



The Natural Capital Fund

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As part of the ongoing growth in the Guernsey Sustainable Funds Framework and as part of a “Guernsey Sustainable Finance Week” in September 2022, the Guernsey Financial Services Commission (“GFSC”) has launched the Natural Capital Fund regime. This follows on from the introduction of the Guernsey Green Fund in July 2018 – the world’s first regulated green investment product.

The concept of “natural capital” seeks to recognise the role of nature as an asset which is key to the sustained functioning of human social and economic activity. Examples of natural capital include clean air, water supply, plant life, animals, soil and minerals.

Investors in a Natural Capital Fund can rely on the GFSC’s designation, provided through compliance with the Natural Capital Fund Rules (the “NC Rules”), to be confident that a fund is committed to making a nature-positive investment. The Natural Capital Fund regime has a broader and more nature-focussed scope than the Guernsey Green Fund regime, whose focus is centred on climate change mitigation and adaptation. The NC Rules require that the objectives of a Natural Capital Fund must include seeking a return for investors whilst either making a positive contribution, or significantly reducing harm, to the natural world. In calibrating the scope of the regime in this manner, it is envisaged that a wider spectrum of investment strategies may be accommodated, thereby increasing the range of schemes which might seek designation.

It is hoped that, as a consequence, a greater contribution can be made to the flow of resources directed towards the effort to preserve and rebuild the planet’s reserves of natural capital.

Under the NC Rules, a scheme’s objectives must align with either:

- the United Nations Convention on Biological Diversity’s Post-2020 Global Biodiversity Framework’s 2030 Action Targets;
- the United Nations Sustainable Development Goals 12-15; or
- the European Union Taxonomy for Sustainable Activities’ Environmental Objectives (c) to (f).

These frameworks incorporate the immense variety of natural capital and provide a comprehensive understanding of the strategies and goals necessary to abate natural capital loss. This affords a Natural Capital Fund the flexibility to adopt the sections of the frameworks relevant to its specific investment focus and strategy, whilst operating in line with internationally recognised standards. The objectives of a Natural Capital Fund should clearly identify which of the above are relevant to its investment strategy.

The application requires submission of:

- a final version of the scheme’s prospectus;
- a declaration by the scheme’s governing body stating that the scheme complies with the NC Rules;
- a report detailing how the investment approach and objectives align with the international standards, the approach of target setting and what was set, and how compliance will be monitored; and
- a third-party verifier certifying that the scheme complies with the NC Rules.

In addition to the introduction of the Natural Capital Fund, the GFSC has issued new Guidance on Anti-Greenwashing (the

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“**Guidance**”). Greenwashing involves misrepresenting the sustainability aspects surrounding investment products and is a global regulatory concern. To protect investors, the Guidance makes clear the GFSC’s expectation that any explicit claims or statements indicating that a scheme or its underlying assets are environmentally sustainable investments are not misleading and are capable of being evidenced by the scheme or its service providers.

As part of any application process, and its on-going supervision, the GFSC may request such evidence to support any claims that a fund or its assets are environmentally sustainable investments. The Guidance makes clear that the GFSC will take appropriate action in line with its statutory functions in cases where such claims cannot be properly substantiated.

The introduction of the Natural Capital Fund regime demonstrates Guernsey’s continued determination to remain at the forefront of the sustainable investment sector, with the regime anticipated to supplement the £5.3 billion already channelled into sustainable investments by Guernsey Green Funds.



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