



Impact funds performance comparison

How do impact funds in the private and public markets perform compared to traditional investments? Insights from our impact fund performance research

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By **Bruna Bauer**

This blog reflects on the discussion over impact fund performance held at a recent Global Impact Forum (GIF) all-stakeholder event with **Christian Rosenholm** from the *GIIN*, **Simon Males & Lindee Wong** of *Tikehau Capital* and **David Brown** from *Pensions for Purpose*.



In 2023, *Pensions for Purpose* conducted broad research to dispel the myth there is a trade-off between impact and fiduciary duty. We concluded it is possible to integrate impact across investment portfolios while achieving market-rate returns. We analysed the data of 17 impact funds with UK pension fund clients and total assets under management (AUM) of £18.8bn.

David Brown, Senior Director & Training Lead at *Pensions for Purpose*, presented the compelling findings on how impact funds in the private and public markets

perform compared with traditional investments.

From the perspective of asset owners, previous research conducted by the *Global Impact Investing Network (GIIN)* revealed 79% of impact funds either meet or exceed financial performance expectations, outperforming or aligning with the benchmark. Of the funds, 88% satisfied their asset managers, delivering the expected impact associated with investing in the fund. *Pensions for Purpose's* Impact Lens research, sought to enrich this analysis by gathering data directly from asset managers.

As David explained, the starting point was to identify

impact allocation across asset classes. From the sample we analysed, listed equity (20%) and real estate (20%) constituted the largest asset classes used by impact funds. These were followed by private equity (17%), listed bonds (13%), infrastructure (13%), private debt (7%), multi-asset (6%), sustainable forestry (2%), and other (2%).

Geographical focus

Turning our attention to the geographical focus of these funds, we investigated the region they were investing in. Of the AUM, a substantial 62.5% indicated a global mandate, while 16.2% were dedicated to the UK, 21.2% to developed markets (DM), and a mere 0.1% to emerging markets (EM). The modest allocation to EM deserves attention as this region faces some of the most significant social and environmental challenges.

Themes

Besides regions of interest, this Impact Lens research also explored the most prevalent impact themes in underlying funds. The results pointed to renewable energy, energy efficiency, health and green buildings respectively, as the investment focus.

Regarding performance, this research considered five asset classes – listed equity, listed bonds, private equity, infrastructure, and real estate – to understand whether investing in impact means sacrificing returns.

Listed equity: these impact funds outperformed our benchmark, the *FTSE All-World Index*.

Listed bonds: fund performance has either been in line with our benchmark (*FTSE World Broad Investment-Grade Bond Index*) or above it (*FTSE Euro Broad Investment-Grade Bond Index*).

Private equity: these funds outperformed the benchmark (*FTSE All-World Index*).

Infrastructure: these impact funds performed in line with the two benchmarks (*FTSE Global Core Infrastructure Index GBP* and the *FTSE Global Core Infrastructure Index EUR*).

Real estate: these funds performed ahead of the two benchmarks (*Acadata Index* +2.5% year and *FTSE EPRA NAREIT Global Index*).

Results

[These results, which you can consult in detail in the report](#), demonstrate that a focus on impact does not undermine performance. As we have presented, all asset classes either outperformed or performed in line against the benchmark. Besides the proven financial returns impact funds delivered, consultants interviewed as part of the project also highlighted the benefits of portfolio diversification and member engagement, not only in defined contribution but also in local government pension schemes.



COP28: an update on climate finance



Director of Climate & Biodiversity at *Tikehau Capital*, **Lindee Wong**, gave insights into the official COP negotiations, exploring the roadmap for implementing the Paris Agreement and the commitments made by countries and companies. As we anticipate greater ambition from governments in promoting climate finance, it becomes vital to discern the role of asset owners in investing in private assets for the transition. In addition, what are the implications and opportunities for climate-related investments in a portfolio?

Climate finance

From a COP perspective, climate finance primarily focuses on funding mechanisms to assist developing countries transition their economies and build resilience. In 2020, there was a target for developed countries to invest \$100bn in climate finance in developing economies – unfortunately, this remains one of COP's failures, as there is no official agreement on this matter. At COP28, preliminary discussions will take place to prepare for the 2025 targets for climate finance.

Global ambition to climate change

The global stocktake, helps assess progress towards the Paris Agreement goals and is an important element at the core of the negotiations. Leading up to COP28, synthesis reports from the technical dialogue provided an overview of what has been achieved so far and the challenges ahead. Despite the undeniable need for more action on multiple fronts, a sign of progress is the fact we are on track to limit global warming to between 2.4 and 2.6°C by 2100, a positive shift from the 2010 estimate of between 3.7 to 4.8°C. The objective is to reduce greenhouse gas emissions by 60% by 2035 and achieve net-zero CO₂ emissions by 2050. The global stocktake will support countries in enhancing their nationally determined contributions (NDCs) to reduce emissions and achieve this target.

Points under discussion

Energy targets: at COP27, there was a continuous debate on phasing out fossil fuels, mainly unabated coal power plants – a conversation inaugurated during COP26.

Loss and damage (especially for developing countries): The Loss and Damage Fund, agreed on the first day of discussions, aims to compensate vulnerable economies for losses and damages they experience as a consequence of climate change.

Adaptation: recognition of the increasing frequency of catastrophes is highlighting the importance of adaptation, which is now considered as important as mitigation. COP28 is expected to support the development of an adaptation framework, based on science-based targets to enhance countries' resilience to climate change. However, who will bear the financial responsibility for adaptation and mitigation costs is still to be played out.

Carbon markets: the voluntary carbon market faced significant challenges this year, with the publication of a series of articles questioning the market's credibility. Despite the critics, developing countries still rely on this finance to implement emission reduction strategies. Besides, in the long term, achieving net-zero emissions will necessitate most companies to assess carbon removals in the form of carbon offsets. For these reasons, COP has recently endorsed a new verification and validation standard for this type of carbon market.

Global decarbonisation accelerator: these are key pledges including to triple renewable energy capacity by 2030 and double the rate of energy efficiency improvements in line with the recommendations.

Declaration on sustainable agriculture, resilient food systems and climate action: the core of this declaration is to strengthen food systems (a central importance to adaptation) and build resilience. The declaration has mobilised over \$2.5bn.

The emphasis on strengthening policies on agriculture, renewable energy, and the energy sector indicate these areas as investment opportunities.



Evolution of fiduciary responsibility: how to balance returns and societal impact



To complement the Impact Lens research findings, **David Brown** invited Institutional Engagement Director at the *Global Impact Investing Network (the GIIN)*, Christian Rosenholm, to comment on how fiduciary responsibility can be aligned to impact investing and the challenges asset owners need to overcome on their journey.



As **Christian Rosenholm** explained, over the years, we have experienced a broadening perspective of fiduciary duty. In the twentieth century, delivering a financial return was primary and, as long this was achieved, no questions were raised.

However, particularly since 2015, there has been an increase in the diversity of demands directed at pension funds. In this context, regulators, the media and future pensioners have been contributing to a more extensive, holistic dialogue.

The shift from the traditional notion of wealth to a more comprehensive concept of value is also a factor. Prioritising financial returns is no longer enough, there is a demand for impactful outcomes. As the Impact Lens research evidenced, achieving both simultaneously is feasible. However, moving beyond the focus on financial returns and incorporating the additional dimension of impact is challenging and requires a holistic approach.

"We are not saying throw away financial returns. We're saying you should add an impact dimension to your return considerations. It's a more complex world and we need an approach to match it," said **Christian**.

Changes in impact & investment strategy

The observed strategies to embed impact vary significantly. Some funds are conducting business as usual, dedicating some allocations for impact. While

this may serve as a pragmatic starting point, it presents limitations as it constrains the investment possibilities. An alternative to this specific asset allocation approach is to embrace a broader portfolio perspective, considering the concerns of beneficiaries and identifying key factors for their retirement. Introducing an impact perspective alongside a financial one can help pension funds to evaluate how different asset classes complement each other in delivering value across the entire portfolio.

According to Christian, there is a trend where specific fund allocations become the departure point to a more mainstream integration across portfolios and asset classes. Although this transition is ongoing, it signifies a challenge pension funds are considering and attempting to navigate.

How can we help asset owners?

Addressing this complexity lacks a single solution but comprehending the value sought by beneficiaries is the crucial aspect. Various frameworks are available and the *GIIN* published several papers outlining how to engage with asset managers in the pursuit of impact. (See the *GIIN's* website for publications on this topic).

As a first step, Christian states the importance of understanding how value is perceived among beneficiaries. After the prerequisite of considering financial returns and impact themes important for pensioners, the following phase examines how different asset classes can achieve the desired outcomes. Building a theory of change or impact thesis helps determine the journey and process. The next step identifies ways to align transactions with the envisioned value, and allowing the development of a diverse and sophisticated portfolio.

"When we look at the purpose of pension schemes, it is to serve the long-term interest of the pensioners, then only applying a financial lens is no longer sufficient to satisfy that," said Christian.



Climate-related opportunities



Executive Director and Head of UK Institutional Business at Tikehau Capital, **Simon Males** complemented the discussion from the perspective of asset owners, consultants and advisers, highlighting the climate-related opportunities they are capturing.

Addressing a diverse audience, including asset owners in the LGPS sector, as well as those involved in endowment foundations, family offices and private wealth, he emphasised the evolving practices of advisers and consultants in engaging with investors, including climate solutions, and determining the most effective ways to measure and report their impact, beyond financial returns.

For the LGPS, there has been a notable increase in the development of climate-related opportunities over the past years. These opportunities manifest in various forms, such as separate portfolios or mandates, especially in private markets.

Shifting attention to the wealth channel, Simon mentioned the secular growth and expansion happening globally – wealth advisers, global private banks, endowments, foundations and family wealth entities are collectively seeking high returns, but the emphasis is shifting to incorporate impact strategies. Discussions are currently considering frameworks driving returns, intentionality, additionality, and robust measurement and reporting mechanisms for impact. As well as, the alignment of interests is a crucial aspect, extending from the asset manager level throughout the entire value chain – this includes considerations in selecting fund managers, assessing portfolio companies and ensuring an independent assessment is audited and reported.

Learn

Read our recent [Impact Lens research](#) on natural capital and impact investment performance, co-sponsored by *Aquila Capital, AXA Investment Managers, Baillie Gifford, Franklin Templeton, Resonance* and *Vontobel Asset Management*.

More information

Interested in a further conversation on this topic? Please email [Karen Shackleton](#).



[Click here to read the event synopsis](#)

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Insights from the audience

Practical challenges in embedding impact into an investment strategy for pension schemes and portfolio

Defining impact

Defining impact – which embraces several urgent issues of our time, including the climate emergency, CO₂ reduction, emission avoidance, decarbonisation, biodiversity preservations and social value – was considered the most important and challenging part of the process. Special attention should be given to intentionality, additionality, and measuring and reporting progress.

Asset owners have considered impact in two ways: firstly, by taking a strategic exposure to an impact theme and dedicating an allocation (typically ranging from 5% to 10%). Secondly, asset owners have been taking a finance-first approach and embedding impact into their strategy as part of the decision-making process, by identifying financially appealing opportunities that complement their existing portfolios. Looking ahead, a more holistic approach would involve identifying the financial returns and the impact drivers and assessing value across the entire portfolio. This strategy aligns financial goals with broader societal and environmental considerations.

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Besides choosing the ideal approach to embed impact in investment strategy, other challenges emerged in our final discussion:

Perception – ensure everyone understands there is not a trade-off between impact and performance.

Advice gap – consultants can combine points on financial returns and impact performance when guiding investments – including the adverse impacts.

Governance – have sustainability professionals at board level to help increase the interest and time allocated to consider impact in a more holistic way.

