

Sustainability in Action

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Making and measuring Impact

As impact investing gains greater traction among professional and individual investors, it is essential to consider exactly what 'impact' is and how it differs from 'regular' sustainable investing. Van Lanschot Kempen has been managing the Kempen Global Impact Pool since 2018; so what is our approach to impact investing?

Four Characteristics

Impact investing focuses on investing in solutions for social and environmental issues, those both close in proximity and on a more global scale. In this way, investors can make a positive difference without losing sight of market-conforming returns. These investments are directed at companies and projects with a clear intention and which are actively committed to contribute to and bring about change.

Crucial to this is the notion that such a change would not have occurred without the investment. Hence, 'intentionality' and 'additionality' are vital characteristics of impact investing. Also, the impact must be measurable, and reports must be made on this measurable data.

Finally, impact investing is no philanthropy. Solid financial returns are just as important as positive impact results.

Global Impact Pool: Impact Themes and Objectives

How does the Global Impact Pool (GIP) approach this? The GIP invests to positively contribute to four impact themes: 1. Climate change and Energy transition, 2. Circular Economy, 3. SME Development and Decent Work, and 4. Basic Needs and Well-being. The themes are linked to specific UN Sustainable Development Goals (SDGs): SDG 7 for Climate, SDG 12 for Circular Economy, SDG 8 for SME Development and Decent Work, and SDGs 3 and 6 for Basic Needs and Well-being.

The GIP invests with a 'fund-of-funds' structure: investing in smaller, specialized, private market funds, in the categories venture capital, private equity, infrastructure and private debt. This way, capital is targeted for projects and companies with clear and transparent impact goals and performances.

To map additionality (and measure impact), subthemes and objectives are chosen for each impact theme. For example, investments within the Climate and Energy theme focus on companies and funds which provide clean and sustainable energy, promote the energy transition, and contribute to SDG 7: affordable and clean energy.



Anna Ferschtman
Sustainability writer

The Art of Measuring

Themes and Subthemes

Besides additionality and intentionality, measurability is a crucial part of investing with a positive impact. This makes visible the effect of the invested capital, the change compared to the original situation, and the progress towards the set goals. Therefore, it is important to choose objectives and values which are measurable and that show the change in the real world.

The problem statement - formulated by a fund, investor, or company - can be translated into broader impact themes and more detailed subthemes. Van Lanschot Kempen partially uses the terminology and themes from IRIS+ for formulating themes and subthemes, providing investors with a 'gold standard' framework to concretize, measure, compare, and link objectives to the SDGs.

From Basic Needs to Access to Drinking Water

Let's take the GIP as an example again: the theme Basic Needs and Well-being, corresponding to SDGs 3 and 6, is divided into subthemes such as 'access to essential healthcare and medicines', 'access to clean drinking water and sanitation', and 'efficient water use'.

The theme SME Development and Decent Work (SDG 8) can be further specified into subthemes like 'improved access to financial services', 'improved access to and availability of stable jobs', 'promoting equal pay for equal work', and 'access to education and training'.

Measurable Indicators

The next step is to link the subthemes to appropriate and measurable impact indicators, or Key Performance Indicators (KPIs). Think of measurable values, such as 'number of people with better access to healthcare', 'amount of water saved', or 'hectares of sustainably farmed land'.

The Basis: the Theory of Change

Making and measuring impact starts with formulating a problem statement, and defining steps needed to solve this problem. This whole process is captured in a so-called 'theory of change': it outlines the specific goal to be achieved, the means that can be deployed, the actions to be taken, and the expected outcomes. These outcomes and their effects are what can be measured in impact investing. These are referred to as impact indicators or Key Performance Indicators (KPIs).

The KPIs must not only be measurable but also investable. There must be (sufficient) investment opportunities with the right risk/return characteristics to achieve the chosen KPIs. Additionally, a KPI should be tested against other criteria, such as 'relevance', which asks whether this KPI best shows progress on a particular subtheme, and 'reliability', questioning if the opinions are based on scientific facts.

For the GIP, two to three KPIs have been chosen per (sub)theme. For 'Climate change and Energy transition' these are, amongst others, 'Mwh sustainable energy produced' and 'tons of CO₂ emissions avoided'.



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We frequently engage in conversations to elevate both policy and practice.

Verification and Reporting

At the start of an investment, it is important to conduct a baseline measurement: what is the situation before deploying capital? It can also be good to set threshold values: what is the minimum result we expect, and within what period? This is not possible for all KPIs. For example, it is relatively easy to determine for each country what a 'living wage' is, but it is much harder to determine how much water can be saved annually.

Companies and managers must also regularly undergo a strict assessment. The GIP conducts an annual due diligence check on the chosen funds and regularly visits managers and underlying companies. We frequently engage in conversations to elevate both policy and practice, focusing on both impact and financial results, and the quality of reports.

Case studies help to better understand the creation of impact and also contribute to verification. Impact investing is still relatively

young, and the possibilities for independent verification of the impact results of funds and managers are still limited. Benchmarking of impact managers is also in its infancy. We encourage managers to have external checks and verification of their impact data and processes conducted. We do this ourselves too: the GIP was successfully assessed by [Bluemark](#) in 2022, an independent organization which looks at how impact investors approach, integrate, and measure impact in their investment processes.

Reporting

Finally, reporting the results is also a fixed value in impact investing: this can make the realized change – resulting from the investment - visible to investors. Reporting is done based on the measured values, showing the progress towards the goal.

The GIP reports on the KPIs associated with the chosen themes using the so-called 'five impact dimensions' of [Impact Frontiers](#). This means that five questions are answered for each theme and/or investment: What is the problem and what is the desired result? Who experiences the result or to which SDG does the investment contribute? What contribution has the investment made? How much is the result in terms of size, depth, and duration? What risk do people and the planet face if the impact is not as expected?

Two highly shortened examples are provided on the next page. More examples of how the GIP, the underlying funds in the pool, and the underlying portfolio companies have realized impact towards the impact goals can be found in the [Fund library](#).





Reporting example on the Theme Basic Needs and Well-being

Investments in line with SDG 3 by providing good healthcare and SDG 6 through efficient water use

What

Billions of people have poor access to essential health services and clean water and sanitation. Meanwhile, 70% of the world's freshwater is used for agriculture and 10% for energy systems. Efficient water use in agriculture and a shift to renewable energy can help improve access.

Who

The investments contribute to SDG 3 & SDG 6.

Contribution

Investments in companies which provide healthcare access to underserved consumers in emerging markets. Investments in companies focused on water conservation and renewable energy projects.

Risk

Failing to meet the targeted number of healthcare clients or insufficient realization of water savings. Unforeseen water usage during the construction and installation of solar and wind farms can negate water savings. To manage risks, the impact is regularly measured using performance data and customer feedback.

How Much

Figures (pro-rated)	2023	2022	Change	IRIS+ code	Funds (2023)
Underserved people reached via healthcare portfolio	533.682	401.413	+33%	PI7098	ECF 3, ECF 4
Actual m3 annual water consumption savings y	15.298.196	93.609	+16243%	PD7621	EIF 4, ESPF 4, Trill

Source: GIP Annual Impact Report 2023

Reporting example on underlying company

GiP's investment partner Leapfrog has been investing in an Indian digital health diagnostics company, since June 2022. The company focuses on disease prevention and wellness, thus contributing to SDG 3: 'Good Health and Well-being'.

What

Combating non-communicable diseases (NCDs), such as heart disease and cancer. Both private and public healthcare providers can play a role in this by expanding innovation and services such as diagnostics.

Who

Low-income households who often pay for treatments out of pocket, and who have poor access to diagnostics because the number of diagnostic centers and laboratories in India is low, relative to the population size.

Contribution

The company provides access to affordable, convenient diagnostic services in smaller, less developed cities to low-income consumers in India, with a focus on preventive care, thereby reducing the burden of non-communicable diseases.

Risk

The risk is assessed as low, due to the inherently impactful business model. The company manages key Environmental & Social (E&S) risks such as HR management and compliance with required regulatory permits and licenses. However, there is an execution risk, namely that the company may not be able to achieve the intended impact.

How Much

- 2,331,532 emerging consumers reached
- 2,769 jobs supported
- 3,701,047 people reached

Disclaimer

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The information in this document provides insufficient information for an investment decision. Please read the Key Information Document (available in Dutch and English) and the prospectus (available in English). These documents of the Fund are available on the website of Van Lanschot Kempen Investment Management NV (vanlanschotkempen.com/investment-management). The information on the website is (partly) available in Dutch and English.

The Sub-Fund is registered for offering in a limited number of countries. The countries where the Sub-Fund is registered can be found on the website. The Fund is only available for professional investors. The Shareholder is subject to an initial lock-up period of 3 years for each investment.

Global Impact Pool: general risks to take into account when investing in the Global Impact Pool

Please note that all investments are subject to market fluctuations. The Global Impact Pool 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.

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.



INVESTMENT MANAGEMENT

Beethovenstraat 300
1077 WZ Amsterdam
Postbus 75666
1070 AR Amsterdam

T +31 20 348 80 00
vanlanschotkempen.com/investment-management