Guernsey investment funds – autumn 2024 update

Briefing Summary: Our investment funds team outline the latest developments within the investment funds market in Guernsey, addressing the recent Guernsey Financial Services Commission Investment Statistics Summary and annual report, international developments in sustainability reporting and why Guernsey is an attractive jurisdiction for venture capital funds.

Service Area: Investment Funds, Fund Regulation and Compliance, Funds Strategies and Asset Classes

Location: Guernsey

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Guernsey funds statistics

The Guernsey Financial Services Commission ("**GFSC**") has published its Investment Statistics Summary for Q2 2024 (see here). The full statistics can be viewed here, but the key statistics are as follows:

Guernsey funds

The total net asset value of Guernsey funds at the end of the quarter was £295.7 billion, an increase over the quarter of £3.2 billion (+1.1%). Over the past year, total net asset values have increased by £9.7 billion (+3.4%).

Closed-ended schemes

Within these totals, Guernsey closed-ended funds increased over the quarter by £2.5 billion (+1.0%) to £244.0 billion. This represents an increase of £6.9 billion (+2.9%) in the past year.

Open-ended schemes

The Guernsey-domiciled open-ended sector increased over the quarter by £0.7 billion (+1.4%) to £51.7 billion. This represents an increase of £2.8 billion (+5.7%) in the past year.

Guernsey Green Funds

Within these totals for Guernsey funds, Guernsey Green Funds held a total net asset value of £5.1 billion at the end of the quarter.

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Against what is still a challenging global economic backdrop, Guernsey continues to demonstrate its status as a leading international financial centre with growth in the investment funds sector during Q2 2024, the development of the Guernsey Green Funds sector being particularly encouraging.

GFSC annual report

The GFSC has published its annual report for 2023 which can be found here.

The report details the preparatory work undertaken in advance of the 2024 MONEYVAL evaluation (completed in April 2024, with a report scheduled for this December), and also summarises the outcome of four internal reviews undertaken by the GFSC.

One of the reviews related to the exposure and risks for private equity funds with respect to leverage/debt funding. Overall, it was found that Bailiwick private equity funds are not significantly leveraged, but levels of leverage use in connected, unregulated underlying portfolio companies and investor vehicles are opaque and may be significant. It was also found that such funds routinely use subscription line financing (i.e., a form of short term borrowing secured against undrawn investor commitments), but there is no trend showing increasing use or indications that this is used other than as a short term liquidity tool.

Another review was in relation to the liquidity risks associated with open-ended collective investment schemes investing in real property. The findings were broadly positive, with a review of all 12 open ended property funds revealing a significant variety of both scheme structures and the types of properties invested in. The majority of schemes did not appear to have any immediate concerns regarding the management of liquidity risk, and appeared to have sufficient measures in place to manage and mitigate future liquidity risks.

The report also summarises the results of the GFSC's self-assessment against the core principles of securities regulation set out by the International Organisation of Securities Commissions ("**IOSCO**"), of which the GFSC is a member, and which is recognised as the global standard setter for investment sector regulation. Overall, the GFSC concluded that 29 of the 38 principles have been fully implemented.

Addressing the gaps identified by the GFSC forms part of its 2024 policy work programme and fall in two main areas:

(i) the Registered Collective Investment Scheme Rules and Guidance, 2021 (which apply to open- and closed-ended registered collective investment schemes), primarily around required disclosures in the Prospectus Rules and Guidance, 2021, which apply to registered funds; and

(ii) the Investment Exchange (Notification) Rules 1998 (the "**Exchange Rules**"), which apply to any firm licensed to operate an investment exchange. The GFSC has published a consultation paper in which it proposes replacing the Exchange Rules with The Regulated Investment Exchange Operator Rules and Guidance.

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Sustainability reporting - discussion paper

The GFSC has issued a discussion paper seeking views on international sustainability reporting in the Bailiwick, considered the next important step by the GFSC in addressing the role of the Bailiwick's finance industry in meeting the challenges presented by sustainability and climate change risks.

This discussion paper provides a summary of recent international developments in sustainability reporting, including the work of the International Sustainability Standards Board. These are aimed at protecting the environment, including general requirements for the disclosure of sustainability-related financial information, and climate-related disclosure of cross-industry and industry-specific risks.

The paper seeks to gather information and views from the finance sector in Guernsey on the potential impact the introduction of these standards could have on Guernsey's regulated financial services sector, and also seeks views on additional steps which might be taken to enhance licensees' sustainability risk governance and management.

In aiming to "*ensure that investors receive the information on sustainability risks and opportunities they need; allowing them to invest with confidence [...] [t]he Bailiwick remains steadfastly committed to meeting international standards without undue bureaucracy, allowing markets to function efficiently and fairly*[1]". The paper advances the proposition that the following are desirable goals for Guernsey's finance sector:

- being recognised internationally as a centre for sustainable finance;
- applying international standards proportionately and consistently with reputable peer jurisdictions;
- being involved in raising and providing capital for local, regional and global projects supporting the transition to low carbon economies; and
- being a venue that enables investors to make informed choices.

To underline the jurisdiction's commitment to sustainability in the finance industry, when King Charles III visited Guernsey in July 2024, a meeting was arranged with local sustainable finance experts, including Carey Olsen partner Ben Morgan, to discuss the island's pioneering Guernsey Green Fund and Nature Capital Fund, both believed to be world firsts in environmental finance.

Guernsey: the choice for venture capital funds

Guernsey has established itself as a premier jurisdiction for investment funds, offering proportionate, principle-based regulation, a neutral tax environment, speed to market, and competitive ongoing costs.

With respect to venture capital ("**VC**") funds in particular, recent research conducted by global law firm Proskauer Rose LLP[2] has revealed that Guernsey remains the most prevalent jurisdiction for European VC funds, with twice as many funds raised in Guernsey during 2022-2023 as compared to the next most popular jurisdiction.

With fundraising conditions expected to improve, Guernsey is very attractive for VC funds for various reasons, including:

- Easy-to-understand range of fund structures to suit closed-ended, open-ended and semi-liquid strategies.
- Reasonable and proportionate regulation.
- Neutral tax environment.
- Ease of attracting international investors via an internationally-recognised structure.
- Guernsey's competitive edge with respect to costs and timings for the establishment and regulation of fund vehicles (regulatory approvals can be obtained in one business day).

We explore each of these reasons in greater depth in our recently published article, which also outlines recent trends in fund structuring (including deal by deal SPVs, warehouses, continuation funds and Private Investment Funds), explains why Guernsey is an attractive alternative to Luxembourg, and considers the private investment fund regime which is arguably the 'go to' fund option for VC managers in Guernsey, providing a fast-track route (one business day) to market for first-time fund managers and managers with a closer connection to their investor base.

If you need additional advice relating to the use of VC funds in Guernsey, please get in touch with your usual Carey Olsen contact.

1 *Deputy Lyndon Trott, President of the Policy & Resources Committee, foreword to the discussion paper.*
2 *Under the microscope: Guernsey's position for European venture capital funds - Insights - Proskauer Rose LLP*