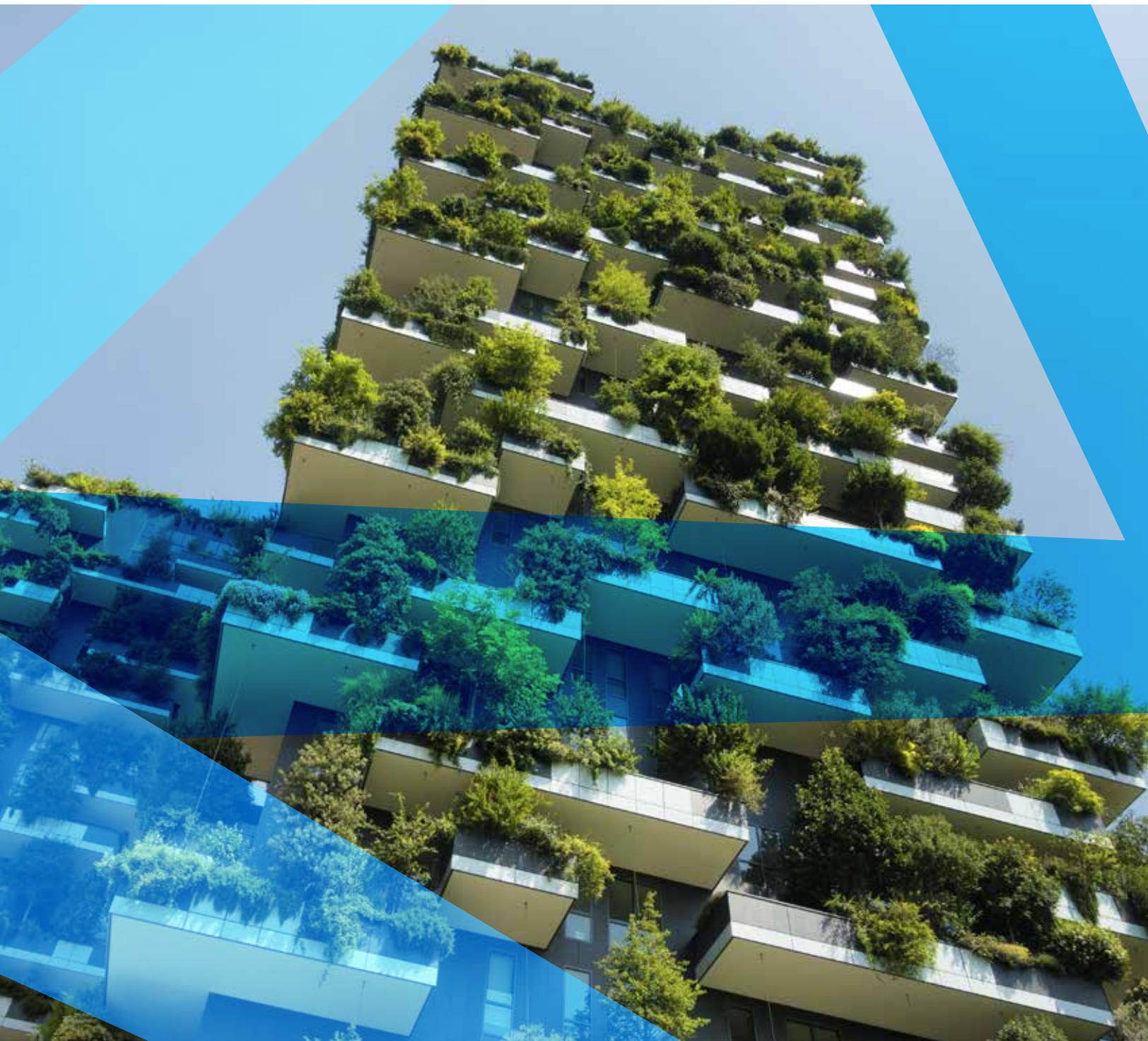
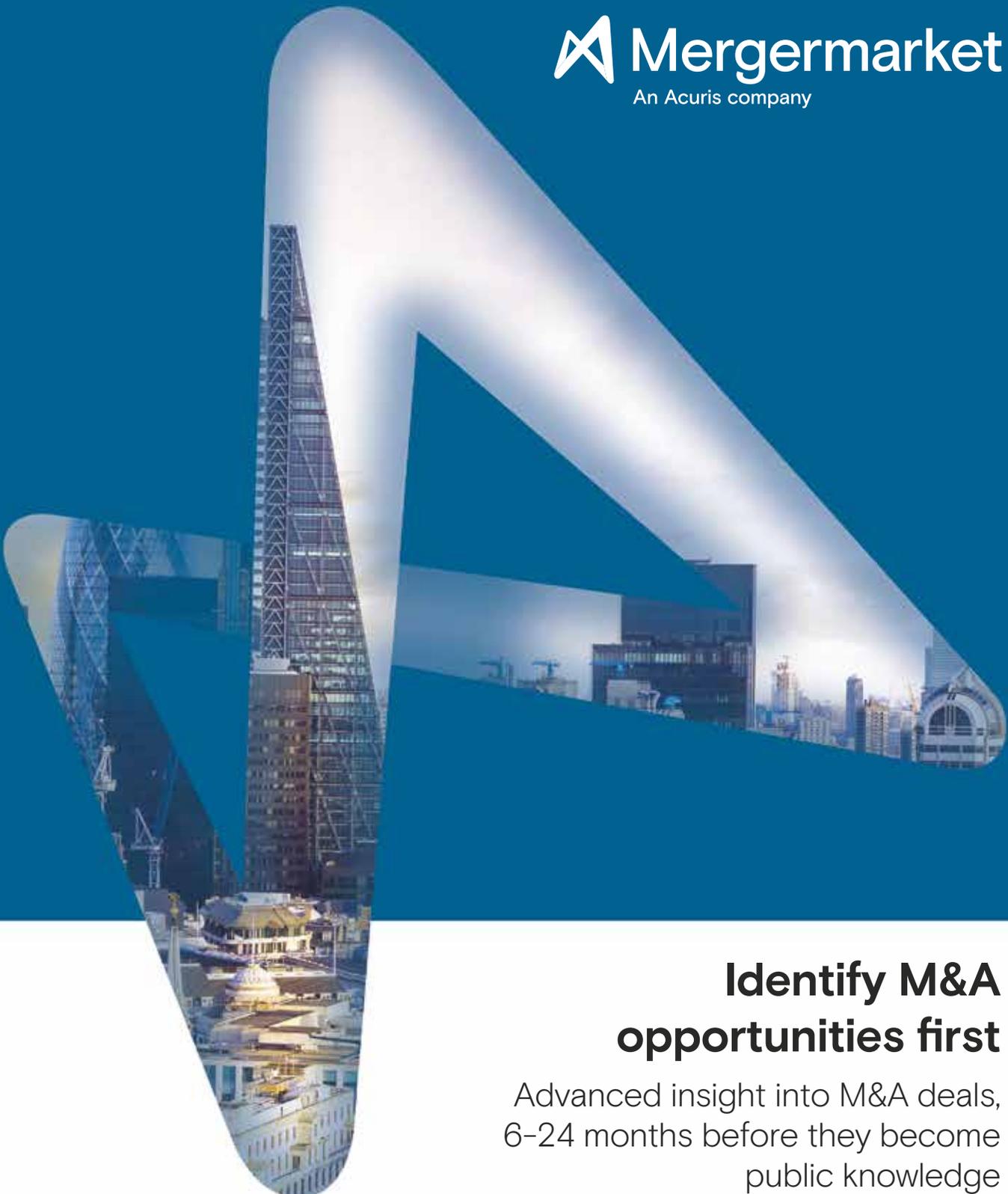


# Impact Investing Report

## 2020 edition





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# Contents

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## 2 Market overview

As impact investing moves from niche to mainstream, Unquote explores the strategy's growth across the private markets

## 6 In Profile: Allianz GI

Allianz Global Investors' impact investment programme is looking to deliver a positive contribution, without compromising on returns. Managing director Martin Ewald explains the organisation's approach

## 8 Opportunities in responsible real assets investing

Ravi Nevile, UK Head of Real Assets at the Aztec Group, on responsible investing in the real estate and infrastructure sectors, and the expertise being developed among those administering funds on a daily basis

## 10 Q&A: Snowball

Daniela Barone Soares, CEO of fully diversified impact fund Snowball, discusses the latest trends, hurdles and outlook for the strategy

## 12 LP perspective

Three European LPs define impact, reveal their favoured measurement metrics, and highlight the kinds of managers they look for

## 16 The impact on private investment

Jim Whittingham, UK Head of Private Equity at the Aztec Group, lifts the lid on the trends driving impact investing in PE, and how fund operations are evolving to meet investor demands

## 18 Case study: PSSIF

Omar Ghafur, investment director at PSSIF, explains how UK local authorities draw on private market expertise to make an impact

## 20 Impact case studies

Unquote explores recent impact investments and how they are measuring the social and/or environmental impact achieved

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*A wealth of further information is available through our website. This includes breaking news and analysis from each European market, features, commentary, blogs and video covering fund launches, changes in strategy and people moves, and in-depth analysis of every deal featured in this issue*

# Impact investing overview



**Paul Tilt**  
Head of fund  
research

Once a niche corner of private equity, impact investing has recently been thrust into the private market’s limelight. Dedicated pools of capital intended to generate positive, measurable social and environmental impact alongside a financial return have been raised by some of the world’s largest alternatives managers, including Bain Capital, TPG Growth, Partners Group and KKR, while the number of smaller niche strategies have also proliferated. The Global Impact Investing Network (GIIN) in 2019 said assets under management in impact investing totalled \$502bn, of which 50% was held by 860 asset managers in venture capital, PE, fixed-income, real assets and public stocks.

LP and wider societal demands for capital to be invested ethically and deliver impact is undoubtedly a key driving force behind GPs moving into the strategy. Maggie Loo, partner at specialist impact investor Bridges Fund Management, says the combination of higher levels of urgency surrounding the climate crisis, growing inequality across the world and the fact that governments can no longer be relied upon to solve these issues alone, have coalesced to create pressure on investors to act:

“It’s no longer about purely maximising profits,” says Loo. “Consumers and investors expect much more than just the bottom line, and the millennial

## Select impact fund closes

Impact Fund	Manager	Year of close	Amount raised (€m)
Rise Fund	TPG	2017	1,700
KKR Global Impact Fund	KKR	2020	1,200
Ambienta III	Ambienta	2018	635
LeapFrog Emerging Markets Fund III	LeapFrog	2019	625
Bain Capital Double Impact Fund	Bain Capital	2017	342
CBRE UK Affordable Housing Fund	CBRE Global Investors	2019	320
Dementia Discovery Fund	SV Health	2018	300
Bridges Property Alternatives Fund IV	Bridges Fund Management	2017	250
PG Impact Investments I	PG Impact Investments	2019	183
Palatine Private Equity Impact Investing Fund	Palatine Private Equity	2017	112
PMF Integro Fund I	Morgan Stanley Investment Management	2017	110
Bridges Sustainable Growth Fund IV	Bridges Fund Management	2019	93
Ananda Impact Fund III	Ananda Impact Ventures	2018	50
Bridges Social Outcomes Fund II	Bridges Fund Management	2019	41

Source: Unquote Data

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## As impact investing moves from niche to mainstream to become one of the most widely-discussed topics among investors, Paul Tilt explores the strategy's growth across the private markets

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generation see the company they work for as a sense of who they are.”

The number of LPs interested in impact has grown over the last five years, and they generally fall into two camps, says Loo. Those that know they need to do something but have not yet had time to drill down into more detail and articulate what they mean by impact; and a universe of more sophisticated investors who are able to identify outcome areas and set parameters around the financial returns they would like to target. Family offices and foundations have typically led the way and fallen into the second camp, along with some local UK and European authority pension plans; meanwhile, most institutional investors still sit in the first camp, although this is evolving.

Another key driver of impact investing is the growing recognition that there is no trade-off between impact and financial returns, or a concessionary returns profile for the strategy. GIIIN's 2019 *Impact Investor Survey* revealed that 66% of investors pursued competitive, market rate returns and a further 19% near-market rate. Notably, most respondents also reported that portfolio performance overwhelmingly met or exceeded investor expectations for both social and environmental impact (98%) and financial return (91%). As the strategy matures, first movers in the space such as Bridges can point to a nearly 20-year track record of evidence-based, documented financial returns alongside its impact-specific remit. By delivering on this thesis, the firm has been able to raise £1bn in commitments since inception across four impact strategies: growth business, long-term capital, social outcomes and property.

Aiding the analysis of impact fund performance was the advent in 2015 of an impact investing

“It's no longer about purely maximising profits. Consumers and investors expect much more than just the bottom line”

*Maggie Loo, Bridges Fund Management*

benchmark by Cambridge Associates and GIIIN. The benchmark – currently using data from 76 PE/VC funds targeting a market rate return and launched between 1998 and 2017 – found that as of 30 September 2019, the net IRR returns across the funds was 7.21%, with an investment multiple of 1.34x. However, Cambridge cautions that it is difficult to draw definitive conclusions due to the limited size of the dataset and overall youth of funds within the PE/VC impact benchmark.

### Bumps in the road

Despite the momentum and growth that impact investing has gained over the last few years, challenges remain for the strategy. Although there has been an uptick in the number of managers targeting impact, many of the funds remain small, niche strategies that deploy relatively small equity tickets. Additionally, the geographical focus of impact strategies tends to have a bias towards emerging and developing markets, where less capital can be deployed to achieve more impact compared to developed markets. For Aaron Pinnock, impact investment analyst at the Church Commissioners for England, “the investable universe remains a nascent area, not yet deep enough to have a significant allocation to, as multi-asset institutional investors”. ▶

Indeed, Omar Ghafur, an investment director at Public Sector Social Impact Fund (PSSIF), agrees that more needs to be done to uncover impact investment opportunities in the UK so the money can be put to work: “There are UK authorities backing funds that target emerging markets, when there are so many problems in our home market that need investing in.” The launch of the £300m PSSIF by Warrington Borough Council and Altana Wealth seeks to address this and will target investments that improve the lives of UK residents, such as in social housing, renewables and vehicle charging points.

The measurement and reporting of impact has also proved troublesome for investors. A plethora of standards, impact objectives, frameworks and lack of track record for many managers means industry-wide standardisation is difficult to achieve. Hendrik Jan-Boer, head of sustainable and impact equity investments at NNIP, the asset manager of Dutch life insurer NN Group, says a distinction should be made between environmental and social performance: “For environmental there are quite a few data providers, and corporations are clearly picking up transparency on this, which makes the measurement of CO2 emissions and water consumption possible. However, social impact is much harder to measure due to the difficulty in comparability across industries and availability of data.”

Chris Varco, a sustainable and impact investment specialist at Cambridge Associates, says that, before investing, they are interested in establishing the transparency, the amount of reporting, and want to actually have tangible data on the impact to justify the “green spin”.

### Measuring impact

The 17 sustainable development goals (SDG) adopted by UN member states to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere, have been the most consistently used impact measurement tools to aid investors since 2015.

Private markets asset manager Partners Group launched a blended private markets impact strategy called PG Life in 2018 focusing on SDGs 1, 3, 4, and 7, relating to financial inclusion, healthcare, education, and clean energy. Elsewhere, Piet Klop, the responsible investment adviser at Dutch pension manager PGGM, says his organisation focuses on goals 2, 3, 6, 7 and 12 relating to ending hunger, healthcare, sustainable management of water and sanitation, clean energy, and responsible consumption.

LPs are keen on the SDGs framework being used as it is simple for stakeholders to understand, but at the same time, according to Partners

Group, it is robust enough to inform an investment strategy. Bridges’ Loo says SDGs are well received because there is global understanding and recognition that these are the goals and outcomes we should work towards, which brings conformity and credibility.

Although the SDGs have been beneficial in building consensus and communication around impact, Partners Group in a recent report warned that SDGs have the potential to be used by some firms as a marketing tool, linked to almost any investment activity

### Select impact funds currently raising

Impact Fund	Manager	Target (€m)
PG Life	Partners Group	1,000
BMO UK Housing Fund	BMO Real Estate	570
Eiffel Essential Fund	Eiffel Investment Group	400
Public Sector Social Impact Fund	Altana	340
Arcano Impact Private Equity Fund	Arcano	300
Allianz Impact Investment Fund	Allianz	200
WCP Impact Dév	Weinberg Capital	150
Q-Impact I	Qualitas	40
Rise Fund II	TPG	n/d
Bridges Property Alternatives Fund V	Bridges Fund Management	n/d

Source: Unquote Data

without an objective authority or means to determine the appropriateness of the SDG designation. Fortunately for investors, the integrity of impact is being supported by tools and organisations that assist in how to measure and report impact.

One such tool is the Impact Management Project (IMP), a sector-wide initiative facilitated by Bridges Insights, Bridges' non-profit field-building arm, and involving around 2,000 contributing organisations. Says Loo: "The IMP was set up not to reinvent the wheel, but to recognise there is a rich ecosystem of standards and metrics already, and can we think about how they all fit together and create a coherent framework that people can coalesce around?"

The IMP reached a consensus that impact can be measured across five dimensions – what, who, how much, contribution and risk. Managers have published reports on how they use the IMP framework alongside their internal proprietary impact methodologies and bespoke disclosures. This transparency, collaboration and even sharing of impact failures is deemed essential for the further development of common standards.

### **Viral impact**

The Covid-19 pandemic sweeping across the globe is presenting the most daunting challenge since the global financial crisis and will affect impact managers as much as any other. "Some investors will see this crisis and the problems it is having on their balance sheet and only think about repairing that – they will leave thinking about impact for another day," cautions Daniela Barone Soares, CEO at Snowball, a fully diversified impact fund.

In addition, the fundraising market is expected to be uncertain for the rest of 2020, with LPs unable to travel or take in-person meetings slowing down the investment process, particularly if the LP does not have an existing relationship with the impact manager.

However, on a more optimistic note, Barone Soares says many investors will be seeking to ensure that, while their capital achieves attractive returns, it also achieves improvement in the social

and environmental systems and prevents another pandemic from happening again.

Likewise, Ingrid Kukuljan, head of impact investing at investment manager Federated Hermes, believes impactful companies are essential to help service the unmet needs of the environment and society and are therefore

**"Some investors will see this [coronavirus] crisis and only think about repairing their balance sheet – they will leave impact for another day"**

*Daniela Barone Soares, Snowball*

exposed to enduring sources of demand: "In a situation where entire industries may need government support, companies with a purpose (or positive impact) will more likely get fresh equity from investors or benefit from fiscal spending."

To address the pandemic, Resonance, a social impact investment company, recently announced a six-month capital repayment holiday for investee companies. Meanwhile, social impact investor Big Society Capital has released a £100m programme of response investments, including £25m to enable social lenders to provide emergency loans to affected social enterprises and charities.

### **Emergence of new asset class?**

The rise of impact investing has led some asset owners to believe it should be treated as an asset class in itself. One argument is that additional skills are required to analyse social factors alongside commercial ones, and dedicated teams would be able to mobilise greater allocations to impact, though not everyone agrees.

"To name impact as a separate asset class is to dodge the fact that all investments have an impact, and that we have a choice about creating that impact, whether positive or negative," says Snowball's Barone Soares. "We believe financial markets should be a mechanism through which society and the environment are protected." ■

# In Profile: Allianz GI



**Sofia Karadima**  
*LP researcher  
and writer*

**A**sset manager Allianz Global Investors (Allianz GI) has €563bn in assets under management, out of which €69bn is invested in private markets, including investments in private equity, infrastructure debt, infrastructure equity, private debt, and trade finance. Meanwhile, the organisation manages €7bn in impact investments, specifically companies that align with one or more of the United Nations' sustainable development goals (SDG).

Martin Ewald, Allianz GI's managing director and head of investment strategy, says impact investing was hitherto perceived as being driven by philanthropic capital, and was often confused with donating capital, but believes now is the time to set the record straight. "We think investors need to see impact investments as an important part of their asset allocation. As with private market strategy, impact investments can deliver the well-known benefits of non-listed alternative investments such as stable returns, low correlation, and inflation-linked revenue that offers investors an attractive risk-return ratio," he says, noting that impact investments also deliver a positive contribution to society, the environment and address global challenges.

"Investors need to see impact as an important part of their asset allocation... [delivering] stable returns, low correlation, and inflation-linked revenue"

*Martin Ewald, Allianz GI*

Ewald says impact investing is fast-growing and becoming increasingly popular in the illiquid market space: "Private markets have led the

charge, incorporating a plethora of investment opportunities in areas such as energy efficiency, financial services, health, education, food and agriculture, and sustainable forestry. The private market can be accessed through both equity and debt; while equity, being lower down the capital structure, is riskier, it gives the investor more control over the asset."

## Three-pronged approach

There are three principles that define Allianz GI's impact investing strategy when applied to private markets. Firstly, the intention of the strategy must be to generate a positive social and/or environmental impact and at the same time generate attractive financial returns. Secondly, there must be a causal



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## Allianz Global Investors' impact investment programme is looking to deliver a positive contribution, without compromising on returns. Sofia Karadima speaks with managing director Martin Ewald about the organisation's approach

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connection between the investment and the impact generated. And finally, the impact needs to be identifiable and measurable, and must be reported upon on a regular basis.

Allianz Impact Investment Fund was launched in September 2019 with a target size of €200m and a maximum limit of €300m, and is looking to generate measurable as well as social impacts. The fund, which is set to invest in private market equity and debt opportunities, targets investments across energy efficiency, sustainable land use and agriculture, among other sectors.

### Impact assessment

Measuring the impact is a priority for the investment community, given the continuous risk of "impact washing". Says Ewald: "The key feature of impact investments is an investor's obligation to continuously measure and report the social and environmental performance of the underlying assets to ensure transparency and accountability. While the market is clear about the process stages in which impact has to be measured, the detail of measurement and applied techniques are far from standardised. We believe LPs are looking at established players within this space with a rigorous measurement and reporting system that fits their objective from an impact perspective and their risk-return profile."

Among the challenges that Allianz GI faces is the lack of specialised support infrastructure to originate, analyse and manage impact investments. However, this is also one of the biggest opportunities, says Ewald. "Advisers and brokers facilitating impact transactions are emerging in many markets, sectors and regions, but they still need to scale and develop a proven track record of sound

and consistent returns. However, as a result of this high fragmentation, there is potentially less crowding of investors chasing the same deals, giving us the ability to leverage our global investment platform to source transactions in alternatives ways." On the other hand, standards for impact's key performance indicators are beginning to emerge, but there is still no consensus among asset managers, Ewald says.

Ewald says the firm is set to invest from its existing vehicles, which cover impact investments in Europe and Africa, both in the environmental and social impact space.

Allianz GI previously launched fund-of-funds AfricaGrow, which invests indirectly in African SMEs and startups. This vehicle was part of the impact investments in private debt and equity that the organisation is managing on behalf of Allianz Group. The fund attracted €85m in commitments from the German Federal Ministry for Economic Cooperation and Development (BMZ), €30m from DEG – a subsidiary of KfW – and up to €70m from Allianz's related firms.

Allianz GI is a member of Global Impact Investing Network (GIIN) and of the International Corporate Governance Network (ICGN). It is also a founding member of the Climate Finance Leadership Initiative (CFLI) and an investor member of the Carbon Disclosure Project.

Furthermore, Allianz GI has been a signatory to the UN-supported principles for responsible investment (PRI) since 2007, with Ewald being a lead portfolio manager of the Impact Investment Fund and global co-chair of the infrastructure advisory council of PRI.

Allianz GI's impact investing team consists of five people who work on the transactions, supported by the wider team across the whole platform. ■

Sponsored comment



# Opportunities in responsible real assets investing

## Has there been a shift in attitudes to impact investing across real estate and infrastructure in recent years?

**Ravi Nevile:** Undeniably. Those institutions that invest in the funds and entities we administer are clearly highly engaged when it comes to ESG. Investors are actively looking for assets that not only offer consistent and resilient long-term returns, but also have a demonstrably positive impact on the wellbeing of society. Many real assets across both real estate and infrastructure meet this criteria.

The UK residential real estate sector has a structural supply and demand imbalance. Despite a market size several multiples larger than the commercial sector, residential investment has traditionally been hampered by a lack of market access and the deregulation of the private rented market, which led to a surge in buy-to-let investors

affordable housing, social housing, care homes and student accommodation, all at a scale that makes investment economically viable while solving fundamental societal problems in providing a “roof over one’s head”.

Moreover, the way we build residential assets has shifted dramatically with respect to energy efficiency, materials and technology, in ways that benefit the environment. Similarly, when we look at our infrastructure and renewable energy clients, many of the funds and assets are built around an impact investment thesis. The focus on climate

“When we look at our infrastructure and renewable energy clients, many of the funds and assets are built around an impact investment thesis”

*Ravi Nevile, Aztec Group*

since the late 1980s. But over the last decade, following the success of multi-family investments in the US and elsewhere, institutional capital has been deployed across all residential segments, including the private rented market, build-to-rent,



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## Ravi Nevile, UK Head of Real Assets at the Aztec Group, answers our questions about responsible investing in the real estate and infrastructure sectors, and the expertise being developed among those administering funds on a daily basis

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change has only strengthened among institutional investors and we have seen a rise in the number of assets we administer in the renewables sector – including solar and wind – that are aiding the transition from fossil fuels to clean energy.

### What are some of the key administrative considerations?

**RN:** For real assets, we often administer the entire structure, including asset holding companies and property companies. As well as administrative support, we provide specialised accounting, reporting and governance services – including board of director services. An administrator with asset class expertise can add significant value when navigating the various operational aspects of managing residential or renewable energy assets.

Further, assets with a societal impact frequently have a number of other stakeholders involved. These range from specialist property managers, care home operators, local councils for social housing, government agencies such as Homes England, the Infrastructure and Projects Authority or even HM Treasury. Understanding the network of interconnections, accessing all necessary information – including financial data – and having the tools and technology to provide specialised reporting to shareholders is therefore essential.

Within infrastructure in particular, impact funds often have either very long fund tenures (in excess of 30 years) or evergreen structures (into perpetuity) to accommodate the long-term investment strategy or allow for the recycling

“We may reach a point when it’s no longer called impact investing – combining profit with purpose will be the approach applied to all investments”

*Ravi Nevile, Aztec Group*

of capital and investors. Such structures have unique complexities around equitable treatment of investors, calculation of specific distribution waterfalls and the payment of performance-related fees, including clawback provisions.

Gathering all required reporting information takes thought and considerable effort. But it’s our job to combine asset class expertise with a flexible, bespoke service that helps the investment manager fulfil reporting obligations while clearly demonstrating good governance and the positive impact of the investment.

### What’s the long-term outlook?

**RN:** The appetite is there to make impact investment much bigger in the institutional landscape than it is today. Many large-scale investors are committed to placing sustainability at the centre of their investment approach, and believe real assets can help them achieve their objectives. We are seeing this with several institutions already, but soon we may reach a point when it’s no longer called impact investing. Instead, combining profit with purpose will be the approach applied to all investments. ■

# Q&A: Snowball CEO Daniela Barone Soares



**Paul Tilt**  
Head of fund  
research

**Paul Tilt: We are witnessing an uptick in impact strategies and impact-labelled products. What are the main drivers of this?**

**Daniela Barone Soares:** This is a relatively new market, so one driver is the increased awareness and track record of pioneering organisations in the space – Snowball, for example, now has a three-year track record. Another driver is the genuine desire from investors to understand where their money is going and what it is being used for, and to invest in line with their values. Finally, the millennial generation wants to work for and invest in products that have a positive social and environmental impact – and they are pushing their families, the companies they work for and society in that direction.

“Business can no longer solely focus on profit to the exclusion of the people and the planet. Maybe the Covid-19 crisis is highlighting this dislocation?”

*Daniela Barone Soares, Snowball*

**PT: Have you seen a big increase in the types of institutions carving out impact allocations?**

**DBS:** Family offices and foundations have led the way – as often happens, asset owners have more discretion to act. That being said, foundations still hold small allocations to impact (and generally see it as separate from the rest of their endowment investments).

We are always looking around to find other investors to share ideas with and network. It is interesting that in our last three private market deals – aside from Big Society Capital – we have been the only UK institutional investor.

Snowball views private market deals as more impactful by virtue of bringing additional capital to social and environmental issues – and, because we have been investing in this market for some time, we are confident in making such investments and accepting the higher risks. Looking at public markets – for example impact equities and green bonds – our sense is there are more institutions, including pension funds, getting involved.



**PT: We hear participants can find the measurement of impact difficult. Are people coalescing around certain initiatives and measurement techniques?**

**DBS:** We continue to collaborate closely with the Impact Management Project (IMP), as well as

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## Paul Tilt catches up with Daniela Barone Soares, CEO of fully diversified impact fund Snowball, to discuss the latest trends, hurdles and outlook for the strategy

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use and build upon their impact measurement framework. There is still some way to go, but we feel the industry is shifting from each firm claiming to have a “proprietary impact metric”, which does not help investors, to the adoption of common measurements like IMP. This is helpful in moving the discussion from measurement to execution, and allows investors to seek the best, most impactful managers. We have published a report on our use of the IMP framework and think transparency and collaboration is essential if we are to develop common standards.

### **PT: What are the main barriers for impact investment becoming more mainstream?**

**DBS:** There has not yet been a broad acceptance that business can no longer solely focus on profit to the exclusion of the people and the planet. Maybe the Covid-19 crisis is highlighting this dislocation? Other impediments include the belief that there is a trade-off between impact and returns, which is not true; the confusion around the meaning of impact; the lack of common impact measurements, which restricts investors from comparing different opportunities; and the use of impact as a marketing tool (the aforementioned “impact-washing”) rather than as an investment philosophy seeking to ameliorate social and environmental issues.

### **PT: Some funds are not branded impact, but have ESG and climate themes at the centre of the investment thesis – do you think these types of strategies can be classified as impact?**

**DBS:** No – and the less we confuse the investor, the better. ESG tends to look at environmental, governance and social issues from a risk-based approach, so you can end up with the bizarre situation of best-in-class ESG companies being included in portfolios irrespective of the actual product or service that they produce. Impact aims to address social and environmental problems, while delivering attractive returns to investors, keeping in mind risk, return and impact. Impact investments are therefore intentional, additional to what might have happened anyway, and measurable so that improvements are tracked, and stakeholders involved and informed.

### **PT: Do you think the Covid-19 crisis will influence impact investing?**

**DBS:** Absolutely, and in many ways. Some investors will see this crisis and the problems it is having on their balance sheet and only think about repairing that – they will leave thinking about impact for another day. However, this pandemic has allowed us to appreciate with greater clarity how interconnected we all are – how exploitation of wildlife can affect under-invested healthcare systems and lead to increased social isolation. While the virus hits both rich and poor, young and old, we know that it will be the old, sick and poor who are most likely to suffer the worst. Many investors will be seeking to ensure that, while their capital achieves attractive returns, it also achieves improvement in the social and environmental systems that affect us all and prevents another global pandemic from happening again. ■

# LP perspective



**Carina Silberg**  
Head of sustainability,  
Alecta

## **Alecta** *Swedish pension fund*

### **How do you define, and what are the characteristics of, impact investing?**

We are careful using the term “impact investing” due to the sliding scale of the definition. We mostly refer to these investments as “investments with measurable social and/or environmental impact” and often explicitly explain that these investments are expected to deliver social and/or environmental impact alongside financial returns.

### **Could you share examples of your recent impact investments?**

We have a portfolio of green bonds, which the issuer is required to report back impact on – we have, however, separated the green bond portfolio from other investments with measurable social or environmental impact when we communicate and disclose data. Our first experience of impact investment was \$200m to the Emerging Market Loans Fund by Dutch FMO and NN Investment. The fund was developed to allocate financing to SMEs in emerging markets and allow development of clean energy solutions and socioeconomic growth.

### **How much have you allocated to impact investing within private markets so far? How much are you planning to allocate in 2020?**

We have SEK 10.7bn invested in impact investments. Most of that is done via issuers like IDA, EIB and the World Bank which could be considered public markets, with SEK 1bn in private markets. We have not set a volume target but aim to increase such investments and look for the opportunities that are

a good fit with our investment approach, where scale is a critical aspect.

### **Is there a trade-off between impact investing and returns?**

With reference to the spectrum of defining impact investments – ranging from pure philanthropy to strictly market based, we are in the market rate return space. Every investment decision assesses the risk, risk adjusted returns and ESG – we believe we have found impact investments that meet our expectations and deliver value to our beneficiaries aligned with our fiduciary duty.

### **What are you looking for when selecting a new manager when it comes to impact investing?**

### **Have the requirements changed from your side over the last few years?**

Alecta manages the majority of investments in-house, with limited external mandates. In the impact space, however, we have relied on external managers and then we look for like-minded managers in terms of cost control, long-term perspective on investments and relations, with consistent track records and with experiences that add value. We have not made any RFP on impact investment mandates.

### **What are the challenges when it comes to embracing impact investing within private markets?**

The challenge is to assess risks due to poorer transparency and the often lack of track



**Peter Lööv**  
Head of responsible investment,  
Alecta

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## Sofia Karadima investigates the increasing appetite for impact investing by speaking to three European LPs about how they define impact, their favoured measurement metrics, and the kinds of managers they look for

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record. Also, finding investments of scale (our minimum ticket size is typically \$100m) and to filter the many new asset managers that we are approached by.

### **How do organisations such as GIIN or UN PRI, along with regulations, support and drive change in impact investing?**

We look to these organisations and initiatives in terms of framework and knowledge, as it is important to make use of their experience. We were part of forming the Swedish National Advisory Board for Impact Investing (NAB), but we have taken a low-profile role as an observer.

“We explicitly explain that [impact] investments are expected to deliver social and/or environmental impact alongside financial returns”

*Carina Silberg & Peter Lööw, Alecta*

Institutions like ours are still new to this and cannot really offer any expertise – but we are interested and, by participating in the dialogue, hopefully we can help promote a pipeline of opportunities that meet our investment criteria while creating impact. ■

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## PGGM Investments *Dutch pension fund*

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### **How do you define impact investing? And what are the characteristics of impact investing?**

Impact investing is deliberately investing in companies, funds or projects that have measurable, positive social or environmental effects. We have embraced the Sustainable Development Goals as the most common way of slicing and dicing the world's troubles (and with that, the positive effects we'd like to quantify). We focus on SDGs 2, 3, 6, 7 and 12, and associated key performance indicators.

### **How much have you allocated to impact investing within private markets so far? How much are you planning to allocate in 2020?**

We do not have a fixed allocation (as “impact” is a

programme across asset classes, including listed equities and green bonds), but rather an impact target: €20bn by the end of 2020. We may or may not meet that target depending on impact investment opportunities that generate a market-rate return.

### **Is there a trade-off between impact investing and returns?**

No, there is none. As a fiduciary we cannot, and as an impact investor we do not want to trade off financial return for impact. We believe that big problems require scalable solutions, which in turn require financial viability. Hence, we look for investments where fiduciary requirements and impact desires overlap.



**Piet Klop,**  
*Senior adviser  
responsible  
investment,  
PGGM Investments*

“We believe that big problems require scalable solutions, which in turn require financial viability. Hence, we look for investments where these overlap”  
*Piet Klop, PGGM Investments*

**How have conversations with GPs changed around impact investing over the last five years?**

Impact investing is increasingly becoming mainstream, as large private asset management platforms like KKR, Bain Capital and TPG have raised dedicated impact vehicles. Furthermore, we see generalist GPs increasingly institutionalising ESG, with dedicated professionals and policies regarding ESG.

**What are you looking for when selecting a new manager when it comes to impact investing? Have the requirements changed from your side over the last few years?**

For private equity impact managers, we consider our standard manager selection criteria (performance, strategy, team, etc), and additionally their approach to impact creation/monitoring.

While our fundamental risk-return requirements have not changed, we have devoted additional staff capacity to spend time with impact managers that were originally discarded at a first screening (for example, first-time teams, refinement in strategy, investing in earlier stages).

**What are the biggest challenges when it comes to embracing impact investing within private markets?**

The scarcity of impact managers with a strong, proven track record and institutional scale. Additionally, there remains plenty of room for improvement and standardisation of impact measurement.

**How do organisations such as GIIN or UN PRI, along with regulations, support and drive change in impact investing?**

They are great proponents of impact investing, and may force convergence in what counts as impact, and how impact should be counted. The Impact Management Project is another great initiative that frames impact in ways that are relevant and practical for fiduciaries (as opposed to mission-driven investors that can engage in return-impact trade-offs). ■



**Mark Mansley**  
Chief investment officer,  
Brunel Pension Partnership

**Brunel Pension Partnership**  
*Pool of local government pension schemes based in England*

**How do you define impact investing? And what are the characteristics of impact investing?**

We define impact investments as opportunities where the business strategy is built around delivering positive change in terms of sustainability, where a dual filter of both financial and impact metrics have been implemented and surpassed. Impact metrics must be measurable and material

on an ongoing basis. We tend to find that the best impact investments are where the financial performance of the company or asset is inextricably linked to measurable positive impact, be it on the environment, societal outcomes, governance, or a combination. We define impact using the UN's sustainable development goals at a high level to classify investments.

**How much have you allocated to impact investing within private markets so far? How much are you planning to allocate in 2020?**

Brunel has no defined impact targets (we do not believe in labels on tins, but on judging funds and managers on their individual merits on a case-by-case basis). Rather, Brunel is 100% committed to sustainable investing and as such to making impactful investments in support of all our corporate policies. We have not had client demand for a separate impact allocation, but they support us in identifying impact opportunities as part of wider portfolios, ensuring it isn't seen as niche but a core component of a well-diversified portfolio.

**Is there a trade-off between impact investing and returns?**

No; done well, we do not believe there is a trade-off. On the contrary, we believe there is a growing body of evidence-based research that shows a strong positive correlation between sustainability and financial returns – most notably studies by Bain, DWS, NB and Capital Economics. However, all investments have to pass our financial screening – high impact is not an automatic pass to good returns.

**How have conversations with GPs changed around impact investing over the last five years?**

Immeasurably; most for the good, but some just for marketing. It is still vitally important to scratch beneath the surface. It is deeds not words or policies that matter, so track records, seed assets and proof of delivery are what really matter. Brunel's team continues to have positive discussions with all managers we meet, many of whom like the team's emphasis on sustainability and who want to work with us as a result.

**What are the biggest challenges when it comes to embracing impact investing within private markets?**

The challenge is how to monitor and report on impact in a way that is material and can be

aggregated at the level of the investment, the fund, and across funds/asset classes at the LP level. The level of resource required is large, so it tends to be larger managers that are best set up for impact measurement and reporting currently, but that's not to say smaller managers can't or aren't already doing this – although most of these smaller impact funds are thematically focused.

*“There is a growing body of evidence-based research that shows a strong positive correlation between sustainability and financial returns”*

*Mark Mansley, Brunel Pension Partnership*

We are wary of green-washing and now impact-washing – where investments purport to be impact but the link is tenuous at best and misleading at worst.

Finally, one other challenge is finding managers with proven experience of delivery, with the depth of resources required.

**How do organisations such as GIIN or UN PRI, along with regulations, support and drive change in impact investing?**

Brunel is supportive of the Impact Management Project. Launched in 2016, it brings together GIIN, PRI, SASB and GRI, among others, and is seeking to develop a common framework, particularly on measurement and management of impact. It recognises the different degrees of impact and, like the new EU taxonomy for sustainable finance, is inclusive. It is still developing, but gives us something to work with.

We strongly encourage all of our managers to be signatories of the UN PRI to demonstrate their commitment to responsible investing. Within real estate, we want to see our managers undertake GRESB Assessments, providing data on the ESG performance of their assets and portfolios. With regards to climate change, we endorse the disclosure recommendations established by TCFD. ■

Sponsored comment



# The impact on private investment

**Has there been a shift in attitudes to responsible investing across the private equity sector in recent years?**

**Jim Whittingham:** I'd start by highlighting that social impact funds have existed for many years. For these managers and their longstanding investors, there hasn't been a shift – responsible investing has been the norm since day one. Where we have seen a shift is in the recognition that broader funds can introduce responsible investments into their portfolios without sacrificing financial returns. And this shift is often driven by investor demand.

There's a general perception that more funding is needed for social and responsible initiatives, from public health and education to the environment and housing. Many investors are paying attention to the mood and are looking

tested on environmental, social and corporate governance (ESG) principles by their investors, but many are also being driven to specifically allocate investors' commitments more responsibly. And that's not a bad thing.

“Fund administrators must be adaptable by nature; it comes with the territory of operating funds for many clients, all with unique operational requirements”

*Jim Whittingham, Aztec Group*

to use their reserves, and many managers are in turn searching for opportunities to successfully pair sustainable, consistent financial growth with sustainability for people and the planet.

Clients tell us that they are increasingly being



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## We asked Jim Whittingham, Co-Head of Private Equity UK at the Aztec Group, to lift the lid on the trends driving impact investing in PE, and how fund operations are evolving to meet investor demands

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### Has this led to an impact on fund operations?

**JW:** Yes and no. Funds that diversify into having a more responsible remit are judged on more than their bottom line and their potential for a successful exit; success factors are also diversified, and the operational team must therefore develop an understanding of how day-to-day operations can contribute to those factors.

This is especially true of investor reporting, where utmost transparency becomes vital and details of social or environmental developments will need to be evidenced alongside the standard financial figures. Reporting starts to become a game of uncovering unseen benefits and value progression, as well as investor returns; the challenge here being how this information is captured and presented to a wide range of investors – many with different reasons for investing in a responsible fund.

That said, fund administrators must be adaptable by nature; it comes with the territory of operating funds for many clients, all with unique operational requirements and different investor profiles.

So, the shift to more responsible investing has affected the administration of those funds involved, but operational teams are seasoned and creative when faced with variety and challenge. Given a clear brief and a well-defined scope, these teams will be able to tailor their approach to the most socially conscious managers and investors out there.

“Funds that diversify into having a more responsible remit are judged on more than their bottom line and their potential for a successful exit”

*Jim Whittingham, Aztec Group*

### How about governance?

**JW:** Both stand-alone social impact funds and broader funds diversifying their allocations with impact investing are bona fide investment opportunities for professional investors – and they should be run as such. Corporate governance, compliance and experienced advisory boards have as much importance in this space as they would a traditional private equity vehicle, if not more so, given the extra levels of scrutiny that the social agenda brings.

### What's the long-term outlook?

The long-term outlook is definitely positive. And not only for those socially focused funds that will benefit from increased investor demand, but for the wider private equity sector as well.

Private equity as a sector is often misrepresented to the public; it suffers a reputation of cost-cutting, asset-stripping and quick exits. As demand from investors tips the balance further toward the impact agenda, there is an opportunity to raise the transparency bar while revealing the underlying social benefits that well-targeted, responsible private investment can bring. ■

# Case study: PSSIF



**Omar Ghafur**  
PSSIF

When George Osborne, as chancellor of the exchequer, announced the radical plan to pool UK local authority pension funds in 2015, one could not have guessed the impact this would have on UK local authorities. It enabled them to make leaps and bounds within the field of private markets, and develop their environmental, social and corporate governance (ESG) and social impact investing.

In January 2018, I decided to make the move from the private sector to the public sector and joined LGPS Central (the pooling vehicle of nine Midlands UK local government pension funds) to become their head of private equity. I was driven by personal circumstances: being the child of immigrants, I was keen to give back to the country that gave my parents a home – and given the impact that pooling the funds would have on local government pension vehicles, it proved the ideal opportunity to bring my experience and knowledge gained from working in international investment firms and investment banks to the public sector.

## New blood

Under my leadership, the LGPS Central private equity team was able to structure, fundraise and launch its first private equity fund in less than six months. Furthermore, the team was able to invest

circa 85% of the LGPS Central 2018 PE Fund in nine months. In addition to this, given the rise of ESG, and the importance of screening in today's investment world, the platform we established included a robust framework for the due diligence of each investment by an independent, in-house ESG specialist. And only upon such due diligence holding up from an ESG perspective would the LGPS Central PE fund proceed with an investment. With their first private equity fund nearing completion, LGPS Central now has a private equity platform in place to match that of any private sector investment house.

## Council of councils

Coincidentally, while the team at LGPS Central were working on the private equity platform, Warrington Borough Council was exploring ways in which UK local authorities could be doing more on investing locally in the UK and specifically in undertaking social impact investments. Within the world of UK local authorities, Warrington Borough Council has a well-established, long-standing track record of making innovative investments. It led an informal consultation period lasting approximately 18 months among a handful of local authorities on what would be the most practical and efficient way for their treasury balances to be put to use in UK regional, social impact investments.

Stemming from this “meeting of the minds” among the authorities came the Public Sector Social Impact Fund (PSSIF). Launched in January 2020, PSSIF is a joint venture between Warrington Borough Council and alternative investment manager Altana Wealth. The remit of PSSIF is to provide direct lending to businesses or projects across the UK that can either

“Being the child of immigrants, I was keen to give back to the country that gave my parents a home”

*Omar Ghafur, PSSIF*

## Omar Ghafur, investment director at PSSIF, explains how UK local authorities draw on private market expertise to make an impact

qualitatively or quantitatively demonstrate that their products and services are improving the lives of UK residents.

### Bring in the specialist

The structure of PSSIF came about from the acknowledgement that local authorities are not specialist fund managers, and thus the most efficient approach is to tie up with an external, specialist manager who can then act as a conduit to underwrite local UK, social impact investments.

As a further coincidence, the manager that Altana Wealth and Warrington Borough Council appointed to assist with the launch of PSSIF happened to be me, as I had departed from LGPS Central in September 2018 having successfully established the private equity platform there.

“The platform we established [at LGPS Central] included the due diligence of each investment by an independent, in-house ESG specialist”

*Omar Ghafur, PSSIF*

While these are just two examples of UK local authorities and pension funds recruiting the specialist individuals needed to develop and build their in-house private markets and ESG/social impact investing platforms, there will likely be more with pooling among the local pension funds now in full effect, and with authorities like Warrington coming up with innovative ideas. Over the coming years, the UK will no doubt see more examples of the public sector making waves within private markets and social impact investing. ■

### Public Sector Social Impact Fund (PSSIF)

<b>FUND MANAGER:</b>	Altana Wealth
<b>REMIT:</b>	All investments must improve the lives of UK residents
<b>TARGET INVESTMENTS:</b>	Social housing – affordable places to live Solar and wind power – cleaner air and cheaper energy Community lending vehicles – creating jobs and revenues in local communities Forestry – greener communities Vehicle charging points– cutting down on pollution; cleaner air
<b>NATURE OF INVESTMENTS:</b>	Invests across capital structure, predominantly in senior asset-backed notes
<b>HOLDING PERIOD:</b>	7-10 years with annual yields
<b>TARGET RETURNS:</b>	Market-based or higher returns with a minimum hurdle of Libor +500

# Impact case studies

Unquote explores recent impact investments and how they are measuring the social and/or environmental impact achieved

## INVESTOR

Partners Group

## COMPANY

Techem

## GEOGRAPHY

Europe, UAE, Brazil

## SECTOR

Business support services

## INVESTMENT

Partners Group led an SBO valuing Techem at €4.6bn

## Techem

### Investee description

Techem provides heat and water sub-metering services. It helps customers and tenants in 11 million apartments across 20 countries consume water and heat more efficiently and reduce utilities cost.

### Nature of impact

The organisation is looking to contribute to SDG targets, especially in the sectors of affordable and clean energy (SDG 7), along with clean water and sanitation (SDG 6). Techem's solutions account



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for 6.9 million tons of CO2 emission savings per year, contributing to global climate protection objectives.

### Measuring the impact outcomes

Metrics include amount of reduction in energy; amount of energy savings over the lifetime of the product; amount of reductions in greenhouse gas (GHG) emissions over the lifetime of products sold; and total volume of water saved per annum.

## INVESTOR

Bridges Fund Management

## COMPANY

New Reflexions

## GEOGRAPHY

UK

## SECTOR

Residential care

## INVESTMENT

£6m, March 2017

## New Reflexions

### Investee description

In the UK, 80,000 children are "looked after" by the state, about 10% of whom live in residential care. New Reflexions works specifically with young people with complex needs who are unable or unwilling to live within a family setting, providing placements that combine care, education and therapy. Its philosophy is geared around providing a stable, supportive and nurturing environment for these young people, for as long as they need it.

### Nature of impact

New Reflexions contributes to good health and well-being (SDG 3) for young people with acute behavioural, emotional and social needs. Bridge's

**BRIDGES**  
Fund Management

investment supported the expansion of the company across the UK.

### Measuring the impact outcomes

New Reflexions delivered 16,500 days of care annually. Of its eligible homes, 83% are rated Good or Outstanding by Ofsted, and it continues to acquire and refurbish new homes to support more young people. It added a new home to its core business for launch in April 2019, and it launched another 'response service' - which are placements for young people who require an immediate therapeutic response. The average number of people in the organisation's care is 45.



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