Sustainability in Action

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For Professional Investors only

Inside our engine room

Critical criteria for impact manager selection

Robust manager selection sits at the heart of our fiduciary responsibility. It is a key step in helping clients achieve their impact goals. When building portfolios to generate measurable positive change alongside expected returns, choosing the right fund managers isn't just important; it's everything.
We scrutinise manager track records with the same intensity whether examining their financial performance or their impact outcomes. This genuine integration of impact and financial due diligence enables us to identify fund managers who deliver on both dimensions without compromise. So what qualities do we seek in the managers we select?

Our manager selection evaluates three essential, interconnected criteria: credible impact, team quality, and a strong track record that displays full integration between robust financial performance and sustained impact delivery, both direct and systemic. Each factor is necessary; none alone is sufficient.

1. Credible impact organisation

A manager should demonstrate their ability to consistently execute on their impact thesis while delivering competitive financial returns. We evaluate this across three dimensions:

- **Intentionality** – the manager's purpose and commitment to impact. We look for evidence that impact considerations are embedded throughout, and that the manager is organised for impact, as demonstrated through their strategy, portfolio construction and value creation plans.
- **Additionality** – the unique impact contribution that would not occur without their investment.
- **Performance consistency** – examining whether the manager's actual investments align with their stated Theory of Change and whether value creation stems from impact delivery, rather than despite it.

> We look for alignment between financial and impact goals: the greater the impact, the stronger the financial position should be.

In this way, our analysis focuses on how impact is integrated across the organisation rather than being treated as a separate reporting function. We also consider the credibility of frameworks for measuring and reporting impact, alongside financial performance.

The strongest managers demonstrate coherence between stated intention and observable action across their full portfolio, not just flagship investments.

2. Highly capable teams

We look for stable managers with a sound organisational set up whose teams are structured to embed impact into every investment decision alongside traditional financial analysis, at the earliest stages of deal evaluation. We are eager to see managers embed impact professionals directly within deal teams, ensuring that impact considerations inform investment decisions in real time, as part of unified investment thinking.

Seeking strong teams with sector-specific expertise and operational experience is fundamental to our process. The strongest teams possess three complementary capabilities:

- **Deep sector knowledge** in areas critical to systemic impact, for example the circular economy or regenerative food and agriculture. This makes teams well-positioned to assess technical feasibility and identify and access opportunities that might otherwise remain out of reach. This expertise also enables managers to evaluate whether a business model can scale while maintaining impact integrity.
- **Hands-on experience in target sectors** enables teams to challenge entrepreneurs on impact claims, assess and navigate complex technologies and address the practical challenges of implementation. Former operators can provide meaningful strategic guidance to portfolio companies and recognise when companies have the capability to execute ambitious impact goals.
- **Established networks** that provide differentiated deal access and proprietary insights, enabling the early detection of promising investments.

3. Strong track record: financial performance connected to impact

We seek managers who invest in companies where impact delivery is expected to directly strengthen financial performance. This is essential for creating durable, scalable impact. When impact is central to commercial success, positive impact and strong returns naturally reinforce each other. In other words, we look for alignment between financial and impact goals: the greater the impact delivered, the stronger the financial position should be.

Therefore, financial due diligence is equally critical to success: without strong financial performance, impact cannot be sustained. In this way, financial due diligence is in our view an impact enabler.

For all managers, we evaluate how impact considerations inform risk management and portfolio construction, as well as the alignment of the interests of General and Limited Partners. We are looking at deployment discipline and are cautious of high fees and slow deployment.

For established managers, we examine:
— Return consistency across vintages and market conditions;
— The quality of recent investments and expected performance relative to stated targets;
— Loss ratios and downside protection.

For newer managers, we consider:
— Team pedigree and prior track record;
— Initial portfolio quality and deal selectivity;
— Ability to attract institutional capital.

Case study
Investment declined, despite thematic alignment

Manager selection is as much about discipline in declining opportunities as it is about identifying exceptional managers. This is fundamental to protecting client capital and maintaining portfolio quality. This case shows how our due diligence framework identified disqualifying issues that initial thematic appeal had not revealed.

We evaluated an early-stage impact fund twice over a multi-year period. The fund demonstrated several attractive characteristics: strong thematic alignment with our nature-positive investment focus, particularly in water and biodiversity, presence in priority geographic markets, a flexible fund structure with competitive fees, and reported asset growth.

However, our due diligence revealed critical weaknesses across all three evaluation criteria, leading to a decline.

Track Record and Portfolio Construction Concerns

- **Extreme concentration risk:** Approximately half of fund value was concentrated in a single portfolio company, suggesting weak portfolio construction discipline and potentially limited deal flow;
- **Impact measurement inadequacy:** Impact KPIs were not aligned with institutional standards;

Team and Operational Capability Gaps

- **Limited deployment history:** At initial review, the fund's low AUM and deployment history gave little evidence of the team's ability to source quality deals or conduct effective due diligence;
- **Operational infrastructure:** The portfolio company incident exposed inadequate systems for monitoring operations and financial controls, essential capabilities for early-stage investing where governance is nascent.

Misaligned Financial Structure

- **Incentive misalignment:** The fund structure created perverse incentives, including reluctance to exit the concentrated position and linked fees to NAV;
- **Capital deployment pressure:** Fee structure and limited deal flow put the manager under pressure to invest quickly, increasing the risk of compromising impact.

This case illustrates why we assess managers holistically across track record, team capability, and structural (impact) alignment. Thematic fit and market presence, while valuable, cannot compensate for fundamental weaknesses in investment discipline, operational infrastructure, or incentive alignment.

From criteria to investment excellence

Our impact manager selection and investment process is guided by the key criteria outlined above, shaping our approach from identifying opportunities to building and monitoring portfolios. These criteria are particularly important during shortlisting and due diligence, helping us pinpoint managers who can deliver both financial returns and measurable impact, ensuring consistent investment excellence.

Our impact manager selection process

1 Market mapping

We start by mapping the market to pinpoint the most relevant and investable opportunities. This dynamic overview, broken down by theme, asset class and region, is continuously updated to reflect the fundraising status of each opportunity. If suitable solutions do not exist, we collaborate with clients and trusted managers to develop new, bespoke offerings tailored to their needs.

2 Shortlisting and client pre-approval

We filter investments to produce a longlist and then a shortlist of managers, scoring each for alignment with client criteria, investability, and impact depth, while also considering key macro and industry factors. Shortlisted managers are presented for client pre-approval, and if one stands out, we recommend them as the preferred option. A Go/No Go decision is then made, and areas for focused due diligence are identified.

3 Due Diligence and approval

During due diligence, we thoroughly assess the managers organisation, investment approach, portfolio, sustainability, performance, and risk management. Impact considerations are integrated throughout, with particular attention to how impact is embedded within the organisation and investments. We examine intentionality, team commitment, impact management, measurement, past results and reporting transparency.

Rigorous legal and operational due diligence is also conducted, alongside a review of fund terms. Reference checks and site visits, where appropriate, further support our review. The client's Investment Committee then decides on whether to proceed, as well as the investment terms and KPI reporting schedule.

4 Implementation, monitoring and reporting

Once approved, our Impact and Investment teams collaborate to establish the optimal investment structure, addressing both financial and impact goals. Monitoring begins with a baseline measurement, followed by ongoing oversight to ensure compliance with investment terms. We provide regular quarterly and annual reports, with real-time updates via online dashboards. Periodically we conduct risk assessments and evaluate the realised impact at exit.

Conclusion: The discipline of genuine integration

Our manager selection framework is founded on the belief that exceptional impact investing requires the complete integration of impact and financial analysis, not just their separate coordination. The managers who deliver superior outcomes across both dimensions don't treat impact as a constraint on returns or returns as a concession to impact. They recognise these as inseparable and reinforcing elements of investment excellence.

We evaluate track record, team quality, and financial structure through a unified lens where impact considerations inform financial analysis and financial discipline protects credible impact outcomes. We focus on how managers put these principles into practice, not just their stated intentions. In this way, clients receive the best of both worlds: institutional quality financial analysis combined with leading impact assessment, a combination that distinctly sets us apart.

As the landscape continues to evolve, our process ensures that we remain agile and responsive, focused on investing in solutions that drive true progress and are expected to deliver positive outcomes for our clients and the world at large.

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Van Lanschot Kempen has supported investors as they navigate the sometime complex landscape of impactful private market strategies 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 centre of excellence and collaborative platform specialising in impact-driven private markets. This collaboration reflects our shared commitment to innovation and developing solutions that address systemic challenges. By joining forces with additional specialists, we continue to expand our joint impact expertise, offering institutional investors access to high-quality impact solutions. Focusing on biodiversity, climate, and circularity, our partnership accelerates impactful investments and drives 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.

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