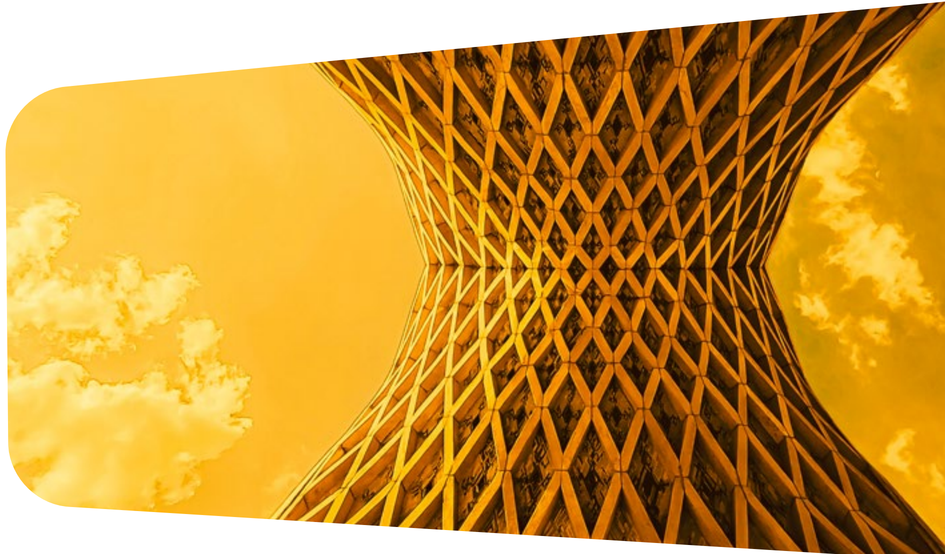

Sustainability in Action

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For Professional Investors only

Thematic evolution in impact investing

A decade of deepening purpose

Impact investing has become the fastest-growing segment of private markets, with assets under management more than doubling in the last five years.[1] Since the term was first introduced in 2007, it has not only seen a remarkable increase in market size, but also witnessed a substantial diversification in the sophistication and variety of investable themes and opportunities. This evolution reflects a fundamental shift in how institutional investors view their role: from passive allocators to active agents of change.

From access to systems

The foundation years: addressing basic needs

In the early 2010s impact investing focused on fundamental gaps in access to financial services, healthcare, education and clean energy. Investors identified communities that lacked these essential services and allocated capital to improve people's lives. Alongside investments in emerging markets, impact capital also began supporting renewable energy infrastructure, mostly in developed markets.

Van Lanschot Kempen's own journey illustrates this early phase. In private equity, we invested in the LeapFrog Investments' fund[2], which focuses on addressing fundamental gaps in essential services in emerging markets while demonstrating that serving low-income customers can be profitable. In healthcare, one of the companies that LeapFrog invested in was Goodlife Pharmacy in Kenya: East Africa's largest pharmacy chain, bringing reliable medications to underserved communities.

In infrastructure, we invested in KGAL[2], with a focus on renewable energy projects in developed markets. Within private debt, we invested in responsAbility's Agriculture Fund[2], which provides loans in emerging markets to stimulate and strengthen the sustainable agricultural value chain and increase access to financial services. These investments typify the sector's initial approach: identifying clear access gaps and deploying capital to bridge them.

1 GIIN 2024 report: Dean Hand et al., Sizing the Impact Investing Market 2024 (New York: Global Impact Investing Network, 2024), thegiin.org/publication/research/sizing-the-impact-investing-market-2024.

2 Van Lanschot Kempen aims to deliver measurable, positive impact by investing in institutional-quality, non-listed funds. We select specialist investment fund managers to deliver the best combination of impact and financial performance. The funds select and are invested in individual companies or projects.

Instead of viewing environmental challenges as separate issues, investors increasingly seek solutions that address multiple challenges simultaneously.

The systemic transformation

Fast forward a decade: Growing scientific evidence, from IPCC reports on climate change[3] to biodiversity assessments[4], has reshaped the thematic focus of impact investing. The field has moved from tackling isolated issues to adopting an approach which recognises that global challenges are interconnected and require more systemic solutions.

The convergence of climate change mitigation and broader nature-related themes highlights this shift. Instead of viewing environmental challenges as separate issues, investors increasingly seek solutions that address multiple challenges simultaneously. The US-based company Genera exemplifies this integrated approach by cultivating carbon-negative perennial grass fibre and transforming it into compostable packaging and bioproducts. By combining carbon sequestration, regenerative agriculture, and circular manufacturing, Genera tackles climate, biodiversity and social issues in tandem, while striving for market-rate returns.

Another example would again be responsAbility's Agriculture Debt fund, which finances cocoa across the value chain – including sustainable farming practices in supplying the cocoa beans but also companies like Koa, which build circular ecosystems around the cocoa fruit by utilizing previously discarded parts of the fruit to create value-added products. These are processed in local factories powered by renewable energy.[5]

This growing understanding of the interconnected nature of impact themes, such as circular economy, regenerative agriculture, biodiversity conservation, water stewardship, and inclusive digitalisation, marks a shift from traditional sector-based investing, towards investing with a broader, systemic transformation.

At fund level, an example is a private real-estate solution called the Senior Living Impact Fund managed by Bouwinvest that Van Lanschot Kempen has helped co-create.[6] This fund tackles the shortage of affordable quality senior living options, targeting primarily social impact. At the same time, the fund invests only in assets of the highest energy efficiency and environmental rating and also focuses on 'quality of life'- proximity to nature and community connection to reduce loneliness, thereby combining various aspects and themes of impact through an integral approach.

New era portfolio construction

For institutional investors, the shift to integrated themes and strategies offers the chance to invest in more resilient investment opportunities, that also provide multiple pathways for impact and returns. This also means investing in companies with a more integrated business model, reducing execution risk through diverse revenue streams, while aiming to maximise impact.

This offers a fresh view on impact portfolio construction. The expanding opportunity set now covers the entire range of alternative asset classes, regions, and risk profiles. Maturing track records allow for optimisation of portfolios across risk, return, and impact factors, while ensuring optimal cost and governance setup.

For investing with impact, we aim for the right balance across these five dimensions:

1. **Risk:** Diversification across themes, geographies, and asset classes
2. **Return:** Market-rate expectations with potential for alpha generation
3. **Impact:** Measurable outcomes aligned with global frameworks
4. **Costs:** Achieving impact objectives at market-level or lower cost.
5. **Governance:** Robust and well-documented impact policy, reviewed regularly.

Ensuring measurability is a fundamental element of our approach to impact investing. To be able to measure the results of an investment, it is essential to have a robust Theory of Change where investment themes are defined that can be broken down into specific sub-themes, each with clear and measurable Key Performance Indicators attached. Analysing both financial and impact performance yields meaningful insights that inform and enhance portfolio construction.

3 IPCC — Intergovernmental Panel on Climate Change
4 IPBES Home page | IPBES secretariat
5 Creating value out of cocoa waste products in Ghana | responsAbility
6 Bouwinvest finds four investors for Senior Living Impact Fund | Bouwinvest

A practical example: an impact portfolio for food system transformation

Consider a mandate aimed at transforming the European food system by strategically layering investments across asset classes to optimise risk, return, and impact timing.

The portfolio's foundation can be based on **regenerative farmland funds**, which tend to provide stable single-digit returns with low volatility and can act as a hedge against inflation. These real assets can help capture carbon right away and promote long-term soil regeneration over a 10–15-year period. An example of such an approach is the Van Lanschot Kempen SDG Farmland strategy, which aims to transform conventional agricultural land into regenerative systems that enhance biodiversity while delivering stable incomes.

At the frontier of the portfolio's innovation, investors could place **venture capital investments**, such as those in precision agriculture, innovative and accessible storage techniques or waste reduction and management. These carry higher risk, but can potentially also bring higher returns, of up to 20%.[7] These early-stage companies develop AI-driven farming optimisation tools and alternative inputs that can revolutionise agricultural productivity. These investments follow a typical J-curve, meaning that they could take longer to pay off. But their technologies can achieve rapid adoption within 5 to 7 years, leading to widespread impact as they scale.

The core growth driver of the equity part of the portfolio then can come from **growth equity and buyout strategies** that target companies supporting sustainable food systems "from farm to fork." Growth equity investments focus on companies that are changing how food is produced, distributed and consumed, ranging from supply chain tracking platforms to vertical farming and technologies that reduce food waste. These proven business models can aim for lower double digit returns with moderate risk, capturing value as sustainability becomes a key competitive factor across the food value chain. **Buyout strategies** add to growth equity, by acquiring established food companies and transforming them into sustainable leaders, typically targeting returns comparable to growth equity, while reducing negative environmental impact in their value chains.

Finally, **debt investments** in agricultural waste reduction projects and facilities can offer predictable single-digit returns with lower risk than equity. These investments enable swift emissions and waste reductions while supporting the transition to a circular food economy. Private Debt could provide further access to this theme through providing loans with defined and clear sustainability criteria.

Strategic allocation considerations

It's not only about combining strategies and asset classes, it's also about **balancing** them. The balance greatly influences both portfolio characteristics and positive impact. For example, overweighting growth equity and buyout strategies (say allocating 50-60% of the portfolio instead of 30-40%), shifts the focus towards proven solutions rather than betting on new ideas. Established companies are capable of expanding their impact quickly, but this larger allocation also involves trade-offs. Investing less in early stage venture companies could mean missing out on breakthrough technologies that might transform the sector.

Each specific alternative asset class adds unique value and can be combined to optimise the total portfolio. For example: Private real estate or infrastructure investments can be strong diversifiers, while farmland has the potential to strengthen the portfolio's natural hedge against inflation and to enable a direct contribution to natural asset regeneration and ecosystem restoration. These characteristics also support a **balanced risk profile**: early-stage innovations might take time to deliver, while investments in private debt can provide more steady cash flows.

7 The value of investments may fluctuate. Forecasts are not a reliable indicator of future performance.

Meanwhile, a **multi-strategy approach** creates reinforcing effects of impact. From immediate emission reduction through infrastructure and farmland conversion, to medium-term gains from growth and buyout strategies, and ultimately to long-term transformation via venture-backed innovations.

This integrated approach – exemplified by combining these investment strategies, illustrates how institutional investors can build portfolios that not only seek to balance risk and return but also can create system-wide change. This means using their capital as a tool to drive the transformation of entire economic systems while also meeting their fiduciary responsibilities.

> The evolution toward systemic impact requires equally evolved manager selection criteria.

Selecting impact managers in the new paradigm

The evolution toward systemic impact requires equally evolved manager selection criteria. In addition to traditional financial metrics, when selecting funds or managers, Van Lanschot Kempen, in collaboration with Collective Action, also evaluates whether a manager has:

- the ability to think in terms of systemic impact and work across sectors
- a proven track record of creating operational value
- capabilities in measuring impact and maintaining robust data systems
- the ability to identify and capitalise on regulatory tailwinds

These aspects are explicitly reflected in our manager selection process with dedicated sections of our manager screening, due diligence and ongoing monitoring. Even if managers perform financially, but fall short on their impact approach (or vice versa), they would not end up being selected. Our market maps, reviewed periodically to keep abreast of latest developments, show a maturing landscape of qualified impact fund managers.

The path forward

As we look ahead, we believe that the most successful impact investments will be those recognising and leveraging the interconnections between social, environmental, and economic systems. At this important stage, we encourage institutional investors to:

- **Think systemically:** expanding the focus from single-issue investments to portfolios that address interconnected challenges. This can unlock value and real world impact
- **Act decisively:** there are increasing opportunities for investing with impact. Taking the lead now, can offer 'early mover' opportunities to capture both financial alpha and make a meaningful difference.
- **Scale meaningfully:** taking bigger steps in impact allocation contributes to a broader change, while still meeting fiduciary obligations.

The foundation has been laid. We expect the next phase of impact investing to be characterised by the scale and pace needed to drive systemic change while delivering the returns institutional investors require.

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Van Lanschot Kempen has been a pioneer in institutional-quality impact investing, making meaningful investments on behalf of our clients since 2017. Over the years, we have built a strong foundation of expertise, capabilities, and a proven track record.

Since 2024, we have partnered with Collective Action—a renowned center of excellence and collaboration platform specializing in impact-driven private markets. This collaboration reflects our shared commitment to innovation and our drive to develop solutions that address systemic challenges.

By joining forces with additional dedicated specialists, we continue to expand our joint impact expertise, offering institutional investors full access to high-quality impact solutions. With a focus on themes such as biodiversity, climate, and circularity, our partnership is designed to accelerate the delivery of impactful investments and drive positive change across sectors and asset classes.

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General risks to take into account when investing in Impact strategies
Please note that all investments are subject to market fluctuations. The strategy will primarily invest in a diversified pool of investment funds managed by third-party investment managers with the primary investment objective to achieve capital growth and positive social and environmental impact. Investing in this strategy is subject to risks arising from the volatility of securities, bonds, currency and interest rate markets that could negatively affect the performance. Under unusual market conditions the specific risks can increase significantly. Potential investors should be aware that the underlying investment funds often pursue a more alternative investment policy than traditional investment funds. Some investments, particularly private (non-listed) investment strategies, may involve assets which are illiquid, are difficult to value and/or are exposed to high market, credit and liquidity risk including the risk of insolvency or ban. In such circumstances, the ability for an investor to redeem its interest in the strategy will be limited due to a lack of available liquid assets.

General risks to take into account when investing in Farmland strategies
Please note that all investments are subject to market fluctuations. Due to the illiquid nature of the underlying investments, redemption of the investment is limited and may be delayed. Economic downturns and market fluctuations can significantly reduce returns and affect rental income, property values, and dividend payments. Environmental, social, and governance events can negatively impact investment value and overall portfolio risk. Farmland investments have a low vacancy risk, but asset allocation and investment selection can affect returns. Farmland is not a liquid asset class, and external factors may also affect the liquidity of individual farms. Tenant defaults can affect returns and working capital. Currency exchange rates can impact the asset value of the strategy. Government-related risks, including taxation and legislation, can affect financial performance and investment returns. Incorrect asset valuation can negatively impact the strategy returns.

The value of your investment may fluctuate, past performance is no guarantee for the future. Do not take unnecessary risks. Before you invest, it is important that you are aware of and are informed about the characteristics and risks of investing. This information can be found in the available documents of the strategy and/or in the agreements that are part of the service you choose or have chosen.

The strategies currently hold or have previously held shares in the companies mentioned. This document has been produced independently of the companies and the views contained herein are entirely those of VLK Investment Management.

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