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the editor's word

There's a party and you're invited

There is enough evidence today to say that the COVID-19 pandemic has both raised awareness and appetite for impact investments. Whether a clear causality exists or just spurious correlation is not entirely clear, but who cares? As long as capital is flowing, the party will continue.

Certainly, the festivities aren't nearly big enough yet to meet the needs of the planet and its inhabitants. The momentum, however, is encouraging.

Whereas concepts such as additionality, intentionality and the theory of change still puzzled most neophytes only a couple of years ago, many institutional investors have now integrated these terms into their own frameworks.

Even the deployment targets, which were often conservatively downplayed by asset owners who blamed the lack of investable companies and funds, are now reasonably ambitious.

Are we ready to take this party to the next level? In this edition, we have assembled insights from no less than 10 experts. Asset managers span from fixed income, with green bond investments and microfinance to direct impact investments both in private and in public markets.

We also have a chance to understand how asset owners take decisions in this asset class, from a Swedish pension giant to a Finnish development finance institute and a Danish foundation.

And, of course, no party would be complete without a contribution from the GIIN, which have been driving the penetration of impact impact investing and today, confirms the positive momentum of the asset class, on its way to becoming truly part of mainstream investments.

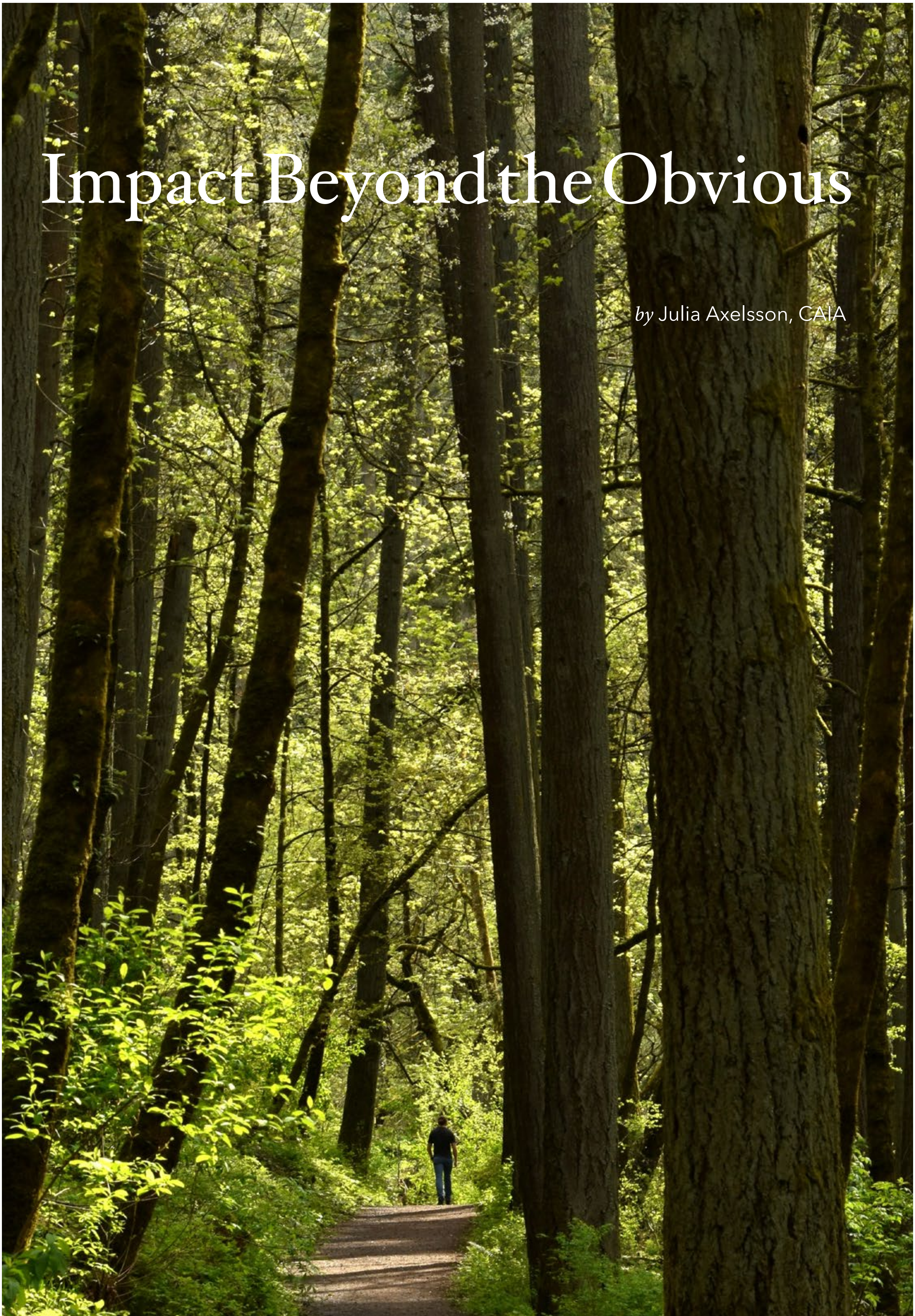
Aline Reichenberg Gustafsson, CFA

Editor-in-Chief

NordSIP

Impact Beyond the Obvious

by Julia Axelsson, CAIA



"Given the magnitude of the world's environmental and social challenges, we believe that private markets alone will not suffice to build the required solutions to the very real and very complex friction points that exist for our planet and our global community."

Originally the domain of private investors, the potential to capture and create impact in public equity markets has broadened tremendously over the past decade. To harness these growing opportunities, in March 2021, T. Rowe Price launched the Global Impact Equity Strategy, an impact strategy investing in listed companies. Hari Balkrishna, the portfolio manager, charged with the dual mandate to deliver both benchmark outperformance and positive environmental or social impact, tells us more about the new venture.

"Given the magnitude of the world's environmental and social challenges, we believe that private markets alone will not suffice to build the required solutions to the very real and very complex friction points that exist for our planet and our global community," says Balkrishna. "To match the magnitude of the issue with a magnitude of response, governments, capital owners, and asset managers must work together to incentivize and align listed businesses with better practices. Impact investing is one way to do this by adding a perspective into the investment process directed at the broader consequences of a business's operations," he explains.

The Four Principles: Materiality, Measurability, Additionality and Resilience

Balkrishna guides us expertly through the investment philosophy underlying T. Rowe Price's impact strategy. "We start with a notion of materiality. Every investment that we look at should have an impact that is material to its business model," he explains. What this means in practice is that the majority of a company's revenues should come from one of the three impact pillars identified by T. Rowe Price: climate and resource impact, social equity and quality of life, or sustainable innovation and productivity. "We base our stock inclusion criteria on a corporation's activities and their alignment with clearly defined impact pillars, always accounting for dimensions of positive future change," he adds.

The second principle, firmly embedded in the investment process, is that of measurability. "At the outset of the investment, we want to assess what key performance indicators we are going to hold our impact investments accountable to. For instance, if we invest in renewable energy, we are considering megawatt-hours of renewable energy generated by the company and the CO_2 avoided as a consequence," says the portfolio manager. The aim is to quantify outcomes individually and collectively, thus translating impact intentionality into a measurement framework.

The third aspect, additionality, is especially important when investing in public equities, according to Balkrishna. Alongside investing in companies that create additional impact as a direct consequence of their actions, T. Rowe Price aims to add extra impact through their stewardship program, including company engagement and a custom proxy voting policy. Proxy voting is a helpful mechanism to express the impact policy, as is active engagement with companies on impact issues. "In our view, active engagement is a key attribute of how you can make a difference as a public equities impact manager in the ultimate delivery of impact," Balkrishna points out.

Finally, the fourth aspect of T. Rowe Price's impact charter is resilience. The aim is to create a strategy that combines robust risk control with a breadth of ideas rather than only relying on historical ESG data. "We do this by looking forward, embracing and capturing change and making sure our impact pillars cascade multiple different sectors and geographies," says Balkrishna. "With a global and future-insights-driven perspective, we believe we can partner with clients to target positive impact while creating an approach that seeks to embed resilience to stock-specific and cyclical shocks which are part of equity investing," he adds.

"Due to the very complex friction points that exist for our planet and our global community, delivering impact requires patience and an understanding of change. This is why being resilient in applying an impact-oriented investment approach is imperative," concludes Balkrishna.

Beyond The Obvious

There are some areas that everyone associates with impact investing, such as renewables and healthcare. Yet, there are plenty of other, less explored opportunities that T. Rowe Price has identified as attractive from an impact perspective. Balkrishna is happy to provide some concrete examples.

"Under our first pillar - climate and resource impact - we can clearly find impact in companies reducing greenhouse gases as part of their future business plans," he says. "Renewable energy is a well-known area, but many industrials also enable other companies in their de-carbonization journey," he adds. Examples include industrial gases companies solving future carbon capture and green hydrogen needs. Outside of energy transition, companies promoting healthy ecosystems and enabling the circular economy are other areas where the portfolio manager finds meaningful and less well-understood impact today.

Within the area of social equity and quality of life, T. Rowe Price focuses on companies that can enable social inclusion through financial inclusion, both in emerging and developed markets. This pillar also incorporates improving health outcomes. "We look for companies within the healthcare ecosystem which improve the pace of innovation, reduce costs, or meaningfully change patient outcomes. We also look at companies which improve physical fitness, mental fitness, and aid personal and cybersecurity," explains Balkrishna.

The third impact pillar, sustainable innovation and productivity, targets innovative technological solutions that solve specific social or environmental problems.

Examples include semiconductor companies that are essential for harnessing innovation within education, technology, and healthcare. Investing in smart-city infrastructure or smart manufacturing business models is also a powerful way to affect change.

"We look beyond the obvious to find positive impact opportunities across areas of the market where the future impact is yet to be understood or priced in correctly by investors," says the portfolio manager.

No Lack of Challenges

Despite their good intentions and systematic approach, many impact investors tend to stumble at the challenging task of measuring the actual results of their efforts. "To be clear, data to measure impact today remains incomplete, while common standards of impact measurement have not been developed on par with performance and returns analysis. This makes impact measurement inescapably complex," admits Balkrishna.

At T. Rowe Price, the way to tackle this challenge is to take a stock-by-stock approach to the impact assessment and the impact measurement. It is done at two levels. Before making an investment, the manager uses a proprietary framework called 'Impact Management Project'. It is a useful tool to assess five essential dimensions of impact: the strategic goal of the impact, who is affected by it, the scale, the depth, and the impact risk. "Importantly, we also try to identify a key performance indicator that we can actually hold these companies accountable for on an annual basis," adds the portfolio manager.

Once an investment is made, its impact is measured using the 'theory of change'- framework. "We look at inputs, activities, outcomes, and outputs, and assess the impact against the key performance indicators that we ascertained at the outset of the investment. This is important as it allows us to track the impact performance against our impact thesis," explains

Balkrishna. "While time-consuming and complex, this analysis is backed up by data, internal research, as well as scientific and academic work where it helps to refine impact measurement," he adds.

Environmental disclosure has improved significantly in recent years and will likely continue to improve to allow impact managers greater accuracy in their measurement. In the meantime, T. Rowe Price, alongside other impact managers, can use aggregate measures relating to emissions and carbon intensity in many industries to understand where positive impact leads to CO_2 mitigated. Long-term, however, the need to improve data availability and develop common frameworks within the industry is undeniable. It is, therefore, essential to engage with companies to improve data disclosure.

> *"Part of my role as an impact investor is helping individuals and institutions to make sense of what is happening in the world around us and how that could manifest into risks and opportunities within investment portfolios."*

A Passion For Impact

According to Balkrishna, it is important to understand that impact investing is not the same as environmental, social, and governance (ESG) integration. It is also a different discipline from sustainable investing. Impact investing incorporates both, yet it takes a step further.

"Part of my role as an impact investor is helping individuals and institutions to make sense of what is happening in the world around us and how that could manifest into risks and opportunities within investment portfolios," reflects Balkrishna. It helps, of course, that his personal background has provided plenty of insights. Born and raised in India, Balkrishna has lived and worked in Latin America, Australia, the US, and Europe. "That has really given me an appreciation for different social constructs around the world; what works and what doesn't," he says.

The portfolio manager admits to a personal passion for finding solutions to the climate change challenge. He seems equally passionate about fulfilling his fiduciary duties to deliver superior financial performance. "Being able to put these two together in a product that delivers positive impact and positive financial performance for me is a dream job," Balkrishna concludes.

Holistic and Intentional Impact Investing

by Filipe Albuquerque

Flows into sustainable investing are booming resulting in a growing demand for increased transparency and accountability in the sector. How these investment products are labelled is critical for their credibility but the differences in definition still remains a challenge.

"The popularity of ESG, sustainable and impact investing has been increasing over the last decade. The impact space is no exception to this trend," says Seb Beloe, Partner and Head of Research at WHEB, a UK boutique asset manager that offers a global equity impact strategy that invests in midcap companies which enable the transition to a more sustainable and zero carbon world.

"According to Morningstar, impact funds accounted for approximately 1% of all investment funds, in Europe, worth approximately €105 billion in 2020.[1] In terms of net fund flows in 2020, the proportion is considerably greater, with approximately 5% of all European net fund flows (€21.5 billion) going into impact funds," Beloe adds.

As a result of this boom, concerns have emerged over a weakening of standards. "Respondents to the 2020 Annual Impact Investor Survey identified 'impact washing' as the greatest challenge facing the market. With so much noise around ESG, as well as 'impact washing', transparency and authenticity have become essential. The differentiation between funds is becoming increasingly challenging," Beloe argues.

Understanding what is meant when we speak of impact investments is the foundation to clarify what is at stake and the parameters used to assess asset managers' performance. Asset managers need to decide whether they want to take holistic or traditionalist approaches to impact investing, whether intentionality or additionality is the core informing criterion, as well as deciding whether they want to invest in listed or private companies.

Traditionalist Vs Holistic Impact

One of the core debates in this field focuses on whether the investor is having an impact or whether the investment is impactful. "Generally speaking, there are two approaches to impact in the investment community. Some chose to focus on the impact being delivered by the underlying asset ('enterprise impact'), while other chose to focus on the impact delivered by the investor ('investor impact' comprising investor 'intention' and 'contribution')," Beloe explains.

According to Beloe, WHEB distinguishes between

1 https://www.whebgroup.com/whebs-new-white-paper-impact-investing-in-listed-equities/#_edn1

the "traditionalistic" and the "holistic" views of impact. "The traditionalistic view of impact investing focuses on the individual investments and holds that an investor's impact needs to be 'additional'. That is, any positive outcome would not have occurred but for that investor's specific investment. This traditionalistic view is necessarily restricted to philanthropic activity or at best to situations where new capital is invested in markets with very poor liquidity," he says.

"A 'holistic' approach focuses instead on investments as part of the financial system, emphasising the interdependencies between different asset classes. This view holds that investor impact is founded in the investor's intention to deliver positive impact and is then delivered through investor contributions. This holistic view recognises the 'intense' impact generated by investments demonstrating additionality, but also embraces a spectrum of more 'diffuse' positive impact delivered through other mechanisms. These include changes in the cost of capital, engagement and wider signalling," Beloe adds.

Intent Not Additionality

Depending on the preferred impact approach, investors will tend to inform their capital allocations based on companies' intent or on the additionality they provide. "We believe that the concept of additionality does not provide the most practical approach to determining whether an investor is an impact investor. Instead of focusing on whether an investment is additional or not, a more appropriate standard, aligned with the GIIN and IFC definitions, focuses on the investor's intent," Beloe argues.

"In our view, this intention is at the core of what it is to be an impact investor. The impact narrative needs to be a significant part of the investment story and the investor needs to intend for the investment to contribute to positive impact," Beloe adds.

This definition is also aligned with the preferences of WHEB's clients, which see their capital as an extension of themselves and a way to project their values on to the world. WHEB's role is to channel this capital to fulfil its purpose by intentionally directing it into companies that deliver positive impact," Beloe explains.

WHEB's Holistic Impact Approach

According to Beloe, WHEB is very much on the 'holistic impact' camp that focuses on the intent of a business. "Our investment decision is explicitly rooted in the enterprise impact of the business. Our intention is to contribute to positive impacts through enterprise and system-level contributions. We document and report on our investment intentions and contributions to underpin our claims to positive impact," Beloe says.

"Establishing demanding but pragmatic standards that require clarity in investment intentions, and evidence of investor contributions, is essential if impact investment is to retain its potency. These standards will enable impact investors to harness the full potential of capital markets as a whole to drive positive impact at scale," Beloe explains.

"We want to change finance. Our mission is to advance sustainability and to create prosperity through positive impact investments. We are a certified B-Corporation, which means that we have embedded our ambition to benefit all stakeholders in our legal structure, rather than prioritising shareholders at the detriment of others," Beloe adds.

WHEB runs a benchmark agnostic US$2 billion global equity impact strategy focusing on environmental and social themes, which represent approximately 60% and 40% of investments, respectively. The strategy qualifies under Article 9 of the EU's Sustainable Finance Disclosures Regulation (SFDR).

The fund invests in assets based on a 9 sustainability themes focusing on cleaner energy, education, environmental services, health, wellbeing, safety, resource efficiency, sustainable transport and water management. To this end, the fund also targets seven SDGs, including sustainable cities and communities (SDG11), affordable and clean energy (SDG7), industry, innovation and infrastructure (SDG9), responsible consumption and production (SDG12), clean water and sanitation (SDG6), good health and well-being (SDG3) and quality education (SDG4). All investments are conducted in developed markets, mainly in the USA, but also in Europe, Japan, the UK and Australia.

"We invest in companies that facilitate the transition to a carbon neutral economy by providing products and services that enable other companies to be more sustainable and climate friendly. When H&M or IKEA make net-zero commitments, the focus is on how they design, source and manufacture their products, how they run their buildings and manage their logistical networks. We invest in the companies that will help companies like these make the necessary adjustments to fulfil those commitments," Beloe says.

"To get a pure exposure to the transition, we need to invest in the companies that are delivering the change we need. It's not about investing in a large company like Unilever, which is going to continue to sell goods like soap and ice cream. The focus is on the companies that help Unilever make the transition into selling more sustainable soap and ice cream," Beloe adds.

Implementing a Holistic Approach

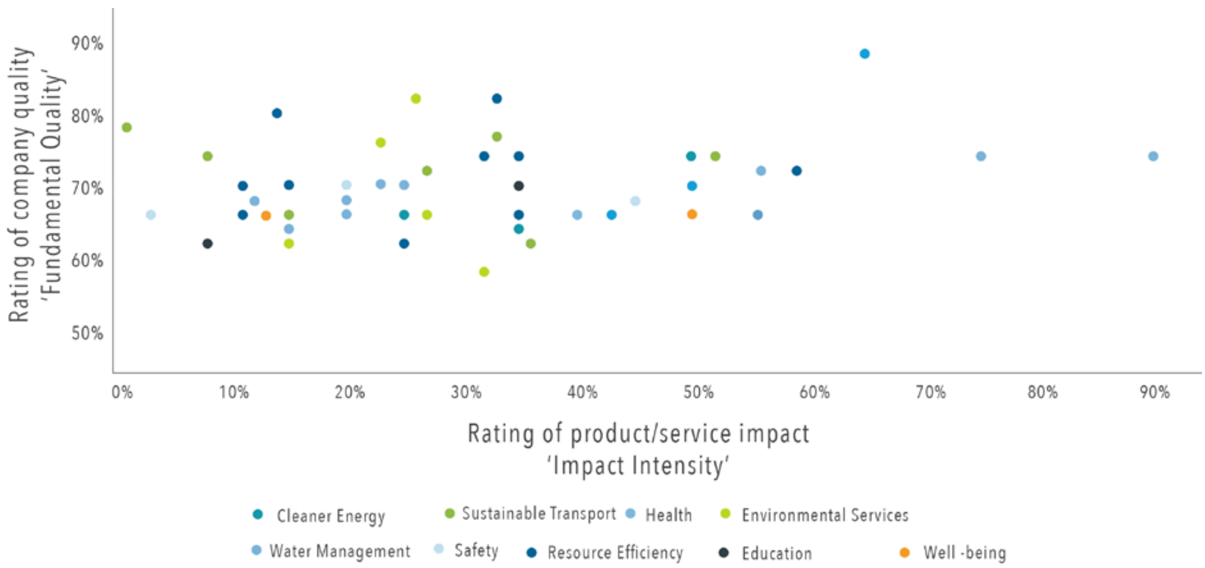
According to Beloe, WHEB's investment process follows a two-stage approach. First the asset manager narrows down the investment universe and then it finds the best opportunities within this subspace based on its impact map.

"The investment process begins by excluding 'Business at risk', such as ExxonMobil and Royal Dutch Shell, which are likely to struggle with the transition to a carbon neutral economy. Companies that are 'Transitioning', such as Apple, Alphabet, Amazon, Microsoft, or Unilever are also not included in the company's investment universe. Only

Negative Externalities and Positive Impact

Notes: Only companies shown in "Sustainable Growth" category are considered for WHEB's investment strategy.
Examples shown under "Business at risk" or "Transiotining" categories are not included in WHEB's investment universe.

WHEB Impact Map



Source: WHEB

companies that provide 'solutions to sustainability challenges' are considered for WHEB's investment strategy," Beloe says.

Companies whose products have a positive impact include Aptiv, which focuses on green and more connected mobility solutions, Arcadis, a design & consultancy for natural and built assets and Vestas, a manufacturer of wind turbine blades.

Once the investment universe has been trimmed down to the sustainable growth providers, stocks are selected based on WHEB's proprietary impact mapping approach, which contrasts the rating of a company's fundamental quality with the rating of its product or service's impact intensity.

ESG analysis is integrated in the assessment of a company's fundamental quality, including market attractiveness, competitive position, value chain, the quality of its management and its growth strategy. "On the ESG front, we focus on regulation, reputation, quality control corporate governance and investee companies' assessment of sustainability opportunities," Beloe says.

WHEB's Impact engine is an analytical tool, which asks questions about the different dimensions of a product's positive impact. This allows the analyst to assess the business' impact intensity. "We use our 'Impact Engine' to analyse a company's positive impact and what it actually provides. At this stage in the investment process, we think about the vulnerability of the beneficiary, the criticality of the outcome to the beneficiary, the size of the impact, how widely applicable the product is, how central the product impact is to the outcomes and how unique the contribution is," Beloe explains.

Impact Via Listed Equities

Finally, Beloe is keen on emphasising the impact that can be found in listed equity markets, which are sometimes seen as being too liquid to make a difference. "The traditionalistic view holds that impact investing in listed equities is not possible. Ostensibly, listed equity investors are unable to influence the cost of capital of investee companies," Beloe argues.

"However, we would argue that this perspective ignores the systemic nature of finance and the economic system," Below argues. "Although individual transactions have less effect on the cost of capital as the market becomes larger and more liquid, that is not the same as saying that those transactions have no impact. Clearly every participant has some say on where prices are set," he adds.

By increasing equity prices, listed equity investors lower the cost of capital for the investee company, according to Beloe. "Higher share prices can facilitate acquisitions by allowing businesses to use their equity to finance deals. It can facilitate businesses to leverage their equity to pursue more activity and enable the company to scale up more quickly and deliver greater positive impact," he explains.

During volatile markets, small investors can often significantly influence prices, according to Beloe. "By way of analogy, it would be ludicrous for an individual football fan to claim that it was her singing, and not the thousands around her, that inspired her team to win a game. But as a community all singing together, fans do create an atmosphere that has a clear bearing on the outcome of a game," he concludes.

Impact Investing

What Makes it Different?

by Sarah Norris & Dominic Byrne, abrdn

Credit: JoBischPeuchet on Pixabay

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Many purists raise their eyebrows at the notion of a listed impact solution. However, we believe such investments solutions are a compelling way for clients to gain access to companies addressing the world's challenges, while still achieving attractive risk-adjusted returns. Here, we explain how we aim to deliver these two objectives.

The Rise of Impact Investing

Impact investing is distinct within sustainable investing. It does not focus solely on avoiding business practices, nor does it only assess business operations. It is about investing in activities that address global issues.

It's no longer a stretch to argue that companies providing solutions to the most pressing global risks have the opportunity to profit. In the investment community, this has led to a groundswell in demand and inflow of capital to impact investments. This is particularly evident in the public equity sector, where impact investing is becoming more established with the recognition that a spectrum of capital is needed to support global sustainability goals. Investment houses are launching a variety of impact funds and attracting more assets than ever

However, within this area, there is considerable variation. For one thing, there's no set way to define positive impact or to identify opportunities. There's also no standard way to report on impact. So, it's important to focus on how a fund defines impact and to make sure that it reflects the type of impact to which an investor wants to align their capital.

Our Approach

We define impact investing as the intentional investment to deliver financial returns alongside

measureable, positive social and/or environmental change. To that end, we seek to identify and invest in financially attractive companies that are intentionally developing products and services that contribute to quantifiable, positive social and environmental outcomes.

We use the UN's 2030 Agenda and its 17 Sustainable Development Goals (SDGs)to help us define positive impact and target the most pressing global issues. Ultimately, we are looking for companies providing local solutions to major global problems.

What Are Our Impact Objectives?

We identified eight 'pillars of impact' that address these broad challenges, as follows.

- Circular Economy
- Sustainable Energy
- Food & Agriculture
- Water & Sanitation
- Health & Social Care
- Financial Inclusion
- Sustainable Real Estate & Infrastructure
- Education & Employment. Voici la mise en page.

We aim to invest in companies whose products and services in each of these eight categories help countries achieve the UN's sustainable development agenda.

How Do We Identify Companies With Impact?

We take a financial-first approach to impact investing. We will only research, consider and invest in those companies that have strong financial upside. That means we only research a 'buy' list of stocks to find those companies that also meet our positive impact requirements.

To identify impact investments, we use a 'theory of change' approach we call 'impact maturity'. We examine a company's inputs, activities, outputs, outcomes, and impacts in three 'impact maturity' stages: intentionality, implementation and impact. These stages build on one another. We expect to see companies mature as investments made in the 'intentionality' stage deliver revenue at the 'implementation' stage. Then outcomes can be measured at the 'impact' stage.

There is also a fourth category – 'impact leaders'. These are companies whose products or services are part of a wider value chain, and support end-products in one of the pillars.

In our portfolio, we aim to have exposure to all eight impact themes, as well as good industry and geographic diversification.

There are numerous ways a company can have a positive impact, while helping to support the SDGs. For example:

- supporting renewable energy storage and distribution
- expanding education opportunities to rural and low-income students
- improving treatments for priority health concerns
- conserving natural resources by offering closed-loop solutions
- expanding access to nutrition.

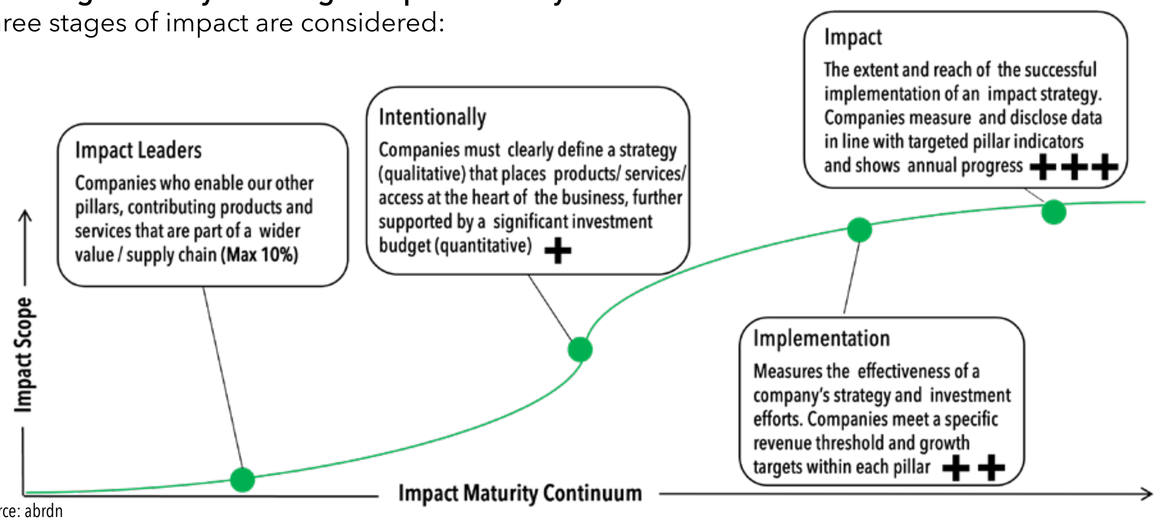
Non-Financial Impact

The Importance of Impact Reporting

Reporting is an essential part of impact investing, and a critical client requirement. We've developed a reporting methodology that provides clients with a clear insight into the positive impact, delivered by companies we invest in. In particular, we aim to demonstrate how products and services delivered

Following a 'Theory of Change': Impact Maturity

Three stages of impact are considered:



Source: abrdn

by companies can help countries meet the UN's 17 SDGs. We aim to be as transparent as possible in our reporting, so that clients will have a clear understanding of the positive impact a company achieves.

We agree with the Global Impact Investing Network's view that "context is critical to interpreting impact results in a robust and reliable way."[1] Our impact report includes case studies and aggregated pillar-level data. But we also analyse the impact companies deliver according to country and region. This helps us understand how the impact delivered compares to the underlying country-specific issues and needs. Above all, we aim to frame the local impact delivered against the global issues our portfolio targets.

Further Action at abrdn

The Global Equity Impact Fund launch was among the first equity impact strategies launched, and our work around using the SDGs as the basis for an investment framework has been the genesis for other sustainability strategies.

We recently launched the US Equity Impact strategy, which uses the same process as the Global Equity Impact Fund and feeds new ideas into our Impact Universe. And we've launched the Global Climate and Environment Fund, focusing specifically on companies that sit in our environmental impact pillars.

The Global Impact Equity fund aims to give investors broad access to solutions across all 17 SDGs. However, we are cognisant that the climate crisis is of increasing importance to investors and wanted to provide a solution that specifically targets this demand.

Similarly, leveraging the impact guiding principles, in 2020 we launched the Asian Sustainable Development Equity Fund and Emerging Markets Sustainable Development Equity Funds. These aim to invest in companies with material alignment to one or more SDGs.

This is just the start. As we come to the end of 2021, much still needs to be done to 'build back better' and 'build back fairer', addressing both new and existing environmental and social issues. Encouragingly, many governments including the European Union, the

US and China have responded to the pandemic by making sustainability the cornerstone of agendas to address the economic and social damage caused by coronavirus. But strained government budgets have limited capacity to invest in solutions to address these issues. We expect companies to step in to provide new solutions that focus on improving healthcare, more inclusive workforce opportunities, new circular-economy solutions, more resilient energy sources, and cleaner mobility and infrastructure. Now, more than ever, we at abrdn are convinced of the role of impact investing in supporting a greener, more inclusive recovery.

What Is the Future of This Trend In Impact Investing?

There are three stand-out drivers supporting impact investing: regulation, consumers and investors.

In recent years, there's been increasing regulatory backing for a transition to a more just society, as governments set policy to deliver on the UN's SDGs. In response, we're seeing more companies shifting their business models so they not only avoid fines and penalties for failing to manage social and environmental risks, but also capitalise on new opportunities created by demand for environmental and social solutions.

Equally influential are trends in consumer behaviour. There's greater demand for more sustainable or ethical products and services in almost all industries. These include fair trade and organic food; addressing child and forced labour in the fashion supply chain; and access to affordable housing. To meet this demand, we're seeing companies respond with new products that address these long-term challenges.

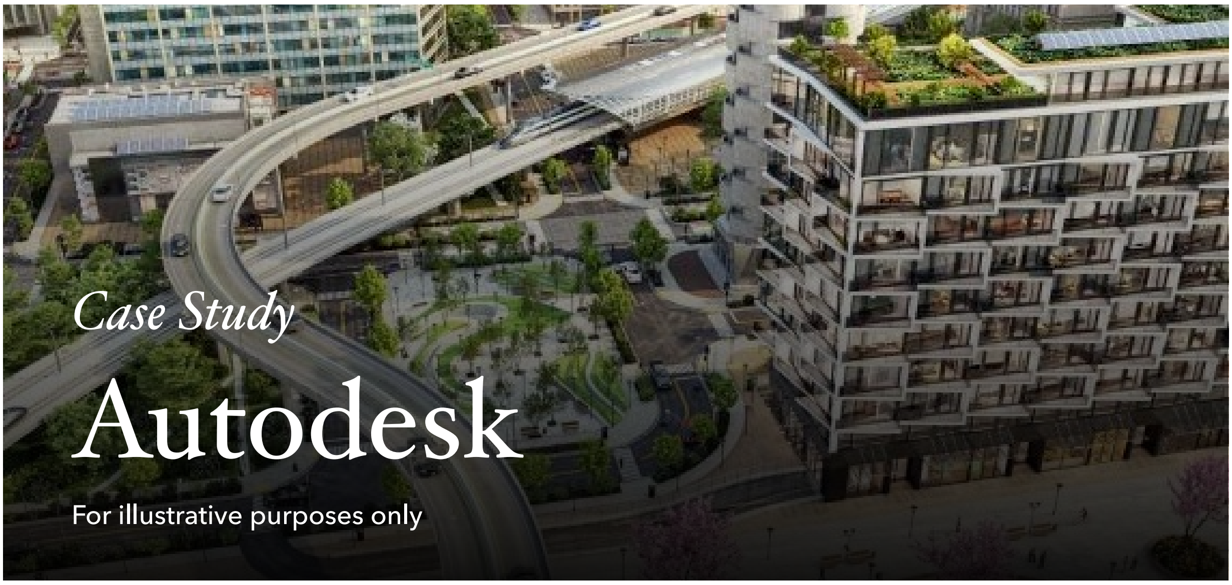
Investors too are focusing more on environmental and social considerations. There's a broad consensus that managing ESG (environmental, social and governance) risks well is essential to delivering good returns. But, as we have shown, there's also evidence that investing in companies delivering environmental and social solutions is a source of above-market returns.

Furthermore, the Covid-19 pandemic has highlighted the importance of building a better and fairer society that tackles issues around employment, healthcare, and climate change. We therefore expect these trends to keep building. As a result, we believe impact investing will continue to grow in popularity and, eventually, become a core style of investment across asset classes.

Final Thoughts...

In addition to the regulatory pushes and consumer pulls, there's increasing focus on environmental and social consideration from investors. There's a broad consensus that managing ESG risks well is essential to delivering good returns. But because of regulation and changing consumer patterns, there's also evidence that investing in companies delivering environmental and social solutions is a source of above-market returns. It's no longer a stretch to argue companies that provide solutions to these global risks have the opportunity to profit. That's because they're providing solutions where there is significant need and significant unmet demand.

[1] The GIIN (2019) Evaluating Impact Performance [Online]. Available at https://thegiin.org/research/publication/evaluating-impact-performance (accessed 22/12/20)



Unmet need: the construction materials and building sector is responsible for more than one-third of global resource consumption – but it is estimated that companies recycle or reuse only 20- 30% of construction waste.

Intentionality: Autodesk is developing software that helps reduce waste throughout the building-construction process. This software seeks to improve the material efficiency in the construction of a building, and help customers develop net-zero-energy buildings that make up smart and sustainable cities.

Implementation: according to the company, a conservative estimate is that at least 60% of its revenues are tied to improving the design, construction and operation of buildings, infrastructure and industrial projects.

Impact: customers generally see 25-40% material or energy savings. In some cases this can be even higher. Autodesk plans to disclose more data around how clients use its products and the 'simulated savings' the company helps customers achieve on waste, energy and other sustainability metrics.


Credit: Nick Grappone on Unsplash

Bond Impact

Filling the Funding Gap

by Julia Axelsson, CAIA

Douglas Farquhar
Senior Client Portfolio Manager
NN Investment Partners

Green bonds, the best known of all impact financial instruments, are going mainstream. Earlier this year, the green bond market passed another major milestone, topping EUR 1 trillion of outstanding green bonds. Meanwhile, the issuance is expected to jump 25% to around EUR 500 billion or even higher in 2022. This is a welcome development for NN Investment Partners (NN IP), a frontrunner in green bond investing. Douglas Farquhar, Senior Client Portfolio Manager at the firm, tells us more about the rapidly growing market and the way NN IP is helping investors greenify their fixed income allocation.

Green Tailwinds

According to Farquhar, several key factors support the issuance of green bonds, not just this year but also further down the road. There is, to start with, a catchup effect. A lot of green bond issuance was postponed in 2020 due to the Covid-19 pandemic that disrupted the bond markets. Then there are the debutants to the green bonds ball. This year has witnessed first-time sovereign green bond issuance from governments like Italy, Spain, and the UK.

Perhaps of paramount importance, however, is the start of the EU green bond issuance. Planned to total EUR 250 billion, it is the main way to finance the 'Next Generation EU' recovery program. "The new issuance next year could well exceed our expectations, *"It is a struggle for the EU regulators to define what is 'green', but you could say it is easy, compared to defining what is socially sustainable."*

depending on how fast the EU looks to issue more green bonds after the debut on Oct. 12, when it sold EUR 12 billion worth of green bonds," comments Farquhar.

Apart from financing the recovery plan, other developments within the EU provide solid tailwinds for green bonds, too. Corporate issuance is picking up supported by the introduction of the EU Taxonomy. Although far from complete, the new framework defines clear green criteria for several sectors. Farquhar sounds positive overall to the work of the regulators so far, especially the 'Do No Significant Harm' rules, yet slightly concerned by the lack of synchronisation between EU's Green Taxonomy and the new Green Bonds standards.

Beyond Green Bonds

Speaking of the EU Taxonomy, Farquhar comments on the recent proposals to extend the regulatory framework to other sustainability aspects. "It is a struggle for the EU regulators to define what is 'green', but you could say it is easy, compared to defining what is socially sustainable," he says. "It adds a whole new dimension of complexity to find common standards for the social aspect," he adds.

Social and sustainable bonds, too, have a long way to go, according to Farquhar, before they reach the level of standardisation and the acceptance that green bonds enjoy today. "Recent years have seen a 'label-mania' in the market with a stream of new impact bond labels appearing," he says. Social bonds, in particular, have increased dramatically during the Covid-19 pandemic, with governments and supranational institutions issuing to fund the recovery and support people through the crisis. Sustainability bonds, too, have proven popular for issuers who wish to finance a mix of environmental and social projects.

"Transition bonds, however, seem to have suffered from the emergence of sustainability-linked bonds (SLBs)," comments Farquhar. "Investors are yet to be convinced of the need for a transition label when green bonds are a transition mechanism with clearly defined standards," he adds.

Farquhar urges caution with respect to sustainability-linked bonds. "The issuers set their own key performance indicators (KPIs) and targets linked with debt, and it is important to verify that these are truly the most material ESG metrics," he points out. "Improving the habitat of urban pigeons, for instance, might not be the most relevant target to base an SLB on," he jokes. On a more serious note, he thinks investors should be mindful of how SLBs are structured and make sure that the level of investor compensation is appropriate, with a clearly defined coupon step-up if issuers fail to meet their self-imposed targets.

Investing In Green Bonds, the NN IP Way

Back to classic green bonds, Farquhar takes us through the unique and sophisticated investment process that NN IP has developed throughout years of investing in these distinct fixed income instruments. "Since we first became active in the green bond market in 2014, we have been firm in our conviction that allocating to green bonds enables investors to make an environmental impact without sacrificing liquidity and returns. Over the years, we have developed and fine-tuned our approach as the market has grown and become more sophisticated, but our conviction remains unchanged," he says.

"Our dedicated green bond team of portfolio managers and analysts is part of our global investment grade credit department, and its investment process is fully aligned with our regular credit process," explains Farquhar. "Our Responsible Investing team also approves every green bond before it is eligible for investment," he adds. As a result of this stringent selection process, NN IP rejects about 20% of the total outstanding issues in the official global green bond universe.

He seems genuinely proud of the experience and professionalism of his colleagues at NN IP. "Our in-house green bond analysis is supported by a proprietary assessment methodology and database, giving us a comprehensive overview of the market and its constituents," he says. The NN IP approach

"There is no doubt that the market is growing," he says. "The question is whether it is growing fast enough. The funding gap to finance the transition to a greener economy is still enormous."

to creating and reporting on impact has gained recognition, with several responsible investing labels and awards from independent agencies, such as MSCI AA, 4 Morningstar globes, Scope AA+, Towards Sustainability (Belgium) and Greenfin (France).

On Engaging, and Avoiding Greenwashing

State-of-the-art database aside, investing in green bonds is not just about pouring over data and comparing spreadsheets. At NN IP, entering and maintaining an active dialogue with issuers is an integral part of the overall assessment of an entity, whether corporate, government or supranational, and its bonds. "We start the conversation prior to a bond's issuance and focus on building up a mutually beneficial relationship with the issuer," explains Farquhar. "They offer us insights on their business and strategy; we can inform them on best practice and what investors are looking for."

"We maintain a dialogue with most of the issuers in whose bonds we are invested and for the bonds that we have labelled as green and non-green in our database," continues Farquhar. "We engage with non-green issuers too, as we want to help them improve their green bond frameworks and meet our strict standards," he adds.

The issuers' voluntary commitment to report on their contribution to climate change and the self-labelled nature of green bonds imply that greenwashing is a significant risk for investors who want to make a clear positive impact and avoid reputational damage. "Engagement is an important tool in mitigating this risk," says Farquhar. "Regular contact gives us a better understanding of both the issuer and the individual bond issue and helps ensure we do not invest in entities that are not as 'green' as they might first appear to be," he says.

One example Farquhar mentions is downgrading the bonds issued by the State Bank of India to non-green. The bank was issuing green bonds while preparing a loan to Adani for investment in the Carmichael mine in Queensland, Australia. Furthermore, the issuer was reluctant to engage in a constructive dialogue with NN IP. This was sufficient to motivate the downgrade making the bonds ineligible for the asset manager's green bond portfolios.

"When it comes to greenwashing, it is key to assess all the activities of the issuer itself, particularly within the financials and utilities sectors," says Farquhar. He is critical of banks that try issuing green bonds while continuing to lend money to fossil fuel projects. Sovereigns can be challenging, too. He mentions, for instance, that it is difficult to accept Poland's sovereign bond in the green family, given the country's continued dependence on coal.

The Future Is Green

Rounding up the interview, Farquhar peeks into the future of green bonds. "There is no doubt that the market is growing," he says. "The question is whether it is growing fast enough. The funding gap to finance the transition to a greener economy is still enormous," he adds.

The positive news is that with the US rejoining the Paris Agreement and the EU's commitment to a green recovery, we can expect a wave of new climate regulations and incentives, which will have a massive impact on the investing landscape, according to him.

"Green bonds have become a mainstream fixed income segment that every bond investor should consider when constructing their portfolio," he urges. "In addition to their transparent use-of-proceeds structure and focus on climate change mitigation and adaptation, these liquid, diversified investments offer similar attributes to traditional bonds and an appealing risk-return profile," he points out.

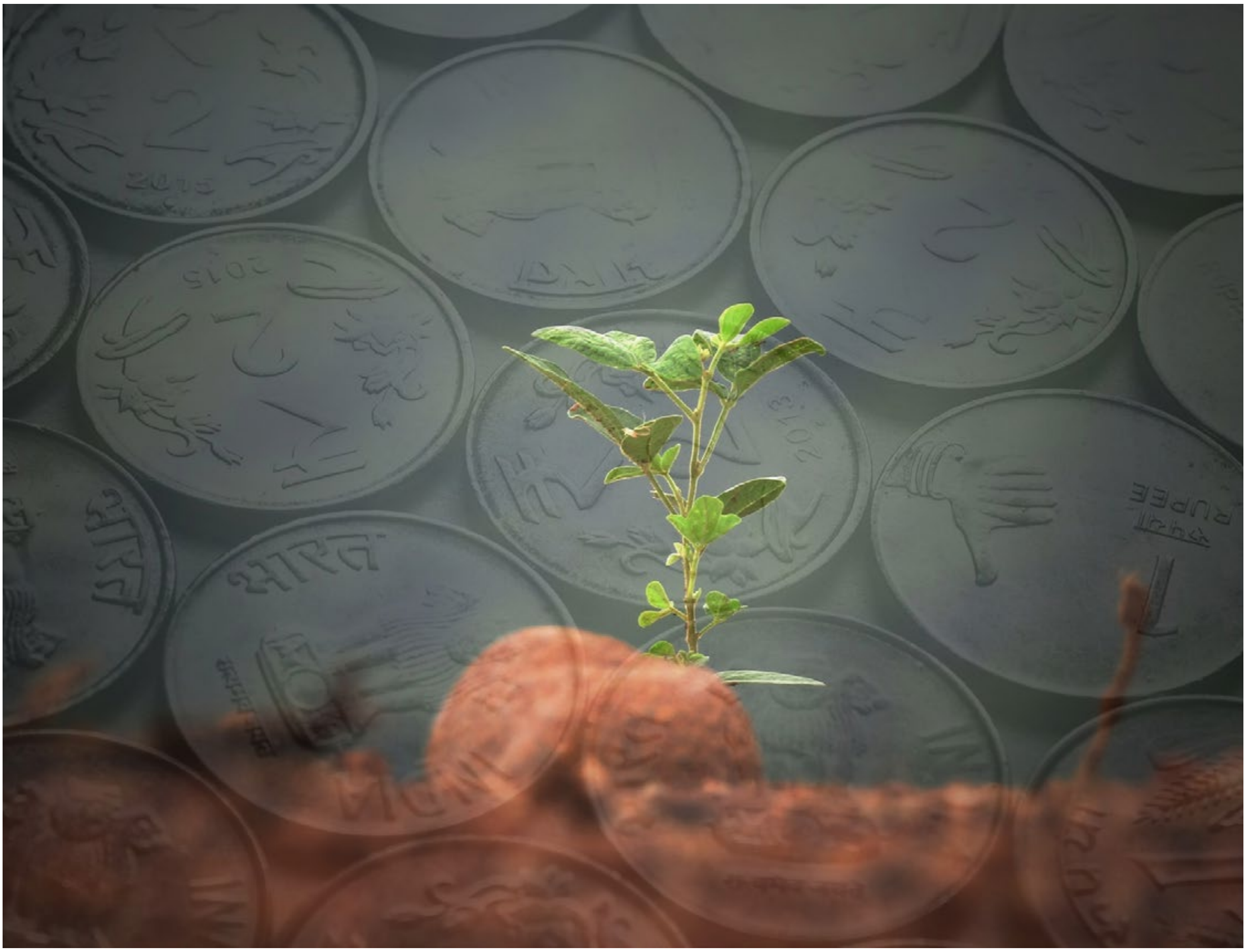
"NN IP is a dark green investor. Making a positive and demonstrable environmental impact is our key goal. Yet we also aim to deliver a positive financial return to our clients," concludes Farquhar.

Event Summary

Microfinance

From Covid-Relief to Fintech Opportunities

by Julia Axelsson, CAIA



"Although 2020 was not a good year, returns-wise, I think the managers of our microfinance fund handled the crisis well, continuing to provide capital to those who needed it most."

Cecilia Kellner
Investment Manager & Sustainability Strategist
Nordea Life & Pension

Over the years, microfinance has proved to be an effective way of generating meaningful social impact. It also offers an exciting investment opportunity for investors, from institutions to individual savers. Microfinance investments are less correlated with public markets and show remarkable resilience to shocks while providing positive opportunities to finance relief programs. With the unprecedented expansion of internet and mobile phone connectivity, microfinance is also perfectly positioned to accelerate the movement for financial inclusion, empowering local entrepreneurs and supporting economic development.

On November 16, NordSIP invited experts in microfinance to explore the intricacies of and the latest developments in this fascinating asset class. Two asset managers, Tim Crijns, Fund Manager for the Microfinance Fund at Triodos Investment Management and Yann Groeger, Regional Director for Africa and Latin America at BlueOrchard Finance, joined asset owner Cecilia Kellner, Investment Manager & Sustainability Strategist at Nordea Life & Pension in a discussion moderated by NordSIP's Editor-in-Chief, Aline Reichenberg Gustafsson.

A good match for responsible pension strategy

When Nordea Life & Pension started allocating money to microfinance Kellner was actively involved in the search for appropriate investments. To kick off the discussion, she shared her thoughts on the rationale behind investing in microfinance and how this niche asset class fits in an institutional portfolio. According to her, this particular investment proposition is attractive both from an impact perspective and because of its very low correlation with other assets. The microfinance investment is part of Nordea Life & Pension's emerging market fixed income allocation. Both the long-term commitment and the social aspect of supporting entrepreneurship for small businesses are a good fit for a pensions' portfolio.

The Covid scare

"We were worried, of course, about how the Covid-19 pandemic would affect our investments," admits Kellner. "The countries in our microfinance portfolio were hit hard by lock-downs and lack of vaccines. Luckily, we didn't experience any liquidity issues. And, although 2020 was not a good year [for our microfinance allocation], returns-wise, I think the managers of the fund handled the crisis well, continuing to provide capital to those who needed it most," she says.

Crijns agrees with her that Covid-19 has been somewhat challenging. "To understand why, we need to look at the background of microfinance's inherent decorrelation," he says. "These investments, especially in emerging and frontier markets, have historically

Yann Groeger
Regional Director for Africa
and Latin America
BlueOrchard Finance

been quite resilient to shocks, particularly if you look at the global financial crisis in 2008," explains Crijns. "This time around, however, the nature of the shock was not just financial. It hit the real economy, depriving many people of their livelihoods."

Providing relief

Observing first-hand the devastating effects of the pandemic on their investees, in 2020, Triodos supported them in these unprecedented and challenging times, providing additional facilities, or restructuring current ones. "If we had been the only ones doing that, however, while others withdrew their money, microfinance would collapse," he says. Triodos reached therefore out to other microfinance actors, and many of them joined the initiative, providing liquidity to get the sector through this rough patch.

"Liquidity was really crucial during this period," agrees Groeger. As many institutions continued to finance small businesses despite the circumstances, it was essential to support them and give them sufficient time to repay. "The crisis also gave a strong push towards digital solutions, especially in Africa and Latin America," he adds.

"Overall, the sector proved to be more resilient than what we would have expected," says Groeger. According to him, while assessing the situation, they saw the need for liquidity in the short term and solvency support in the long term. Based on this analysis, BlueOrchard was quick to launch a specific strategy to address both issues, and the response to it from investors has been overwhelmingly positive.

"People need cheaper and safer solutions, and impact investors can help by financing those. It is also a promising investment, from a commercial point of view."

Themes and examples: Education & Climate Change

Covid-19 has demonstrated clearly what an elevated sense of urgency means and how it puts other impact themes in perspective. Looking beyond the pandemic, Kellner mentions how difficult it is for an investor to prioritise between different impact areas. Climate change, human rights, education are all urgent issues, yet it is impossible to tackle them all at once. "Climate is the theme we have prioritised," she shares. "But we do invest in other themes, too, and I know we are coming to do more in the coming years," she adds.

At the very mention of education as an investment theme, Groeger, a teacher himself, is eager to talk about the urgent need for investment in this area. He points out the high out-of-school rate in Africa, where currently 110 million children are not receiving the education they need. Financing flexible solutions that combine public and private efforts to tackle the problem, especially in the field of vocational training, is vital, according to him. "Microfinance is the perfect tool to connect investors with solutions," he says.

Rather than dividing all the impact themes into neat separate buckets, Crijns advocates for a more integrated approach. "Climate change is ultimately a social issue too," he says. He is highly aware that the countries his funds operate in and the people who need microloans are probably among those to be most severely affected by climate change. Investing in solar panels in tropical areas is one solution, of course. Triodos Emerging Markets Renewable Energy Fund does precisely this. "At the same time, we need to make sure that people in these countries have the resilience and the buffers to withstand crises," he adds.

Crijns provides many examples of the way microfinancing can help. Like providing credit to people in Kenya not connected to the electricity grid to purchase a solar home system and repay it in instalments. Lending money to taxi drivers in Peru to transform their gas-driven cars to LNG-driven is another example of microfinance advancing the clean energy transition.

"What could drive even more capital into microfinance is the increasing awareness of the responsibility of investors, whether driven by regulations or the public opinion."

The importance of financial inclusion

Another important role of microfinance is teaching financial literacy to people with no prior experience of loans, interest rates or instalments, according to Crijns, leading the discussion to the broader theme of financial inclusion. He seems genuinely excited about the rapid developments in financial technology and the solutions they provide. Mobile payments, for one, are both cheaper and more secure. Online lending and remittances are revolutionising the lives of people in remote villages.

Groeger agrees wholeheartedly about the usefulness of modern fintech solutions. He recalls that just a few years ago, the only way to send money from South Africa over the border to Mozambique was to put cash in an envelope and give it to a bus driver on his way there, and he would charge for the service. "People need cheaper and safer solutions, and impact investors can help by financing those," he says. He is impressed by the tech hubs rapidly emerging all over Africa, from Nairobi to Lagos and Morocco. He believes that microfinance has a clear role to play in the developing fintech scene. "It is also a promising investment, from a commercial point of view," he adds.

Venturing beyond debt

Despite the positive social impact of fintech solutions, Kellner is slightly more sceptical. She urges investors to pay attention to tech firms' increasing carbon footprint. Server capacity should be developed only where there are climate-smart ways to power it, according to her. That said, Kellner adds that Nordea Life & Pension is a keen investor in some fintech companies, enabling people in Africa, for instance, to start businesses despite the suboptimal infrastructure. She adds that those investments are mostly made through venture funds.

On that note, Crijns notes that exposure through equity is an important element in his firm's microfinance portfolios. "Not just because it provides an upside for investors, but also to maximise the impact," he explains. As a strategic minority owner, Triodos has more leverage to influence decisions. "You can certainly push innovation better through private equity," agrees Groeger.

Tim Crijns
Fund Manager, Microfinance Fund
Triodos Investment Management

What's next for microfinance?

Rounding up the discussion, the moderator asks the participants to forecast the next game-changer for microfinance. Besides further advances in technology that are driving down the rates, Groeger points out another positive trend to watch out for. Microfinancing institutions are consolidating and maturing. "These former NGOs are becoming increasingly more professional these days," he says.

Kellner believes that an increased and more specific thematic approach for microfinance funds could benefit the asset class. That would help investors allocate more to the asset class. "Educate investors like me about the specific themes, too," she urges. Crijns responds that the industry is, in fact, moving towards this type of embedded solutions, addressing clear-cut themes, targeting specific SDGs, for instance.

"What could drive even more capital into microfinance is the increasing awareness of the responsibility of investors, whether driven by regulations or the public opinion," he continues. "But also, and maybe especially after the Covid crisis, investors seem to be internalising responsibility. What also helps is the realisation that there isn't necessarily a trade-off between impact and returns," concludes Crijns.

Venture Impact

the Nordic Way

by Filipe Albuquerque

At the heart of impact investing is the belief that today's global challenges require new companies to develop innovative solutions. It is these unprecedented business opportunities whose solutions create both impact and profit. As sustainability becomes ever more established as an investment factor in financial markets, impact investors wit a track record and a purposeful focus will be particularly well-positioned to find the best opportunities to make an impact on humanity's future.

With NOK210 million in assets under management, Norway's Katapult seeks to offer such an approach with an added Nordic flavour. "Our motivation at Katapult is to grow world class investment funds to allow more capital to find its way to impact investments within the themes of oceans and climate in general," Jonas Skattum Svegaarden, CEO of Katapult Ocean tells NordSIP. "We have positioned Katapult to be the world's most active investor in the ocean impact space. With headquarters in the Nordics, we are perfectly positioned to attract the best ocean and energy companies and investors from all over the world. Our part of the world boasts competence, activity and traditions within the ocean and clean energy sectors," he adds.

Meet Katapult

Katapult was founded by active impact investor Tharald Nustad and two co-founders in 2016. "Tharald's wanted to go beyond investing his own resources to create investment vehicles and raise awareness and galvanise other investors to move into impact investing and 'build the world we want to live in'. Based on the example of the world's leading accelerators, they built Katapult Accelerator - the world's first impact-focused tech accelerator investing with a global mandate in all SDGs," Svegaarden explains.

"I joined two and a half years ago after co-founding CARN Capital, a sustainable investment hedge fund. CARN was the first eco-labelled ("Svanen") hedge fund, and the best performing hedge fund in the Nordics last year. Prior to that, I spent 9 years in Handelsbanken Capital Markets where I spent most of the time heading up the Securities services in Norway," Svegaarden continues.

Jonas Skattum Svegaarden
CEO
Katapult Ocean

"In 2018, the ocean-sectors were carved out as a separate strategy and an investment team led by our Investment Director, Ross Brooks. Ross relocated from Scotland and has a background in private equity (PE) and venture capital (VC) at Baillie Gifford and Leapfrog Investments," Svegaarden says. According to him, Katapult's fund investors include pension funds, corporate venture firms, foundations, family Offices and ultra-high net worth (UHNW) Investors.

In 2020, the impact investor established the Katapult Foundation to oversee all its non-profit initiatives under a single structure. The Foundation focuses on impact investment education efforts and building the impact community, through such initiatives as the Nordic Investment Network, Katapult Future Fest and Katapult X.

Evolving Impact in the Nordics

According to Svegaarden, there are clear shared practices that characterise financial practices across the Nordic region. "The Nordic markets have a long history of being a good market for ESG-investments with long term investors and owners, transparent market practice, stable political environments and regulations. That being said, we still have a long way to go in our region compared to the US and other countries like the Netherlands, Switzerland and the UK," Svegaarden says.

"There is still a perception amongst the common investor that impact investments do not yield market returns, but we notice that investors are slowly starting to realise that this is not the case. With the next generation is entering board rooms, family offices are the ones pushing for more impact investments. However, the larger portfolio allocations are still not too common," Svegaarden argues.

Katapult's Early Investment Approach

According to Svegaarden, what makes Katapult stand out from its peers is its unique position in the early stage impact investments space. "We invest globally in early-stage impact tech companies that are focusing on climate and ocean domains. We are a seed-series A investor with a unique and recognised accelerator program," he explains.

"We are the most active ocean impact investor in the world, and our renowned accelerator program is running for the 10th time now. Investors are generally looking to invest earlier and earlier as we see in venture activities globally. Large asset managers are entering the venture capital space looking for alpha and competing with established VCs," Svegaarden explains.

"The VC fund landscape is booming with new players popping up every week, and creating even greater pressure. On top of that, multilateral trading facility (MTFs) such as Nasdaq First North Growth Market and Euronext Growth are adding to the competition and the complexity facing investors, funds and growth companies," he continues.

"Katapult is perfectly placed in the early business development stage and riding three waves: climate solutions, demand for early stage impact solutions and acceleration of these much needed solutions. We notice that several of our portfolio companies are being chased by listing agents and later stage VC funds and PEs are looking at our companies," Svegaarden adds.

Katapulting Impact Investments

Despite acknowledging a focus on intentionality during the past year, Katapult also takes the additionality of its investments into account, according to Svegaarden. "We have a broad impact approach, allowing both intentionality and additionality into our portfolio. This makes sense in early stage investments. We are evaluating impact risk as a separate risk in our investment process, as early stage companies can have a risk for pivoting. We can also require mission locks and impact articles to ensure that the intended impact is kept," Svegaarden says.

Katapult invests in 15-20 ocean and climate tech companies each year, while also conducting follow-on investments in the 108 companies it has accelerated since 2015. Investments are conducted through three different strategies mainly focused on European and North American companies: Katapult Accelerator, established in 2016, Katapult Ocean established in 2018, Katapult Climate created in 2020.

"We focus on three main industrial domains - Energy, Harvesting and Transportation - in addition to our supporting domains - Ocean Health and Frontier Technologies," Svegaarden says.

Identifying Impact Investment Opportunities

Katapult's investment focus starts with their theory of change and impact objectives according to Svegaarden. "All investments are tied to these, and this approach directs how our portfolio composition and sizes are constructed," he says. Katapult has three main ways of sourcing new investments, he explains. They receive applications directly from the companies. Katapult can also get referrals from mentors, partners, portfolio companies and investors. Alternatively, a separate team actively scouting for deals can also find interesting opportunities. However, this is only the beginning. "We can track a company for several years before we invest in them. That is not always the case for accelerators," Svegaarden adds.

"Being an early-mover in this space, we have great experience in attracting relevant deal flow, as well as vast insight into trends, solutions and the next investment opportunities.

Being considered as a premier investment fund, and as an accelerator for early stage ocean impact companies, we receive a lot of inquiries. But we also notice that some of the obvious investments we have made have come through referrals. We notice that high quality later-stage companies are also approaching us in their Series A-B stage, which is interesting for our scale and follow-on investment strategy," Svegaarden explains.

"We allow a small part of our portfolio to be invested in more risky cases, but with a huge impact potential. Some investors call such investments moonshots, we are considering them as game changers," Svegaarden continues.

Impact Investing and Monitoring

"We have a long and extensive process when selecting the companies we would like to invest in. Almost the entire organisation is engaged in the process which has several steps and various teams interviewing and evaluating the companies," Svegaarden says.

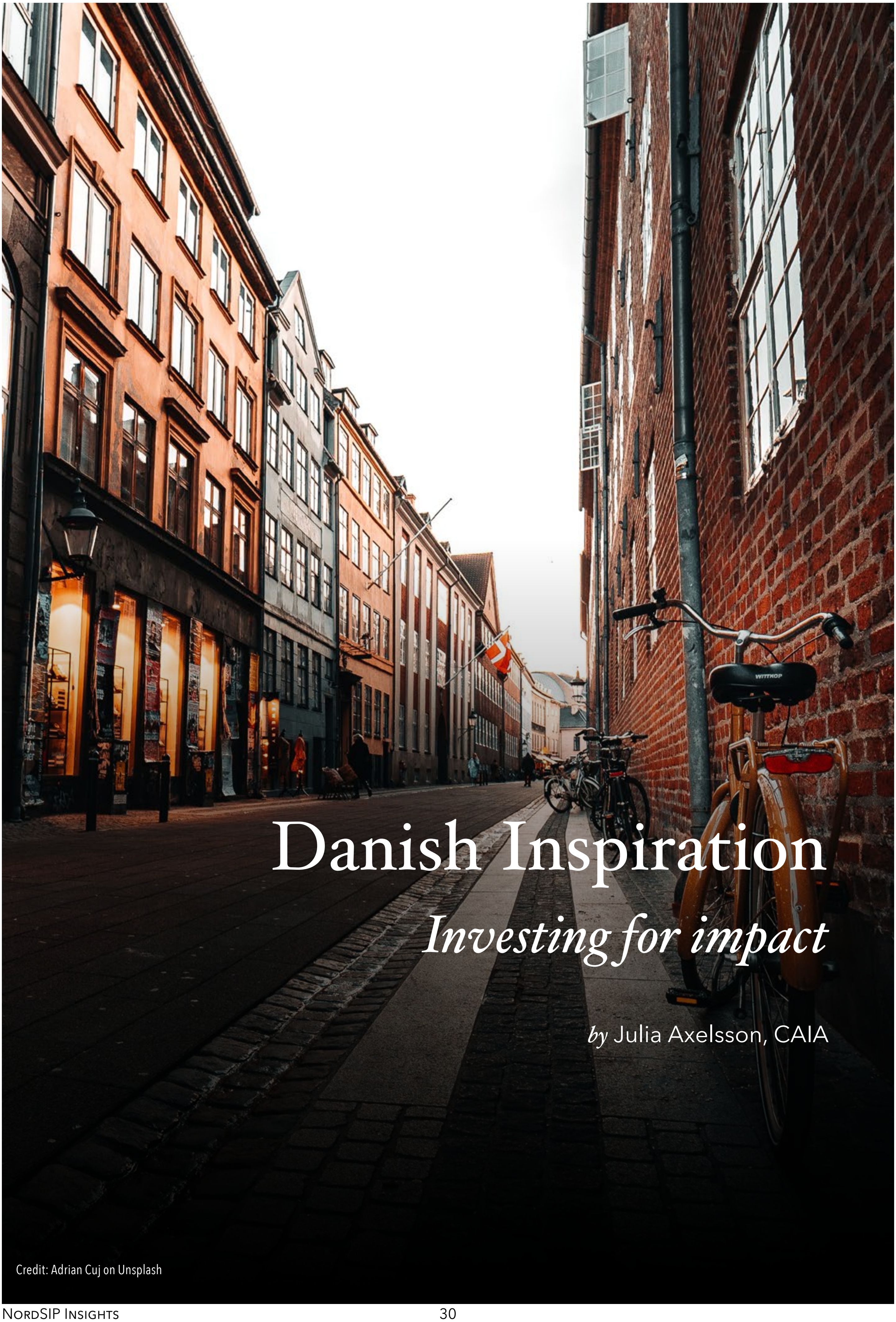
Katapult's investment process follows three main steps. "The first step is screening and initial interviews, due diligence and further interviews with investment teams, reference checks, legal and tech due diligence and investment decisions. Impact is our first screen, and it is incorporated in our investment case," Svegaarden adds.

"Our portfolio companies report their impact, both KPIs and qualitative measures 4 times a year to us. Impact measurements and KPIs are included in the very beginning of the program, and an important topic during the entire program. The companies are not only pitching to VCs and investors, but also separate impact pitches for some of the world's leading impact investors," Svegaarden explains.

Market Trends

According to Svegaarden, the alternative protein and food space presents an interesting opportunity. "We are renowned to be one of the more active investors in the seaweed and algae sectors, and this year we have invested in three new seaweed-companies. Now, we have invested in some of the leading companies in this space. We cover everything from seaweed harvesting on the Faroe Islands, land based seaweed cultivation in the US, growth optimising AI software in Norway, biorefinery in Scotland and end consumer products in the shelves of Whole Foods in the US. We also invest in lab-grown and plant-based seafood - some of them are to be found in restaurants and at Coop, Ica and City Gross in Sweden."

Svegaarden sees another three main trends going forward. "In general, there is a trend to look towards the ocean to explore future energy solutions; carbon removal, offsetting and capturing; and decarbonisation solutions especially within the transportation industry. We are actually seeing growth in all of our main domains, which is a good position to be in in a landscape where the competition is growing," Svegaarden concludes.



Danish Inspiration

Investing for impact

by Julia Axelsson, CAIA

Credit: Adrian Cuj on Unsplash

Head of Impact Investments
The Velux Foundations

Danish engineer and inventor Villum Kann Rasmussen was a man on a mission: to bring daylight, fresh air, and a better environment into people's everyday lives. Among his rich legacy, apart from inventing the VELUX roof window and founding the company VELUX and the company group VKR Holding A/S, was also establishing two philanthropic foundations, VILLUM FONDEN and VELUX FONDEN, collectively known as The Velux Foundations. In 2020 alone, the foundations distributed joint grants of approximately EUR 142 million to scientific, environmental, social, and cultural projects in Denmark and internationally.

The overall target for managing the endowment's assets is, naturally, to ensure the highest possible risk-adjusted yield so that the foundations can allocate as much as possible for philanthropic purposes. That said, the management recognises that this objective can and should be achieved while pursuing responsible investments. Anders Lyngaa Kristoffersen, Head of Impact Investments at The Velux Foundations, is mindful of this dual goal and determined to deliver on both.

The Velux Foundations seek to integrate ESG considerations across the endowment and have also created a dedicated program for green impact investments. "We have developed a set of evaluation criteria to make sure we stay on course both on the financial side and on the impact side," explains Kristoffersen. "On the financial side, we expect our impact investments to deliver a market-rate return comparable to what we see from similar non-impact investments. It is still too early to say if our impact investments will deliver on this, but we think that we are off to a good start. On the impact side, we spend a lot of time understanding if a pipeline opportunity is aligned with our strategy's focus on climate change abatement and increased resource efficiency. All impact investments are rated on four impact parameters: Additionality, Intentionality, Scalability and Measurability. We do this to be able to compare very different investment opportunities and to ensure that we deliver on the impact side," he adds.

"Since 2019, we have targeted a 15% allocation to impact investments, a target that must be reached by 2025."

A School Example of Impact Investing

Given The Velux Foundations' commitment to investing for impact, it is perhaps not surprising that a couple of years ago, they were singled out as a case study still used in Harvard Business School's MBA degree programme. The case, written by Harvard professor Vikram Gandhi, describes the foundations' journey in impact investing from the first considerations, through early experiences, to the current strategy in this area. Students are encouraged to examine a real-world dilemma and select a green venture capital investment from among six candidates under the pressure of time.

For Kristoffersen, decisions like this are simply part of the job. There is undoubtedly a thing or two he could teach the Harvard students about selecting impact investments across a broad range of private funds investing in real sustainable assets, private equity and venture capital that abate climate change and increase resource efficiency.

The Velux Foundations' impact investments are a green sleeve in the total portfolio's growing allocation to alternative investments that also includes traditional investments in real estate and private equity. "Since 2019, we have targeted a 15% allocation to impact investments, a target that must be reached by 2025," says Kristoffersen.

Sourcing Impact Ideas

This ambitious allocation goal leads us to the question of availability. It seems like sourcing ideas for impact investment can be challenging at times. "The market is still rather young," explains Kristoffersen. "Our first impact investment was done in 2013, and we have seen the market grow steadily since then with more products being marketed, new managers entering the space and more proven track record across products. However, a growing size of the market alone does not necessarily mean that we can reach our targets financially and on the impact side, so we put a lot of effort into sourcing new impact investments," he says.

One way to tackle this challenge is through collaboration. In the case of the The Velux Foundations, they have chosen Cambridge Associates as advisors on impact investments. The advisors help the funds both with sourcing new investment opportunities and conducting the arduous due diligence on potential investments.

The Importance of Diversification

The foundations' investments are distributed worldwide. However, with its dynamic, innovative business climate and enterprises in all growth phases, ranging from small-scale start-ups to the world's largest multinational corporations, the US is central to the impact investment portfolio. The primary investment areas in real sustainable assets for the foundations are the generation of renewable energy from solar and wind, and sustainably managed forests in North America, South America, and Australia. A significant proportion of the foundations' impact investments is invested in private green companies and start-ups operating in various sectors such as transport, energy, industry, and agriculture.

Targeting the fast-growing yet limited part of the economy that green assets constitute makes portfolio construction extremely important. "Diversification across sectors, technologies, geographies, and time is essential in order to limit risks and to ensure that we do not miss out on emerging opportunities," says Kristoffersen.

"Our first three impact investments from 2013-2014 were done in sustainable forestry, renewable energy and growth equity for cleantech companies to create a solid, diversified foundation for the new impact portfolio with a focus on real sustainable assets," he explains. "Our first impact strategy from 2016

"Financially, the returns until now have been very satisfying, and on the impact side, the portfolios are delivering interesting qualitative results with a rapid scale-up across several portfolio companies."

continued that thinking by targeting an indicative 40-60% allocation to real sustainable assets, 30-50% to growth equity and 0-20% to venture capital. At the end of 2019, we adopted a slightly revised version of the strategy, which increased the allocation to venture capital based on our positive experiences with this asset class from the first strategy period," he adds.

Venture For Impact

Kristoffersen explains that venture capital is still a new asset class for The Velux Foundations. "With our two initial investments in 2017, we wanted to test the waters and see how the funds and their portfolios developed," he recalls. "Financially, the returns until now have been very satisfying, and on the impact side, the portfolios are delivering interesting qualitative results with a rapid scale-up across several portfolio companies," he says.

Emboldened by the initial success, the foundations have recently done two re-ups in the green venture capital funds G2VP II and Capricorn Technology Impact Fund II. "Both funds have built interesting and diversified portfolios that have delivered good results on the impact side as well as financially," explains Kristoffersen.

The first of the two funds he mentions is managed by G2 Venture Partners, a green venture and growth investing firm focused on emerging technologies driving sustainable transformation across traditional industries such as transport, logistics and manufacturing. Most of G2VP's investments are asset-light and often have an IT component. The second fund, Capricorn Technology Impact Fund, invests in new hardware-based solutions, so-called 'category creators', that aim at mitigating climate change through disruptive solutions.

A common feature of the green ventures in the portfolio is that they are dedicated to developing, marketing, and selling the green technologies of the future. The aim is to achieve profitability and gain access to markets across the globe, thereby maximising the positive impact on the climate through sales of the firm's products and services.

Measuring Impact

"It is still early days on measurement, and we spend a lot of time trying to capture the impact that our investments help generate," reflects Kristoffersen. "We split measurement across quantitative and qualitative impacts. Typically, though not always, impacts from real assets are rather straightforward to measure. The impact from venture capital and growth equity investments, on the other hand, can be more challenging to encapsulate in a single number," he explains. "This is why we also allow for qualitative reporting from our managers. It can be especially helpful when it comes to launching new products or services, overcoming technological barriers, or penetrating new markets," he adds.

"Our impact investments are long-term, and so it will take a few more years before we have proof of the feasibility of delivering on the double bottom line. However, we have great confidence in this type of investment, and we hope that others will find inspiration in our efforts so that more investors will eventually include impact investments in their investment options," concludes Kristoffersen.


Markus Pietikäinen
CIO
Finnfund
Image courtesy of Finnfund

Scaling Impact

Opening Opportunities for Institutional Investors

by Filipe Albuquerque

According to the IFC[1]'s most generous estimates, the global impact investment space remains a small market niche, representing a mere 2% of all global assets under management, equivalent to US$2.281 trillion. However, investor interest in impact investments have grown in parallel with the global demand for sustainable investments.

Finland is no exception to this trend. As the country's development finance institution (DFI), Finnfund has been carrying out sustainable investments in developing countries for over 40 years and is one of the most significant national players in the impact investment space. However, its activities have always been conducted out of its own balance sheet.

However, that changed in the last two years. "To answer the demand for impact investment opportunities from Finland's institutional investor community, Finnfund partnered with the OP Financial Group, to set up the country's first global impact fund: OP Finnfund Global Impact Fund I" Markus Pietikäinen, Finnfund's CIO tells NordSIP.

The First Global Emerging Markets Impact Fund from Finland

"Launched in 2020, OP Finnfund Global Impact Fund I is the first global emerging markets impact fund from Finland, investing in both private equity and private debt. Finnfund acts as an advisor to the fund and originates the deal flow, while OP is a general partner and the distributor of the fund to private investors," Pietikäinen says.

Given its structure and long history in emerging markets, Finnfund was particularly well-placed to participate in the creation of this impact fund. The DFI is owned by the Finnish State (95.7%), Finnvera (4.2%), and the Confederation of Industries (0.1%) and has a track record of funding impact businesses operating in Africa, Asia and Latin America. The organisation makes €200-250 million in annual investments from its own balance sheet. At the end of 2020, it had commitments of €1,070 billion across 53 countries.

"Finnfund has the infrastructure and the expertise to find and conduct these investments. At the same time the fund structure allows Finnfund to attract private sector capital and deploy more financing to support impact investment companies than would have otherwise been the case," Pietikäinen argues.

At the same time, as a cooperative of 180 banks and one of the largest private financial institutions in Finland, OP Financial Group was particularly well-placed to distribute it and was crucial in ensuring the €135 million success of first first closing and second

[1] Investing for impact - The Global Impact Investing Market 2020, IFC

closing of the fund in 2020 and 2021, respectively. Asides from Finnfund, the impact fund attracted investments from Finland's Church Pension Fund, Security Trading Oy, Oy Julius Tallberg AB, the Finnish Industrial Union, the Finnish Municipal Foundation, the Finnish Red Cross and the OP Life Assurance Company Ltd, among others.

The Impact Investment Process

Finnfund expects the projects it invests in to be profitable, socially and environmentally responsible and produce measurable development impact in their target countries. "The investment process starts with an annual selection of some 500 investment cases which are originated by our inhouse origination team and other partners. Finnfund narrows down that investment universe to the best 50 companies," Pietikäinen says.

"The selection focuses on the most sustainable funds from an environmental and governance perspective, the most appealing risk-adjusted opportunities and those companies that are most aligned with our five impact sectors of renewable energy, agriculture, financial institutions, forestry and digital infrastructure and solutions," Pietikäinen continues. "Although we are guided by our own inhouse selection of impact sectors, the fund clearly promotes the achievement of the UN Sustainable Development Goals (SDGs)," Pietikäinen adds.

"The final 25 most appealing opportunities that Finnfund does invest in are selected after the investment team conducts traditional due diligence. Investments must be commercially sound and the fund seeks an internal rate of return (IRR) of approximately 8–12%. While Finnfund will invest also in companies directly from its own balance sheet, some of the investments will be conducted by OP Finnfund Global Impact Fund I," Pietikäinen continues.

Discussing the criteria used to select investments, Pietikäinen argues that no choice is necessary. "Although some investors chose to focus on intentionality while others prefer to focus on additionality, we consider both to be equally important. For us, our intentionality for impact is the base for what we do, but we seek investments that are additional," Pietikäinen says.

"We are not normative in our approach. The way that we look at impact is the right way for ourselves. We are not criticising anyone. Every investor needs to be comfortable with their choices. Investment approach have to be consistent with the goals and capacity of each investor. There is not necessarily a silver bullet. My advice would be that investors must compare the impact that different funds generate to make an informed investment decision," Pietikäinen adds.

Accelerating SME Growth and Women Empowerment

At the start of October, OP Finnfund Global Impact Fund I invested US$10 million in Sathapana Bank, one of the leading commercial banks in Cambodia, offering its customers a wide array of financial services. The Cambodian bank focuses on agricultural sector and women entrepreneurship. Although women have been traditionally able to access microfinancing services but their access to formal banking services, especially loans, has been lower compared to men.

According to Finnfund, Sathapana Bank is particularly well suited to channel the US$10 million impact investment into initiatives that support women empowerment by granting more loans to its existing clients. Nearly half of Sathapana Bank'sloan clients are women, 38% of its employees are women and the number of female leaders has increased in all levels of the bank recently. Moreover, this investment's focus on women's empowerment is done with the purposeful intent of supporting gender equality, in line with SDG 5. Given the share of female clients in Sathapana's loan portfolio, the impact fund's investment is also eligible for the 2X Challenge.

"During the six years of our partnership, we have seen Sathapana developing from a microfinance institution to a commercial bank. Simultaneously, their work towards gender equality and women empowerment has made Sathapana Bank qualified under the 2x Challenge initiative. The ambition to develop their operations and become the leading player in the Cambodian payment ecosystem makes Sathapana an interesting partner for Finnfund also in the future, and we are also glad to have OP Finnfund Global Impact Fund I onboard as a new investor in the company," said Mr. Antti Urvas, Associate Director, Head of Financial Institutions portfolio at Finnfund.

The 2X Challenge is a gender investing initiative seeks to mobilize US$15 billion in commitments to support businesses that provide women in emerging economies with access to leadership opportunities, quality employment, and products and services that enhance their economic participation and inclusion.

Improving Food Security Across Sub-Saharan Africa

Shortly after its investment in Cambodia, OP Finnfund Global Impact Fund I turned its attention to Africa where 40-50 % of all its investments are located. The Finnish impact fund invested US$3 million in Twiga, a Kenyan headquartered business-to-business (B2B) e-commerce food distribution platform. The impact fund investment was conducted in the context of

a total financing package totalling US$50 million commitment made by a group of investors led by Creadev, a French evergreen investment company.

By removing the need for intermediaries that increase the price of food for consumers, Twiga's technology seek to address the lack of affordable access to food in Africa, where people spend up to ten times more of their disposable income on food compared to developed markets. Because it empowers a network of mostly female produce vendors to increase sales and profits, OP Finnfund Global Impact Fund I's investment in Twiga is also eligible for the 2X Challenge gender investing initiative.

"Twiga's mobile-based food supply platform showcases how digital innovations can increase productivity and improve access to products and services", says Finnfund's Investment Manager Johanna Raehalme. "Removing inefficiencies in the value chain creates positive change for both vendors, farmers and customers," Raehalme adds.

Twiga works with both commercial farmers as well as small-holder farmers and employs over 1,000 people. The company has over 100,000 registered customers for its services, delivering over 600 metric tons of product to over 10,000 retailers daily. "We are pleased to contribute to the funding that aims to increase affordable access to food", says Tuomas Virtala, Head of Asset Management at OP Corporate Bank. "It's remarkable that Twiga has managed to quadruple its revenue during the COVID pandemic. We believe it shows how viable their business model is."

Mainstreaming Impact

Going forward, Pietikäinen expects impact investments to become an integral part of institutional investors' portfolios. "As the IFC suggests, the COVID-19 pandemic has increased awareness of climate change and social challenges such as unequal access to healthcare and racial and gender inequality. This increased awareness is echoing through financial markets in the form of increased interest in sustainable investments, not least impact investing," Pietikäinen argues.

"In the Future , impact will go from a niche sector to a mainstream one. It will grow and new themes. Investors' choices will increase beyond developed and frontier markets to include a menu of impact investment options covering different sectors," Pietikäinen explains.

"The two main challenges facing impact investors are the short supply of impact funds as well as the limited awareness about impact funds. However, as data and impact assessment resources continue to evolve and new impact funds prove they provide sound returns, I am confident that impact will be a niche no more," Pietikäinen concludes.

Are Impact Investments at an Inflection Point?

by Filipe Albuquerque

"Currently we have about SEK15 bilion SEK invested in 'impact investments' in accordance with a definition we use internally, involving intention and additionality."

Peter Lööw
Head of Responsible Investment
Alecta

As the pandemic hit financial markets in 2020, the consequences for sustainable investments like the rest of financial markets faced an uncertain future. However, as international efforts gathered speed, sustainable fixed income became an important tool to deal with the crisis. As one of the leading asset owners in Sweden, Alecta was at the forefront of navigating the turbulence of COVID-19, expanding its impact investments beyond green bonds to help social bond initiatives provide positive impact against the pandemic.

"The year was marked by the pandemic. It was a challenge for society as a whole and for Alecta," Magnus Billing, Alecta's CEO, said in the company's 2020 Annual and Sustainability Report. "During the year, we also invested in Sweden's first sovereign green bond, which we have been asking for some time, and in social bonds, for example for companies struggling due to COVID-19," Biling added in the report.

According to Peter Lööw, Head of Responsible Investment at Alecta, it is likely that in shocking the world to the inequalities and fragilities of our global economic system, the pandemic has had a positive long term effect on impact investments.

Impact through Fixed Income

According to Alecta, impact investment is any investment that has a measurable social and environmental impact alongside a financial return. "We assess each investment on its own merits and we have done impact investment across different classes, but we have mainly focused on fixed income and real assets," Lööw says.

"To us the SDGs present a broad framework for impact investments, and most of our impact investments attribute their impact to one or several of the SDGs. We have not pre-defined themes, rather our investments contribute to a wide range of SDG impact, such as health, gender equality, decent working conditions, climate," Lööw adds.

This approach dates back to the early days of Alecta's experience with impact investing. "We did our first so called impact investment in 2018. It is a debt fund for emerging markets built on a partnership between the Dutch DFI FMO and the asset manager NN Investment Partner. We had a few years of good experiences from investing in green bonds, and like in the case with green bonds this investment added different values to our portfolio," Lööw explains.

"Currently we have about SEK15 bilion SEK invested in 'impact investments' in accordance with a definition we use internally, involving intention and additionality. We have another 55 bn SEK in green, social and sustainable bonds that do have a measurable impact but does not meet the strict internal criteria's for being labelled as 'impact'," Lööw continues.

“We would have liked to see more collaborations between niche impact investors or asset managers, with more traditional – but well connected – asset managers, to allow impact investment to grow in scale.”

The Impact Investment Process

What processes does Alecta have in place for monitoring the performance and progress of impact investments?

Discussing the decision-making and monitoring process on its impact investments and their performance, Lööw was keen on empasising the need to ensure that the right motivations are driving impact investments.“Up until now our main focus has been on the pre-investment assessment, what (ESG) processes are in place, the methodology for measuring impact, and assessing the pipeline of projects. One needs to recognise that there is still a deficit of impact investments that are a fit to our portfolio with regard to scale and other investment criteria, hence our approach has focused on encouraging a development of such opportunities,” Lööw argues.

Beyond impact measurement, engagement and partnerships are also at the forefront of Alecta’s approach. “We have engaged and given feedback on the impact reporting of our investment partners, as such reporting is still very much under development. And during the fall, we have started a project to develop a more structured approach to follow up the impact of our ‘impact’ investments. In parallel, we have been engaged in the Nasdaq Sustainable Bond Network, which both is a platform for investors to identify different investment opportunities in sustainable bonds, but also very much an impact reporting initiative,” Lööw says

A Varied Impact Portfolio

In general, Alecta’s impact investments are quite varied according to Lööw. “We have done debt fund aimed at SMEs in emerging markets with a particular focus on clean energy and decent working opportunities, we have done microfinance mainly directed towards women entrepreneurs in emerging markets, a social sovereign bond to finance social infrastructure such as hospitals and schools in an African country. Several of our impact investments have had blended finance features,” Lööw adds.

In August 2019, Alecta was one of the seed investors in the securitisation of US$175 million of the 26 of microfinance and SME-finance institutions’ loans in emerging markets. Although each of these organisations was too small to tap financial markets, pooling the loans into collateralised loan obligation (CLO) created a large enough market to appeal to investors in global capital markets.

“Alecta actively manages approximately US$100 billion, at an extremely low management cost. To meet our high sustainability standards and really make an impact with maintained low costs, these are the kind of partners and product we’re looking for. This type of security allows Alecta to invest capital extremely efficiently,” Billing said on that occasion.

The Swedish pension fund also played a part in global efforts to stem the tide of COVID19. With a SEK 2 billion stake, Alecta was also the single largest investor in a SEK3 billion social bond issued in March 2020 by the International Finance Corporation (IFC), the World Bank agency responsible for supporting private enterprises in developing countries. The bond was as a private placement which aimed to provide financial support to companies that were strongly adversely affected by the spread and turmoil linked to Covid-19.

“Through this investment, we both help to counteract the negative effects of Covid-19 and to create security for companies and their employees. This type of investment in social bonds benefits both communities and our customers in the long term,” says Tony Persson, Head of Fixed Income and Strategy at Alecta on that occasion.

In September 2020, Alecta also invested SEK4.25 billion in Sweden issued its inaugural sovereign green bond, a SEK20 billion security with a ten-year maturity.

Challenges and Solutions

The impact investment space has grown a lot over the last six years, and there seem to be more appetite

in the institutional investment space and increasing in the last few years. However, Lööw warns that there are some important hurdles that we need to overcome.

"We would have liked to see more collaborations between niche impact investors or asset managers, with more traditional – but well connected – asset managers, to allow impact investment to grow in scale," Lööw explains.

"Also, as many of these investments have risk profiles that deviate from what we typically invest in, we would have hoped for a little more help from DFIs and governments to de-risk potential investments. The size of the impact transactions can also be problematic. "There is still too many small investments, which makes the investment process inefficient for large actors like Alecta." Lööw claims.

According to Lööw, the investment community has to start thinking outside the box and embrace a realistic and profitable view of impact investments. "New markets, new investments, new players require internal portfolio managers to step outside their comfort zone and stretch their perspectives," Lööw argues.

"Investors need to let go of the prejudice, which associates impact investments with giving up on returns or reducing their objectives. In reality, there is a broad spectrum of impact opportunities ranging from sub-market return or even charity to market level returns. And if you add the diversification effect, the impact investment space can actually contribute positively to your risk/return profile," Lööw adds.

Post-Pandemic Hope

Discussing the way forward, Lööw strikes an optimistic tone. "We actually hope that pandemic will increase the supply, but also the appetite for impact investments," Lööw says. This hope echoes the view of the IFC, according to which "impact investing has seen a boost in popularity during the COVID-19 pandemic due to increased awareness of climate change and social challenges such as unequal access to healthcare and racial and gender inequality."

Going forward, Lööw will be keeping an eye out on the development and improvement of impact reporting and on new and innovative financing solutions. "There seem to be plenty of opportunities, but many of them are too small. New collaborations between impact oriented investors that can generate a pipeline of projects and more traditional asset managers with established relations with institutional investors, bundling projects to an investment that meet the criteria of critical scale," Lööw concludes.

Mainstreaming Impact Investments

by Filipe Albuquerque

Amit Bouri
CEO
Global Impact Investing Network

Standing at the cutting edge of sustainable asset management, impact investments can appear to be a niche market reserved to the most advanced sustainable investors looking to push the sustainability agenda forwards. According to Amit Bouri, CEO of the Global Impact Investing Network (GIIN), that could not be further from the truth. "More and more, investors are making allocations from their portfolios to impact investments. This is a very exciting time. Impact investments are going mainstream," Bouri says.

The Path to Impact

Growing up in the USA as the son of an immigrant single mother from India, Bouri's own story showcases the transformative positive impact that a supportive social infrastructure can have. "Growing up, we spent a substantial portion of my childhood living on welfare before working our way into the middle class. This aid opened up tremendous educational and professional opportunities," Bouri recounts.

An alumnus of Harvard's Kennedy School of Government, the Kellogg School of Management, l and Bain & Company, his family's struggles serendipitously combined with Bouri's early professional experiences to direct him towards impact investing. "Creating opportunities for others has always been a very important part of the purpose in my life and career," he explains. "At the start of my career I worked for a global health NGO focusing on paediatrics and protecting children from HIV and AIDS, which showed me the meaning that one can derive from working on such an important mission, as well as the challenge of pursuing these projects at scale. I've been professionally interested in understanding what role the private sector and capital markets can have in trying to advance social and environmental progress," Bouri says.

"Subsequently, I worked with the Rockefeller Foundation to develop a strategy for mobilising capital to increase what is now called impact investments, at the time that the term was coined. Our work focused on developing a global industry that would shift capital at scale to address systemic social and environmental issues. This is how I became involved with impact investing and the Global Impact Investing Network (GIIN), which we founded in 2009," Bouri explains.

What is Impact Investing?

The GIIN is a global non-profit organisation dedicated to increasing the scale and effectiveness of impact investing. "We define impact investments as the deployment of capital with the intention of achieving positive and measurable social and environmental impact alongside financial returns. The combination of intentionality and measurement is key. The GIIN is not talking about making an impact by coincidence nor in reducing harm or avoiding projects that are seen as unethical. The

"Our work focuses on 'scale with integrity'. The goal is for the market to move 'capital at scale' to rise to the challenge of meeting the UN SDGs and keep the world on the path to the Paris Agreement's 1.5C scenario."

focus is on investments purposefully playing an active role in driving solutions," Bouri says.

The GIIN's focus on intentionality and contribution is meant to overcome some of the issues often arising from the alternative emphasis on additionality. "We find that the onus should be on what investors aim to achieve. That is why we prioritise intentionality and contribution," Bouri argues. "Additionality is a very important concept, but it's hard for people to understand what that means in the manner that it is conventionally defined. It can mean different things in different contexts," he explains.

"The focus should be on investors actively 'contributing' to the impact of the underlying project. Focusing on 'contributions' allows investors to think about their role in achieving impact through the various sectors and asset classes in their entire portfolio," Bouri continues.

The GIIN Vision
Integrity and Impact at Scale

The GIIN's vision is for impact investments to become the new status quo in the financial industry and an integral part of all investment portfolios. "Our work focuses on 'scale with integrity'. The goal is for the market to move 'capital at scale' to rise to the challenge of meeting the UN SDGs and keep the world on the path to the Paris Agreement's 1.5C scenario," Bouri explains.

"Ultimately, beyond growing impact investments, the GIIN seeks to advance 'impact thinking' so that it is hardwired into the DNA of the investor markets. Investors, whether they are large pension funds, asset managers or private equity firms, should factor social and environmental impact into the way that they make investment decisions. Social and environmental impact should become built into how the industry thinks about concepts such as fiduciary duty, value, risk and performance," Bouri argues.

"The ultimate goal is to move capital at scale to achieve 'impact at scale'. The GIIN is working to help design an economic system that supports a harmonious society and a thriving environment," Bouri adds.

How the GIIN Can Help

The GIIN organises its efforts into three separate work streams designed to feed into its broader vision of increasing the scale and effectiveness of impact investing and shifting the global economic system to "work for people and planet".

"The GIIN cooperates with a diverse network of investors that includes large institutional investors, asset managers, development finance institutions like Swedfund, as well as family offices, philanthropic foundations and boutique firms around the world. We work with 40,000 professionals around the world and our formal membership includes over 350 investment firms across over 50 countries," Bouri says. "Our work is to help the financial industry becoming more effective at deploying capital to high impact projects," Bouri continues.

"The GIIN also provides a tool called IRIS+, which is a system for measuring, managing and optimising impact with integrity. It helps investors translate their impact intentions into real impact results. It is free and accessible and used by over 20,000 people around the world. If an investor wants to invest in a manner that helps advance some specific goal, IRIS+ can guide them to the strategies and metrics available to translate that intention into practice and understand their impact performance. IRIS+ covers sectors and themes such as agriculture, clean energy, financial inclusion, climate change mitigation, biodiversity, gender equity, and racial equity," Bouri explains.

"Last but not least we do a lot of work on research, to keep a finger on the pulse of the impact investment market and to go deeper on specific investment

"My hope is that in the near future, the market will reach a stage where impact investing is common practice. I'd like for it to be business as usual and part of the status quo for all investors to have impact integrated across their entire portfolios."

practices. The GIIN just published a report on how institutional asset owners can use portfolio level goals, such as climate and social targets, to increase the scale and effect of impact investing," Bouri says. "Our 'COMPASS' publication provides a methodology for investors to compare and assess their impact performance. Our working paper series also includes discussions of impact in listed equities, addressing concerns that such investments can play a role in advancing the impact of that company," he adds.

Challenges and Opportunities

Given the large amounts that institutional investors are traditionally interested in deploying, Bouri recognises that there may be impact investment opportunities that are not large enough to catch their attention. However, he is optimistic that the situation is improving. "We have noticed that institutional investors - be it Temasek in Singapore or CDPQ in Canada, or Zurich Insurance out of Switzerland - are allocating capital towards impact investments. This is a crucial time for impact investment," Bouri adds.

"We are seeing mainstream interest for impact investment grow fuelled by a recognition of the need for transformative climate impact, the stark inequalities highlighted and exacerbated by the pandemic, and the struggles to meet the UN SDGs. From the Nordics to Asia and beyond, the world is acknowledging that investments need to fuel positive impact and address social and environmental issues, while sustaining financial performance in the long term."

Discussing the pace of progress, Bouri underlined the need to move faster. "It's quite clear that we need to be moving more capital at a higher pace to rise to the challenges that these issues pose. These are systemic issues that require systemic responses." According to him, governments and investors have a leading role to play in pushing the impact agenda.

"Governments write the rules of the game and can lead by steering capital towards positive development and high impact opportunities domestically and internationally. In the financial sector, pension funds, insurance companies and other long term institutional investors need to acknowledge that managing environmental and social risks is aligned with their interests. However, their investments also have a role to play in shaping the course of how these issues will unfold over the coming years," Bouri says.

Looking Ahead

Going forward, the GIIN will continue to produce meaningful research and promote impact mainstreaming. "In the coming months the GIIN will publish a report highlighting best practices around how asset owners are working with asset managers to help implement their impact strategies. The research focuses on target setting and how investors are increasing their social and environmental commitments and developing the systems and tools necessary to implement them at a portfolio level," Bouri adds.

"In October of 2022, we will also host the GIIN Investor Forum, which is the largest such global investor gathering that will bring together the impact investment community, with participants from over 60 countries. My hope is that in the near future, the market will reach a stage where impact investing is common practice. I'd like for it to be business as usual and part of the status quo for all investors to have impact integrated across their entire portfolios," Bouri concludes.

about our partners

abrdn is dedicated to helping investors around the world reach their desired investment goals and broaden their financial horizons. We provide investment products and solutions to our clients across the world. Our breadth of investment capabilities is extensive and among the most innovative within the market. We're a truly global asset manager, with offices in over 30 locations and investment centres in more than 20 locations.

We invest to help our clients create more. More opportunity. More potential. More impact.

We offer investment expertise across all key asset classes, regions and markets so that our clients can capture investment potential wherever it arises. By combining market and economic insight with technology and diverse perspectives, we look for optimal ways to help investors navigate the future and reach their financial goals. And by putting environmental, social and governance (ESG) considerations at the heart of our process, we seek to find the most sustainable investment opportunities globally. By ensuring the assets we invest in are ready for and resilient to a world in transition, we act as guardians of our clients' assets.

We operate in over 30 locations worldwide*, managing €554bn in assets for our clients*, across 80 countries*, and focusing on fundamental research.

*All data facts and figures as at 30 June 2021

NN Investment Partners (NN IP) is a Dutch asset manager active in 37 nations and manages €300 bln AuM. As a responsible investor, NN IP aims to improve clients' returns by looking beyond financial performance. Responsible investing and putting capital to work is integral to NN IP's investment strategies and approach. NN IP allocates all of its investments in a responsible manner, contributing to a more sustainable world. ESG criteria are integrated in 74% of NN IP's AuM, the goal is to increase this to 80% by 2023. In 2020, the UN PRI awarded the NN IP a rating of A+ for its responsible investing and ESG integration approach.

At NN IP over 40 different nationalities make up the workforce, underlining the belief cognitive diversity leads to smarter teams and better decision-making. NN IP cares about what matters most to stakeholders. Putting resources to use for the wellbeing of customers, the advancement of communities, the preservation of the planet, and for a stable, inclusive, and sustainable economy is of utmost importance.

Founded in 1937 during the Great Depression, T. Rowe Price is built on the enduring philosophy of our founder – meeting clients' individual needs. For over 80 years and through changing investment and economic environments, the core principles that guide our business have remained the same.

Research informs our decision making and guides our culture of collaboration and diverse thinking.

Our global research platform is the engine behind our portfolios. We have 386* specialist equity and fixed income research analysts based in 11 offices around the world, collaborating through joint analyst meetings and regularly sharing their research across asset classes and regions.

Our team provides a 360-degree view on all investments, delivering insights and best ideas to our portfolio managers. Going beyond the numbers to keep our investors on the right side of change.

* as of 30 September 2021

WHEB Asset Management is a specialist boutique focused entirely on sustainable and positive impact investing. Our mission is "To advance sustainability and create prosperity through positive impact investments".

The global economy is shifting to a lower carbon and more sustainable basis. WHEB's investment strategy is to invest in businesses that enable - and benefit from - this shift. Therefore, WHEB only invests in companies whose products and services have a positive impact on the environment and society, businesses which are solving sustainability challenges.

WHEB is owned and managed by some of the most experienced practitioners of sustainable investment in the sector. WHEB is focussed on a single investment strategy that is offered through different fund vehicles. We are a Certified B Corporation, meaning we are committed to all our stakeholders. It's written in our constitution.

We continue to break new ground to embed impact within our investment process. Many new competitors are rushing into this space, but it isn't simple. It is hard to do and requires a depth of understanding. We bring 20 years of experience in impact investing. Our strategy has been challenged and has evolved through two decades of market conditions. We have learned and improved consistently through our experiences.

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