VAN LANSCHOT KEMPEN

INVESTMENT MANAGEMENT

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For Professional Investors only

Seven Impact lessons from the frontline

Over the past seven years, impact investing has evolved from a niche concept to a widely recognised and sought after approach, with the number of impact managers growing from just a handful to thousands.

Starting as an avantgarde impact strategy, the Private Global Impact Solution (PGIS, formerly known as the Global Impact Pool) has navigated this journey, maturing into an established player with a highly diversified investment approach, seeking to integrate social and environmental impact with attractive financial results.

Along this seven year journey, we have uncovered seven particularly valuable lessons that have shaped our strategy and strengthened our continuous commitment to make a difference.

1 Make your impact objectives concrete and keep an eye on real-world impact

A broad and general objective like 'water' or 'SDG 3' (Good Health and Well-being) can be implemented in many ways, with very different asset classes, exposure and impact types. To align your investments with your values and goals, it is key to make your investment theses more explicit and maintain a clear focus on the real world impact you want to make. For instance, do you want to increase Ocean Health, reduce water scarcity or increase hygiene and safe sanitation for underserved populations? Your choice will significantly influence the type of investment you implement and on the impact realised ultimately.

2 Develop a thematic impact framework

As the impact investing landscape grows, it's becoming easier to find investment opportunities in areas difficult to access such as sustainable food systems, circular economy solutions, and water-related initiatives. This opens up opportunities for a growing number of investors interested in exploring the broader theme of biodiversity. A well-developed thematic impact framework adds significant value, providing focus for investors and helping them to find the most suitable investment strategies and managers that fit their impact goals in an ever increasing universe.

3 Don't fall for the 'most exciting case'

The true impact of portfolio companies is not always immediately visible from the outset. A highly innovative and newly arrived company might seem a quick path to positive results, but sometimes a more mature and 'less exciting' company can in practice realise the most impact because of its size and scale.

4 Ensure alignment between the impact mission and financial success

It's crucial that the impact mission and financial success of the underlying company are aligned. Invest with managers who select companies with the intention to contribute to social/environmental good and tie their goals to the company's financial success. A company that performs well financially while making a positive impact, is in the position to enhance its impact further. It can also work the other way around: if impact and financial success are aligned, greater impact can positively influence financial performance.

5 Keep close to the final beneficiaries of the impact companies and communicate with investors

It's important to maintain focus on the actual impact on the ground and communicate about this to investors. In the end, alongside financial return, the purpose of the investments is to improve the lives of real people or make progress in terms of climate goals. Since numbers alone do not always tell the full story, we visit projects and managers in person and share detailed case studies to benefit our investors.

As there is no global standard for impact measurement and reporting, many underlying companies and managers report in various ways, often with differing underlying assumptions. Communicating with our investors about goals and actual outcomes is key and can inspire others to join.

6 Foster long-term partnerships with our managers

This is how we can align and enhance our processes together. We select managers with strong institutional level processes and a high level of expertise and experience. These managers are in a great position to go the extra mile. They bring valuable knowledge, networks and resources that can be shared with the company to further help it succeed.

7 Do proper due diligence and scale your investment according to the risk

If you have to panic, panic early. Some impact investments are very early stage managers or investments, and outcomes are uncertain. To avoid being hit with large losses, you want to do thorough due diligence and size your investment based on the risk identified. If needed and possible: cut your losses early. Speaking about risk: for impact investing too, the key word is diversification – across asset classes, regions, themes, sectors, stages and vintages.

Looking ahead

As we look ahead, we are eager to continue our journey of nurturing long-term partnerships and seeking to ensure our impact objectives translate into tangible outcomes that deliver both meaningful impact and attractive financial returns.

Together, we can both scale our efforts and explore new avenues with the aim of amplifying our impact and driving positive change.

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