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A time for introspection – considering the impact of your own business

By A. Paris

Institutional asset managers are on a journey to improve the impact their own business has on the world. As investor demands related to the impact of their investments increases, managers focused on providing robust impact information to clients are themselves becoming more introspective and making efforts to strengthen their own operations in terms of these factors as well.

In a world where seven out of ten institutional investors would refuse a private equity or co-investment opportunity on ESG grounds, according to a report by PwC, asset managers are increasingly under scrutiny. The growing demands from impact investors mean companies are being driven to "identify new business models to ensure a more positive impact on key environmental and social conditions and set themselves ambitious financial and social targets" say Marc Pfitzer, Mark Kramer, Helge Mahne of consultancy FSG.

Kurt B. Harrison, Co-head of the Sustainability Practice at Russell Reynolds Associates outlines: "ESG is forcing a fundamental rethink in corporate strategy. ESG will eventually have the same effect as prior 'transformations' which resulted in financial services firms reinventing themselves as 'tech companies' and later measuring and reporting how diverse and inclusive their work environments had become."

Asset managers are responding to this not only by building parameters and frameworks for the way they invest, but also making changes to the way their business operates on a more macro level.

Conscious efforts

"We're very conscious of the fact that as responsible investors, we are telling companies they should disclose their own energy usage, should avoid business travel where possible and reduce their impact on the environment. In

view of that, we can't be hypocritical and not practice what we preach," points out Eoin Fahy, Head of Responsible Investing, KBI Global Investors.

Across the industry, there has been much focus on embedding ESG and positive impact practices within investment strategies. However, as yet, less has been said about how asset management firms themselves stack up against the high criteria they demand of their portfolio companies.

Stephanie Mooij Senior Engagement Associate at Aegon Asset Management explains how the firm has been making efforts to improve itself in ESG terms. Discussing how Aegon is faring overall, she says: "We're doing well but we still have some way to go – it's a journey and no company is perfect. We've done well in identifying where we need to improve and we're working on those areas. It's also rewarding to see this improvement recognised by external organisations, such as the UNPRI where we scored in the top 29% of asset manager signatories last year."

Climate change has been the topic on everyone's lips – always ticking away in the background, having been brought to the global stage by activists like Greta Thunberg. Although as investors, asset managers can contribute to making improvements, one does not immediately consider these companies in terms of their own impact in this regard.

Nomura is one firm which has received accolades for its efforts in tackling climate change. In December 2020, the firm was listed on the CDP 2020 Climate Change A List. The is a list compiled by the international not-for-profit organisation which encourages corporate disclosure on environmental initiatives. "Nomura is actively engaged in ESG and SDG activities as part of its efforts to 'Drive Sustainability.' Nomura's selection to the CDP's A List recognises such initiatives and the firm's proactive approach to information disclosure," the firm said in the announcement.

Fahy at KBI also highlights the firm's efforts in relation to climate change: "We have clients all over the world and, when not in a pandemic, we spend a lot of time in the air. To mitigate this, we run a programme to offset carbon emissions and for the last two years successfully offset all our carbon emissions from business travel. We did this by planting a woodland forest of native species in Ireland."

Although other large global managers like Nordea, Legal and General Investment Management, BNP Paribas Asset Management, Aviva Investors and Robeco have been leading the charge when it comes to climate change discourse, there is still a long way to go.

A study by ShareAction found that although 61 percent of the world's largest 75 asset managers reference climate change in their investment policies, only 21 percent have a dedicated policy. Alarmingly, 39 percent of surveyed managers, with over USD22 trillion in assets under management, still make no reference of climate change in their public investment policies.



"ESG is forcing a fundamental rethink in corporate strategy."

Kurt B. Harrison, Russell Reynolds Associates

Forging ahead

Regulation is often considered to be a burden and in truth, is not regularly welcomed with open arms. In the case of ESG, sustainability and impact however, many industry players agree regulation is critical.

Emanuele Fanelli, Head of ESG – Fixed Income & Partnership, Aegon Asset Management, comments: "The new regulation in Europe is going to be a game changer. It promises to be a massive lever of change if used correctly. This is important since till now, the majority of the asset manager push on ESG has been driven by clients and external stakeholders."

In June 2020, the EU published its sustainable finance taxonomy regulation, which came into force in July of the same year. This was done in efforts to meet the EU's climate and energy targets for 2030 and reach the objectives of the European Green Deal. The new regulation establishes the framework for the EU taxonomy by setting out four overarching conditions that an economic activity has to meet in order to qualify as environmentally sustainable. The regulation also sets out six environmental objectives.

This new piece of legislation will be the first step towards obtaining a basic standard of engagement and reporting on impact. Fahy at KBI says: "The lack of standards when it comes to impact reporting may be solved to a degree by this EU regulation. There is a long way to go in order to get there however. Even when all six objectives are developed and brought into force there are still many elements of impact which won't be captured by the taxonomy." ■

Impact beyond the numbers

Interview with Emanuele Fanelli & Stephanie Mooij

In order to truly get under the skin of impact investing, asset managers cannot simply rely on third party ratings or even regulatory disclosures. Impact investment strategies, which aim to generate competitive financial returns alongside positive environmental or social impact, require combining quantitative data with in-depth qualitative analysis. Although third-party ESG or sustainability data and company disclosures can provide a helpful starting point, it is necessary for asset managers to conduct their own proprietary assessment to truly understand the activities driving a company's business and the impact said activities have on society and the environment.

"There is a great deal of scepticism towards ESG funds which are labelled as "impact" investments. And rightfully so as they run the risk of simply being a tick-the-box exercise. It can be challenging to capture the real picture of impact and sustainability given data inconsistency, incomparability, opaqueness and lack of disclosure by companies. Moreover, reported data is often not verified. For this reason, we are wary of overly positive impact reports. A pleasant report by a company is not enough to show that their commitment to sustainability is real," stresses Emanuele Fanelli, senior Responsible Investment Manager at Aegon Asset Management.

In addition, when looking to quantify the impact a company is having, solely focusing on revenues aligned with environmental or social causes is not enough. Although a revenue alignment assessment can be helpful, impact investing requires going beyond the headline numbers. Stephanie Mooij senior engagement associate at Aegon Asset Management explains: "Sometimes the revenues give a completely distorted picture of what's really going on within a company. For example, Comcast, a US internet supplier, provides lower income families with internet at cost. They make no profit from this. So, although the revenue from this activity is very low, the positive social impact potential is very high. This illustrates why has asset managers must conduct a comprehensive assessment that includes quantitative and qualitative aspects when evaluating a company's impact potential."



Revenues and third-party ratings are the first port of call when analysing companies targeted for potential investment. Within the investing framework for the ABN AMRO Aegon Global Equity Impact Fund , Fanelli, Mooij and their colleagues consider the products and services a company produces or makes. Next, they categorise them as positive, neutral or detrimental in terms of impact. This helps produce a net impact figure.

However, Mooij emphasises the importance of qualitative analysis being done over and above these calculations, to truly capture the impact a company's activity is having: "If we only look at the data, we face certain obstacles which we are trying to overcome by providing comprehensive qualitative impact analysis. We combine several different sources of information in a very detailed fundamental exercise to draw up a robust impact analysis of the company in question."

In addition to external data, company reports and revenue alignment, Aegon AM references the UN Sustainable Development Goals (SDGs) and tries to align its selection to them where possible and realistic. This approach is applied to their equity impact and sustainability-themed investment frameworks. However, the firm is aware of the challenges inherent in this practice and the SDGs as considered to be guiding principles more than a strict investment code.

Fanelli outlines: "When you look at the SDGs in detail, their focus is on emerging and less developed markets, communities and economies; aiming to

support parts of society which have been forgotten and underserved. We try to transpose that vision into investing in large, listed companies which in some cases are trying to offer services to these parts of society. However, this is not always possible as those activities can, at times, not be profitable. We also aim to invest in companies which will capitalise on the transition to a low carbon and more inclusive economy."

When making investment decisions for the ABN AMRO Aegon Global Equity Impact Fund, the team's findings are then challenged by the impact fund committee, which includes an independent member, in line with best-practice. The meetings of this committee are where the analysis can be contested and biases can be challenged, thus strengthening the investment and impact thesis.

A progressive and pragmatic approach

This rigorous process is evidence of Aegon's commitment to responsible investing. The firm's comprehensive three-pillar approach includes full integration of ESG across its investment platform, leading active ownership activities and developing focused responsible investment solutions. The firm's flagship strategies in this space are the Global Sustainable Equity Fund and the ABN AMRO Aegon Global Equity Impact fund which form part of Aegon's ESG/ Impact portfolio With the support of a 14-person strong Responsible Investment, the firm has developed many proprietary frameworks to assess ESG factors and sustainability criteria, which can aid in the development of focused responsible investment solutions such as exclusionary, best-in-class ESG, sustainability-themed and impact investments.

The firm provides mandatory ESG training to analysts and has done so since 2013. "It's about instituting a culture shift and educating analysts to expand their horizons and start including ESG in their analysis of their own accord.

"ESG is as important as other fundamental factors when evaluating investments. Ignoring ESG factors can prove to be very expensive as these risks can erode company fundamentals and affect valuations if they become unmanageable. For example, if a company has a toxic culture, then that can be very costly. Treating employees badly typically means they are less productive, or they leave and you need to re-hire and re-train new staff," notes Mooij.

And education is also something Aegon is also doing with clients. Fanelli comments: "Sometimes clients will ask us to go further and to be more impactful. They want to see the real-world impact and change in dynamics. As an asset manager with deep responsible investing experience, our role is to educate clients on the realities of impact investing, including the constraints. In our opinion, the key to impact investing is using a pragmatic approach and developing realistic expectations with clients."

Impact investing within public equities

Although impact investing has been growing in popularity, investors have traditionally been limited to private markets with few public equity or fixed income options available in the marketplace. This is now changing as firms like Aegon AM are developing progressive solutions to bring impact investing to a wider investor base.

Recently the firm recently developed a Global Impact Equity product in collaboration with ABN AMRO. The product relies on a comprehensive framework that combines qualitative and quantitative information, including external and internal insights, to identify and engage with companies that provide measurable positive impact, an attractive risk-reward profile and attractive financial return potential.

This progressive solution hit a sweet spot, according to Mooij, as qualified investors can pursue positive impact alongside a financial return. She goes on to underscore the importance of having an active approach to impact investing: "There is no fundamental research done in passive funds. They are based on third-party ratings which are in turn built on how well companies fill out questionnaires. Investors are coming to realise the importance of having that fundamental research and active management piece of the puzzle." ■

Emanuele Fanelli
Senior Responsible Investment Manager

Emanuele joined Aegon Asset Management in 2016, working with portfolio managers and credit analysts in the different Aegon Asset Management geographies to integrate ESG in investment decision making and ESG products development. He is currently chairing the Aegon Asset Management Fixed Income Sustainable Investment Committee, he is a member of the Aegon NV Climate Change Working Group, ABN AMRO Aegon Impact Equity Fund Committee, and a member of the Investment Leaders Group Working Group of the Cambridge Institute for Sustainability Leadership. Before his current role, Emanuele was a Senior Vice President at CDP (Carbon Disclosure Project) supporting institutional investors in factoring environmental externalities in their investment analysis, engagement activities and ESG products development. Additionally, Emanuele worked at Bloomberg as an Equity Specialist and at KPMG as Environmental Consultant. Emanuele studied international business and finance at Bocconi University, Norwegian School of Economics and ITAM and he has a MSc in General Management and a CEMS MiM in International Management.

Stephanie Mooij
Senior Engagement Specialist

Stephanie Mooij, PhD joined Aegon AM in 2019. She is a Senior Engagement Associate in the Responsible Investment team, and joined Aegon AM after finishing her PhD in Responsible Investment at Oxford University. She researched the ESG rating and ranking industry and the obstacles to responsible investment in the investment chain in the United Kingdom, the Netherlands and Germany. Prior to her PhD, Stephanie was an Equity Analyst at equity manager Ownership Capital. Stephanie holds an MSc in Finance and Investments, honours and cum laude, from Erasmus University Rotterdam and a PhD in Responsible Investment from Oxford University.



Developing alternative investments globally, implementing them sustainably

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Quantifying impact

Interview with Eoin Fahy

Detailing the impact of the revenues generated by every single portfolio company is intricate and labour intensive. However, this process supports a long-term investment horizon, promotes intimate company knowledge on behalf of portfolio managers and also encourages greater engagement with companies.

When investing in listed equities, quantifying the impact of the holdings can be a challenge, given the disparity between company activity. Some companies have an obvious positive or negative impact while it may be more difficult to tease out the true effect of some other activities. Making sense of this information is rising in importance among asset managers as investors are holding them to account.

Eoin Fahy, Head of Responsible Investing at KBI Global Investors, comments: "We developed our methodology to measure impact on the back of client demand. They wanted to quantify the good their investments are doing. Essentially, they wanted numbers to take to their stakeholders and tell them, quantitatively speaking, the impact their investments are having. We were waiting to see whether the industry was going to build a common framework but when that didn't happen, we came up with our own approach."

KBIGI's approach to measuring impact is simple but requires a lot of work. The firm takes the revenues of every single company it invests in, within its impact strategies, and splits the revenues into different business activities. They then decide whether each one is contributing positively or negatively to the achievement of the relevant UN Sustainable Development Goal (SDG).

"After carrying out this exercise for the 50-60 stocks in each of the natural resource equity portfolios, we found out that in excess of 70% of the revenues generated by these companies were contributing positively to the SDGs," Fahy outlines.

For example, within KBIGI's Global Resource Solutions strategy, which is a blend of sustainable agri-business, clean energy and water investments, 19.3% of the revenues are aligned with SDG 7 which aims to "ensure access to affordable, reliable, sustainable and modern energy for all". Fahy notes that there is a certain degree of subjectivity so that the exact number may vary slightly depending on what assumptions are made, but the figure is a close reflection of what is happening within those companies.

He says that 90 percent of the 160 business activities within KBIGI's natural resource equity portfolios are straightforward to categorise in terms of negative or positive contribution to an SDG. "The debates around the other five to 10 percent can get quite heated, but we need to

always remember that the majority of business activities are intuitively easily classified," Fahy remarks.

However, some difficulty remains in performing such analysis. The primary challenge is that most companies don't typically publish data in ways which are amenable to this exercise: "We typically have to do a bit of digging in company accounts and often need to speak to the company to get a breakdown of the revenues in ways that are useful to us. We also need to know the companies pretty well to do this effectively," says Fahy.

It is imperative that the portfolios are kept small to ensure this scrutiny is carried out meticulously. Had the strategies been investing in 200 or 300 stocks, this would be a much more difficult job and the portfolio managers might not know the companies as well as they do.

Having a smaller number of names in a strategy impacts this intimacy between the portfolio managers and the companies. Fahy elaborates: "Doing this work helps us get to know the companies very well; more than we do already. Digging into their accounts, talking to management and asking questions throws up opportunities for engagement and debate with companies. We find ourselves in the position to request that companies to do things differently."

Opportunity for engagement

The increased engagement can help or hinder a company's position in the KBIGI portfolio. Fahy details: "There are circumstances in which companies give lip service answers which we don't believe. In those cases, we either divest or significantly lower our shareholding. We might also look at proxy voting and expressing our views through shareholder resolutions.

"On the other hand, if we're impressed with the way a company is tackling an issue, we can also increase our holding...so it works in both ways."

Fahy observes how the KBIGI investment committee is thinking more about the fuel sources companies use, as opposed to simply focusing on what they produce. He talks of a particular case related to a polysilicon manufacturer producer in China (polysilicon is a key component for solar panels), where much of the electricity supply is coal-based. Fahy describes how the team was in talks with this company to encourage them to develop a cleaner energy source for their manufacturing. Following those discussions, this solar panel producer is now in process of putting that plan for cleaner energy in place.

Another instance of company engagement includes discussions about packaging with a company producing sandwiches. On the whole, the name would have been fairly neutral, however had it been using plastic packaging, it would have to be classified as considerably negative in terms of impact. Talks with the company found it was replacing all its plastic packaging with more environmentally friendly materials, thus mitigating the potential negative environmental impact.

Fahy explains the benefits of having a proprietary methodology for measuring impact: "The way we analyse our investments and quantify the impact and alignment with the SDGs is very transparent. It also puts us in the advantageous position of being able to talk to the investors in our strategies and tell them in granular detail the extent to which their holdings are aligned with every one of the SDGs – whether positively or negatively."

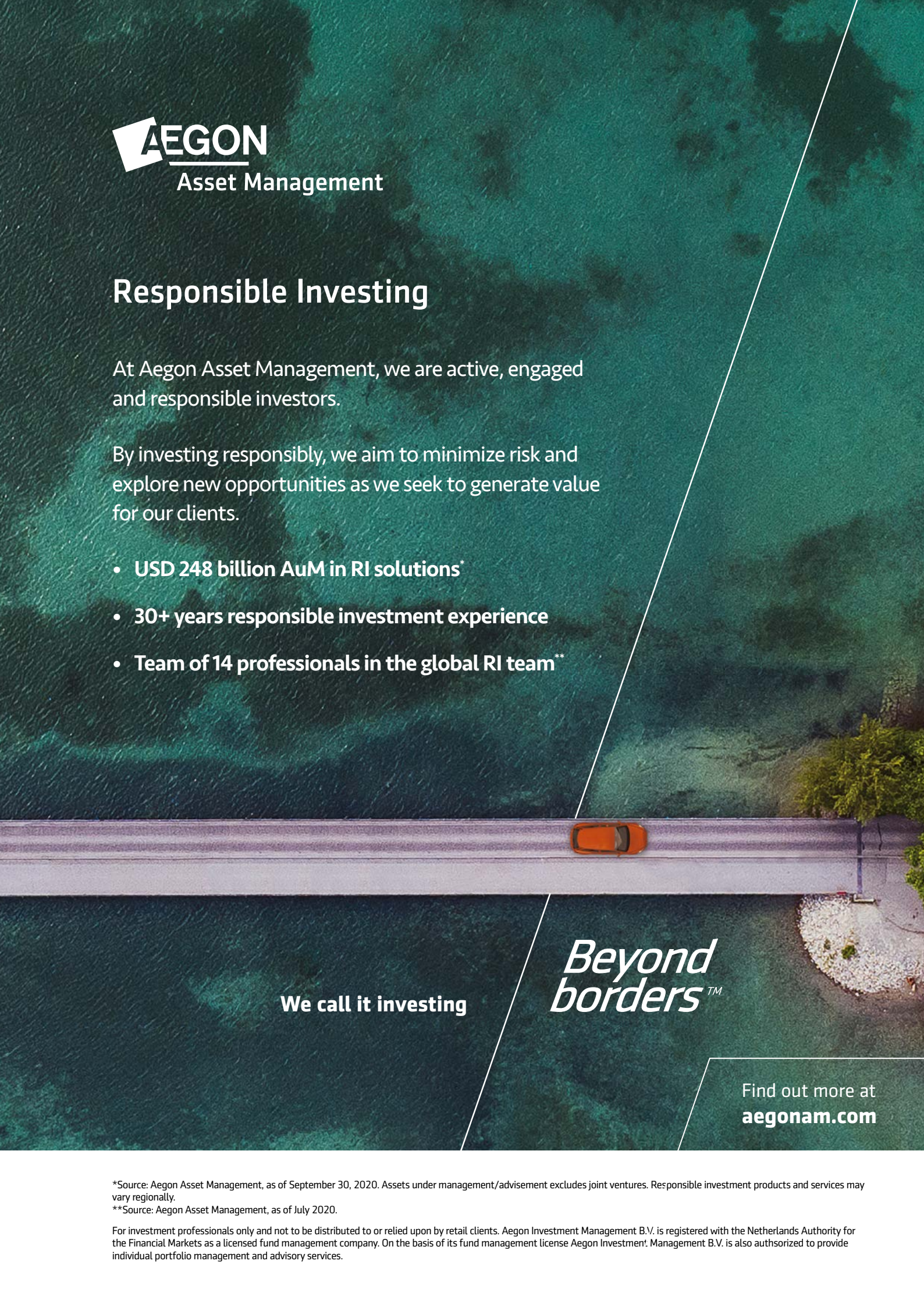
The firm has been active in the ESG space as far back as 2000. At the time, it launched thematic ESG funds, long before the trend hit the financial services mainstream. Fahy stresses: "the ESG performance of the companies we invest in is absolutely critical to our investment decisions. Companies that do poorly in terms of ESG performance are much less likely to be in our portfolios and if they are included, we will hold a much smaller position in them compared to the companies that do well." ■

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Eoin Fahy BA, ASIAI
Head of Responsible Investing, Chief Economist

Eoin joined the Research Department of the firm as an investment analyst on fixed interest markets in 1988, going on to become Chief Economist in 1990. Since 2014, he has held the position of Head of Responsible Investing, overseeing the firm's approach to responsible investing and sustainability which achieved the maximum possible rating of A+ in every module, in the PRI's annual assessment of the firm's Responsible Investing activities. He is a founding member of SIF Ireland's steering committee, a member of CDP Ireland's steering committee, and a member of the PRI's Macroeconomic Risks working group. He represents the firms in its interactions with various international sustainability and Responsible Investing organisations such as the PRI, CDP, the CERES Investor Network and the Institutional Investors Group on Climate Change.



*Source: Aegon Asset Management, as of September 30, 2020. Assets under management/advisement excludes joint ventures. Responsible investment products and services may vary regionally.
**Source: Aegon Asset Management, as of July 2020.

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The growing role of public companies

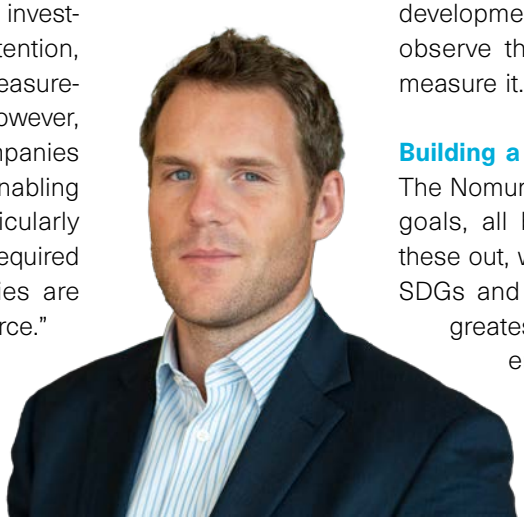
Interview with Alex Rowe

Public companies have a significant role to play in achieving the UN Sustainable Development Goals (UN SDGs). There is a growing realisation that their enormous firepower and resources will be a critical driving force to reaching many of the goals, boosted by investment and engagement by asset management firms and large institutional investors.

The current situation has proven the impact public companies can have. After all, the way out of the pandemic has been set out by the public companies which developed the vaccines – this is evidence of the significant impact and influence these organisations have on society. "Governments of course have played a very important role but it was the research and development capabilities of firms like Pfizer and Moderna which are leading us out of the pandemic," notes Alex Rowe, manager of the Nomura Global Sustainable Equity Fund. He explains how the same is true of climate change and other similar goals: "To a great extent it is not about money or technology, what is needed is the willingness and impetus to work together to help reach these objectives."

Rowe says the role of large companies, particularly as standalone direct impact investments, has received relatively little attention, in part due to difficulties with impact measurement and attribution: "It is clear to us, however, that for certain SDG targets, large companies are one of, if not the most important enabling stakeholders for SDG outcomes particularly given the funding and resource gaps required to meet them. Large public companies are often the primary source of such resource."

"As institutional investors, we have the collective ability to direct companies to support SDG outcomes and even small changes can have a huge influence in both dollar and impact terms. As the asset managers who ultimately own these public companies on behalf of our clients, we have the responsibility to engage them directly on issues that matter." Rowe believes increasing awareness of the impact these companies have has been accelerated by the pandemic.



From his end as a fund manager, Rowe puts pressure on companies to produce meaningful impact data. Further, Nomura has developed a framework for reporting on impact which is completely transparent. "We expect the companies we invest in to be accountable and therefore, we ourselves have to be 100% accountable as well," Rowe highlights.

The team reports every single position it holds in the Global Sustainable Equity fund, the impact data that is being tracked by each holding and which SDG it's aligned with. One of the reasons Nomura chose to do this is to articulate clearly to clients the impact the fund's investments are having. Rowe summarises: "We spent a lot of time building a framework around this. Helping clients understand the impact of public companies is never going to be easy. It is very different to a direct loan to a small community in an emerging economy to help directly support infrastructure development for which one can more easily observe the direct impact and more easily measure it."

Building a framework

The Nomura framework consists of six impact goals, all based on the UN SDGs. "To set these out, we spent a lot of time reviewing the SDGs and outlined where we can have the greatest impact through investment and engagement. Two of these goals are mitigating climate change – aligned with SDG targets 7.2 and 7.3 – and eliminate communicable disease SDG target 3.3."

The process of setting this up begins by clearly defining impact goals which are aligned with SDG targets and establishing Key Performance Indicators (KPIs) for each goal. For example, the target of eliminating communicable disease is tracked by monitoring KPIs such as the global number of deaths from AIDS, Malaria and Tuberculosis.

Next, Rowe and his team identify investee companies to support these goals and establish Company Performance Indicators (CPIs). In the case of eliminating communicable diseases, this might include pharmaceutical companies which have a very strong presence in either vaccines or the treatment of diseases such as HIV. The team then identify and track metrics such as the number of low income patients that are being reached with treatment through 'Access' strategies, which might include for example donating patents to patent pools such that drugs can be manufactured in emerging economies by generic manufacturers at far lower prices.

Nomura then tracks both CPIs and KPIs, engages with companies to enhance the impact of specific companies and where necessary changes its investments to ensure maximum overall impact on SDG outcomes.

"Our engagement activity with the company is often focussed on ensuring accurate communication of the impact the company is having and ensuring that access strategies are prioritised. We engage both directly and collaboratively to maximise the impact of our activity," Rowe remarks.

The final step involves reporting all activity and outcomes to the Nomura stakeholders to ensure both the firm and the investee companies are held accountable.

Companies also need to support this process by prioritising and reporting impact data adequately. "These requests are more frequently becoming part of our discussions with target companies – it is vital to focus on having relevant impact reporting. Emissions data, is important to have but for certain businesses it should not necessarily be the priority with regards to seeking to articulate the main impacts the company is having as a result of its existence. For example, a small company operating a platform which enables millions of people to have access to basic financial services and have a better quality of life, that impact is far more significant than perhaps very negligible emissions and the 'pressures' of vast data and policy requirements to perform well in external ESG ratings should not take prevent that," Rowe explains.



Nomura has successfully aligned its investments with the SDGs, despite the challenges inherent in the exercise. Rowe explains: "The SDGs were established primarily with governments in mind and need careful interpretation if they are to be adapted for use by investors. Many are clearly uninvestable, particularly within public equities. However, our responsible investment philosophy offers a new perspective on the practicalities of impact investing within public equity and why such investing can be aligned to many of the SDGs."

He emphasises the importance of keeping the overarching objective of the SDGs in mind when investing – which is to ultimately support those at the bottom of the pyramid in a sustainable manner. "Anyone investing in European or US infrastructure and claiming to be investing in the SDGs is missing the point. So, it's vital to keep a sharp focus on that when setting out investments," Rowe stresses. ■

Alex Rowe, CFA
Lead Portfolio Manager, Global Sustainable Equity Fund

Alex Rowe has been with Nomura Asset Management UK Ltd since 2014. He has over 8 years of experience as a professional equity investor and has specialised in sustainable and responsible investment since early 2016. He holds a Masters of Chemistry (University of Oxford, First Class), and is a CFA Charterholder. Alex is an alumni of the Oxford University Said Business School Impact Investing executive programme.

The path to achieving the UN Sustainable Development Goals

The Sustainable Development Goals (SDGs) have gained increasing attention in the last couple of years – at long last, one could add, considering the 193 member states of the United Nations approved the collection of 17 global goals as far back as September 2015. The SDGs address global challenges, including poverty, hunger, health, education, gender equality and climate change. Estimates of required investments to achieve the goals by 2030 range from USD 5 to 7 trillion per year.

Impact investors actively invest with the intention of supporting the goals by delivering positive and measurable outcomes. In addition, more and more mainstream investors have started mapping their investments to the SDGs to help meet the goals through their ESG frameworks. Growing investor interest in aligning their portfolios with the SDGs and the Paris Agreement is a welcome development.

Despite these encouraging signals, the current level of investment by governments, development agencies and others is not nearly enough to meet the ambitious targets. The investment gap in developing countries is estimated by UNCTAD to be approximately USD 2.5 trillion per year. The private sector can play an important role in closing this gap, with one study showing that mobilising only a small percentage of the global assets under management annually would enable us to achieve the SDGs.[1]

Impact investors often use the SDGs to set goals and targets, which need to be measured in order to report on progress. Sophisticated investors understand that each SDG is defined on three levels: the overall goal and its underlying targets and indicators, which are further defined qualitatively and quantitatively. As a result, investors are becoming increasingly concrete in the problems they want to solve and the indicators they use to gauge progress.

The growth of impact investing has been impressive, as assets under management currently total USD 715 billion, according to recent estimates.[2] Nevertheless, it is nowhere near the amount of capital needed to achieve the SDGs.

Recently, LGT Capital Partners conducted a survey asking private equity managers about their approach to the SDGs. We found that an overwhelming majority of 90% believe the SDGs will help the financial industry to address pressing environmental and social challenges. At the moment, just 28% of them integrate the SDGs into their investment activities, but interest is growing, as 34% of them say they are planning to do so in the next two years.

Private equity is arguably the asset class best suited to address the SDGs and deliver impact. For example, many growth capital investors emphasise the importance of "additionality,"or generating social or environmental impact that would not have occurred without the investment. Furthermore, the typical buy-for-control investment model in the asset class means that private equity managers have the greatest scope for mitigating negative impacts and driving positive outcomes. While many other types of investors are largely limited to "buy/no-buy" decisions at the outset, with scope for engagement activities afterwards, private equity managers can directly build the SDGs into their value creation plans.

The main areas of focus within impact investing and the SDGs are those with tangible goals closely related to business activities. For example, it is much easier to invest in goals related healthcare, education or clean energy than it is in "Peace, Justice and Strong Institutions" (SDG 16) or "Partnerships for the Goals" (SDG 17).

Private equity managers have clear preferences for certain SDGs, with "Decent Work and Economic Growth" (Goal 8) and "Good Health and Well-being" (Goal 3) ranking the highest among their priorities. This is followed closely by "Responsible Consumption and Production" (Goal 12) and "Climate Action" (Goal 13).[3]

The global pandemic of 2020 led to a dramatic increase in the awareness of healthcare issues, and it is influencing discussions on other social and environmental issues. The concept of "building back better" has grown out of this increased awareness and is gaining traction among policymakers and thought leaders around the world. Impact investing can play an important role in this. The positive effects of these investments can have a major influence on economies, creating jobs and contributing to more prosperous and resilient societies. ■

1. *UNDP report "Financing the 2030 agenda", January 2018*
2. *2020 Annual Impact Investor Survey of the GIIN*
3. *Findings from LGT Capital Partners' survey ESG and the SDGs: Insights from private equity managers*

A Q&A with Keimpe Keuning

What can you say about the demand for impact investing?

The growth of impact investing comes from the increasing urgency of the environmental and social challenges of our time. Damaged ecosystems and stressed social fabrics in many countries have created a need for new technologies and innovative business models that can provide affordable, effective solutions. The desire to scale impact is another reason why we have seen this space growing both in size and activity level.

How do you define impact investing?

At LGT Capital Partners, we look to the Global Impact Investing Network (GIIN), which defines impact investments as those made with the intention of generating a positive social or environmental impact alongside financial returns. The SDGs provide a concrete and useful framework for both goal setting and progress measurement.

Can you give some examples?

Sectors like healthcare, education and finance can present attractive impact investing opportunities. One example is a healthcare provider with a business model that encourages more accountability in patient care, resulting in better clinical outcomes and lower healthcare costs to the system. The business directly contributes to SDG 3 and more specifically contributes to the target 3.8: "to achieve universal health coverage and access to quality essential health-care services." Another example is an alternative learning software tool that helps students who are at risk of failing in school to succeed in their studies. This reduces school dropout rates, which has many positive socio-economic implications. These outcomes have a direct impact on SDG targets 4.1 and 4.3.

How do you implement impact investments?

We believe that private equity investments are well positioned to drive impact in companies because of its long-term investment horizon and the typical high degree of control over value creation. Private equity investors can make impact investments across many different investment styles, whether direct investments, co-investments, or investing in impact managers.

Measuring impact is very important in this area of investing, what is your approach?

Operationally, we follow the Operating Principles for Impact Management. For outcomes, we focus on the positive impact of companies on the SDGs. This is subsequently measured via predefined and specific key performance indicators (KPIs). When tracked over time, an investor can follow the progress and measure the overall impact. It is important to ensure that this measurement work focuses on real world outcomes and results, rather than simply measuring activity levels.



To better understand the outcome orientation of your impact approach, could you share some examples of these KPIs?

In the example of an education business that improves student performance, we look for the actual increase in graduation rates as an indicator for the impact. When positive, this number clearly confirms the product efficacy. Of course, these numbers also have to be analysed within a specific context. This is why we would also track additional KPIs, like the number of school districts that the business supports or the types of students (in terms of social need) who are using the product. ■

Keimpe Keuning
Executive Director, LGT Capital Partners

Keimpe Keuning is an executive director at LGT Capital Partners where he is responsible for ESG and sustainability in Private Markets including Private Equity. He is a member of the firm's ESG Committee and chairs the Private Markets ESG sub-committee. In his work activities he combines his investment experience with a strong client focus where discussions and solutions often revolve around portfolio insights, transparency and impact.

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**As at June 30, 2020*

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LGT Capital Partners is a leading alternative investment specialist with over USD70 billion in assets under management and more than 550 institutional clients in 41 countries. An international team of over 550 professionals is responsible for managing a wide range of investment programmes focusing on private markets, liquid alternatives and multi-asset class solutions. Since 2003, LGT Capital Partners has been encouraging the integration of ESG in its offering and its promotion in the financial industry. In 2008, the firm was one of the first signatories of the UN PRI, since 2018 LGT Capital Partners further engages with PRI as a member of its Board. Headquartered in Pfaeffikon (SZ), Switzerland, the firm has offices in New York, Dublin, London, Paris, Vaduz, Frankfurt am Main, Dubai, Beijing, Hong Kong, Tokyo and Sydney.

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