K E Y N O T E I N T E R V I E W

Impact buyouts' appeal

An expanding investable opportunity set and the rise of institutional investors into impact are fuelling market growth and sophistication, says LGT Capital Partners' head of impact co-investments, Natalie Sediako

Q What are some of the key developments you have observed in impact investing?

Over the past two decades, we have seen impact investing evolve from a niche asset class to one that is both sizeable and highly institutionalised. This evolution came on the back of several key developments. The first is that there is a rapidly expanding investable opportunity set of proven, profitable and scalable businesses that are responding to critical challenges. This trend will only continue given the wave of solutions and technological advancements that are coming down the cost curve, leading to the creation of more businesses that will be appealing to private equity. Innovations across energy transition, decarbonisation, healthcare and fintech will all meaningfully shape the investable landscape for private equity investors.

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At the same time, many highly experienced investors that have built track records within conventional private equity firms are now launching impact funds or thematic funds focused on areas like energy transition, education or healthcare. We are also seeing platform extensions into impact from strong, established managers. This has led to a blurring of the lines between impact and mainstream investing.

Impact investments are no longer confined to niche sectors or unproven technologies. Impact vehicles are investing in strong businesses, with a visible path to tangible value creation. These companies are mission-critical, non-cyclical and benefit from attractive tailwinds, making them attractive investment opportunities for everyone, not just specialist impact investors.

Q What role do investors play here?

The above-mentioned dynamics are creating a virtuous cycle in terms of returns. The growing base of appealing investment opportunities will attract strong private equity investors into the space. This is where the industry's ability to drive operational improvements, expand markets and foster digitalisation and innovation will play a critical role.

This means that impact investing is also evolving beyond being viewed as a niche category, to being seen as an interesting component of a sophisticated investment strategy for an increasing number of our investors.

Q What criteria do you use to evaluate potential investments?

It is important to have differentiated access to dealflow, and pair that with clear processes and underwriting discipline. For every investment that we make we run a dual-track due diligence process. The investment team evaluates the investment in the same way they would any conventional opportunity, and we hold impact investments to the same level of scrutiny. In parallel, a team of dedicated specialists carries out data-driven, evidence-based impact due diligence using a structured framework. This provides checks and balances on both sides of the process.

Q How do you approach sector selection?

Energy transition and climate are leading the pack in terms of both capital raised and dealflow. We invest across the full clean energy value chain, from power generation to power consumption. This includes renewable projects, but also mission-critical hardware for scaling and integrating renewable energy sources.

Electrification of transport is another important sub-theme, where we have investments across both electrical vehicle manufacturing and the roll-out of charging infrastructure. The other important themes are education, healthcare and biodiversity. This thematic approach to investing allows us to have a more precise alignment with our investors' objectives and to build domain expertise across these growing and important areas.

Q How do you measure success, given the dual impact and financial goals of the strategy?

The key lies in ensuring that the core business activities of the companies we invest in are intrinsically aligned with the intended outcomes. Take the climate topic for example; if we believe that our collective ambitions for prosperity and development will always conflict with longer-term ecological sustainability, you inherently face trade-offs, and that is very difficult to invest behind. This is why we saw a push back and sometimes even frustration around ESG within the financial industry, with one side claiming it distracts investors from their fiduciary duty to deliver financial returns, while the other side is saying that the commitments are not genuine.

However, if we believe that the solution to our impending environmental challenges is not degrowth but rather transition, that is a massive economic opportunity for the investment industry. Investing in companies that are directly powering that transition aligns the desired outcomes and financial success of the strategy.

The businesses we are backing are usually mission-critical puzzle pieces to a large and scalable solution. For example, in renewable power generation, we have invested in both the developers of projects, but also in engineering companies that provide transformers, substations and grid connections. These are traditional buyout investments, where we are backing established and profitable businesses that are addressing critical bottlenecks in the energy transition space.

Q Turning to the topic of DE&I, have you seen meaningful improvement in gender diversity in the broader PE industry in recent years?

Diversity is certainly an important topic for the industry. I would say, however, that we are still in the early innings of seeing progress. The industry is still male dominated, particularly within investment and leadership roles, despite many players setting ambitious targets and action plans. This can be attributed to several factors, including historical industry norms, access to mentorship and structural barriers.

Addressing these issues requires a concerted effort to foster more inclusive environments, equitable career development and challenge existing biases to create more opportunities for women in the field, but it will certainly take time to effect meaningful change.

Q Do you believe having broader diversity leads to improved investment outcomes?

I haven't seen meaningful data measuring returns through a gender lens. That is largely a sample size issue, as there are just fewer female fund managers in the industry. However, we know from other industries that diverse teams mean broader perspectives, experiences and insights around the table, which generally leads to more innovation and enhances decision making. The broader range of viewpoints helps to challenge assumptions, reduce groupthink and can ultimately improve investment outcomes.

Embracing diversity also allows you to go after a broader talent pool to attract and utilise the best minds available.

Q Have you observed greater gender diversity within impact investing?

Interestingly, while we have not yet seen a significant shift in gender diversity within traditional private equity firms, we are seeing greater diversity in the impact investing space. I attribute this to the impact investing ecosystem being newer and having more white space for women to step in and lead. For example, we have seen a surge in impact funds being launched or led by experienced female investors. Over the years, we have both supported and invested alongside exceptional women-led managers and will continue to build these partnerships as the industry evolves. ■