The impact of impact investing on private investment

Jim Whittingham, Co-Head of Private Equity – UK, lifts the lid on the trends driving impact investing in private equity, and how fund operations are evolving to meet investor demands

Has there been a shift in attitudes to responsible investing across the private equity sector in recent years?

I'd start by highlighting that social impact funds have existed for many years. For these managers and their longstanding investors, there hasn't been a shift – responsible investing has been the norm since day one. Where we have seen a shift is in the recognition that broader funds can introduce responsible investments into their portfolios without sacrificing financial returns. And this shift is often driven by investor demand.

There's a general perception that more funding is needed for social and responsible initiatives, from public health and education to the environment and housing. Many investors are paying attention to the mood and are looking to use their reserves, and many managers are in turn searching for opportunities to successfully pair sustainable, consistent financial growth with sustainability for people and planet.

Clients tell us that they are increasingly being tested on ESG principles by their investors, but many are also being driven to specifically allocate investors' commitments more responsibly. And that's not a bad thing.

Has this led to an impact on fund operations?

Yes and no. Funds that diversify into having a more responsible remit are judged on more than their bottom line and their potential for a successful exit; success factors are also diversified, and the operational team must therefore develop an understanding of how day-to-day operations can contribute to those factors. This

is especially true of investor reporting, where utmost transparency becomes vital and details of social or environmental developments will need to be evidenced alongside the standard financial figures. Reporting starts to become a game of uncovering ‘unseen’ benefits and value progression, as well as investor returns; the challenge here being how this information is captured and presented to a wide range of investors – many with different reasons for investing in a responsible fund.

That said, fund administrators must be adaptable by nature; it comes with the territory of operating funds for many clients, all with unique operational requirements and different investor profiles. So, the shift to more responsible investing has affected the administration of those funds involved, but operational teams are seasoned and creative when faced with variety and challenge. Given a clear brief and a well-defined scope, these teams will be able to tailor their approach to the most socially conscious managers and investors out there.

How about governance?

Both stand-alone social impact funds and broader funds diversifying their allocations with impact investing are bona-fide investment opportunities for professional investors – and they should be run as such. Corporate governance, compliance and experienced advisory boards have as much importance in this space as they would a ‘traditional’ PE fund, if not more so, given the extra levels of scrutiny that the social agenda brings.

What’s the long-term outlook?

Positive. And not only for those socially focused funds that will benefit from increased investor demand, but for the wider private equity sector as well. It’s a sector that is often misrepresented to the public; one of cost-cutting, asset-stripping and quick exits. As demand from investors tips the balance further toward the impact agenda, there is an opportunity to raise the transparency bar while revealing the underlying social benefits that well-targeted, responsible private investment can bring.