# IMPACT REPORT

June2022

PHENIX CAPITAL

## RESILIENT ECONOMIES FUNDS AT A GLANCE

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## If you are a fund investor

and would like to have a live demo of the Phenix Capital Impact Database, please visit www.phenixcapitalgroup.com/impact-database and register your interest.

## If you are an impact fund manager

and would like to be considered for listing on the Phenix Capital Impact Database please email sales@phenixcapitalgroup.com. Listing is free of charge.

# ABOUT PHENIX CAPITAL

### CATALYSING INSTITUTIONAL CAPITAL TOWARDS THE SDGS

Phenix Capital Group is an impact investment consultant that enables institutional investors to make impact investments.

We assist asset owners and asset managers in aligning their investments with their values, financial objectives, and the Sustainable Development Goals.

www.phenixcapitalgroup.com

Signatory of:

**Our Vision**

We envision a world in which institutional capital helps to end poverty, protect the planet and ensure prosperity for all

**Our Mission**

Our mission is to enable and catalyse institutional investments that realise financial, social and environmental returns

**What we do**

To achieve our mission, we enable institutional investors to allocate capital to impact investments through our Events & Webinars, Impact Database, Impact Fund Assessment and Placement Services

# ABOUT IMPACT DATABASE

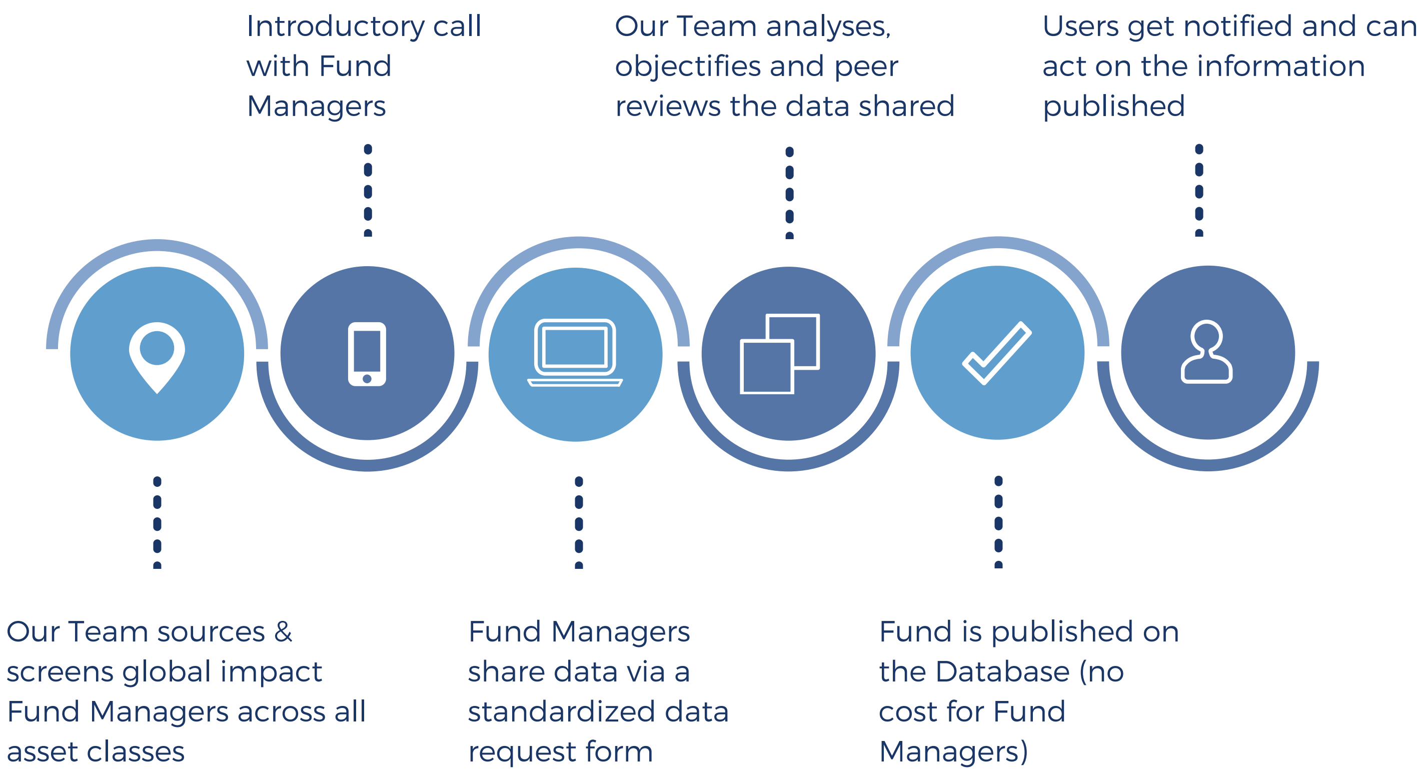
Phenix Capital's mission is to enable the allocation of capital from institutional investors towards social and environmental solutions while supporting the 2030 Sustainable Development Goals (SDGs). With the Impact Database, Phenix Capital aims to provide investors with access to and intelligence on the impact fund market opportunities available to them.

Three main variables have been central to construct, monitor and update the database: **funds considered have an impact proposition, institutional scale, and target market-rate returns.**

Impact Investing goes beyond negative screening and using Environmental, Social and Governance (ESG) integration to reduce harm or avoid risks, to generating intentional positive impact. Phenix Capital defines impact investing as **investing with the dual mandate of financial return and positive societal or environmental impacts**, with the notion of measuring the positive and negative impact of investments, ensuring both **intentionality and additionality** among these.

Phenix Capital's Impact Database features funds that align with this definition through their creation of solutions for global social and environmental issues, whilst prioritising financial returns. This category of impact investments can be referred to as **financial-first impact investments**.

## FUND SOURCING PROCESS



# INTRODUCTION

## RESILIENT ECONOMIES

The Covid-19 pandemic, the Russian-Ukrainian crisis and the economic instability, such as the recent inflationary pressures, have reminded us how crucial it is to invest in resilient economies. With this special issue of our monthly Impact Report, Phenix Capital aims to provide the impact investing sector with information about how to contribute toward resilient economies.

This report combines top-down data from the Phenix Impact Database and interviews with on-the-ground industry players contributing to this theme:

- Golding Capital Partners shares its impact investment strategy to promote resilient economies in the long term.
- Kaizenvest shares its strategy to promote access to education in Asian countries.

Resilience is the ability of individuals, households, communities, cities, institutions, systems and societies to prevent, resist, absorb, adapt, respond and recover positively, efficiently and effectively when faced with a wide range of risks, while maintaining an acceptable level of functioning without compromising long-term prospects for sustainable development, peace and security, human rights and well-being for all (UN, 2015).

### Investable themes

To compute data on funds targeting investments towards a more resilient economy, Phenix Capital Group has developed new data sets of outcome-based investable themes mapped against the Sustainable Development Goals (SDGs) - see page 8 for a detailed explanation of the themes and SDGs mapping.

Based on the Resilience definition of resilience, 15 impact themes were considered for this report:

1) clean energy access scarcity, 2) access to education, 3) access to employment, 4) access to food, 5) access to healthcare and improved quality of care, 6) access to information and communication technologies services, 7) access to social infrastructure, 8) access to water and sanitation, 9) affordable housing, 10) blended finance, 11) culture preservation and improvement, 12) financial inclusion, 13) inclusive economy, 14) peacebuilding economy, and 15) poverty reduction.

# KEY TAKEAWAYS

Despite recent global events, the flow of capital towards resilient economies didn't grow in its targeted geographies, with lower capital flowing toward vital impact funds compared to pre-pandemic figures. Phenix Capital hopes this report will foster a call to action toward financing a more resilient global economy.

Some essentlal numbers in this report:

- Of the 2,050+ funds listed on Impact Database, 1105 funds contribute to building resilient economies, and €232 billion has been committed towards these funds since 2015.
- A slight decrease in the number of funds launched has been observed since the start of the Covid-19 pandemic. A surprising observation considering the increased need for resilient economies (covid-19 pandemic, Russian-Ukrainian crisis, inflation, and the soon-to-be economic crisis).
- Despite recent global events, the market and regional allocation of impact funds towards resilient economies since 2015 remained fairly stable with an unsurprising focus on emerging markets. Only the Middle East and Africa region experienced an increased exposure at the expense of LATAM-focused funds. Current fundraising figures remain in line with this observation.
- According to fundraising figures, since 2015, private equity, real assets and private debt impact funds were preferred by institutional funds allocators, raising on average EUR 45 billion + per asset class. As with its past commitments, the amounts being currently fundraised by resilient economies funds are similar to real assets, private equity, and private debt impact funds: EUR 14 billion on average.
- According to the fundraising figures, since 2015, only EUR 5 billion was committed towards funds contributing to access to food (Goal 2) and peace-building economies (Goal 16). In contrast, most of the commitments from institutional investors were allocated towards access to healthcare services (Goal 3), financial inclusion (Goal 1) and affordable housing (Goal 11), which are sectors known to offer higher return targets in line with financial-first impact funds' dual mandate. This trend is continuing according to the target size of open funds.
- The low flow of capital towards key resilient themes highlights the need for impact-first investments, such as catalytic capital, blended finance, and philanthropic investments.

We wish readers to make good use of this data!

# IMPACT THEMES MAPPED AGAINST THE SDGS


The Phenix Capital Group has mapped the SDGs against Impact Themes, which are based on **the most globally endorsed terms used by practitioners in the financial sector** and what's used by generally accepted frameworks, to enable both fund managers and fund allocators to better **understand how the SDGs and it's sub-goals translate into outcome-based investment areas -** by the name that they are commonly known and referred to in the financial industry.

Mapped against the SDGs' sub-goals, our Impact Themes offer a comprehensive way for investors and fund managers in the financial industry to identify what social or environmental outcome is generated by an impact investment and its contribution to the Sustainable Development Goals.

**THE REVAMPED IMPACT THEMES ARE ALREADY AVAILABLE IN OUR IMPACT DATABASE FOR FUND FILTERING, VIA THE FUND SEARCH FUNCTION.**

# RESILIENT ECONOMIES FUNDS

## OVERVIEW & DATA

from Phenix Impact database

**1105**

Number of funds

**498**

Number of funds open, evergreen, or coming to market

**578**

Fund managers

**€232 billion**

Capital committed

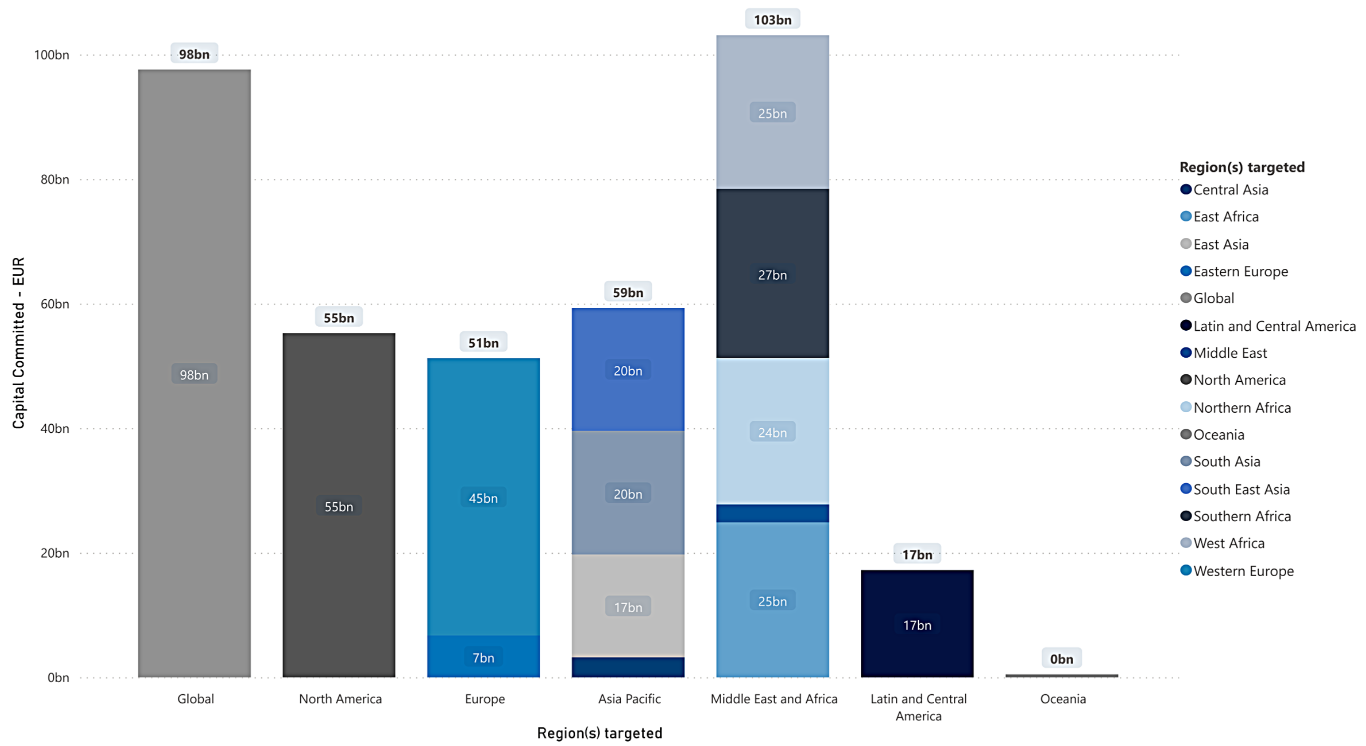
**361**

Fund managers currently fundraising

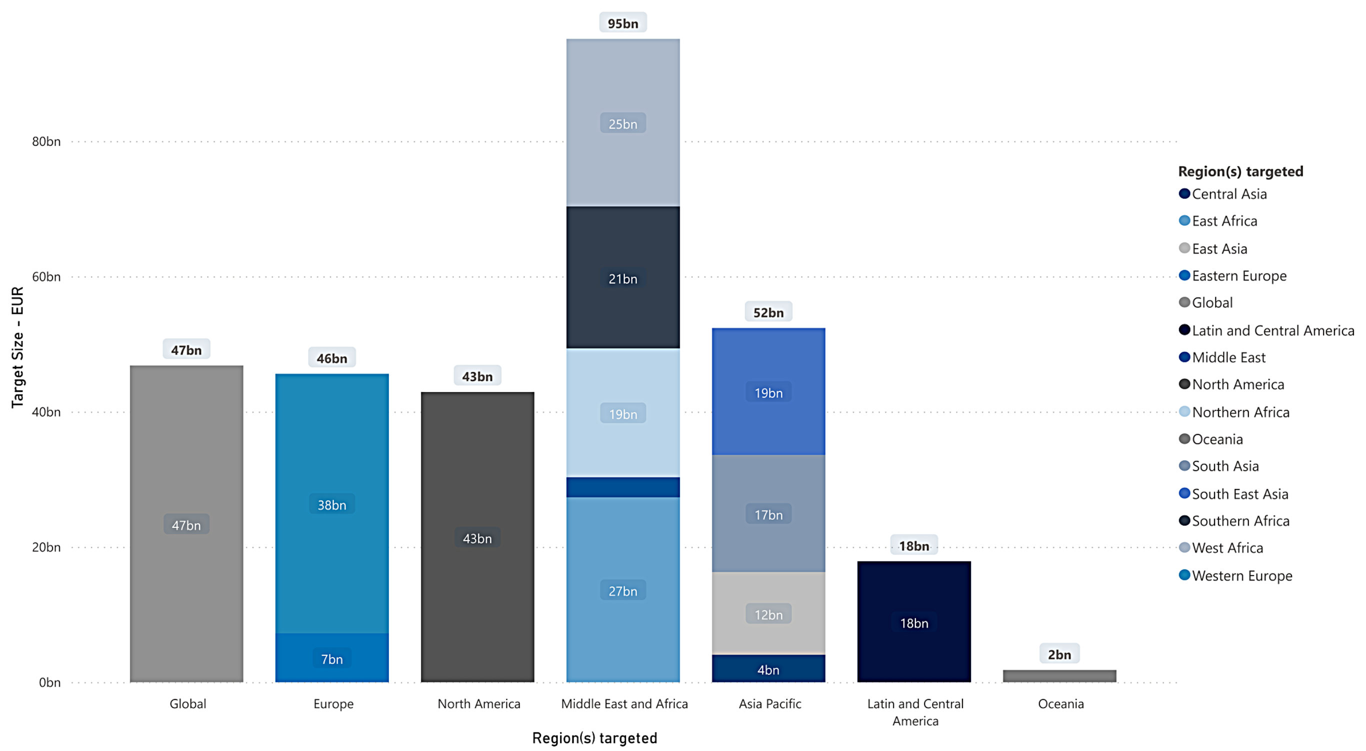
**€98 billion**

Total target size

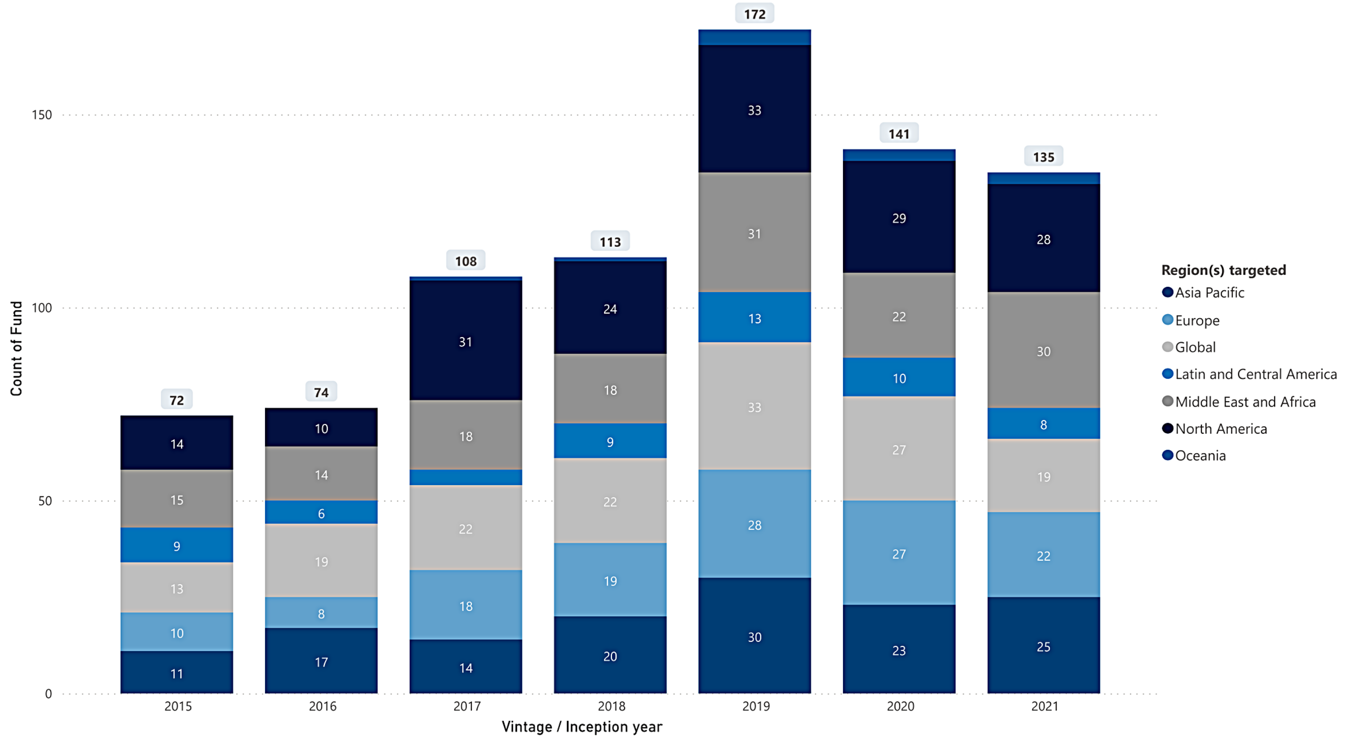
# Capital Committed - EUR by Regions targeted



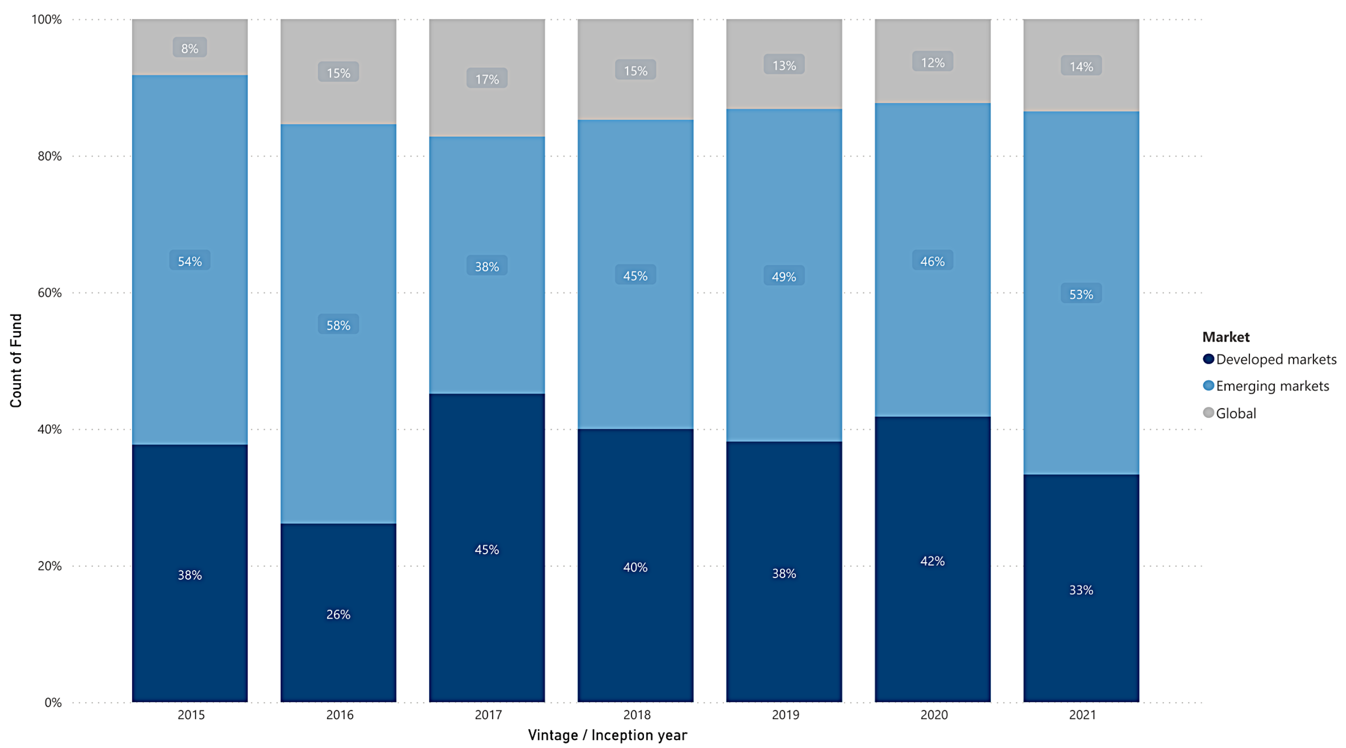

# Target size - EUR by Regions targeted



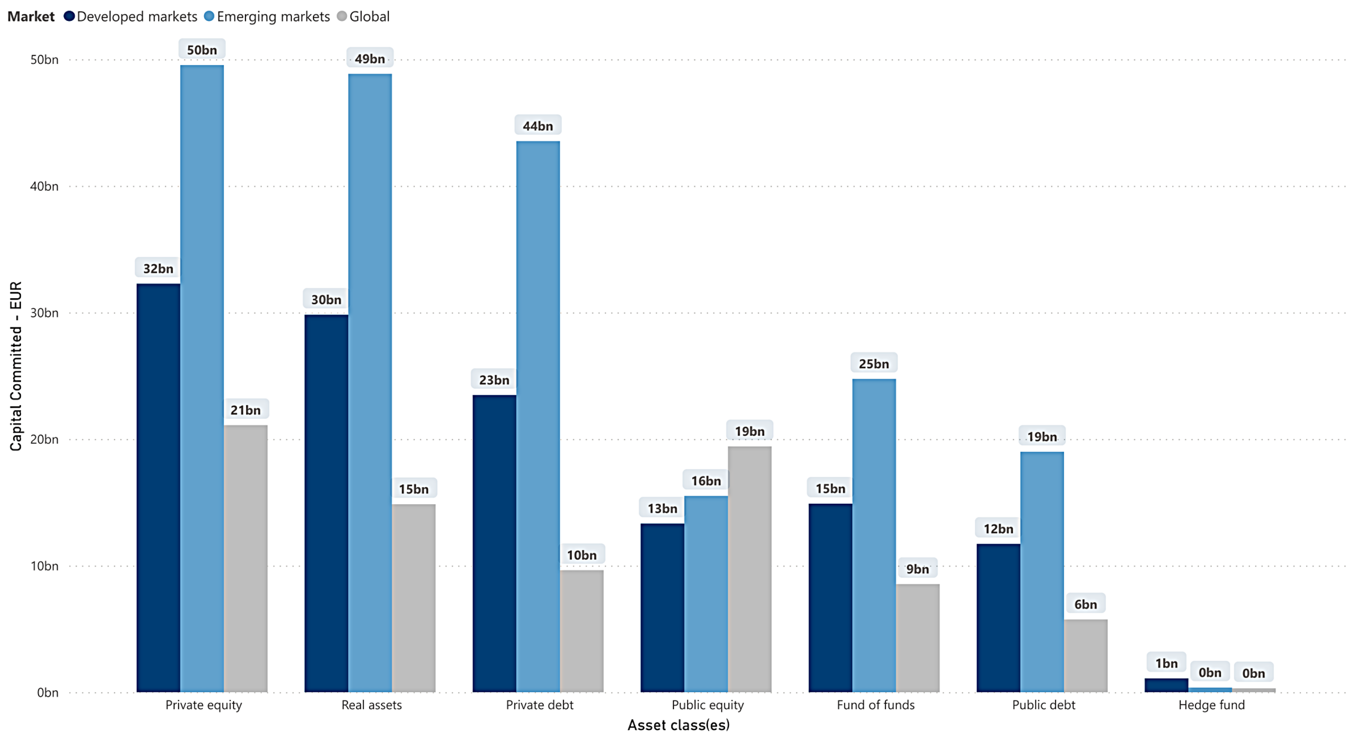
## Number of Funds by Vintage / Inception year and Regions targeted



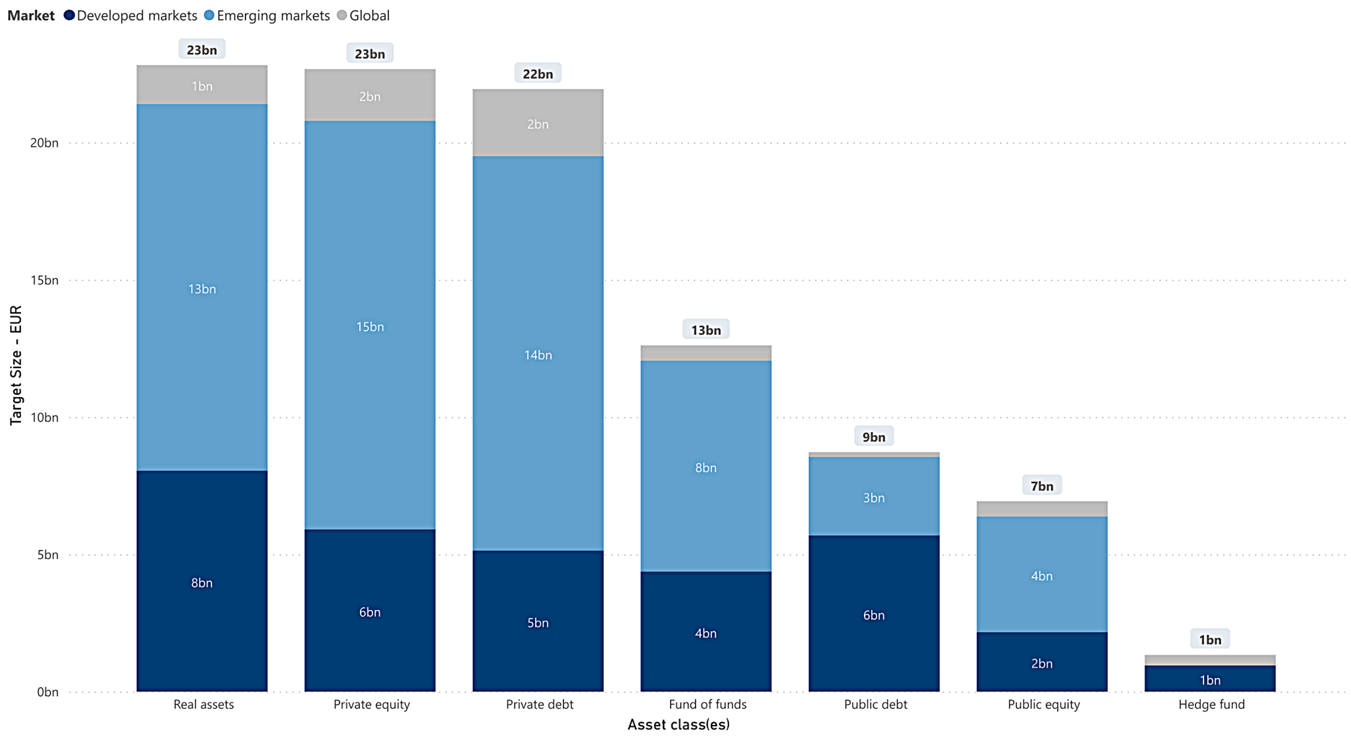

## Distribution of Funds by Vintage / Inception year and Market



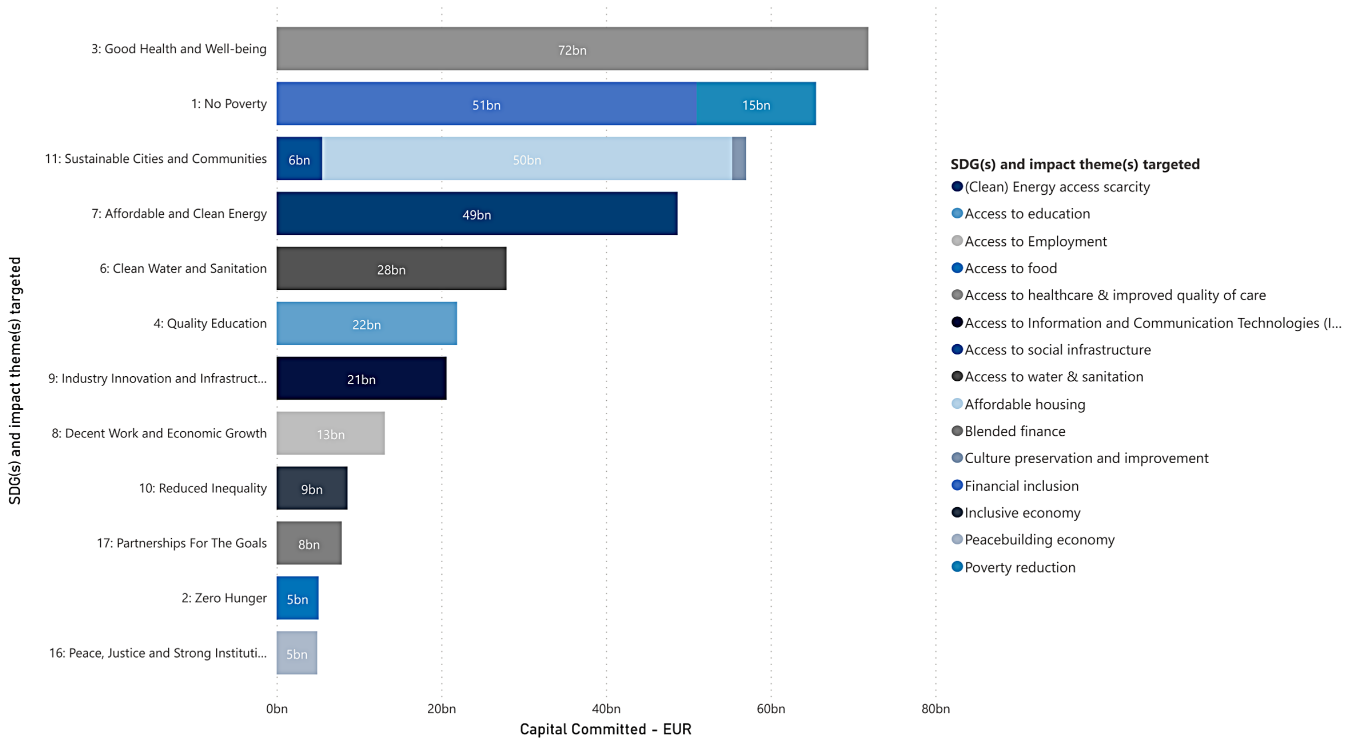
# Capital Committed - EUR by Asset classes and Market



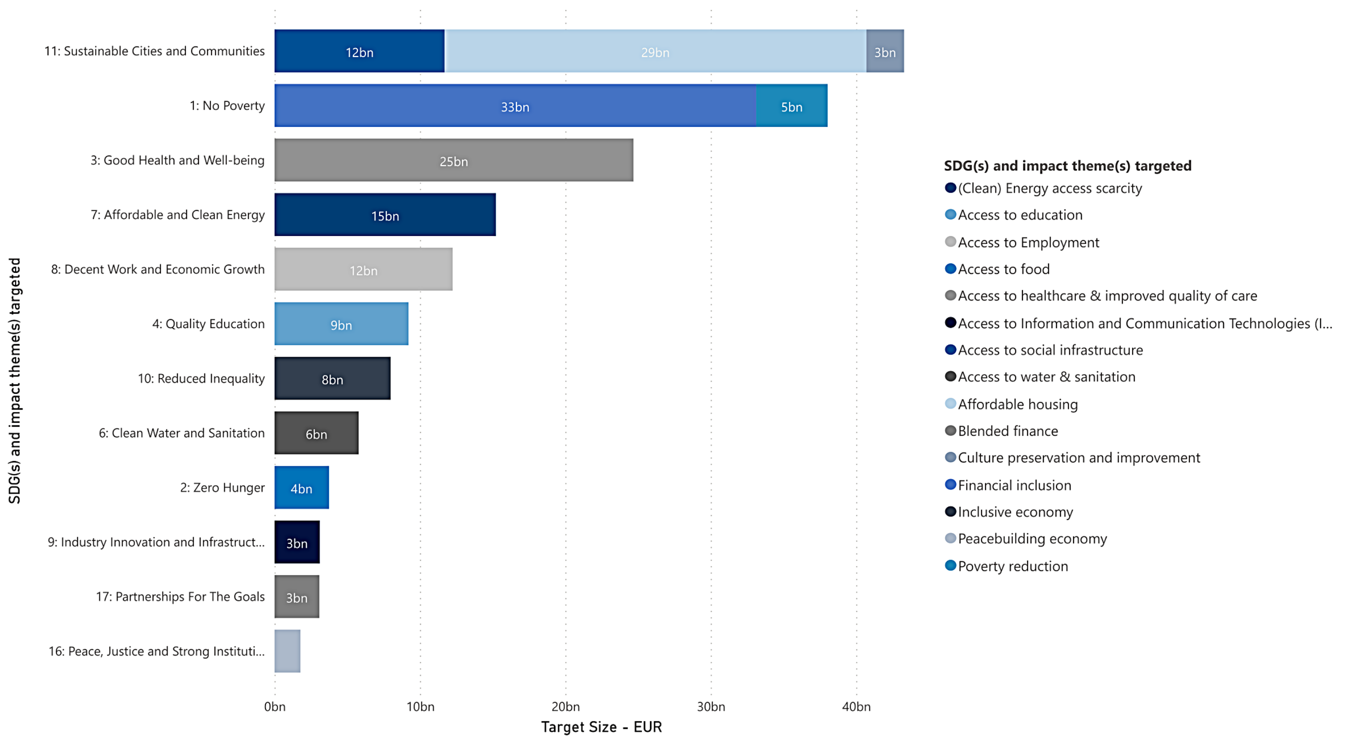

# Target Size - EUR by Asset classes and Market



# Capital Committed (EUR) by SDGs and impact themes targeted

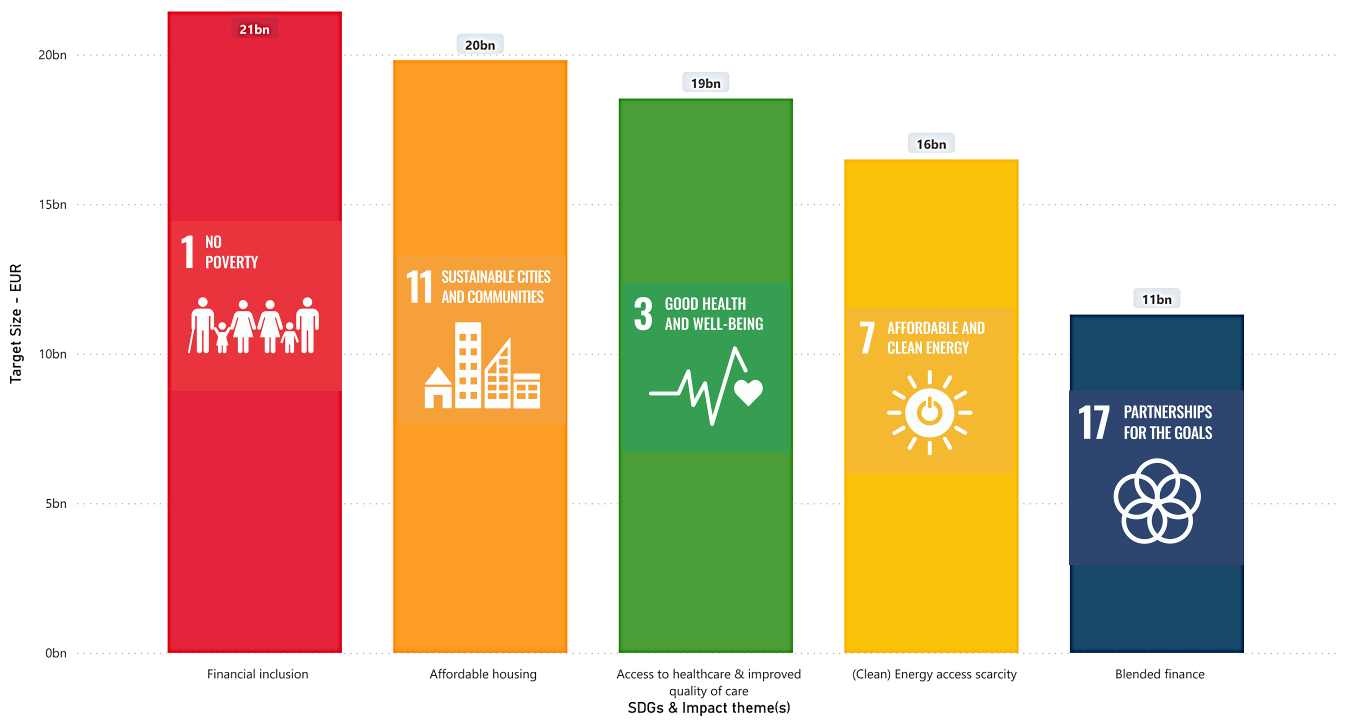



# Target Size (EUR) by SDGs and impact themes targeted



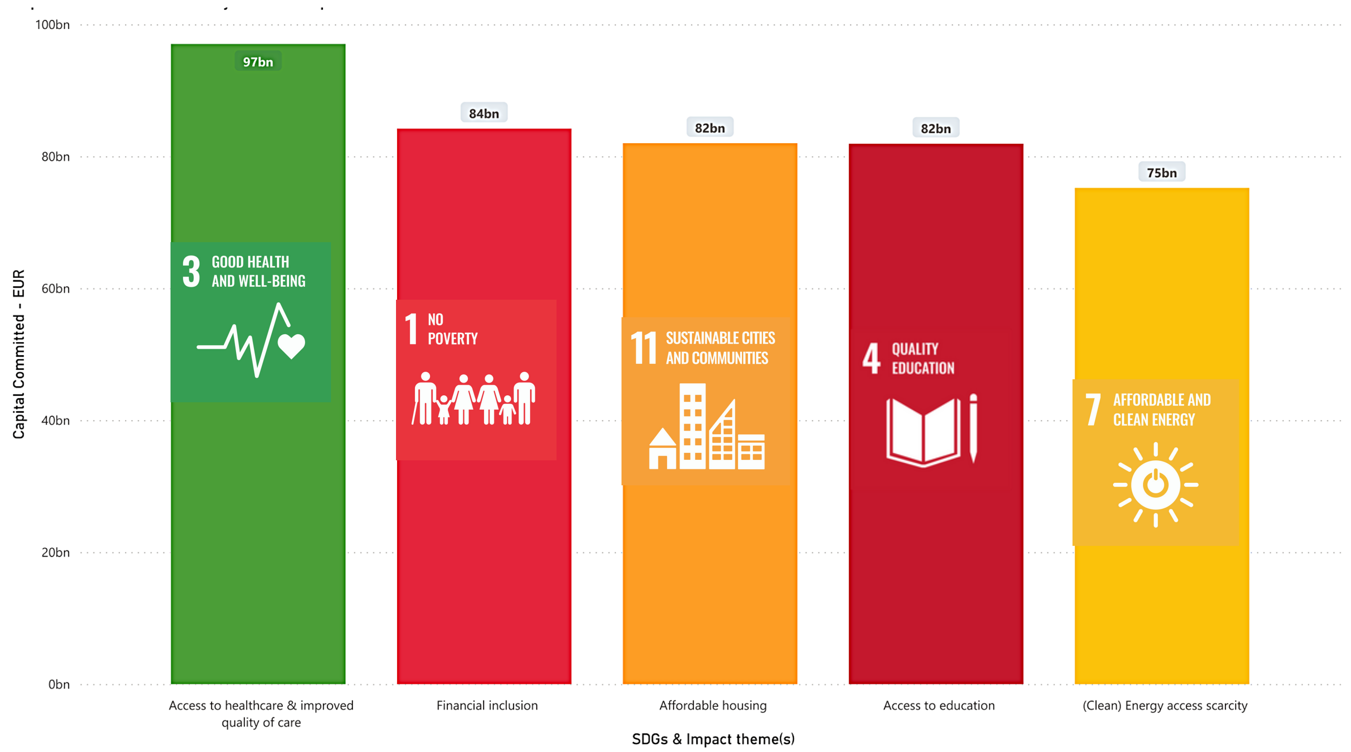
# CURRENT TOP 5 - Impact themes targeted

## Target Size (EUR) by Impact themes




# HISTORICAL TOP 5 - Impact themes targeted

## Capital Committed (EUR) by Impact themes



# INDUSTRY INTERVIEW

# GOLDING

Golding Capital Partners is one of Europe's leading independent asset managers for alternative investments, focusing on the asset classes infrastructure, private credit, private equity, secondaries and impact.

With a team of more than 140 professionals at its offices in Munich, London, Luxembourg, New York, Tokyo and Zurich, Golding helps institutional investors to develop their investment strategy and manages about €12 billion in assets.

Golding became a signatory of the United Nations Principles for Responsible Investment (UNPRI) in 2013 and has been a member of the Task Force on Climate-related Financial Disclosures (TCFD) since 2021.

We interviewed Nina Freudenberg, Director Impact Investments at Golding Capital Partners.

**On a personal level, what made you start working with impact investing?**

Impact Investing combines the best of both worlds: The noble cause of charities and the effectiveness of private markets. Since I spent part of my childhood in Burkina Faso, it was always clear to me that I wanted to dedicate my working life to fighting global inequalities.

I hence studied health care politics to help build inclusive healthcare systems globally. Over time, I realised that NGOs and even states would never reach their sustainability goals if they did not use the global economy's power. It is not about David against Goliath but about cooperating with Goliath for a common cause. Hence, I started my career working for the Boston Consulting Group in Munich but always looked for opportunities to combine business with impact.

At that time, I was introduced to Andreas Nilsson, who had just come back from a fellowship at Harvard Business School and was about to finish his PhD in Social Finance. He asked me if I wanted to join his venture called Sonanz to start an impact fund of funds focused on emerging markets.

That's how I started working in impact investing. We succeeded in raising a demo fund with two handfuls of great pioneering investors. The fund is fully invested in five fantastic portfolio funds within the sectors of renewable energy, sustainable food & agriculture, financial services, and healthcare. Beginning of 2021, we joined the Golding platform to help build a new impact pillar with even more scale.

**Golding Capital Partners is an asset management firm active in private equity, private debt and infrastructure. How is impact embedded in the company's overall investment strategy?**

Since becoming a signatory to the UN PRI in 2013, responsible investing has become a critical component of Golding's investment approach. Today, we systematically incorporate ESG criteria into our decision-making processes across all asset classes. In November 2021, Golding hired a new head of ESG. Christian Schütz is now leading our efforts to advance responsible investing and to further incorporate ESG into our investment processes.

Additionally to the ESG efforts, we aim to drive impact mainly through two products: The impact fund as well as the new energy transition fund that aims to address SDGs 7 and 13 by investing in renewable energy infrastructure with a core focus on onshore wind and photovoltaic parks as well as large-scale energy storage.

**Are there specific SDGs, impact themes and market regions Golding is focused on?**

Our investment philosophy is based on the belief that businesses that offer solutions to major social and environmental problems and consider the interests of all stakeholders will outperform in the long run. We have identified three areas of opportunity with proven impact and financial return potential and a focus on technology and business model innovation:

## Green solutions

> The journey towards a net-zero carbon society has already begun. Enormous opportunities are arising across the globe from commercial applications of environmental science and technologies to preserve ecosystems and reduce adverse impacts of human activity.

Within Green Solutions, we have identified three portfolio themes that we expect to play a prominent role in our portfolio:

- Energy transition: Developed markets are witnessing a transformation of their production processes and consumer behaviours that require new solutions and technologies. We aim to invest in solutions that enhance energy efficiency to help the transition to low-carbon economies, such as building optimisation and retrofit, grid and energy storage technologies, and transport and efficient mobility solutions.

- Energy access: Emerging markets in Asia, Africa, and Latin America are striving for greater prosperity for their populations and need to achieve this growth decoupled from greenhouse gas emissions and intensive resource consumption. Successful companies in these markets must tailor their products to local markets' specific needs, particularly considering affordability and accessibility. Here, we aim to support solutions that expand access to clean energy to improve socio-economic outcomes and mitigate climate impact through innovation of technological and/or business models, such as solar home systems, solar-powered appliances and solar hybrid mini-grids.

- Circular economy: The current ‘take-make-waste’ economy leads to inadequate waste management, impacting the environment and social sustainability. Within this theme, we focus on investments that rethink manufacturing and end-product processing to integrate waste back into value chains, e.g. waste reduction, reusable product solutions, alternative materials and material recovery.

**Food & Agri-Tech Solutions**

Within Food & Agri-Tech Solutions, we have identified two portfolio themes that we expect to play a prominent role in our portfolio:

Sustainable agriculture: The current reliance on unsustainable agricultural inputs and practices degrades and depletes the planet’s water, soil, air and forests. These effects create negative consequences on long-term environmental sustainability and undermine socio-economic wellbeing. The Golding impact fund focuses on commercial applications of agricultural science, technology and innovative practices to boost farm resilience and sustainability. We want to invest in companies focused on advanced inputs and processes that preserve the environment, such as improved seeds, sustainable inputs and innovative farming practices.

Resilient farming: An issue within food and agriculture is the great inefficiencies and losses across the food value chains in emerging markets – both at the farm level and across the supply chain. The majority of farmers in emerging markets are smallholder farmers. The inefficiencies and losses do hence not only contribute to environmental degradation and food insecurity but also the vulnerability of farmer livelihoods. Here, digital solutions can reduce inefficiencies, minimize waste, and improve smallholder farmer incomes and resilience.

“Examples include digitally-enabled farm management and advisory, supply chain management solutions and shared equipment.”

**Financial Inclusion Solutions**

Limited access to finance and banking services for individuals and companies undermines development and social sustainability in emerging markets. Many of the world's poorest populations are either unbanked or underbanked, partly due to low accessibility and affordability of financial services.

This low access to financial services, in turn, negatively impacts their income resilience and undermines their access to essential products and services. Fintech solutions, such as digital payments, digital lending platforms and digital insurance providers, have started to increase access to finance for individuals and micro, small, and medium-sized enterprises ("MSME") dramatically.

These digital solutions reduce transaction costs for both individual consumers and MSMEs and increase the accessibility to financial services. The benefit extends beyond the direct effects for the individual consumer, as financial services serve as a "meta" sector and form a core part of new business models within Green Solutions and Food & Agri-Tech Solutions. For example, most solar home systems are sold in combination with a financing package that can be amortised over a period using mobile payments.

**Can you tell us how you cope with the regional differences when investing in different markets? Are there different investment strategies depending on the targeted market and region? Do you work with local partners?**

Indeed, there are many regional differences that we have taken into account when developing our strategy. Our impact fund will build a regionally diversified portfolio across Europe and North America (together min. 50%) and emerging markets (max. 50%). The portfolio themes described above have a very distinct regional component.

For instance, the theme of access to energy is more geared towards emerging markets, in particular Sub-Saharan Africa, where more than 50% of the population still lacks access to electricity.

Resilient farming focuses on smallholder farmers in emerging markets, where about half the food produced is lost post-harvest due to logistics and infrastructure gaps. For the theme of the energy transition, we see most opportunities in Europe and North America, where new technologies for clean energy generation and storage or improved energy efficiency are being developed. Over time, we might see that technologies that have been developed in Europe or North America will be adopted in emerging markets or vice versa.

Golding's impact aims to invest in the best fund managers within a particular region and sector. We have seen that local fund managers with a specific sector and regional focus are better positioned to attract and select the best companies and support them over time. We aim to build a well-diversified portfolio of about 15 private equity funds with about 200 underlying portfolio companies.

One of the things we always put a lot of emphasis on when assessing a potential target fund is the depth of the capital market it operates in. Although we only focus on the larger economies in emerging markets, the capital markets are not always as deep as they might be in Europe or North America.

This can cause longer holding periods, or prolonged capital raises for new financing rounds. Despite all regional differences, I want to emphasise that in terms of structure, our portfolio funds are very plain vanilla private equity funds with a ten-year lifetime, management fee, carried interest, etc.

### Is there a tool or framework Golding uses to measure its impact?

Our impact management system is aligned with the Operating Principles for Impact Management (we plan to become a signatory soon). It incorporates best practices from the industry, including impact pathways, SDGs, the five dimensions of the Impact Management Project, and the Iris+ metrics.

The impact pathway, also referred to as the 'theory of change' or 'logic model', is a tool to evaluate the expected environmental and societal effect targeted by an investee. Impact pathways describe the logical relationships between the resources invested and the desired outcome of an initiative.

While there are many ways in which impact pathways are used, Golding uses impact pathways to:

- assess the causal relationships between a new investment opportunity and its expected impact as well as its contribution to the SDGs
- establish a preliminary set of output indicators and impact metrics to be measured post-investment
- create alignment with the impact objectives of target funds

Golding co-develops a unique impact pathway for each investment opportunity for the specific investment strategy together with the target funds. The impact pathway will serve as an important tool to engage with target funds and learn more about their view on impact priorities and align on impact objectives.

For impact monitoring purposes, we report on various output indicators as well as four different impact metrics on $CO_2e$ emissions, resource efficiency, financial inclusion and decent work.

Output Indicators are based on operational performance data that a portfolio company has readily available, e.g. the number of customers or units sold.

During the due diligence process, Golding works with the target fund to select and prioritise output indicators that are likely to be used by the target fund and aligned with the impact pathway. Where possible and meaningful, Golding aligns output indicators with the IRIS+ framework.

Given that target funds will make investments in portfolio companies after Golding has committed to the target funds, it will not be possible to define a final, comprehensive set of output indicators at the time of a commitment. The fund will define most output indicators when a new investment into a portfolio company is made.

At such time, the fund selects an output indicator from the preliminary set or defines a new one if appropriate. Output indicators for individual portfolio companies should not be changed retroactively unless a portfolio company adds new business streams or pivots from its original business model.

Additionally to the output indicators, Golding has defined a set of impact metrics to estimate the aggregated environmental and societal benefits of an entire portfolio of funds and companies.

Golding seeks to align these impact metrics with the EU taxonomy and SDGs where possible. In line with the impact pathway, impact metrics are calculated using the output indicator of a portfolio company as the basis and typically require the integration of additional and sometimes subjective assumptions, such as the usage of a product and assumptions about the counterfactual outcome that would have occurred in the absence of the product or service.

We expect that impact metrics will be calculated using a mix of recognised industry proxies, baseline surveys, scientific evidence, and consumer surveys. Benchmarks and counterfactuals for the relevant impact metric will be decided on a case-by-case basis for each company, taking into account the specific impact pathway.

**From a Fund of funds perspective, what aspects do you look at when sourcing funds?**

Golding has described an overall impact investing strategy consisting of several themes that align with impact and financial performance targets. We call them Golding Impact Themes. Golding has researched and identified fund strategies for each impact theme, which are attractive both from a commercial and an impact point of view.

We hence look for target funds with strategies aligned with our impact themes. To understand to what extent a potential target fund is aligned with our impact themes, we conduct an impact due diligence, including the development of an impact pathway and the description of the five dimensions of the Impact Management Project.

Additionally, we also verify to what extent a fund manager will be able to fulfil our reporting requirements, particularly related to the new SFDR. Other than that, our commercial, ESG, legal and reporting DD is very comparable to the DD that our colleagues from the Golding buyout team would conduct.

**From a GP perspective, what do your LPs usually ask you about impact reporting?**

Compared to what we saw ten years ago, there are many fantastic new impact reporting initiatives out there that we can use as investors. So far, most initiatives have been private, but we do see regulatory authorities taking action. The EU Taxonomy and SFDR are probably the two most relevant tools to streamline and define sustainable investments.

Many investors are educating themselves about ways to manage impact as we speak. One common problem that large asset managers face is the issue of comparability of impact performance. It is very difficult to compare, e.g., a reduction in chemical use with a reduction in plastic waste. Both types of impact are clearly good for the environment, but I would not be able to judge if one or the other is more impactful.

When you look at social impact, it becomes even more complicated. Maybe it is also not necessary to compare impact performance across different types of impact since we face several challenges that need to be solved simultaneously. It is interesting to observe how specific ways to report on impact seem to prevail, and others remain more niche solutions.

At the moment, for instance, it looks like the concept of the impact pathway has become more and more adopted. Observing the market over time will remain exciting as innovations are being added.

**How does Golding contribute to promoting resilient economies and long-term prosperity across the globe? Can you give us an example of a successful investment on this front?**

We are currently closing the first two investments from our new impact fund. It is too early to share names, but I can already reveal that one fund focuses on climate tech in Europe and the other on inclusive fintech in emerging markets. I am very proud that we will have them in our portfolio soon. Both fund managers have been impacting pioneers investing in the space for many years and have not only fantastic track records but have also shown real dedication to the topic.

Next to the investment activities, Golding has launched an Impact Taskforce. The Impact Taskforce is an internal Golding body with members from different parts of the organisation. It has the mission to make impact a core pillar of our culture and operations.

The task force has been operational since 2021. It has already begun introducing fantastic initiatives to combat climate change, protect the environment, become an employer of choice for everyone, and make a positive social contribution to the community. We have hence embarked on a promising impact journey.

# INDUSTRY INTERVIEW

Kaizenvest

Sandeep Aneja is the Founder & Managing Partner of Kaizenvest, an education-focused fund management firm headquartered in Singapore.

He is responsible for overseeing the firm's strategy, growing operations across regions, driving the company's thought leadership and building the firm's investor and entrepreneur networks across the globe.

He has 25 years of experience in private equity, investment leadership, consulting and operations management. His passion is to work closely with entrepreneurs who have a deep sense of purpose similar to one that led him to establish Kaizenvest.

Under Sandeep's leadership Kaizenvest has established itself as the only education sector focused fund manager with private equity and private debt funds across South Asia, South East Asia and Sub Saharan Africa.

Prior to founding Kaizenvest, Sandeep spent seven years working in the Silicon Valley. During his time there, he was a Partner at Outlook Ventures, a leading US-based venture capital fund, where he was involved in 11 investments and delivered superior returns to his investors.

He also served as a board representative for the firm's portfolio companies, providing active support in areas of sales operations, business development and product marketing leadership. Sandeep sits on the boards of various education companies across the Philippines, Vietnam and India.

**On a personal level, what made you start working with impact investing?**

I learned about investing in Silicon Valley. First at a venture incubator and later at a venture capital firm focused on technology and consumer investments. Innovation to disrupt the status quo with the objective of transforming an already existing business with technology or creating an altogether new solution to a problem that has not been addressed adequately.

While that is impactful for much of the developed world, such technology-based solutions are often not immediately relevant to developed markets. In 2008-09 when I moved back to India after more than 15 years in the US with the intention of starting an investment firm, I reviewed the investment opportunity set from a fresh perspective and examined sectors such as logistics as India's supply chain was known to be challenged, affordable housing given the obvious need, healthcare and education.

My objective was to drive capital to areas that had traditionally not seen adequate smart capital. One of the lessons from my Silicon Valley investing days that stayed with me was the value of smart capital in driving accountability, bringing structure to businesses, and driving entrepreneurs and business owners to well-thought-out targets and measuring performance against them in a constructive manner. This discipline made capital use well-directed and efficient.

Applying this to capital-starved sectors could drive innovation and accountability. At that time, around 2010, impact investing was not a common term, but we were seeking double bottom line returns – the first being financial return on capital and the second being social return on capital. My philosophy was that in sectors such as healthcare and education, both these types of returns would align in the long run.

These sectors appealed to me, particularly in India, as I had witnessed well-functioning and well-funded education and healthcare systems in the US. Many of my US friends may not agree with this in absolute terms, but in relative terms, the argument stands. I believe that the core of investing is about working with people, and learning, unlearning, and re-learning a sector is a matter of time and effort.

Despite my successful technology investing career, I was enthusiastic about learning a new sector and investing in bringing financial and social returns to my investors and other stakeholders. Impact investing became an obvious by-product of this philosophy underlying my own entrepreneurial journey.

**Kaizenvest is an Asian investment firm focused entirely on education, which is unique. How is impact embedded in Kaizenvest's overall investment strategy? How does your company contribute to the long-term prosperity of Asian economies?**

Currently, we are the only investment firm in emerging Asia focusing on education. It puts us in a unique position to keep both the investment and thought-leadership bars high. Being the leading sector investors in emerging Asia, with the ambition of building a globally emerging markets firm, it is imperative that we view this as a long-term investment opportunity.

Therefore, we are value investors and not momentum or trend investors. This shows up in our portfolio, which is a good mix of innovative companies that use finance, technology and pedagogy as innovation tools and target some of the most profound social challenges through profit-oriented models.

At the very core of our investment strategy is our belief that providing good learning solutions to our customers will drive them to come back, which will not only drive positive learning outcomes and financial returns. The true impact is sustainable, and there are multiple routes to achieving impact. What matters a lot is the local context. For example, impacting the education system in the US would often require working closely with local governments, including school districts.

It would entail driving ROI and social inclusion in society segments with some level of technology and finance access. In emerging markets, where state interventions are the only option for the most marginalised segments, the impact of such interventions is limited. Therefore, direct-to-consumer or innovative access solutions must be designed to bring brand-new learning opportunities to massive segments of society. Therefore, innovation in emerging Asia often needs to combine aspects of technology, finance and pedagogy to create a holistic, impactful offering.

Kaizenvest's education investing solves three large social challenges facing most regions: Access, Quality and Relevance or AQR, as we call it. Every company we invest in has to be aware of which of these three challenges they are targeting and must be willing to design their business models and organisation structures to align with the social challenge the company is targeting.

Most seasoned entrepreneurs get this viscerally, even if they cannot articulate their impact thesis in AQR terms. They instinctively design their business models in ways that align with the social challenge they are targeting.

It is our job to a) ensure that there is an explicit understanding of this prior to investing (this shapes our diligence process); b) work with companies after investment to measure performance against these targets (a key part of our portfolio monitoring work); c) to be responsible for exits and drive responsible exits as learning needs to continue even after we exit. So, in practical terms, we always attempt to find alignment between impact and financial returns.

For example, our investments provide direct and indirect employment opportunities. Direct is obvious. Indirect is a bit nuanced and very powerful. One of our companies, Founding Years, in India, was built with the express purpose of bringing women back to work after a maternity break. When a mother returns to work, she often hires house help.

House help is often a woman who can now directly see the impact of education on the life of the family she is helping. In almost every such situation, this is known to drive the desire for education for her own kids, and she often seeks to better understand education options for her children. This is hard to quantify, but it is known to bring many first-time learners into the education system.

Another company in India, Varthana, lends to affordable private schools, which are often owned by women entrepreneurs and have little to no access to financial support from the formal system. There are about 400,000 such schools in the country. The long-term impact shapes regions that otherwise did not have access to meaningful learning opportunities.

Phinma Education from the Philippines supports nearly 100,000 learners across 10+ institutions. Operating at the bottom of the pyramid, Phinma's customers come from the bottom of the pyramid. Courses offered have employment as the primary focus: nursing, teaching, police work/criminology, accountancy, IT and healthcare.

It is no-frills education at its best, and Phinma operates with the philosophy of profoundly integrating with the societies in which it operates. Phinma, with its strong student retention program, transforms the future for these learners who otherwise would have dropped out of the education system altogether.

These are some concrete examples of how our companies shape the economic growth and long-term prosperity of Asian economies.

**How does Kaizenvest integrate a social and environmental lens into its investments?**

Education is a gift that keeps giving! A learned individual can impact numerous more in their lifetime and direct social change through the experience of their learning journey. While the lack of education in society does not manifest itself in immediate social or environmental damage such as air pollution, rising temperatures or worse, access to quality learning is bound to build awareness of social ills and a more profound and logical understanding of the relationship between our actions and environmental issues. This is because learning was always designed to drive either philosophy of life itself or better livelihood.

The latter is known to impact key social and environmental challenges directly. For example, access (financial inclusion, gender inclusion, non-neurotypical student inclusion, to name a few); quality (learning outcomes, and livelihood); and relevance (a broader understanding of life such as to be able to participate and influence work that makes life better for those around us, including such issues as climate change).

We measure and report the achievement against targets, such as first-time learners, marginalised learners, female learners, direct jobs, indirect jobs influenced, female jobs created, increased income realised, additional capital mobilised by our companies, and others.

We also aim to drive our companies to be good environmental citizens by driving towards climate consciousness and positively influencing the local circular economy. Our future funds will include direct climate targets, including building carbon-neutral businesses and focusing on LEED certification programs for buildings of institutions we fund.

**Apart from SDG 4 Quality Education, are there other SDGs and impact themes Kaizenvest is focused on?**

According to the UN SDG Charter, SDG4 is pivotal and directly influences other SDGs such as Good health and wellbeing, No poverty, Reduced inequalities, Gender equality, Sustainable cities and communities & Decent work, and economic growth. Our core impact focus directly influences these impact themes. Therefore, the relationship between SDG4 and each of these six directly impacted SDGs is quite logical.

**Is there a specific tool or framework Kaizenvest uses to source and screen for companies, especially in the private equity market?**

We use our proprietary Access Quality Relevance (AQR) framework, which is likely the most comprehensive education impact framework. We use it at all stages of our engagement with the company, including sourcing, diligence, portfolio monitoring and exit.

For example, from a selection perspective, entrepreneurs that set out to solve the access challenge are likely to be capable of raising large amounts of capital as access is an expensive problem to solve. In addition, they should be able to inspire through their vision as access solutions take a longer time to show up in performance data and should have a team that complements their strategic bent.

From a diligence perspective, for example, companies solving for education quality often put their product first and tend not fully to focus on marketing and sales. So, we often dive into the company's intention and capability in this domain. At a portfolio management level, companies solving for quality need to be capital efficient. Very likely, they would get acquired by a larger strategic player as an add-on to an access solution built with a much heavier investment over time.

So, fiscal management is a key part of such companies (of course, it is important for all but more so here). These are some of the examples of real-life implementation of impact investing thinking in all elements of our investment process. I am quite proud to state that this marriage between impact and investing is very well implemented at Kaizenvest and goes beyond glossy reports.

**Kaizenvest has launched Kaizen Private Equity III Fund. Can you explain the reasoning behind this strategy and add some highlights?**

We believe education is transformative for societies, and its impact is profound and long-term. Unlike in Western Europe or North America, where the public sector well funds education, the best education systems in emerging Asia are often supported by the private sector. Therefore, our capital is essential to drive access to good quality education to the masses through a combination of technology, finance, and pedagogy-led innovations.

While we are wrapping up our last investment from Fund II, we are now launching Fund III as we have had two exits already from Fund II (out of 7 investments made to date), and more exits are on the horizon. Fund III expands on Fund II in terms of the number of deals but keeps the core of the strategy the same. We will continue to focus our investments on learning innovation space in key emerging countries in South and South-East Asia.

Our preferred investment stage can be described as early growth where the business model is clear, the team is well-formed but needs some upgrade, unit economics are predictable, but some more work is needed in areas that drive margins. So, there is still an opportunity to create alpha. We like to support our companies as actively as is required.

Kaizenvest usual engagement model centres around our COGS (culture, organisation, governance and sales) philosophy. Not all companies need our support in these areas, but we have ready tool kits in them if and when they need them. A project management approach to portfolio monitoring distinguishes us from other investors.

**What do you see as common challenges to investing in education? How does Kaizenvest deal with them?**

Some common challenges to investing in education are related to understanding that education is a very local solution. While e-commerce, for example, is local too, it is common to see global e-commerce companies because there are real economies of scale in merchandising, sourcing, marketing/branding, etc. Education requires understanding how the elements of the product, technology, human resource and branding come together to build a company or an institution that is socially and environmentally relevant locally.

A clear understanding of these elements is the most challenging aspect of investing in and growing education companies. It is one thing to advertise shampoo on Instagram; it is another thing to have a professor of data science offer a complimentary lesson so students can experience the quality on youtube or face-to-face. So, investors are best positioned for education and many other similar sectors if they are local.

A second challenge that has been more or less solved is that until five years back, most education entrepreneurs were ex-teachers. Professional entrepreneurs have entered the domain, which has been accelerated through the Covid-19 pandemic, which puts education right in the centre of an investable asset class. More can be done here, and we are a party to the sector's evolution.

**What do you see as upcoming trends in the Asian market this year?**

The shadow of the post-pandemic world and the ongoing conflict has resulted in a situation where inflation, high-interest rates and reduced liquidity are real factors. Companies will have to drive businesses towards capital efficiency and use technology more actively and judiciously to drive customer engagement and realise stronger unit economics.

The next two to three years will see a lot more consolidation of two different types: larger, well-funded companies acquiring smaller ones and less sustainable business model-based companies seeking exits.

We are also seeing EdTech companies that raised huge amounts of capital until recently looking at acquiring offline businesses to drive faster towards profitability and also towards offering blended learning offerings to their students.

Additionally, we are already starting to see valuation multiples come down and a rush of capital towards quality.

Lastly, I can see much more consciousness towards ESG/impact investing in Asia. The movement is palpable, and I am excited.

# PHENIX IMPACT FUND ASSESSMENT

Phenix Impact Fund Assessment is a proprietary framework developed in close consultation with institutional asset owners and industry leaders, for the purpose of **assessing the robustness of a fund's impact proposition**.

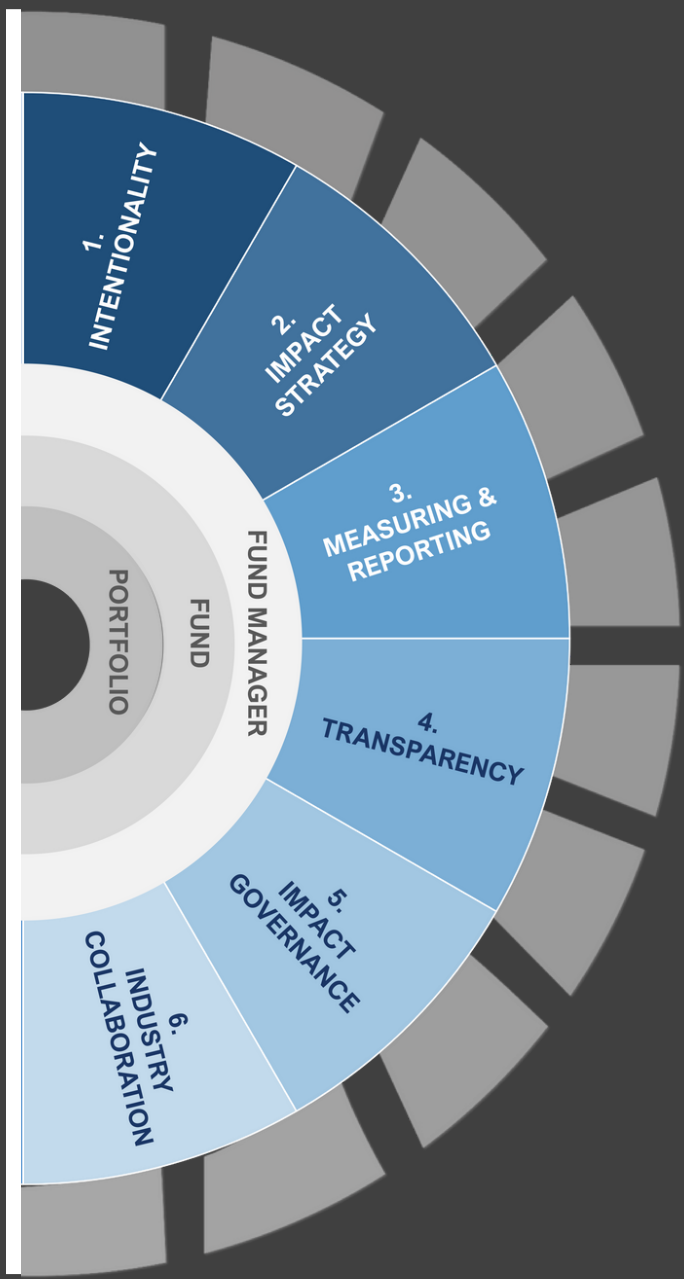
On 6 themes and 33 criteria, it examines to what extent the policies, procedures and human resources are in place to deliver the impact that a fund aims to create.

## ASSESSING THE ROBUSTNESS OF IMPACT FUND PROPOSITIONS

**Uncover strengths and weaknesses**

**Adopt industry best practices**

**Prepare for institutional impact due diligence**




PHENIX IMPACT FUND ASSESSMENT

VISIT SITE >>>

# GLOSSARY & SYMBOLS

**Committed capital:** Amount committed in a fund vehicle by its limited partners / investors.

**Developed markets**: We include Europe (excl. Eastern Europe), North America, Asia Pacific (Singapore, Japan, and South Korea only), Oceania (New Zealand, Australia) Middle East and Africa (Israel only).

**Direct lending:** A specialised form of private debt, in which loans are made to middle-market companies. It is the private debt strategy with lower risk, achieved by using collateral.

**Emerging markets:** We include Latin and Central America, Asia Pacific (excl. Singapore, Japan, South Korea), Middle East and Africa (excl. Israel) Europe (Eastern Europe only).

**Fund managers:** Organisation managing commingled, pooled and customised vehicles invested by institutional asset owners. Also called General Partner or GP.

**Global:** Funds that have an investment geographic scope encompassing both developed and emerging markets.

**Impact investing:** Investments with the dual mandate of financial return and positive societal or environmental impacts, with the notion of measuring the positive and negative impact of investments, ensuring both intentionality and additionality among these.

**Institutional asset owners:** Outsourced CIOs, pension funds, insurance companies, family offices, sovereign wealth funds, endowments, foundations, banks, fiduciary managers, discretionary investment consultants. Also called Limited Partner or LP.

**Market targeted:** Markets fund managers target for their investments: We include Global, Developed markets, Emerging markets.

**Mezzanine**: A specialised form of financing in which loans are subordinated to banks, with no collateral. It is the most equity-like form of private debt.

**Microcredit**: A common form of microfinance, characterised by small loans to individuals or small companies.

**Private debt:** Debt instruments to companies: direct lending, mezzanine, microfinance strategies.

**Public debt:** Publicly traded fixed income securities: investment grade or high yield, focused on green bonds and municipal and community infrastructure and affordable housing issuers.

**Regions targeted**: Regions fund managers target for their investments: We include Asia Pacific (East Asia, Central Asia, South Asia, South East Asia), Europe (Western Europe, Eastern Europe), Global, Latin and Central America, Middle East and Africa (East Africa, Middle East, Northern Africa, West Africa, Southern Africa), North America, Oceania.

**Target fund size:** Amount the fund manager is targeting when raising capital.

**Vintage**: Year where the fund manager first calls capital from investors.

Full glossary: www.phenixcapitalgroup.com/impact-investing-glossary

# DISCLAIMER

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