I think and the kind of key differentiators that put Guernsey ahead of the game we do here have a strong track record for innovation. As I mentioned previously, we've got an engaged and supportive regulator in the GFSC. We've got fast and easy access to global markets. We've got a strong, stable and trusted home for private capital. We've got a strong pool of experienced investors. But I think two things that really put us ahead: we've got passion and we've got belief. We really do believe that Guernsey can make a difference here and we're passionate about Guernsey being a force for global good. So I think if you put that together, we really can be a catalyst for this change.

Emily Farrimond, Baringa: Fantastic. And just coming to you, Simon, can I ask, clearly, you know, Guernsey's got the passion and the appetite to have a leading role in the sustainability finance market. Could I ask your thoughts around why that leadership position is critical and how we can drive to get further organisations engaged in this topic to support us to transition to a lower carbon planet and drive those fairer social outcomes?

Simon Connell, Baringa: Thank you, Emily. I think there's two things that I'd reflect on from Rupert's comments. So one is. Those of us who've been in this space for some time have been incredibly lucky to see the incredible rise in interest in the space and the quality of talent coming in to want to have roles and careers that focus on ESG and sustainable finance. And as some of our work between Baringa and Guernsey has shown, there's a need to build capability there. I sometimes think of this as light green and dark green roles. Dark green roles might be people who have an intent to be in the space for a very, very long time with deep domain expertise and light green are the very necessary people who will be bringing that knowledge to bear in their roles on a day to day basis. But we'll be bringing their main expertise in something else. Rupert's spoken to that with the role of accountants and lawyers and others as part of our ecosystem. So I think there's a really important piece around capability building. In fact, if we reflect on some of the challenges that we might have had as we've scaled sustainable finance and capital deployment, it's often been because people have had that passion, but sometimes not supporting knowledge in order to be able to act in the right way. And so I think there's a really, really important piece about how do we build shared capability to make the right decisions so that everyone knows what the objectives are. And the second and I come back as Rupert was talking about his role in visiting other financial centres in playing Guernsey's role in international finance architecture. He mentioned places such as South Africa. And I think there is a really important piece here about the fact that capital flows are and need to be global. And those capital flows need to go to the places where there is the greatest need for decarbonisation and sustainable development. That is internationally. But if we think around the globe, where are those flows going to? They tend to cycle quite neatly within developed markets. And so the role that places like Guernsey can play in helping make sure that not only do we have a clear view and vision of what sustainable finance is, and we're all aiming for the same set of objectives and the same practices as we do so, but that that is aiding capital flow globally, including making sure that it is going from where capital sits, often in the West, into emerging markets to aid their transitions and thus achieve the greatest possible impact.

Emily Farrimond, Baringa: Thanks, Simon. And that leads us quite nicely, I think, into our next question to Rupert. So we recently published a report focusing on the path to net zero

and how Guernsey Finance can support in enabling that change. Through our analysis, we expect that the net asset value of green funds could grow from 4.5 billion to 56 billion over the course of the next 20 years. Can you explain a little bit more about that Rupert and help us understand what that means for Guernsey as an island?

Rupert Pleasant, Guernsey Finance: Sure. We've just had our latest fund figures that actually said we're over 5 billion now for about 5.3 billion. So we are ticking upwards. But I think, as Simon said, I think with greater belief out there and with a greater understanding of what we're doing. I really can see those figures escalating at a lot more rapid rate in the coming years. But I think as a jurisdiction as a whole, over 6% of our GDP here is really attributable to the finance sector. So I think harnessing this opportunity is really absolutely critical to ensure that Guernsey remains both competitive within, you know, the kind of wider context of what's going on out there. But I think as Simon mentioned as well, with focus on Asia, with focus on Africa, and with focusing on markets that really need this this kind of capital, I think, you know, using the Guernsey Green Fund is not only is it doing good, but is fundamental for the island to remain competitive as well. Yes, you mentioned the Guernsey Green Funds. So it's really enabled us to change our focus. And, you know, we've got a number of what we hope will first see the Guernsey Green Funds, Insurance kitemark, but the Natural Capital Fund, I think is really fundamental here. And it's something that we've been passionate about. And I think it's something that we're now seeing a great deal of uptake across the board. We're also looking at upskilling our workforce and it's really, you know, getting them to understand more about sustainable finance. The local administrators here, the lawyers, the regulators have really embraced the Guernsey Green Fund, the Natural Capital Fund regimes. And this has really been pivotal as an island to driving, upskilling and education for islanders in these specific areas. So, we will continue to invest in sustainable funds, and we've got a number of new initiatives up and coming as well. I can't say too much about them at the moment, but they are on the horizon at the moment. So I think this will very much drive greater education and sustainable finance more broadly for Guernsey as an international finance centre. And I think finally, when you look at the sustainable finance regimes, it also helps to mitigate the risk of things like greenwashing. So you look at the Guernsey Sustainable Funds, what does that mean? It's an assured way of making sure that we have a kitemark that is there. If you look at what our regulator has done, they've just completed thematic review to really reinforce the message that Guernsey provides true substance in this area. I'm very pleased that the thematic came back. There was no signs of greenwashing whatsoever over here, which is absolutely critical, and that's what investors need to hear.

Emily Farrimond, Baringa: That's fantastic to hear. Thanks, Rupert. And there's a lot in there, particularly in terms of natural capital and your Natural Capital Fund. And also, you know, talking to greenwashing, which is a topic that, I think the regulators globally are increasingly focussed on. And it's really, really important for all of us who are passionate about this topic that we protect investors against, and actually the organisations against any claims of greenwashing because absolutely we want to be driving genuine change and supporting that transition in the best way that we can. I'm just going to hand it back to Simon because you mentioned the Natural Capital Fund and biodiversity for Simon I know is his absolute passion and the thing that he enthuses about day and night. Simon, anything you wanted to cover in terms of natural capital and biodiversity and why it's absolutely critical that whilst we're thinking about reduction in carbon emissions, biodiversity absolutely needs to sit very closely behind that as a priority for us all.

Simon Connell, Baringa: Thank you very much, Emily. I think it's that interdependence. I don't think we can solve for climate outcomes without solving for nature outcomes as well.

I'm incredibly excited that that is starting to be understood and that starting to be understood in a variety of areas, including in places like the carbon markets where you've had some really interesting outcomes recently, including again showing that climate nature interdependency. That around 95% of the carbon offsets in California's forest carbon trading system have been eradicated through wildfires. So, something that was supposed to be a climate mitigant and actually suffering from a climate impact. And the intergovernmental body on biodiversity, the IPBES, estimates climate is responsible for about 16% of biodiversity loss. So, we see both nature and biodiversity as a critical enabler of our climate ambitions, but also something that if we continue with unchecked climate change, we will suffer those repercussions. And, you know, famously nature being worth roughly twice the value of global GDP. So, you know, Sir Partha Dasgupta said, you can't live on a planet that has no nature...that would include us. But I think that that need for finding approaches, and to my mind, if we think within the financial system, there's been a longstanding focus on sector policies and due diligence to avoid exposure to the most harmful forms of activity and organisations, corporate actors that are carrying those out. There's been a long standing history of conservation finance, so trying to put in place the enabling conditions to make sure that the most precious landscapes in the planet are maintained and stay intact. But I think what's now necessary and we're starting to see this with things like the formation of Nature Action 100 as an investor body and with the growing wave of nature positive pledges, as well as with enablers such as the work of the Task Force on Nature related Financial Disclosures, or TNFD is people are saying, look, we've been through this journey on climate, but help us understand where the risks are. Help us understand how you can leverage those to create opportunities and to have impact and help us create nature positive models so much as we've done with the technology work within the transition, thinking about what needs to happen within economies not currently doing so, and how do you close the financing gap? How are you doing so for nature as well? And that financing gap is not to be underestimated. The recent COP 15, so the the biodiversity cop that took place in Montreal, which agreed the post 2020 global biodiversity framework, the UN estimated there is an 800 billion annual financing gap. 500 of that is going to be closed by reform of subsidies. And so again, to that point about where the risks are, whose business models are going to be impacted by that, who's going to be negatively impacted and who's going to be positively, and some of the Cambridge work is really interesting because, for example, looking at reform of the fertiliser industry and a potential 46% valuation impact on fertiliser manufacturers as a result of reform there, and then who stands to benefit from that? And then, of course, the balance in 300 billion that is both private and public capital that needs to come in to fill that gap. It needs to do so in an informed way. How are we finding the best opportunity? So as you can hear, I'm passionate about this, but I'm passionate because I think it's a significant opportunity. It's also a risk that we're not fully exploring and understanding yet. And so whether you're a bank, whether you're an asset manager, whether you're an insurer, you have exposure to this, how do you understand that? And then how do you actually achieve positive outcome as a result of that better understanding?

Rupert Pleasant, Guernsey Finance: I think also we were very lucky, our regulator and Steph Glover from the Guernsey Finance Team, both attended the recent COP and William Mason is the director general, spoke on two occasions there and the interest in the Natural Capital Fund and how we're tackling biodiversity from a Guernsey point of view. It was the catalyst for many different conversations. So, you know, for us that really is the proof in the pudding. If we can take that to COP and we can get people to talking about it and we can interact with people, and these are serious players we're talking about as well, that that's really a badge of honour for us. So no, I totally agree Simon.

Simon Connell, Baringa: And Rupert, at the risk of playing off your comment, I think there's something that's worth acknowledging here. This year at the Biodiversity COP. It was the first year there's ever been a finance day and whether that was the driver, what was really notable was the portion of the finance sector that turned up, and we've never had this before, whether, as you say, it's at the regulatory level or whether it's at the level of individual financial institutions, they've realised that this is a convenient place. You'll recall earlier on in this conversation I spoke to the power of collaboration. This is where the discussion is happening. This is where the agreements are being made and where that collaboration is occurring to try and help ensure that we're all heading forward in the same direction.

Rupert Pleasant, Guernsey Finance: Absolutely.

Emily Farrimond, Baringa: Thank you both. I'm going to take a little bit of a left turn now, but we've talked about the critical role finance has to play in the ecosystem, but equally to enable financial services to play that role, you know, the demand needs to be there from consumers and businesses. One of the challenges we continue to see in this market is that there still remains a lack of awareness to the problem that we're trying to solve for. And actually from an individual and business point of view, what it is that they need to do to change. I'm interested to understand from you, Rupert, what you see Guernsey Finance's role being as part of that kind of awareness raising and education?

Rupert Pleasant, Guernsey Finance: In some ways we're seeing it from the other side at the moment. So speaking with industry. COVID, funnily enough, has been a driver of industry practitioners here having to get a greater understanding of sustainability. When we entered the COVID phase, I think it gave a lot of very wealthy clients a chance to be able to stop and to be able to look at, number one, what's important to them, look at their respective portfolios, look at what they've been doing over a number of years, and we've seen a transition of wealth between generations. So, you might have had the matriarch or the patriarch who have ruled the roost for many years during the COVID period saying, well, you know what, we need to take a back seat now, really reassess what's important to us and then pass that wealth down a generation. That's happened in many circumstances. So now you've got wealth being inherited by younger beneficiaries. Now those younger beneficiaries are a lot more interested in the environment. They're a lot more interested in the planet. I'm not saying the older generation weren't, but this tends to be the theme here. So they are then going to their own practitioners and saying, okay, I'm looking at this portfolio. What are your ESG credentials here? What are you doing to actually do good? So I think that's really been a catalyst to many practitioners over here, really having to grasp the nettle and saying, well, we need to change our practices, we need to get more aware of this. And that's really where Guernsey Finance comes in, is that, we can then provide that basis to help with education, whether that be on island, whether that be off island, myself it's going to be doing the Cambridge course on sustainable finance leadership. So, you know, there are institutions and courses out there. But, I think our message really is to the industry practitioners over here, if they're not hearing from their clients already, is that no action is not an option here. There has to be action without doubt. So yeah, I think it is coming from both sides. I think practitioners are seeing themselves, but there is a lot of pressure coming from consumers and it is that passing over wealth from generation to generation.

Emily Farrimond, Baringa: Okay. So it sounds positive in terms of you're seeing actually perhaps more demand locally in Guernsey than in some other areas.

Rupert Pleasant, Guernsey Finance: Definitely. It is incredibly positive. And as I said, I do a lot of travel and it is interesting that I was in the US recently. I was in Miami and I was talking to a number of lawyers and finance professionals over there. And, you know, Guernsey really is at the forefront of this. And I was asking about other jurisdictions and whether they were promoting this, and they've heard very little about it. So I think it also does come to the jurisdiction by jurisdiction basis. So again, I'm very pleased to say that we're really at the forefront here.

Emily Farrimond, Baringa: Finally, Rupert, I had a question for you just around your perspectives, around transition. So clearly many, many organisations across the globe have some work to do. So unfortunately, they aren't net zero in their infancy or inherently within their business models. And there's a lot of work that they need to do to transition. What are your perspectives on how to protect transitioning assets, in particular in volatile times across the market?

Rupert Pleasant, Guernsey Finance: Yeah, I think that a science based transition is absolutely pivotal. You need guidance from the likes of the Transition Pathway Initiative and Science Based Targets initiative, and I think they'll be incredibly useful for those industries that are going through serious transition. I mean, I think in particular, looking at things like mining, and I think that that will be absolutely central. You're looking at a portfolio associate, an investment manager and understanding, you know, which of your assets have got a risk of being stranded I think will really help. So especially when you look at things like fossil fuel infrastructure itself being decommissioned. Understanding what residual emissions will be during and after transition, which I think will be absolutely pivotal again, and that will enable a lot of practitioners over here to be able to, you know, model on a very accurate basis what the current and future carbon offsetting cost will be. And I think from a Guernsey point of view, transition finance is really the greatest untapped opportunity that we can help to drive that differential change within the wider economy. So I think, you know, our own differentiators there, fast and flexible regime, strong track record for innovation, our connection with major markets. So I think this really does put Guernsey in an incredibly strong position to be able to innovate, be able to bring market firsts out there and really for our own financial services industry to become world leading in this space.

Emily Farrimond, Baringa: Thanks, Rupert. And Simon, just any thoughts from you around transitioning assets and how we best support them during the transition process?

Simon Connell, Baringa: Thank you, Emily. I think the concept of a science based transition is critical, as Rupert has said, but it's a little bit like fractal geometry, because the closer you look at it, the actual the measurement increases the size of the problem increases. And so I think that's where, again, to connect to Rupert's comments, there's a need for asset managers to think very carefully about how they generate alpha in this process. Certainly from some of the clients we're working with, they're looking at hard to abate sectors. They're looking, as they have done, for some time at innovative technologies, but they're also looking at the assets that might outperform, partly because there is an opportunity to take a really long term ownership view on that and aid the transition of an asset that is not transition positive to begin with, but that may have a differentiated role to play. So I think there is that need to be really careful in looking at this, thinking about your fund objectives, thinking about what you're investing into, and to have that patient capital view if you have the ability to do so. But it's a very complex problem thinking about what is the transition, even if we think to some of the recent disclosures and moving into the banking sector of banks who found that their the financed emissions are

increasing year on year as part of the changes in energy markets. And so how do you have the right conversations internally and indeed with your external stakeholders to acknowledge that this is not a linear trajectory and that there are aspects you can control and aspects you can't? And I think the most difficult position to be in is to have not done that thinking and to have not had enabling conversations around that.

Emily Farrimond, Baringa: Unfortunately, we've run out of time today. I wanted to say a massive thank you to both Rupert and Simon for their time. I've really enjoyed our conversation and appreciate you sharing your insights.