

FINANCING THE SUSTAINABLE DEVELOPMENT GOALS: **IMPACT INVESTING IN ACTION**





In order to truly contribute to the achievement of these goals by 2030, **impact investors must raise and direct new capital** to address these pressing social and environmental problems.

Acknowledgments

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Executive summary

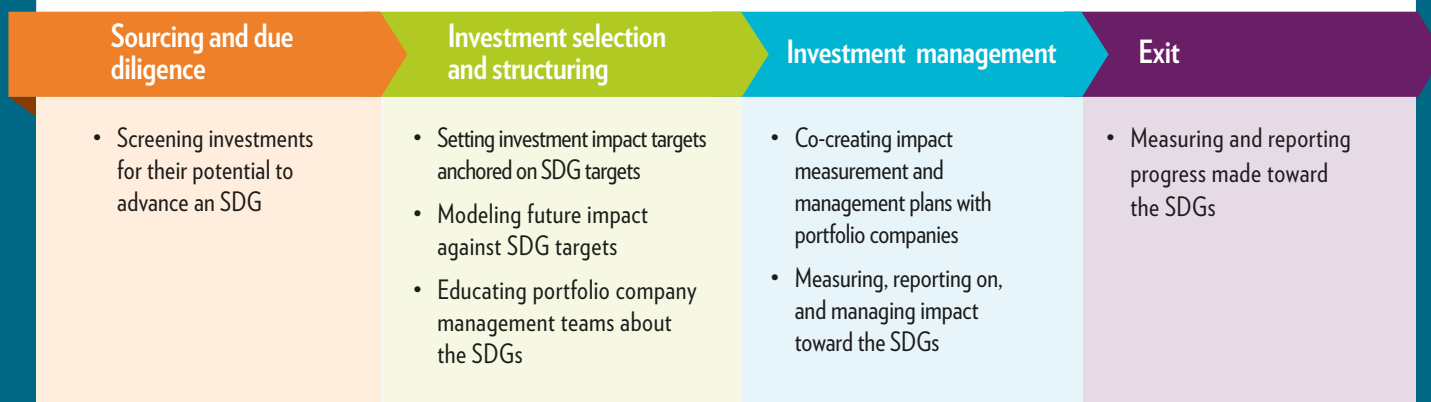
The United Nations Sustainable Development Goals (SDGs) are an ambitious and universal call to action to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity. The SDGs also present a tremendous opportunity for investors to support this global agenda by deploying increasing amounts of capital to high-impact projects that address these critical societal challenges.

In 2016, the GIIN profiled how impact investors were mapping their existing portfolios and impact themes to the SDGs, to demonstrate how their impact investments were aligned to the global goals. Last year, more than half of impact investors reported tracking some or all of their impact performance against the SDGs, showcasing the potential for impact investing to catalyze progress towards the goals.¹ However, in order to truly contribute to the achievement of these goals by 2030, impact investors must raise and direct *new capital* to address these pressing social and environmental problems.

A handful of impact investors have begun to create products, raise capital, and make new investments that directly target progress toward the SDGs. Going beyond aligning and retroactively mapping impact to the SDGs, these investors proactively target and incorporate the goals at various stages of the investment cycle, thus making them the central focus. Of the levels of guidance provided by the SDGs – goals, targets, and indicators – impact investors notably have adapted all three for use in their work.

These case studies show the increasingly sophisticated and targeted ways in which impact investors are directing capital towards the SDGs, designing products to address one or several goals, by incorporating them throughout the investment cycle: during sourcing and due diligence, investment selection and structuring, investment management, and exit.

SDG integration throughout the investment cycle



Impact investors have shown that their social and environmental goals are aligned with the SDGs. Next, all industry players—across asset classes, target returns, geographies, and sectors of investment—must act intentionally toward achieving the SDGs. By incorporating the goals into fund raising, product development, and throughout the investment cycle, impact investors can make meaningful contributions towards the achievement of these global goals by 2030.

¹ Abhilash Mudaliar et al., *2018 Annual Impact Investor Survey* (New York: The GIIN, 2018), https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf

Blue like an Orange Sustainable Capital Latin America Fund I

Overview

Blue like an Orange Sustainable Capital targets SDGs 1, 3, 4, 5, 11, and 12 through its Latin America Fund I (Fund) by making investments in sustainable infrastructure, agribusiness, healthcare, education, and access to finance, with a focus on gender equality across all of these sectors. For the Fund, the organization is collaborating with IDB Invest, the private sector arm of the Inter-American Development Bank (IDB) to catalyze private debt capital into companies in Latin America and the Caribbean. The Fund has integrated the SDGs into due diligence, impact target-setting for each investment, and impact monitoring throughout the duration of each loan.

SDGs TARGETED



SDG: 1 No Poverty
SDG: 5 Gender Equality

SDG: 3 Good Health and Well-being
SDG: 11 Sustainable Cities and Communities

SDG: 4 Quality Education
SDG: 12 Responsible Consumption and Production

BLUE LIKE AN ORANGE Sustainable Capital

Fund name	Blue like an Orange Sustainable Capital Latin America Fund I
Fund manager/Investment advisor	Blue like an Orange Sustainable Capital
Headquarters	USA
Inception year	2018
Asset class	Private debt
Geographic focus	Latin America and the Caribbean
Average ticket size	USD 15 to 30 million
Key impact metrics	<ul style="list-style-type: none"> • Number of people with access to sustainable infrastructure • Number of clients with access to financial services • Number of people with access to social services



Primary school in Guatemala. Photo: Maria Fleischmann / World Bank

Fund structure

Through its Fund, Blue like an Orange invests mezzanine debt primarily in Brazil, Chile, Colombia, Mexico, and Peru, although it expects exposure across the region. Commercial banks are not meeting the demand for loan capital in the region, and mezzanine debt provides flexibility for borrowers and attractive returns for investors. The Fund invests in several sectors and aims to balance its portfolio as follows: 40% of capital in investments in sustainable infrastructure, 30% in investments that facilitate access to finance, and 10% of capital each in agribusiness, healthcare, and education.

In June 2018, Blue like an Orange entered into a co-financing framework agreement with the private sector arm of the Inter-American Development Bank (IDB) Group, IDB Invest. Through this agreement, transactions that meet certain eligibility criteria may be co-financed by Blue like an Orange and IDB Invest.

As a development finance institution (DFI), IDB Invest assesses and monitors development effectiveness throughout the life of each of its transactions, using its proprietary evaluation system called DELTA. By using DELTA, IDB Invest can rate the potential impact of a given transaction at the outset, set targets, monitor environmental, social, and governance (ESG) compliance, and align its impact with the SDGs. Therefore, by co-financing transactions with IDB Invest, Blue like an Orange can benefit from this tool, enhancing the ability to offer investors state-of-the-art impact reporting.

“If you can invest private capital and proactively say what impact you’ll have against the SDGs, then you are mapping progress proactively, rather than retroactively. To me, that’s taking the goals really seriously, which is what we should all be doing.”

– Suprotik Basu, Partner & Founder

SDG strategy in practice

Motivations

Blue like an Orange developed the Fund to invest in the SDGs at scale. Several of the organization’s founders have extensive experience at the World Bank or the UN and are well-versed in frameworks for international development. The founders view the SDGs as an opportunity to include more stakeholders in the advancement of sustainable international development; engaging private capital, they believe, could scale development in unprecedented ways. Although the Fund focuses on six core SDGs, it acknowledges that many goals are interrelated, and the fund may create possible impact toward goals that are not intentionally targeted.

SDG integration throughout the investment process

Sourcing and due diligence

Blue like an Orange incorporates the SDGs into each step of deal sourcing and due diligence. In a preliminary investment memo, the Fund's deal sourcing team must demonstrate to the investment committee how potential investments will contribute to the SDG, mapping to the goals, targets, and indicators. A second investment memo that includes additional ESG and impact data must explain how the loan will fit into the overall portfolio, given the SDGs it addresses and the sector of investment. Finally, the Fund estimates the projected SDG impact at the target level. To reach a final decision, the investment committee examines the projected SDG impact, along with the investment thesis.

Investment selection and structuring

For each investment it makes, Blue like an Orange will work with company management to set impact targets using the SDGs and their underlying targets and indicators. Blue like an Orange emphasizes the importance of setting objectives according to these underlying SDG targets and then managing an investment's impact toward those targets.

Investment management

Blue like an Orange will compare an investment's actual impact to its projected impact, and track progress against the SDG targets and indicators. If a company is not meeting expectations on its contributions to the SDGs, the Fund will engage with company management directly, or through IDB Invest to develop a plan for improvement. Annual reports of progress against the SDG targets will be provided to the fund's LPs.



Sustainable coconut farm in Brazil

Investment example

Investment Description	The project sustainably manufactures and processes coconut water, and other products in Brazil, and it sells its products under its own brand in Brazil and internationally. It currently has over 42,000 points-of-sale and the number is projected to increase substantially. The project's goal is to redefine the entire coconut product value chain by becoming the leading producer and innovator in the sector, and to develop a culture of operational excellence, managing resources in a responsible, sustainable, and profitable way.
Geography	Brazil
Investment Amount	USD 30 million
Financing Duration	7 years
Instrument	Mezzanine debt
Financing Details	The loan will be distributed in tranches, with an initial tranche of USD 10 million, and it will have a 3-year grace period on the principal.
Contributions to SDG Target	SDG 5 – Gender equality Target 5.5 – Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life SDG 12 – Responsible consumption and production Target 12.2 – By 2030, achieve the sustainable management and efficient use of natural resources Target 12.3 – By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses.
Social Impact	The project hires women in management and science positions on the farm. It develops local knowledge by training and hiring local workers and supporting the local school.
Environmental Impact	The project follows a “zero-waste-policy” using all parts of the coconut in production, and it is committed to preserving the neighboring rainforest.

“The SDGs are a force for good and a motivation for the industry. I was very involved during the MDG [UN Millennium Development Goals] era, and I'm seeing much more private sector traction now around the SDGs. There is a much wider stakeholder group, which is encouraging.”

– Suprotik Basu, Partner & Founder

Advice for other investors

Blue like an Orange strongly believes in using the SDGs proactively throughout the investment process. The fund suggests that as fund managers create SDG-focused investment vehicles, they consider from whom they aim to mobilize capital, focusing on those SDGs about which their investors are passionate. Blue like an Orange notes that the SDGs should be integrated from the beginning stages of fund construction, which will help fund managers be intentional about their goals with respect to the SDGs. Managers should consider asset class and time horizon as they project their potential impact against the SDGs.

Blue like an Orange Partner and Founder Suprotik Basu, who oversees the company's impact measurement efforts, notes that fund managers should take the goals seriously, holding themselves accountable for progress against them. They should be forthcoming and honest about results to maintain the rigor and integrity of the SDGs as a framework for impact strategy.

Outlook for the industry

Blue like an Orange views the SDGs as a motivational force for good in the impact investing industry and has seen a wide group of stakeholders engaging with the goals. Currently, momentum and enthusiasm are generating interest and beginning to move capital towards funds built around the SDGs. Blue like an Orange's Suprotik Basu acknowledges the risk of diluting the effect of the SDGs if they are not employed seriously and rigorously and if real progress towards the SDGs is not generated. Such “SDG-washing” could cause cynicism in the financial industry about the SDGs, but this risk can be mitigated by sound approaches to impact measurement and management to ensure that tangible progress is made towards the global goals.

Incofin Investment Management

Overview

Incofin Investment Management is an international private equity and debt fund manager that makes investments in financial services and agriculture in developing countries around the world. In 2018, Incofin integrated the SDGs into its four-part impact and investment methodology – impact thesis, social and environmental performance audit, measurement, and responsible exit. By incorporating the SDGs into its due diligence and investment management process, Incofin aligns all new investments to the goals. Across its six active funds totaling USD 1 billion, Incofin sets and tracks impact indicators, which it has mapped to the SDGs to monitor and report on progress toward the goals.

SDGs TARGETED



SDG: 1 No Poverty

SDG: 6 Clean Water and Sanitation

SDG: 11 Sustainable Cities and Communities

SDG: 16 Peace, Justice and Strong Institutions

SDG: 2 Zero Hunger

SDG: 8 Decent Work and Economic Growth

SDG: 12 Responsible Consumption and Production

SDG: 17 Partnerships for the Goals

SDG: 4 Quality Education

SDG: 9 Industry, Innovation and Infrastructure

SDG: 13 Climate Action

SDG: 5 Gender Equality

SDG: 10 Reduced Inequalities

SDG: 15 Life on Land



Fund manager	Incofin Investment Management
Headquarters	Belgium
Inception year	2001
Current impact investing AUM	USD 1 billion
Asset class	Private equity and debt (along with technical assistance)
Number of investments to date	60 investments (of 1,141 total) using the SDGs in the investment process
Target returns	Market rate
Geographic focus	Global emerging markets, with investments in more than 65 countries
Sectors of investment	Financial services and agriculture
Types of investors	DFIs, banks, insurance companies, pension funds, retail investors, high-net-worth individuals, and funds



De los Andes coffee cooperative in Colombia. Photo courtesy of Incofin Investment Management

Funds

With USD 1 billion in assets under management, Incofin has incorporated the SDGs into its due diligence and investment management process across all its managed and advised funds:

- Incofin India Progress Fund (2019 – 2029), an India-specific private equity fund focused on enterprises leveraging technology in financial services and the food and agriculture value chain.
- Incofin Inclusive Finance Fund (2018 – open ended) invests in financial inclusion while targeting market-rate returns.
- agRIF (2015 – 2024), a hybrid equity and debt fund focused on enhancing financial inclusion of smallholder farmers and rural agricultural micro, small, and medium enterprises (MSMEs) in emerging economies.
- Rural Impulse Fund II (2012 – 2020), makes equity and debt investments in microfinance institutions in disadvantaged rural areas.
- Fairtrade Access Fund (2012 – open ended), an evergreen debt fund focused on fair and sustainable agriculture.
- Incofin cvso (2001 – open ended), an evergreen cooperative fund that invests debt and equity in sustainable microfinance institutions serving small entrepreneurs.

SDG strategy in practice

Motivations

In Incofin's view, given their wide recognition, the SDGs are an effective and practical framework with which to align its impact strategy. Incofin has incorporated the SDGs into its existing Impact Methodology, thereby aiming to apply the SDGs in a way that is practical for Incofin, its investees, and investors. Incofin reports on progress toward the goals, allowing investees to demonstrate their progress towards the SDGs and enabling investors to see the impact of their capital.

“The response from our investors regarding our application of the SDGs has been overwhelmingly positive. They appreciate that we don't just communicate on the SDGs on a superficial level. By mapping each indicator to a SDG target, we are able to substantiate our alignment and contribution to the SDGs in a practical and tangible way. We're not just saying we align with the SDGs, but we're showing how.”

– Togo O'Brien, Corporate Development Manager

SDG integration throughout the investment process

Incofin made a strategic decision to update their impact methodology last year, incorporating the SDGs into its due diligence and investment management processes. The SDGs inform Incofin's investment decision-making and investment management, as well as its Technical Assistance offerings.

Sourcing and due diligence

Incofin first seeks to ensure that investees contribute to its broader social, environmental and commercial goals. For example, all agricultural investees must demonstrate sustainable practices, often reflected by sustainability accreditation (such as Fair Trade, Organic, or Rainforest Alliance certifications).²

Incofin then develops impact indicators mapped to the SDG targets, against which investees are evaluated. Potential investees receive a weighted score reflecting their contributions to the SDGs, and all those considered for investment must meet a minimum score. The evaluation also identifies areas for investees to improve and informs Incofin's provision of Technical Assistance.

Investment selection and structuring

Incofin collaborates with each investee to develop a tailored impact strategy and to document how they plan to measure and improve the investee's social and environmental impact together.

Incofin and its investees develop impact indicators, mapped to their relevant SDG targets, on which investees agree to track and report. Through this process, Incofin educates its investees and their end clients about the SDGs and ensures that the indicators are practical, measurable and useful.

Investment management

Incofin measures and reports annually on investees' performance against the impact indicators. An 'impact output dashboard' is produced for each investee, showcasing the investee's contributions to the SDGs and overall impact objectives going forward.

Aligning impact indicators to SDG targets benefits investees, who can use these indicators to communicate their social and environmental impact within a globally recognized framework.

Exit

At exit, Incofin clearly communicates the impact created toward the SDGs and associated indicators to investors.

² Rainforest Alliance certifies social, economic, and environmental aspects of farms using the Sustainable Agriculture Network standards. For more information see: <https://www.rainforest-alliance.org/faqs/what-does-rainforest-alliance-certified-mean>.

Investment example

Investment description	Long-term financing for the largest Colombian coffee cooperative, the de Los Andes Cooperativa (Cooperandes). The cooperative offers social programs for its 3,500 members and leads initiatives to improve environmental sustainability.
Geography	Colombia (Andes, Antioquia)
Investment amount	Multiple investments totaling USD 4.5 million
Financing duration	5 years (long term loan); 12 months (trade finance)
Instrument	Long term loans, trade finance, and technical assistance
Financing details	In early 2017, Incofin financed Cooperandes (from the Agrif and Fairtrade Access Fund) to build a new centralized wet mill to service 1,000 smallholder farmers. Centralizing wet processing allows each farmer to focus on growing high-quality coffee instead of processing coffee themselves, which saves farmers time and resources. The mill also contributes to efficient water usage and effective water treatment that reduces contamination of local streams.
Contributions to SDG targets	Incofin's Social and Environmental Performance Audit found 88% alignment to the SDGs overall and strong to full alignment to SDGs 1, 2, 4, 5, 6, 8, 9, 10, and 16. This investment will make progress toward 15 targets across these nine SDGs.
Environmental impact	Wet processing facilities often have rudimentary water treatment systems that cause excess water to contaminate local streams. The central wet mill has a strict water treatment system, protecting local water sources from contamination and reducing water used from 40 liters to four liters per kilogram of coffee processed. The mill also uses waste from the coffee husking process to fuel the boiler and excess pulp is sold to farmers as fertilizer. Cooperandes is Rainforest Alliance and Fair Trade certified.
Social impact	Cooperandes offers its members educational programs, microcredit, and programs like a minimum price guarantee, future sales of coffee, and price fixing.
Impact measurement	Incofin and Cooperandes will track indicators such as percentage of coop members and hectares certified as sustainable or organic, members who are women, and management and board members who are women.

Advice for other investors

As more investors begin to examine their impact with respect to the SDGs, Incofin highlights the importance of thoroughly understanding one's business, intentions, and investees. Dina Pons, Partner and Impact Manager, notes that "it is easy to align any impact claim to an SDG. To conduct a rigorous SDG alignment exercise, we first map out an investee's social mission against a broad list of SDGs, and then narrow it down to focus on the most relevant Goals to the investee's business reality." By doing this, Incofin does not force the SDGs into the conversation, but rather uses them as a useful framework to guide their impact work.

Incofin stresses the importance of transparent data collection and impact measurement. Pons states that investors should also be prepared for unexpected outcomes. Acknowledging and learning from unexpected outcomes is essential to improving outcomes in the future. The purpose of monitoring impact is to understand what works and what does not work towards achieving desired outcomes, and to use this information to refine impact management strategies.

"We need to align investments to the SDGs and put tangible data behind the word 'impact'."

- Loïc de Cannière, Founder and Managing Director

Outlook for the industry

Incofin notes that as its peers and the broader industry apply the SDGs in their own ways, it is key to demonstrate progress made toward the Goals. Showing these results and communicating about how they measure progress is essential to avoid "impact-washing." Incofin believes the next steps for the industry are to use the SDGs as a framework to identify outputs and inform discussions among investors and investees about how they should adjust business strategies to achieve strong financial and impact performance.

Loïc de Cannière, Founder and Managing Director, notes that "for the impact industry to continue to grow, we need to align investments to the SDGs and put tangible data behind the word 'impact.' At Incofin, developing the SDGs output dashboards with our investees has enabled us to track progress toward the goals over the duration of each investment."

Mirova's Land Degradation Neutrality Fund Project

Overview

Mirova's Land Degradation Neutrality (LDN) Fund project protects and rehabilitates land to make progress toward SDG 15: Life on Land - specifically SDG target 15.3: Land Degradation Neutrality. It combats land degradation by investing in sustainable land management and restoration projects across the globe that generate a financial return. Created by the United Nations Convention to Combat Desertification and managed by Mirova, the fund project has reached USD 120 million in soft commitments (of a targeted USD 300 million) and will provide long-term financing to investees in sustainable agriculture and forestry that demonstrate positive environmental and social practices. The SDGs guide its due diligence and investment management processes, ensuring that investees contribute to SDG target 15.3, which calls for a land degradation neutral planet by 2030.

SDGs TARGETED



SDG Target: 15.3 Land Degradation Neutrality



“The SDGs are an important tool to direct capital toward and benchmark progress toward positive impact.”
 – Gautier Quéro, Director of the LDN Fund Project

Fund name	Land Degradation Neutrality Fund Project
Fund manager	Mirova
Status	In the process of structuring
Current fund size	USD 120 million of soft commitments, of target USD 300 million
Asset class	Primarily private mezzanine debt and equity
Average ticket size	USD 10-20 million to be deployed over 4 – 5 years
Expected fund term	15 years
Geographic focus	Global developing countries
Types of investors	DFIs, foundations, and institutional investors
Key impact metrics	<ul style="list-style-type: none"> · Number of hectares restored · Tons of carbon emissions avoided · Number of jobs created
Main risks	Loss of capital risk, operational risk, liquidity risk, country risk, regulatory risk, market risk, currency risk, project risk



Sustainable rubber plantation in Indonesia. Photo courtesy of Mirova

Fund structure

Mirova's LDN Fund project will have a layered capital structure that uses investments from public sources to help catalyze private institutional capital. Anchor investors include France's development finance institution (AFD) and the European Investment Bank (EIB), while Luxembourg and the Global Environment Facility act to de-risk the fund. Mirova has also confirmed soft commitments from European and North American insurance firms and pension funds and is raising the remaining capital from private institutional investors.³ The vehicle pools investments with different risk-return profiles in different tranches to increase private investment: a junior tranche de-risks senior tranches, catalyzing institutional investment that might otherwise not occur. This approach helps mitigate real and perceived risks of agriculture investments, like those related to weather, creditworthiness, and crop variation. The LDN Fund project will also enable Mirova to aggregate large investments from institutional investors into small agriculture projects that would otherwise not be available to big-ticket investors.

SDG strategy in practice

Motivations

SDG 15 – Life on Land – calls for the protection, restoration, and sustainable use of land-based ecosystems. Life on land depends on productive and healthy land, yet an estimated 30% of the world's land is degraded,⁴ and overgrazing, deforestation and exploitive agricultural practices continue to damage about 12 million hectares of

land each year.⁵ Land degradation pollutes ecosystems, contributes to climate change, affects food security, and costs USD 6 – 10 trillion per year.⁶ The UN Convention to Combat Desertification (UNCCD) is the custodian of target 15.3, coordinating national efforts to fight the problem. At least 114 countries are developing targets to reduce land degradation – creating opportunities for investment in solutions that achieve this goal. The UNCCD issued a call for private and public resources to combat this shared problem, and in response, launched the LDN Fund project at the UNCCD COP 13 meeting in September 2017.

Mirova's LDN Fund project supports land degradation neutrality by providing sustainable forestry and agriculture projects and enterprises with long-term financing that is otherwise not available from traditional sources like commercial lenders. The fund project is meant to respond to growing consumer demand for sustainable goods and supply chains, noting that consumers are willing to pay a premium for certified sustainable products. Research has also proven that sustainably managed land creates economic benefits like increased agricultural productivity and higher-quality products, alongside positive environmental impact.⁷ The fund project will provide investment opportunities for institutional investors, many of which experience increasing pressure to have better ESG investment practices and to report on their social and environmental impact. The specific focus on SDG target 15.3 has not hampered investor interest, since its impact is in fact quite broad – spanning issues like food security, migration, and poverty, that have a positive impact on multiple SDGs.

3 UN. Convention to Combat Desertification, "An Impact Investment Fund for Land Degradation Neutrality", accessed March 20, 2018, <https://www2.unccd.int/actions/impact-investment-fund-land-degradation-neutrality>.

4 The 'Land Degradation Neutrality Fund' Initiative Press Package http://www.mirova.com/Content/Documents/Mirova/CP/171212_LDNF%20OPS_Press%20package%20-%20EN%20-%20Final.pdf

5 Press package (above)

6 Press package (above)

7 Rosalien Jezeer and Pita Verweij, Shade-Grown Coffee: Double dividend for biodiversity and small-scale farmers in Peru (The Hague: Hivos, 2015), https://hivos.org/sites/default/files/report_on_shade_grown_coffee_1.pdf.

SDG integration through the investment process

The LDN Fund project investment committee will screen investees to ensure that they meet the fund project's financial, environmental, and social objectives, considering investees' contributions to target 15.3 throughout the due diligence and investment management process. Mirova developed an Environmental and Social Management System (ESMS) integrated with the investment process to mitigate risks and generate positive impact toward SDG target 15.3.⁸

Sourcing and due diligence:

- Investees must contribute to SDG target 15.3: Land Degradation Neutrality. Mirova examines the investment along the three specific aspects of land degradation defined by the UNCCD: the soil's organic carbon content, land productivity dynamics (biomass production per hectare), and land cover change. Investees must demonstrate positive agricultural practices like those that increase green cover and organic carbon content. An environmental specialist conducts a site visit to assess investee's environmental and social practices and identify areas for improvement.
- Investees must demonstrate positive social practices. In addition to environmental preservation, Mirova ensures that investees create social benefits, such as creating jobs and increasing wages. Mirova collects baseline data on farmers' wages and seeks to see an increase throughout the time of investment. The LDN Fund also seeks to improve health and educational benefits for farmers. The LDN Fund project's investors have indicated interest in positive gender impact, so Mirova will seek to improve indicators like the number of female employees in management positions.
- Investees should have the potential to scale. The investment committee examines the project's potential to scale, generate profit, restore the most hectares of land, and create the maximum number of jobs.
- The fund project identifies investees that otherwise would not receive the type of financing they need.

It provides projects and enterprises with long-term financing that otherwise is not available from traditional sources like banks – adding value by financing only those that need it most.

Deployment of capital:

- The fund project will establish portfolio-wide and investee-specific impact metrics to measure progress toward SDG 15.3, which may be included in the financing contract. Standard metrics across the portfolio include the number of hectares restored, tons of carbon emissions avoided, and the number of jobs created. The fund will also establish individual key performance indicators for each project. The team will identify ESG risks using standards like the IFC Performance Standards⁹ and the Interlaken Guide on good land tenure¹⁰, and will develop a plan to address gaps. Mirova will include these plans in the financing contract.

Investment management:

- Mirova manages investments to meet or exceed their financial and impact goals. The management team will regularly collect data on impact metrics, including the three LDN indicators, and tracks progress toward the action plan designed to improve investees' social and environmental performance. It will then report regularly on progress toward land degradation neutrality via these impact indicators.
- The fund project will provide technical assistance to improve investee practices that promote land degradation neutrality. A technical assistance (TA) facility – funded by donors and with a target size of 5% of the fund – helps investees implement practices to fight land degradation. The TA facility is managed by IDH Sustainable Trade Initiative, an international NGO specializing in sustainable supply chains and smallholder agriculture.

8 Mirova, "Land Degradation Neutrality, Fund Project: Environmental & Social Standards", August 2017, http://www.mirova.com/Content/Files/Mirova/Recherche/170830_LDNF%20ES%20Standards.pdf.

9 The IFC Performance Standards, developed by the World Bank, provide guidance for environmental and social management on topics like land acquisition, indigenous populations, biodiversity, and resource use. For more information see https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability_At-IFC/Policies-Standards/Performance-Standards.

10 The Interlaken Guide (<http://www.interlaken.org/>) helps put into practice the Voluntary Guidelines on the Governance of Tenure of land, Fisheries and Forests (VGGT). LDN has committed to comply with VGGT, requiring that they adhere to land acquisition practices such as not evicting communities from land unless the land is to be used for a public purpose.

Investment example

Description	Funding for a sustainable rubber production and reforestation project in Indonesia
Geography	Sumatra, Indonesia
Amount	USD 369 million
Project duration	25 years
Instrument	Primarily private debt
Financing details	Mirova would invest alongside Michelin Group, Barito Pacific Group, and several impact investors to contribute a total of USD 369 million to finance a sustainable rubber plantation, processing mill, CSR programs, and community partnership programs.
Contribution to SDG target 15.3	The project will establish a sustainable natural rubber plantation and conservation zones in an area plagued by deforestation. The World Wildlife Fund is an implementing partner, which manages conservation concessions in the same area.
Environmental impact	The project will span 91,000 hectares and have an integrated approach, using 50% of the land for the rubber plantation and the remainder for conservation and community livelihoods. It will transform a heavily degraded area with illegal logging and slash-and-burn practices and save an adjacent national park from deforestation and protect its endangered wildlife.
Social impact	The investment will aim to create approximately 16,000 jobs and provide local populations with various community services.
Impact measurement	The investment will track the number of jobs created and hectares of land restored, along with the three indicators of land degradation neutrality.

Advice for other investors

Mirova sees many benefits to aligning with the SDGs, including meeting their clients' interest in seeing progress toward the global goals. Boris Spassky, Mirova Investment Director, notes that others should join the group of SDG-aligned investors. He says that aligning one's portfolio to the SDGs is simple, but it is critical to have a solid framework for measuring progress toward the goals. Luckily, the SDGs provide robust indicators and metrics to measure social and environmental impact.

“Join the group of SDG-aligned investors. You have very robust metrics to measure what you're doing, and your client base will be extremely happy to see that they can measure their contributions apart from financial returns.”

– Boris Spassky, Investment Director

Outlook for the industry

Mirova notes that aligning to the SDGs reflects the broader trend for banks and other financial players to embody sound social and environmental practices. Many insurers, for example, already must report on their contributions toward sustainability. Boris Spassky notes that this has encouraged insurers to hire teams to track impact and has begun a positive trend that can continue. Spassky adds that finance can be a very powerful tool, and if financial managers have strong systems to track and manage impact, they can foster great social and environmental change.

MIROVA

French Public Limited liability company with board of Directors

Regulated by AMF under n°GP 02-014

RCS Paris n°394 648 216

Registered Office:

59, Avenue Pierre Mendès France – 75013 – Paris

Mirova is a subsidiary of Ostrum Asset Management.

PGGM Investing in Solutions

Overview

PGGM is a Netherlands-based asset manager for pension funds that makes investments in food, health, water, and climate to make progress toward achieving SDGs 2, 3, 6, 7, and 12. PGGM has a history of ESG investing. In 2015, PGGM launched Investing in Solutions, an impact investing program that actively identifies and invests in companies and funds that generate tangible positive social and environmental impact. In 2017, PGGM mapped the impact themes for Investing in Solutions to the SDGs, developing Sustainable Development Investment (SDI) taxonomies to determine whether an investment will contribute to the goals. The mandate of the Investing in Solutions portfolio is to invest at least EUR 20 billion in impact investments by 2020. As of year-end 2017, the strategy had EUR 13.7 billion in AUM, of which EUR 3.3 billion represented new investments made in 2017.

SDGs TARGETED



SDG: 2 Zero Hunger

SDG: 7 Affordable and Clean Energy

SDG: 3 Good Health and Well-being

SDG: 12 Responsible Consumption and Production

SDG: 6 Clean Water and Sanitation



Strategy name	PGGM Investing in Solutions
Headquarters	Zeist, Netherlands
Inception year	2015
Target impact investing AUM	EUR 20 billion
Current impact investing AUM	EUR 13.7 billion
Asset class	Public equities, bonds, private equities and real assets
Target returns	Market rate
Geographic focus	Global
Sectors of investment	Food, health, water, and climate
Types of investors	Pension funds
Key impact metrics	<ul style="list-style-type: none"> • Renewable energy generated • CO₂ avoided • Water saved • Wastewater treated • Crop productivity improvement • People with access to healthcare



Water treatment plant in the U.S.

Structure

PGGM manages the assets of several pension funds, including PFZW, which is the second-largest in the Netherlands. PGGM makes impact investments through its Investing in Solutions portfolio, which holds listed equities, bonds, private equity, structured credit, real estate, and infrastructure. While the goal for the Investing in Solutions program is to invest EUR 20 billion by the end of 2020, there is no fixed allocation to asset class or impact theme. PGGM's priority as a fiduciary is to pursue market-rate returns rather than manage to a set allocation.

SDG strategy in practice

Motivations

According to PGGM, the SDGs reflect sustainability trends that are shaping the world's future and which the organization wants to reflect in its investments. Employees at PGGM are motivated and inspired to connect the organization's investments to solutions to the world's social and environmental problems. Furthermore, PGGM notes that external stakeholders, such as governments and NGOs, are calling on financial institutions to actively demonstrate the social utility of their investments in order to rebuild the trust in the financial sector

that was lost during the 2008 crisis. The organization views the SDGs as a unifying framework for investors to manage and communicate impact.

As a pension fund, PGGM has a strict fiduciary responsibility to its clients, a responsibility it notably views is compatible with investing in the SDGs. In fact, PGGM has found investment opportunities to match most SDGs. PGGM has described the types of products and services that correspond to the SDG goals and targets in their SDI taxonomies work. Developed alongside APG, another Netherlands-based pension fund, the SDI taxonomies is a publicly available methodology to determine the potential for investment in the SDGs and to specify the factors for identifying and deciding to make listed equity investments that further the SDGs.¹¹

“A variety of actors are using SDGs as their template for doing good in the world, so we think it's smart to get on board, instead of pursuing our own unique approach to impact that nobody else is using.”

– Piet Klop, Senior Advisor of Responsible Investment

¹¹ For more information, see PGGM, “Sustainable Development Investments (SDIs): Taxonomies” (May 2017), https://www.pggm.nl/english/what-we-do/Documents/SDI-taxonomies-APG-PGGM-mei_2017.pdf.

SDG integration throughout the investment process

Sourcing and due diligence

All investment managers across asset classes at PGGM identify deals within the broader pipeline that could meet the following impact criteria for Investing in Solutions. First, the investment must directly generate impact in one of the five SDGs (2, 3, 6, 7, and 12) that are aligned to the four sectors of investment (food, health, water, and climate). Second, this impact must be substantial, with the investment meeting one or more of these requirements: (1) more than half of the company's revenue derives from business activities that create impact; (2) the investment addresses a solution to a specific problem (such as a technological innovation or a medical product); or (3) the company or the project generates positive impact that influences the wider sector or value chain. Third and finally, the generated impact must be measurable.

Additionally, as for the broader PGGM portfolio, all investments must meet the risk and return requirements for the relevant asset class.

Investment selection and structuring

For private markets, investments that meet these sourcing criteria are then referred to a committee, which reviews whether they merit inclusion in the Investing in Solutions portfolio. For listed equities, PGGM compiles a universe of businesses with products and services providing solutions aligned with the SDGs on the basis of the SDI taxonomies. An investment that meets the risk and return requirements, but not the Investing in Solutions criteria may still be included in the broader PGGM portfolio.

Investment management

PGGM chaired the SDG Impact Measurement working group on the Dutch Central Bank's Sustainable Finance Platform to develop indicators that capture the tangible, positive impact generated by products or services with the aim of measuring the contributions of investors and companies towards the SDGs.¹² For each investment, PGGM collects impact data regarding at least one of these SDG impact indicators. For example, for an investment in a company that provides logistical solutions to food waste, PGGM tracks progress toward SDG 2 (No Hunger) and measures food losses in the value chain. Portfolio companies are monitored annually using these indicators, and their impact is aggregated in the annual Responsible Investment report. While this methodology may not capture all of an investment's impact, PGGM notes, it captures most of it, and its common terms provide a useful frame of reference for how much impact is generated across the SDGs.

¹² For more information, see the guide authored by the working group: [SDG Impact Indicators: A Guide for Investors and Companies \(Amsterdam: De Nederlandsche Bank, 2017\)](https://www.dnb.nl/en/binaries/SDG%20Impact%20Measurement%20FINAL%20DRAFT_tcm47-363128.PDF?2017091813), https://www.dnb.nl/en/binaries/SDG%20Impact%20Measurement%20FINAL%20DRAFT_tcm47-363128.PDF?2017091813.



SolarCity solar panels. Photo: Steve & Michelle Gerdes

Investment example

Investment description	SolarCity, a subsidiary of Tesla, markets, manufactures, and installs residential and commercial solar panels. The company has a portfolio of 38,000 solar energy systems with a combined installed capacity of approximately 275 megawatts.
Geography	United States
Instrument	Listed equities
Investment year	2017
Contribution to SDG	SDG 7 – Affordable and clean energy
Environmental impact	Since the investment in the second quarter of 2017, approximately 200,000 tons of CO ₂ emissions have been avoided

Advice for other investors

PGGM recommends that pension fund managers find investment opportunities from the overlap between market-based returns and desirable impact. For its own portfolio, the organization demands that the impact is substantial and measurable to merit inclusion in the Investing in Solutions program. According to PGGM, fund managers should select SDGs that align with the client’s priorities and define them broadly enough to obtain many investment opportunities with the targeted financial returns and expected impact, while maintaining the same level of due diligence that fund managers would conduct for any other investment. The main difference for these investments, PGGM observes, is that progress toward the SDGs must be measured. By following these recommendations, fiduciaries like PGGM, can meaningfully contribute to the SDGs while building confidence in SDG-aligned investing in the risk-averse ecosystem within which they work.

Outlook for the industry

According to PGGM, the lack of accurate and accessible impact data presents a challenge for impact investing, a challenge the organization is trying to address through various collaborations with other impact investors, industry

“Many of the SDGs are rather broadly defined, so it can become a little too easy to label an investment ‘SDG aligned.’ Therefore, it’s important to raise the bar and actually measure the tangible impact of an investment.”

– Piet Klop, Senior Advisor of Responsible Investment

bodies, and academics. This has led to various publications and articles, including the SDI taxonomies and SDG impact indicators. The organization has found that the SDGs are a useful tool to encourage discussion of impact measurement and management among institutional investors, since the goals are broad enough to align with many different investment strategies. However, PGGM’s Piet Klop, Senior Advisor of Responsible Investment, warns that the breadth of the SDGs raises the risk that companies and investors will merely label existing activities and investments as contributing to the SDGs without measuring real, additional progress. PGGM believes that impact investment relies on robust impact measurement.

Partners Group PG Life Strategy

Overview

Partners Group is a global private markets investment management firm with USD 78 billion in investment programs under management in private equity, private real estate, private infrastructure and private debt. Since 2008, Partners Group has incorporated the ESG standards put forth by the UN Principles for Responsible Investments (UN PRI) into its investments. In 2018, in response to client demand for the organization to create a private markets fund delivering measurable social and environmental impact, Partners Group launched PG LIFE, an investment strategy focused on the UN's Sustainable Development Goals. The blended private markets strategy has the dual mandate to achieve competitive risk-adjusted financial returns alongside measurable, positive social and environmental impact. In particular, SDGs 1, 3, 4, and 7, relating to financial inclusion, healthcare, education, and clean energy, are the focus of PG LIFE's investment strategy.¹³

SDGs TARGETED



SDG: 1 No Poverty

SDG: 3 Good Health and Well-being

SDG: 4 Quality Education

SDG: 7 Affordable and Clean Energy



Strategy name	PG LIFE
Asset manager	Partners Group
Headquarters	Zug, Switzerland
Inception year	2018
Asset class	Private equity, private infrastructure, private real estate, and private debt
Target AUM	USD 1 billion
Ticket size	USD 100m to USD 1bn total investment from Partners Group-managed funds, a portion of which comes from PG LIFE
Target returns	Market rate
Geographic focus	Global
Sectors of investment	Healthcare, education, clean energy, and financial inclusion, among others
Types of investors	Pension funds, sovereign wealth funds, family offices, and high-net-worth individuals

¹³ PG LIFE considers investments beyond these four sectors if they offer a compelling case for contribution to one or more SDG targets.



Green building in Australia

“SDGs represent consensus. They are the closest thing we have to a shared strategy to ensure sustainable societies and economic systems.”

– Carmela Mondino, ESG & Sustainability

Fund structure

PG LIFE invests on behalf of its clients, which are pension funds, sovereign wealth funds, family offices, and high-net-worth individuals. It makes select private equity, private infrastructure, private real estate, and private debt investments alongside other Partners Group-managed funds. PG LIFE aims to make control investments so that it can maximize value in portfolio companies by driving strategic initiatives and operational improvements.

PG LIFE has an Impact Committee comprising senior-level employees of Partners Group, which is responsible for vetting investment opportunities in the broader Partners Group deal pipeline to identify those that contribute to achieving the SDGs. The Impact Committee also annually reviews the organization’s impact measurement and management, ensuring it adheres to industry best practice. An external governance body, known as the LIFE Council and led by industry leaders, ensures that the Impact Committee fulfills PG LIFE’s dual mandate to support the SDGs and generate market-rate returns. The LIFE Council also provides broad recommendations on improving impact methodology.

SDG strategy in practice

Motivations

Partners Group became a signatory of the UN PRI in 2008. Thereafter, it developed tools to integrate environmental and social considerations into its investment processes, screening out any investments that generate significant negative impact and identifying ways to create value from improved ESG performance. Building on this heritage of responsible investing, Partners Group has developed a specific strategy to go one step further by investing in companies whose core products and services contribute to achieving the SDGs, a framework that it believes is both simple enough for a wide range of stakeholders to understand and robust enough to inform an investment strategy.

Strong market demand motivated the launch of the SDG-driven PG LIFE strategy. Clients, such as corporate and public pension funds and sovereign wealth funds, requested a separate investment strategy with a focus on investments that facilitate sustainable development. Partners Group initially considered a strategy using the Social Progress Index methodology, but it decided to transition to the SDGs in 2017 because they offer a more universally recognized framework that can align and communicate impact objectives across a broad group of stakeholders.

SDG integration throughout the investment process

Sourcing and due diligence

Partners Group selects deals for impact evaluation for PG LIFE that directly contribute to one or more SDG targets through their core business activities and that meet the strategy's requirements for financial risk and return. The PG LIFE Impact Committee assesses deal flow on a weekly basis to identify potential investments meeting the following minimum impact criteria:

- A clear link between the company/asset's core product or service and at least one SDG target;
- More than half of company/asset revenue supports at least one SDG target; and/or the company has significant market share;
- The company/asset has no ESG controversies and does not significantly detract from any SDG target.

Partners Group then works with a third-party impact assessment provider. First, deals in the pipeline are assessed for impact against the SDGs, beginning with a logic model that sequences how each company or asset creates impact, both positive and negative. Next, each investment is scored on a five-point scale using PG LIFE's SDG target rating based on the Impact Management Project's five dimensions of impact.¹⁴ Finally, relevant impact metrics are identified based on the created logic model, GRI's Business Reporting on the SDGs,¹⁵ and the GIIN's IRIS metrics.¹⁶

Investment selection and structuring

After the due diligence process, the five-member Impact Committee reviews and votes—on a scale from one to four—to decide whether an investment can be included in PG LIFE. Two criteria are required: (1) the five scores must average 2.7 or more; and (2) no more than one of the five scores can be two or below.

Investment management

Within the first hundred days after investment, Partners Group's PG LIFE team presents the company/asset management team with the proposed impact goals and metrics, along with risks identified during due diligence. During this time, the PG LIFE team works with the management team to agree on impact metrics, address how to manage risks, and establish systems to collect impact data. The third-party impact assessment provider collects and analyzes impact data annually, which PG LIFE then reports to its investors.

¹⁴ The Impact Management Project's five dimensions of impact are What, How Much, Who, Contribution, and Risk. For more information, see <http://www.impactmanagementproject.com/understand-impact/>.

¹⁵ Business Reporting on the SDGs is an Action Platform to accelerate corporate reporting against the Global Goals established by GRI and the United Nations Global Compact. For more information, see <https://www.globalreporting.org/information/SDGs/Pages/Reporting-on-the-SDGs.aspx>.

¹⁶ IRIS is the GIIN's catalog of generally accepted performance metrics. For more information, see <https://iris.thegiin.org/>.

Investment example

Investment description	Techem is a global market leader in the provision of heat and water sub-metering services. It helps customers and tenants in about 11 million apartments across 20 countries consume water and heat more efficiently and reduce utilities cost.
Geography	Europe (primary), UAE, Turkey and Brazil
Instrument	Private equity; private infrastructure
Investment year	2018
Contribution to SDG targets	SDG 7 – Affordable and clean energy Target 7.3 – By 2030, double the global rate of improvement in energy efficiency SDG 6 – Clean water and sanitation Target 6.4 – By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity, and substantially reduce the number of people suffering from water scarcity
Environmental impact	Techem solutions today account for 6.9 million tons of CO2 emission savings per year, thus contributing to global climate protection objectives.
Impact measurement	Metrics include: amount of reduction in energy; amount of energy savings over the lifetime of the product; amount of reductions in greenhouse gas (GHG) emissions over the lifetime of products sold; and total volume of water saved per annum.

“It’s important to avoid a scattershot approach to identifying how a given investment can contribute to achieving the SDGs. During the due diligence process, prioritize where most of the potential positive and negative impact lies and do a deep dive into those targets.”

– Adam Heltzer, Head of ESG & Sustainability

Advice for other investors

According to Adam Heltzer, Head of ESG & Sustainability at Partners Group, impact investment managers must reach internal consensus on a definition of impact and then clearly articulate it externally. Often, managers discover that different stakeholders have varied definitions or perceptions of what they consider impact towards the SDGs. Externally, this variation can muddle the message about the manager’s unique contribution to the space.

Partners Group’s Heltzer also strongly recommends being precise about how an investment aligns with the SDGs. Rather than mapping investment impact to broad high-level goals, an effective approach is to examine the target and indicator level guidance provided by the SDGs and determine how the investment is positioned to contribute. Heltzer notes that enterprises can have impact on a wide range of SDG targets, but it is best to be specific in developing impact theses and prioritize a few SDG targets.

Heltzer also advises acknowledging the limitations of the SDGs. For example, while sharing common goals and

targets is valuable, the SDG indicators tend to be more oriented towards government and policy. Therefore, it is critical to thoroughly consider all three levels of SDG guidance (goals, targets, and indicators) within the context of the impact investing ecosystem. Then an asset manager can transform these levels into actionable items and clearly communicate the process to investors.

Outlook for the industry

Partners Group views the SDGs as a framework around which to build consensus and communicate intended impact goals for investors. However, Heltzer points out that the SDGs have the potential to be used by some firms as a marketing tool, linked to almost any investment activity or company without an objective authority or means to determine the appropriateness of the SDG designation. This phenomenon can be observed in some annual reports, when companies claim to contribute to various SDGs but offer no clear plan or approach to doing so. Heltzer notes that this puts the onus on LPs to ascertain what separates a robust SDG methodology from “SDG-washing.”

Heltzer also notes a substantial uptick in both the number of large private market investment managers offering impact investment strategies and in the approaches to measuring impact. Notwithstanding some progress in this regard, Heltzer suggests the industry think critically about how to collectively catalyze action to standardize impact measurement. This would spur virtuous competition among impact investment managers to deliver meaningful environmental and social impact returns that further the SDGs.

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Partners Group PG LIFE risk factors & suitability considerations

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About the Global Impact Investing Network

The Global Impact Investing Network (GIIN) is the leading global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.

Read the GIIN's Roadmap for the Future of Impact Investing: Reshaping Financial Markets at roadmap.thegiin.org.

To learn more, visit: thegiin.org

Research

The GIIN conducts research to provide data and insights on the impact investing market and to highlight examples of effective practice.

To learn more, visit:
thegiin.org/research

Impact Measurement and Management (IMM)

The GIIN provides tools, guidance, trainings, and resources to help investors identify metrics and integrate impact considerations into investment management.

To learn more, visit:
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To learn more, visit:
thegiin.org/giin-initiative-for-institutional-impact-investment

Additional GIIN research

Achieving the Sustainable Development Goals: The Role of Impact Investing. In 2016, the GIIN profiled impact investors that were aligning their strategies to positively impact the SDGs.



Since 2011, the GIIN has conducted an **Annual Impact Investor Survey** that presents analysis on the investment activity and market perceptions of the world's leading impact investors.



Beyond Investment: The Power of Capacity-Building Support identifies common, effective practices for capacity-building support in the impact investing industry.



Lasting Impact: The Need for Responsible Exits outlines impact investors' approaches to preserving the positive impact of their investments after exit.



The Business Value of Impact Measurement demonstrates how investors and their investees use social and environmental performance data to improve their businesses.



The Impact Investing Benchmarks analyze the financial performance of private debt, private equity/venture capital and real assets impact investing funds.



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