



Private Equity Impact Investing

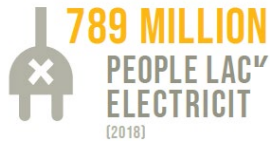
Matthew Moon, Head of Private Equity Research

Sam Pfitzner, Senior Investment analyst

Critical social and environment challenges



EFFORTS NEED SCALING UP ON SUSTAINABLE ENERGY



EVERY DAY, 100 CIVILIANS ARE KILLED IN ARMED CONFLICTS

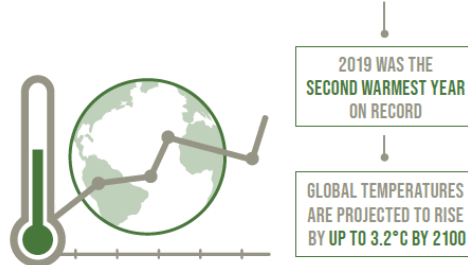


DESPITE PROTECTIONS UNDER INTERNATIONAL LAW

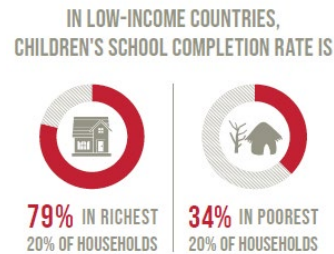
DESPITE PROGRESS, BILLIONS STILL LACK WATER AND SANITATION SERVICES



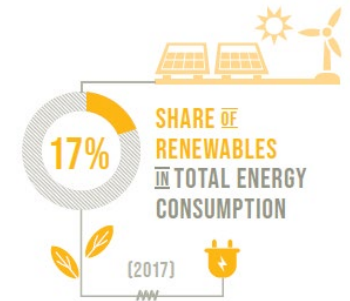
GLOBAL COMMUNITY SHIES AWAY FROM COMMITMENTS REQUIRED TO REVERSE THE CLIMATE CRISIS



INEQUALITIES IN EDUCATION ARE EXACERBATED BY COVID-19



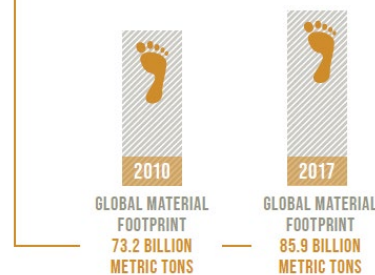
STEPPED-UP EFFORTS IN RENEWABLE ENERGY ARE NEEDED



PROGRESS TOWARDS INCLUSIVE AND EQUITABLE QUALITY EDUCATION WAS TOO SLOW



THE WORLD CONTINUES TO USE NATURAL RESOURCES UNSUSTAINABLY



Source: UN SDGs Report 2020

UN Sustainable Development Goals

<p>1 NO POVERTY</p>	End poverty in all its forms everywhere	<p>7 AFFORDABLE AND CLEAN ENERGY</p>	Ensure access to affordable, reliable, sustainable and modern energy for all	<p>13 CLIMATE ACTION</p>	Take urgent action to combat climate change and its impacts
<p>2 ZERO HUNGER</p>	Achieve food security and improved nutrition, and promote sustainable agriculture	<p>8 DECENT WORK AND ECONOMIC GROWTH</p>	Promote sustained, inclusive and sustainable economic growth, full and productive employment	<p>14 LIFE BELOW WATER</p>	Conserve and sustainably use the oceans, seas and marine resources for development
<p>3 GOOD HEALTH AND WELL-BEING</p>	Ensure healthy lives and promote well-being for all at all ages	<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	Build resilient infrastructure, promote inclusive and sustainable industrialization	<p>15 LIFE ON LAND</p>	Protect, restore and promote sustainable use of terrestrial ecosystems
<p>4 QUALITY EDUCATION</p>	Ensure inclusive and equitable quality education and promote lifelong learning opportunities	<p>10 REDUCED INEQUALITIES</p>	Reduce inequality within and among countries	<p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p>	Promote peaceful and inclusive societies for sustainable development
<p>5 GENDER EQUALITY</p>	Achieve gender equality and empower all women and girls	<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>	Make cities and human settlements inclusive, safe, resilient and sustainable	<p>17 PARTNERSHIPS FOR THE GOALS</p>	Strengthen the means of implementation and revitalize the global partnership
<p>6 CLEAN WATER AND SANITATION</p>	Ensure availability and sustainable management of water for all	<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	Ensure sustainable consumption and production patterns		

- United Nation published 17 Sustainable Development Goals (SDG) in 2015 with an aim to eliminate global social and environmental problems by 2030.
- Each SDG is accompanied by a set of specific targets (total 169 targets) and indicators for measuring progress towards those targets.
- According to UN SDGs report 2020, the pandemic has disrupted implementation towards many of the SDGs and in some cases, reversed many years of progress.
- Clearly, more focus, investment and resources are required to achieve the SDGs by 2030.

What is Impact Investing?

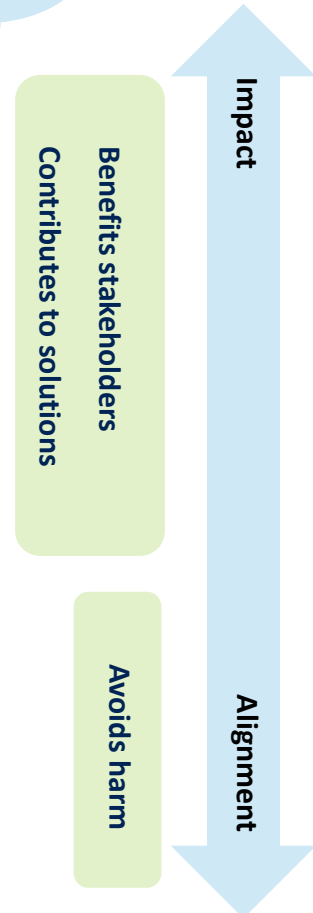


“Impact investments are investments made into companies, organisations and funds with the intention to generate measurable social and environmental impact alongside financial return”
 (Global Impact Investment Network)

- **Intentionality** to generate measurable net positive social or environmental impact.
- **Additionality** of impact outcomes that would not otherwise have been achieved without the investment.
- **Market competitive financial return** – there should be no trade-off in financial returns.

All investments have an impact outcome - positive or negative. It's just that there is no intentionality for impact and no measurement/reporting.

- **Philanthropy**
 - Only impact return targeted.
- **Concessionary**
 - Accept below market rate return for impact return.
- **Impact Investing**
 - Target market competitive return and impact return.
- **Integration (Socially Responsible Investing)**
 - Integration of ESG factors into investment process.
- **Alignment**
 - Negative screening, optimising for desired exposures.



Source: Responsible Investment Association Australasia – Benchmarking Impact 2020

Key market drivers – Impact Investing



Social awareness

Critical social and environmental challenges.

ESG risks and opportunities

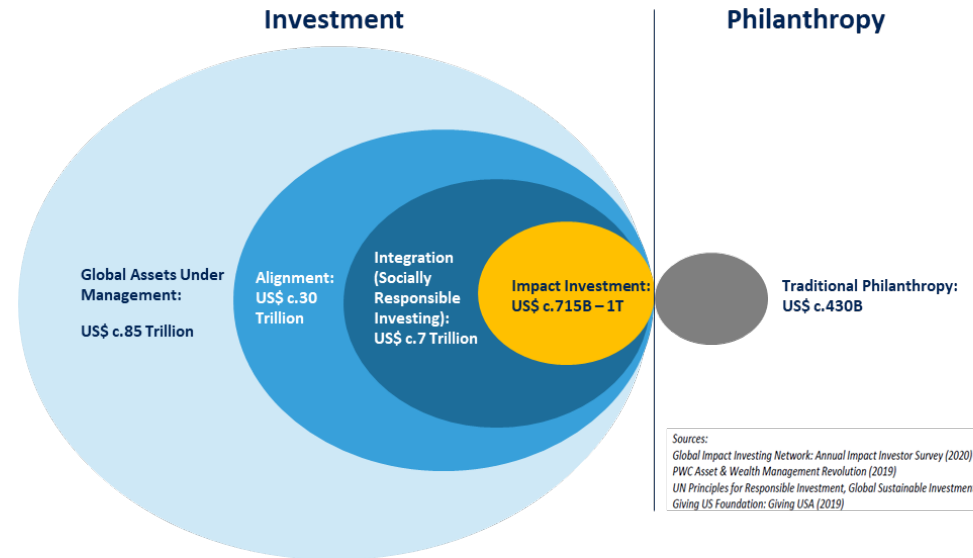
ESG risks impacting investment returns over the medium to long term. But creates investment opportunities as well. Impact investing is the next generation of ESG.

ESG is measuring company's actions, whereas Impact is measuring the outcome of these actions on society and the environment.

Political and regulatory pressure

Governments are becoming increasingly involved in the acceleration of the impact-investing market, recognising the opportunity for private and institutional capital to play a significant role in addressing some of society's most pertinent social and environmental challenges.

Mega trends – population, education, equality, diversity, technology, etc.



Sources:
 Global Impact Investing Network: Annual Impact Investor Survey (2020)
 PWC Asset & Wealth Management Revolution (2019)
 UN Principles for Responsible Investment, Global Sustainable Investment Alliance (2019)
 Giving US Foundation: Giving USA (2019)

So what is an impact investment?

Impact investments could theoretically arise in any asset class or geography. Historically, most impact investments fall into the following categories:



Private Equity

- Investment into private companies that generates overall positive impact outcomes (social or environmental).
- Generally, investments have been directed to emerging markets and often in the very early angel or venture capital stage.
- Emergence of private capital being directed to developed countries and also to more mature companies.



Property and Infrastructure

- Investment into renewable energy, green buildings, disability housing and social infrastructure.

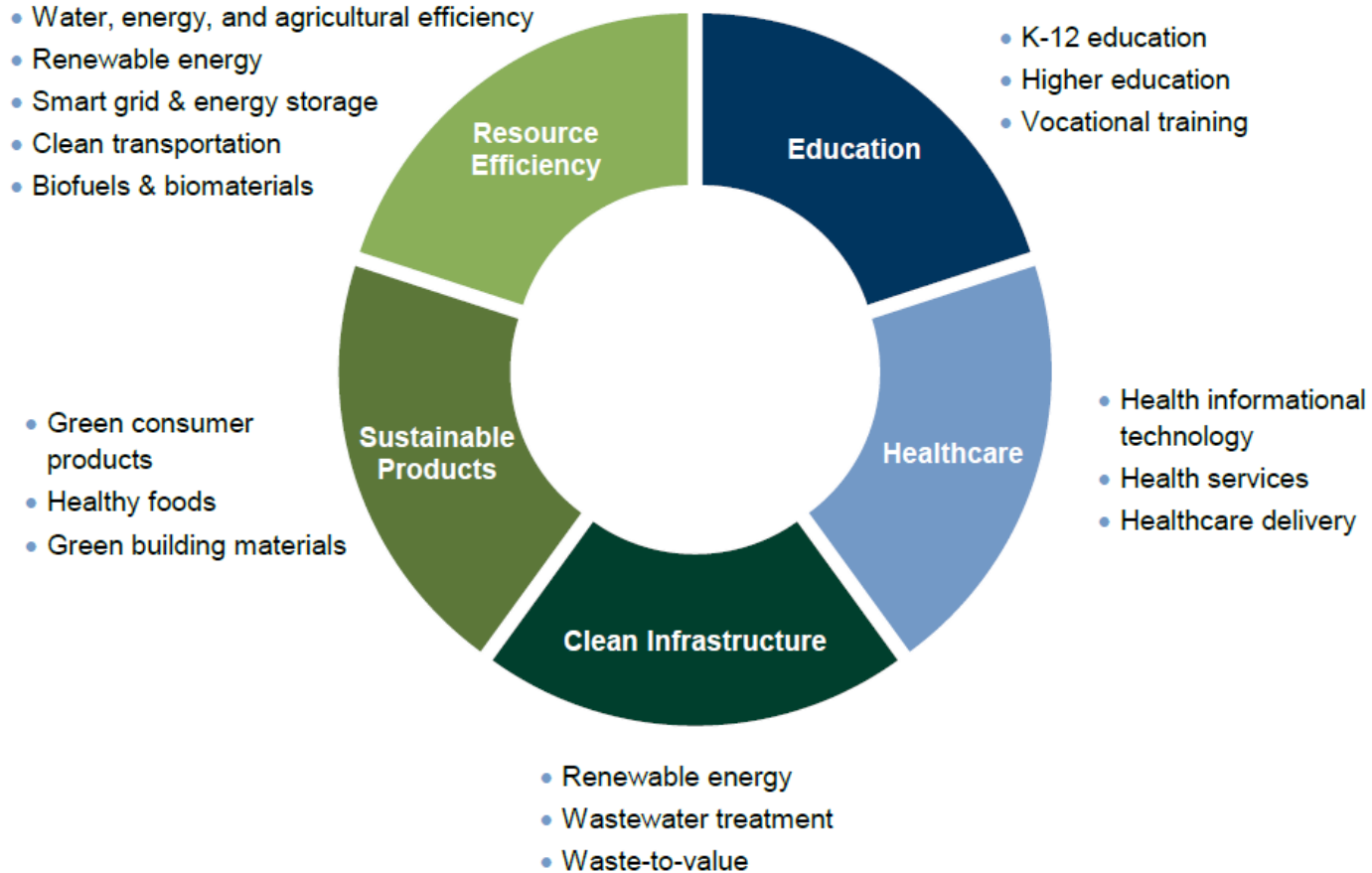


Debt Finance, Fixed Income, Social Impact Bonds

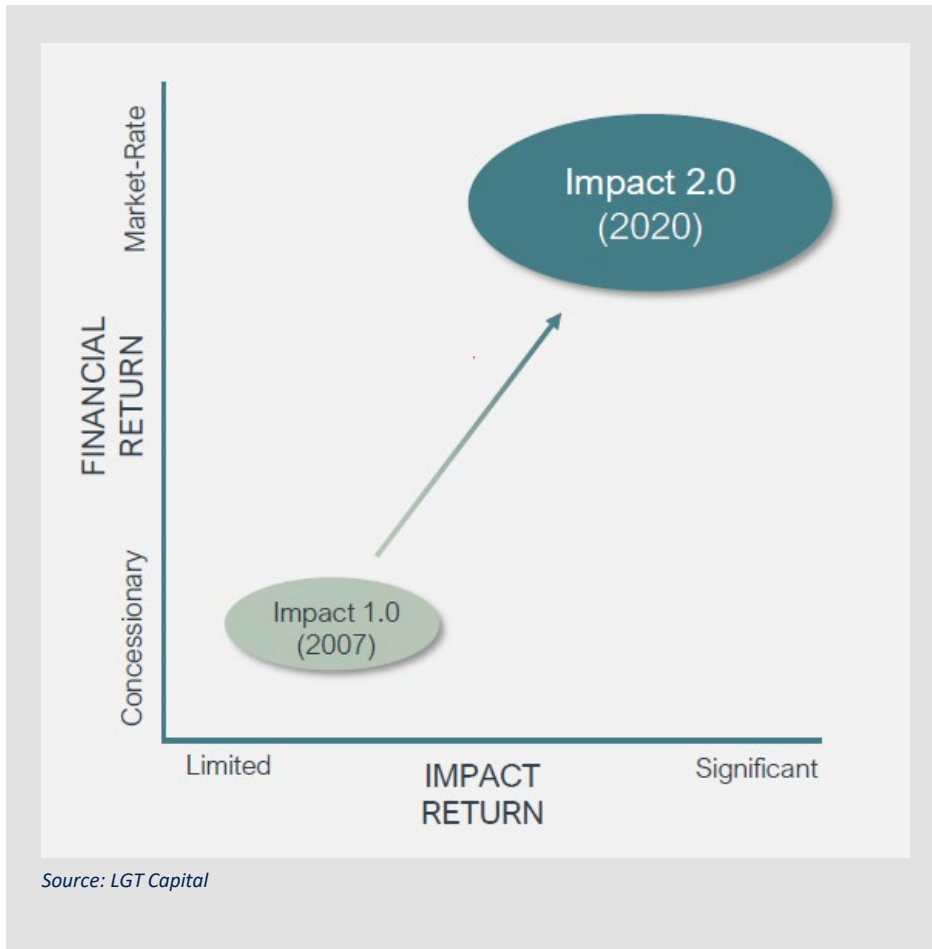
- Private debt/loans that fund social or environmental enterprises.
- Microfinance, which provides small loans to enterprises in emerging markets or to vulnerable communities in developed markets.
- Green bonds, which are similar to traditional sovereign, corporate and asset back fixed income securities but are linked to specific climate or other environmentally related initiatives.
- Blue Bonds, emerging investment type with proceeds used for specific improvements to marine life/oceans/reefs.
- Social impact bonds, which are very different to traditional bonds, finance social programs that would typically have once been undertaken by government, with the eventual level of return achieved driven by the performance of the program relative to a predetermined set of metrics. UK Government social bonds an example.

Potential Impact Investment Themes

Potential Investment Themes



Impact Investing Market Evolution



- Impact Investment 1.0
 - More focus on impact than financial returns;
 - No clear impact objectives;
 - No standardised measuring tools/metrics for impact;
 - Small inefficient impact market universe;
 - Limited impact investing manager universe;
- Impact Investment 2.0
 - Focus on both impact and financial returns;
 - Standardised impact objectives – UN Sustainable Development Goals;
 - Significant improvement in measuring tools/metrics;
 - Significant growth in impact market universe;
 - Impact investing managers building track record;

Impact Investing Market

Australia

- ▶ Australian responsible investment market¹ grew 13% in 2018 to \$980 billion.
 - ESG integration and alignment (screening) strategies accounted for ~95%;
 - Sustainability-themed investing and impact and community investing only accounted for ~5%.
- ▶ Impact investment products offered to Australian investors rose 249% y.o.y to \$19.9B in 2019.
 - Green, social and sustainability (GSS) bonds accounted for \$17B (85%);
 - Remaining investments were in real assets, private debt (including social impact bonds), private equity and others.
- ▶ Impact investment products mainly focused on conservation, environment and agriculture (~84%). Housing, local amenity, income and financial inclusion and others making up the rest.

Global

- ▶ Global responsible investment market¹ grew significantly now representing ~US\$7 trillion in 2019.
 - Impact investments accounts for only ~10% of the responsible investment market;
- ▶ US47 billion was invested in impact investments during 2019.
 - Private and public debt accounted for ~61% ;
 - Private equity and real assets accounted for ~20%;
 - Remaining investments were in public equity, equity-like debt and others.
- ▶ Investors interest in impact investments have increased significantly over the years; however only a small portion of investors are actively investing in impact.

Challenges

- ▶ **Limited capital** directed to impact investments;
- ▶ **Limited investable impact products** outside of GSS Bonds;
- ▶ **Lack of impact managers with solid track records** both financial and impact performance;
- ▶ **Limited reliable impact data** set that allows investors to improve their decision-making process, channel capital to the most effective solutions and effectively measure and report standardized impact outcomes.
- ▶ Impact measurements allowing for **comparability and benchmarking**;
- ▶ **Insufficient government support and initiatives** – tax incentives, funding support for impact businesses, etc.

▶ ***Despite the challenges outlined above, we believe with the right Impact managers and implementation structure, there are attractive impact investment opportunities that can deliver both positive impact outcomes and market competitive returns to investors.***

Is There a Return Trade Off?

The philanthropic roots of impact investing has led many to assume impact investment requires investors to accept lower returns

FUND INDEX SUMMARY: HORIZON POOLED RETURN
Net to Limited Partners

INDEX	1-QUARTER	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	15-YEAR
CAMBRIDGE ASSOCIATES LLC PE/VC IMPACT INVESTING INDEX¹	5.93	-2.07	1.59	5.96	5.56	6.63	5.84
Bloomberg Barclays Capital Government/Credit Bond Index	3.71	7.21	10.02	5.87	4.74	4.13	4.50
MSCI World ex US Index (net)	15.34	-11.49	-5.42	0.84	2.01	5.43	4.10
MSCI World Index (net)	19.36	-5.77	2.84	6.70	6.90	9.95	6.55
MSCI Emerging Markets Index (gross)	18.18	-9.67	-3.05	2.27	3.24	3.63	6.69
Russell 1000 [®] Index	21.82	-2.81	7.48	10.64	10.47	13.97	8.91
Russell 2000 [®] Index	25.42	-12.98	-6.63	2.01	4.29	10.50	7.01
S&P 500 Index	20.54	-3.08	7.51	10.73	10.73	13.99	8.83

INDEX	1-QUARTER	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	15-YEAR
PRIVATE EQUITY INDEX¹	10.18	0.48	7.64	12.63	12.12	14.15	12.43
BUYOUT INDEX¹	9.25	-1.55	5.77	11.38	11.79	14.17	12.29
GROWTH EQUITY INDEX¹	12.85	6.54	13.08	16.42	13.12	14.11	13.10

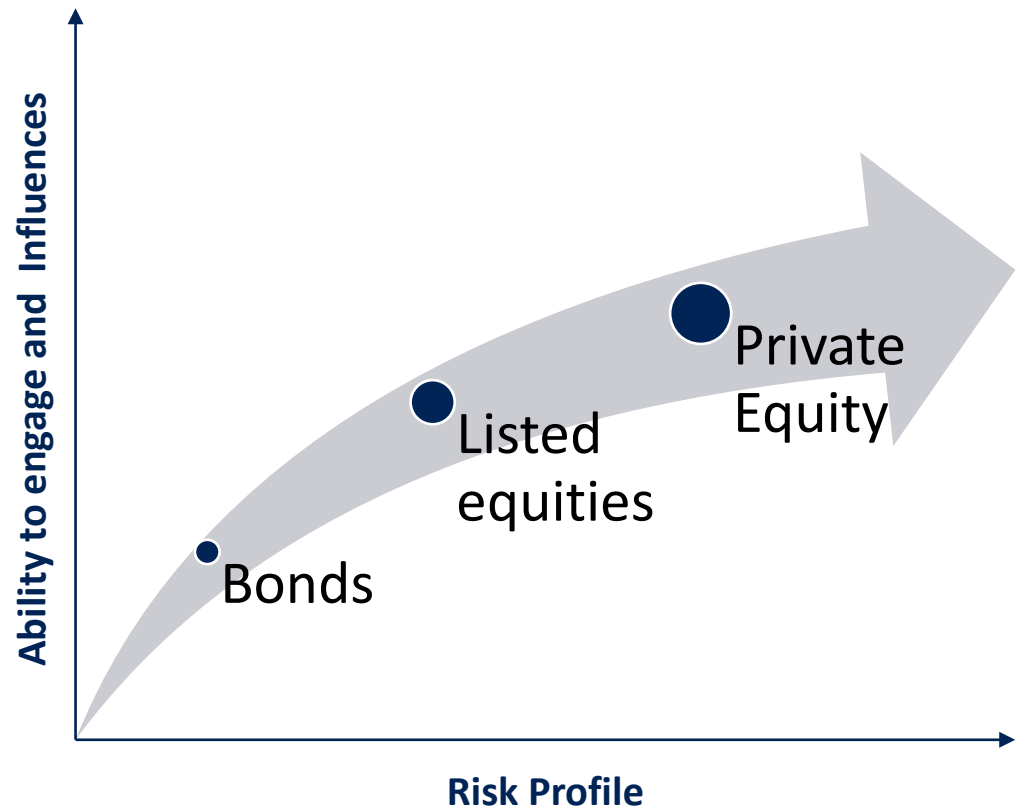
Source: Cambridge Associates; Private Equity, 30 June 2020

- The performance table above shows that the Cambridge Associates PE/VC Impact Investing Index has underperformed the broader Private Equity Index over the medium to long term.
- However, it is difficult to draw definitive conclusions on the performance of PE impact investing funds given the small sample size of the impact manager universe and also the impact PE universe itself being immature and still developing, unlike the private equity market.
- **Key to success is selecting the top quartile impact PE managers with strong impact and investment capabilities.**

Investing in Impact



- Investor considerations before investing into Impact,
 - Impact investment objectives
 - ▶ SDG targets – social, environmental, broader SDG target;
 - ▶ Financial return target;
 - ▶ Regional targets – domestic, EM, DM;
 - Client’s Risk Profile
 - ▶ Liquidity;
 - ▶ Volatility;
 - ▶ Return profile – income/capital return;
 - ▶ Capital structure – debt/equity;
 - ▶ Company life stage;
 - ▶ DM vs EM;
 - ▶ Diversification;
 - Level of direct impact influences
 - ▶ Bonds vs Equities;
 - ▶ Minority stake vs Majority stake;
 - Other considerations
 - ▶ Fees;
 - ▶ Reporting requirements;
 - ▶ Quality of Impact Manager



Private Equity as a vehicle for impact

Due to its innate investment characteristics, **Private Equity investments are often well positioned to drive meaningful impact.** These characteristics includes:



Long Term Focus

- Long-term nature provides patient capital to impact managers that would allow managers time and flexibility to implement and drive impact.



Control

- Investment strategy typically based on obtaining ownership control of portfolio companies, allowing the PE Manager to drive intentional value creation and overall positive impact.



Scale

- Institutional private capital is critical to bridge the SDG funding gap of USD 2–3 trillion p.a.



Access

- Private Equity & Venture Capital provides access to opportunities not easily accessible via the broader markets.



Alignment

- Investments with mutual reinforcement of impact and financial returns (i.e. no trade-offs) are targeted.






Impactful Investments but not Impact investments.....

- Many investors will already have some exposure to investments that are generating positive impact but not classified as impact investments.
- For example, LGT Crown Co-investment programs that JANA clients are currently invested in have exposure to ~20 impactful investments. These were generated from LGT’s standard deal flow and investment process, and placed in their financial-return only funds.
- Whilst these investments were highly impactful, they were not “impact investments” due to:
 - ▶ No impact objective specifically targeted;
 - ▶ No defined impact metrics and measurements;
 - ▶ Limited impact reporting;
- **Impact investments and impact aligned investments are different as outlined above but both investment approaches can potentially provide positive impact outcomes.**
- **Also, the PE impact opportunity universe can be expanded significantly with the appropriate impact managers.**

Europe and US	
<p>Healthcare</p>	Physician outsourcing focused on improving outcomes & lowering costs Low-cost generic pharmaceuticals Clinical trial technology to reduce errors and lower costs Dental service organization lowering cost of dental care Leading manufacturer of hearing aids globally
<p>Education</p>	Educational tools that lower dropout rates Special needs education and foster care services
<p>Inclusive growth</p>	Online tool and web hosting for MSMEs ³ Polish e-commerce platform supporting MSMEs ³
<p>Climate action</p>	Sustainable waste management Reusable plastic containers for grocery supply chain Norway’s leading environmental services provider

Source: LGT Capital

Impact Investment Examples

	 MBMG	 Rapyd
Type	Co-investment	Co-investment
Country	US	UK
Sector	Healthcare	Financial services
Manager	Sun Capital	Entrée Capital
Business activity	Healthcare provider to 65 years+ and low income demographics, serving >12,400 members across 18 facilities	The only global payments platform focusing on non-card and unbanked customers in cash economies
Impact	<p><i>Healthcare outcomes and costs</i></p> <ul style="list-style-type: none"> ▪ Incentivized to improve patient outcomes at lower total cost of care ▪ Proactive, preventative care, incl. ancillary services (dental, nutrition, psychiatry) and support (transportation, home visits) ▪ 96th percentile quality ratings 	<p><i>Financial inclusion</i></p> <ul style="list-style-type: none"> ▪ Addresses 4.5 billion non-card consumers worldwide¹ ▪ Only global platform facilitating low-cost B2B, B2C and C2C transactions in cash markets ▪ >2m local cash points in over 100 countries, >900 payment methods
SDGs		 

Source: LGT Capital

- Both impact examples are Developed Market (DM) focused:
 - Most would agree that greater impact can be generated in Emerging Markets (EM), however impact can also be generated in DM typically with a lower risk profile.
- Both possess mutually reinforcing financial and impact characteristics.
 - For example the more patients served, or payment processed the greater the financial returns as well as impact generated.
 - This is a key portfolio company quality targeted by impact managers as it avoids/minimises difficult financial returns for less impact trade-off decisions.
- Intentionally and measured impact.
 - Linking to SDGs is not compulsory to be an impact investment, however many managers do, as it is a commonly accepted and widely acknowledged framework.
 - Specific impact metrics are identified (for example number of hospital members and transactions respectively) at inception and tracked over the course of the investment.

PE Impact Investments



Opportunities

- **Global Private Equity Impact investment universe is currently developing** with few investable impact PE managers - less competitions;
- But there are **significant underlying investment opportunities** that are in need of critical capital to meet the 17 SDGs by 2030;
- These investments offer the **opportunity to achieve both market-rate financial returns as well as positive social and/or Environmental impacts** - i.e. no trade-offs;
- Also, given the Impact universe is still developing, there is **opportunity for investors to have more influence** on the overall market.



Challenges

- **Authenticity of impact by Managers** – Many managers are entering the Impact market due to increasing interests from investors;
- Currently there are **limited number of quality Impact PE managers** available, as compared to the broader traditional private equity markets – managers having both impact and investment capabilities;
- Of this limited impact managers, **most lack or have a short impact investment track record**, and/or are relatively new teams.
- **Common standardised impact metrics and measurements** that allows comparability between impact investments;
- **Limited impact data sets** for investors to make informed decisions.



Solutions

- Given these challenges in investing in impact, JANA currently recommends a more **diversified approach**.
- A diversified approach via **co-investments (pooled fund) or combination of co-investments and small allocation to primary funds (Fund of Funds)** will seek to provide,
 - Diversified Impact portfolio across GPs, geography, sectors, strategy, etc;
 - Lower overall fee structure via co-investments;
 - Additional assessment of Impact authenticity by the manager;
 - Ability to invest in impactful investments (co-investments) and structure up-front to measure Impact metrics, which will significantly increase the opportunity set;
- JANA will review this position in future years as the impact market matures, and impact market participants and their track records become more established.

Contact Us

The presenter is a representative of JANA Investment Advisers Pty Ltd (ABN 97 006 717 568) (AFSL No. 230693) ('JANA'). This presentation is provided on the basis that the recipient is a 'wholesale client' within the meaning of the Corporations Act.

Opinions expressed constitute JANA's judgement at the time of presentation and are subject to change.

Any past performance noted is not indicative of future performance. JANA does not provide any guarantee about the future performance of the investment products, managers, asset classes or capital markets discussed.

For JANA's conflict of interests disclosures you should contact your JANA consultant.

Except where under statute liability cannot be excluded, no liability (whether arising in negligence or otherwise) is accepted by JANA, its directors or its employees for any errors or omissions or for any losses caused to any persons acting on the information contained in this presentation.

© Copyright JANA 2021

MELBOURNE OFFICE

Level 9, 530 Collins St, Melbourne VIC 3000

T (03) 9602 5400

SYDNEY OFFICE

Level 6, 255 George St, Sydney NSW 2000

T (02) 9221 4066