

ESG a key focus for Sukuk issuers and funds domiciled in offshore centers



OFFSHORE CENTERS

By *Manuela Belmontes*

Environmental, social and governance (ESG) factors are becoming more important in the investment decisions of several businesses, and becoming a key focus of investors. It comes as no surprise then that we have seen the prominence of ESG criteria in recent Sukuk issuances and fund launches using reputable offshore centers.

In September 2021, Kuveyt Turk Participation Bank (KT) raised US\$350 million through an issuance of (what has been reported as) the world's first regulatory capital Tier 2 ESG Sukuk. The fixed rate, resettable Sukuk facility matures in December 2031 and is listed on Euronext Dublin. The issuance was extremely successful, being 12 times oversubscribed.

The prospectus for the Sukuk states that the net proceeds from the issuance will be applied by KT toward the financing and/or refinancing of certain sustainable projects in accordance with KT's Sustainable Finance Framework. Such projects may include those relating to renewable energy, pollution prevention and control, energy efficiency, green buildings and clean transportation. Pursuant to the Sustainable Finance Framework, the proceeds can be allocated to eligible projects originating up to three years prior to the issuance.

The issuer of the Sukuk, KT21 T2 Company, is an SPV incorporated in the popular offshore center of the Cayman Islands. It was set up by KT as an orphan entity, with its shares held by an independent trust company, MaplesFS, as the share trustee pursuant to a charitable trust.

In October 2021, the IsDB issued a further US\$1.7 billion in five-year Sukuk under its US\$25 billion issuance program. The program originally had a single issuer SPV, IDB Trust Services, formed in Jersey, a favored offshore center. However, in March 2021, a second issuer was added to the program, IsDB Trust Services No 2 SARL, formed in another attractive center, Luxembourg.

The Luxembourg issuer was added at the time of the issuance of the IsDB's landmark US\$2.5 billion sustainability Sukuk facility,

which was also its largest US dollar public issuance to date, the largest sustainable Sukuk issuance globally to date and its second sustainable Sukuk issuance (following its earlier green Sukuk).

The terms of the issuance provide that the IsDB will apply the proceeds therefrom to finance or refinance eligible social projects and green projects in accordance with its Sustainable Finance Framework in support of its member countries. The IsDB advises that the Sustainable Finance Framework has been created in line with the Green Bond Standards, Social Bond Standards and Sustainability Bond Guidelines published by the International Capital Market Association.

Moving away from the capital markets and into the fund sphere, we recently learned in October 2021 about a new Shariah compliant equity fund launched by SEDCO Capital, in partnership with Lombard Odier (a Swiss private bank), that is focused on sustainability. The SC LO Global ESG Equities Fund was formed in Luxembourg and is reported as having an active UCITS [Undertakings for Collective Investment in Transferable Securities] strategy that will invest in developed market equities.

Apart from ESG-related developments, we witnessed the offshore centers being used by other Sukuk issuers and funds over the past couple of months.

In September 2021, each of the Republic of the Maldives and Ahli United Bank (Bahrain) issued Sukuk (US\$200 million and US\$600 million respectively) through a Cayman Islands SPV.

In October 2021, IFN reported on two offshore fund launches. Dubai International Financial Centre-based asset manager Introspect Capital introduced its Shariah compliant fund, Introspect Islamic Fund, domiciled in the Cayman Islands; and Saudi-based asset manager SEDCO Capital partnered with Amundi to launch the SC Global Listed Infrastructure Equity Fund domiciled in Luxembourg. ☺

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