



## EIGHTEEN EAST

This report lays out the case for the creation of a listed closed-end investment company (CEIC) structure to provide all classes of investor, including individuals, with access the impact investing opportunity in a liquid and highly regulated manner.

It explains the context and rationale for the use of the CEIC structure, and provides results of an extensive test marketing exercise undertaken in 2016.

***Compiled by Eighteen East Capital for the United Kingdom Department for International Development Impact Programme.***



**impact.**

# Taking Impact Investing Public

Private Investor Demand for a  
London Stock Exchange listed  
Impact Investment Trust.



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# Contents

PREAMBLE .....	3
EXECUTIVE SUMMARY .....	4
THE CASE FOR AN IMPACT INVESTING INVESTMENT TRUST .....	5
The State of the Impact Investing World .....	5
The Individual Investor Opportunity.....	5
Investment Companies and the Closed-End Model.....	6
The United Kingdom and European market.....	7
IMPACT INVESTMENT TRUST PLC.....	9
Corporate Structure and Governance .....	9
Impact Strategy and Investment Mandate .....	11
TEST MARKETING RESULTS .....	12
Private Wealth Managers .....	12
Cornerstone Investor Demand .....	15
CONCLUSIONS .....	16

# Preamble

The global development community is in agreement that in order for the UN's Sustainable Development Goals (SDGs) to be achieved by the target date of 2030 trillions of dollars of additional capital will need to be brought to bear. Current public and philanthropic sources of development funding are insufficient to meet these needs and there is wide recognition that significant private capital must be catalysed to invest for development in order for the SDGs to be realised and the world's most intractable development challenges to be surmounted.

It is in this context that Eighteen East Capital Ltd (Eighteen East) is working towards the creation and subsequent listing on the London Stock Exchange (LSE) of a Closed End Investment Company that will allow all categories of investors, crucially including private individuals, to invest in a portfolio of frontier and emerging markets impact investing funds in a highly liquid and highly regulated format, with a low investment minimum.

The advent of such a vehicle will help solve the liquidity and regulatory gaps that have thus far prevented individual investors from investing for impact. The successful initial public offering (IPO) of the first vehicle of this type would potentially trigger the launch of competing and complementary vehicles, helping develop an impact investing CEIC sector on the LSE and other major stock exchanges, potentially allowing much larger sums of private capital to invest for impact.

The proposed name of the vehicle is Impact Investment Trust PLC (Impact PLC). Its portfolio will be managed by an independent board advised by Obviam AG, the investment manager of the Swiss development finance institution (DFI) SIFEM.

Initial structuring and test marketing costs were funded with UKAID from the UK government (under the DFID Impact Programme). The purpose of this grant is to test to what extent assumptions that there is 'latent demand' for this type of impact investment vehicle are valid and make the findings available to the wider market to inform and enable wider market development, with a view to helping stimulate the flow of mainstream capital to impact investing in Africa and South Asia. The secondary purpose of this grant is to define how such a listed impact investment product might be structured.

The results of this test marketing exercise are presented in this report and are intended to provide concrete insight into the latent demand on the part of private banks and wealth managers in the UK and Europe for this type of vehicle. It is hoped that by making this information public wider market development around impact investing products targeted at individual investors will be enabled, and that ultimately additional mainstream capital will flow at scale to impact investing and help achieve the SDGs, specifically as they apply in emerging and frontier markets.

# Executive Summary

This report lays out the case for the creation of a listed CEIC structure to provide all classes of investor, including individuals, with access the impact investing opportunity in a liquid and highly regulated manner.

Eighteen East, with UKAID funding from the UK government (under the DFID Impact Programme), undertook to design such a structure that would provide access to a diversified portfolio of SME-focussed impact investing funds across emerging and frontier markets, and test to what extent assumptions that there exists 'latent demand' for this type of impact investment vehicle among private wealth clients in the UK and Europe.

A thorough test marketing exercise was conducted during the final quarter of 2016 with a selection of 20 private banks and private wealth managers in the UK and Europe. The results of this exercise were broadly positive and have established that there would appear to be sufficient appetite among private wealth clients for the successful launch of the proposed vehicle.

Of the private banks and wealth managers engaged, ten indicated they are most likely to participate in an IPO and another five expressed a strong interest but need additional information before confirming their intention to invest.

## **Other findings from the exercise included the following:**

- Overall demand for emerging and frontier markets impact investing across the private wealth sector is confirmed, and gatekeepers are well aware of client demand for access to the space.
- The investment trust model is seen as a good conduit for this demand, and the independent structure and emphasis on strong governance were well received.
- There was wide recognition of the fact that there are not many impact investment managers with the requisite experience, performance history and institutional capacity to meet the stringent requirements of private banks. Obviam AG is seen as a strong manager.
- There was however a recognition, driven by client inputs, that genuine impact products should clearly articulate how their impacts will be targeted and measured. Obviam's long track record and experience in selecting and working with fund managers to deliver and report real and measurable impact was seen as highly desirable.
- The size of the investment trust is an important factor, as certain private banks are bound by a minimum fund size and a maximum allocation expressed as a percentage of the fund size.
- An anchor investment would be a very effective instrument in the success of the IPO, particularly if the investor has strong impact investing credentials. Such an investment would both increase the size of the fund raise and leverage larger allocations as described above, and send a strong signal to the wider market.
- The test marketing exercise provided reassuring evidence that the majority of gatekeepers took a positive and open-minded attitude, actively seeking to help impact investing grow through their support of the initiative.
- The disruptive and collaborative nature of the structure can present challenges for private banks that prefer to promote their own products.

# The Case for an Impact Investing Investment Trust

## The State of the Impact Investing World

From its original investor base centred around Development Finance Institutions (DFIs), foundations and family offices, impact investing needs to attract more mainstream investors in order to scale.

According to the Global Impact Investing Network's (GIIN) ImpactBase initiative the majority of impact investing funds are private equity vehicles structured according to the limited partnership model. This typically is associated with a fixed investment horizon of five to ten years, a high minimum investment, and only sophisticated or accredited investors are allowed to participate as limited partners. The commitment / cash-call process associated with this model is another stumbling block for any but the wealthiest individuals to invest. Unsurprisingly, the ImpactBase report suggests only a small number of the funds in this category target individual investors for their fund raising activities, focussing instead on family offices, foundations, DFIs and other institutional investors.

Given the illiquid nature of their underlying assets, real assets funds are similarly targeted at institutional and quasi-institutional investors. The situation is slightly better for the fixed income category, where at least a small proportion of the funds listed have minimum investments below USD 50 000. A handful of microfinance mutual funds are also available, offering monthly or quarterly liquidity.

A limited number of countries have put investment legislation in place to facilitate individual investor access to impact investing. The September 2014 Triodos Bank "Impact for Everyone" report uses the Netherlands' "Groenfonds" as one example. These vehicles have been successful in offering exposure to impact driven investments, but the underlying assets are usually targeted at first world

countries, specifically environmental impact themes, and biased towards debt rather than equity.

As individual investors are currently unable to access the prevalent private equity structured emerging and frontier markets impact funds, it is contended that latent demand exists for a vehicle that provides exposure to such funds in a liquid and regulated manner.

## The Individual Investor Opportunity

### Industry Readiness

Impact investing is not a new concept and as a sector it has been in existence for around 10 years with strong initial institutional support being lent by JP Morgan and the Rockefeller Foundation. The sector has now grown in size with over 400 funds having gained tacit accreditation through the standard-setting GIIN. According to the GIIN's recent annual survey, with total AUM estimated to be USD 114 billion and additional commitments anticipated to be USD 26 billion in 2017, the industry has now reached a level of maturity and acceptance among important categories of investors.

Recent years have seen a significant increase in the investment world's awareness of the concept. In addition to DFIs, private equity firms, family offices and foundations a broad range of asset managers now purport to invest in a variety of impactful ways, including among others Goldman Sachs, Deutsche Bank, UBS, AXA and BlackRock.

### Time to Include the Individual Investor

The desire for impact investing products on the part of individual investors has been demonstrated through the research carried out by several institutions including the UK

Government taskforce, which included the provision of impact investing products accessible to individual investors as one of its recommendations in its influential report, “Impact Investment: The Invisible Heart of Markets”. Harnessing private capital to contribute to the attainment of the UN’s SDGs is crucial for the impact sector to develop, and allowing private individuals to invest for impact in a liquid and regulated format is a key challenge.

## Investment Companies and the Closed-End Model

Listed closed-end investment companies (CEICs) have been in existence for decades, particularly in the UK. They can provide investors with the opportunity to invest in illiquid assets that they might not otherwise be able to access, offering a low minimum investment and strong governance reinforced by a stock exchange listing. These specific characteristics are derived from the closed-end structure of investment companies.

## The Closed-End Structure

Investment companies are corporate entities specifically dedicated to investment in assets. They do so on behalf of a number of shareholders and as such constitute a category of collective investment fund, as do mutual funds or unit trusts. The latter two types of collective investment funds are said to be open-ended, whereas investment companies are closed-ended. The Association of Investment Companies’ (AIC) website provides a useful depiction of the fundamental differences between the two structures:

*“In an open-ended fund, the fund is constantly expanding and contracting as investors move their money in and out of the fund. This means that managers have to plan and manage the fund to be able to meet the demands for investors who may want their money back at any time. Open-ended funds are often restricted to investing in liquid assets, in other words investments that can be sold at short notice.”*

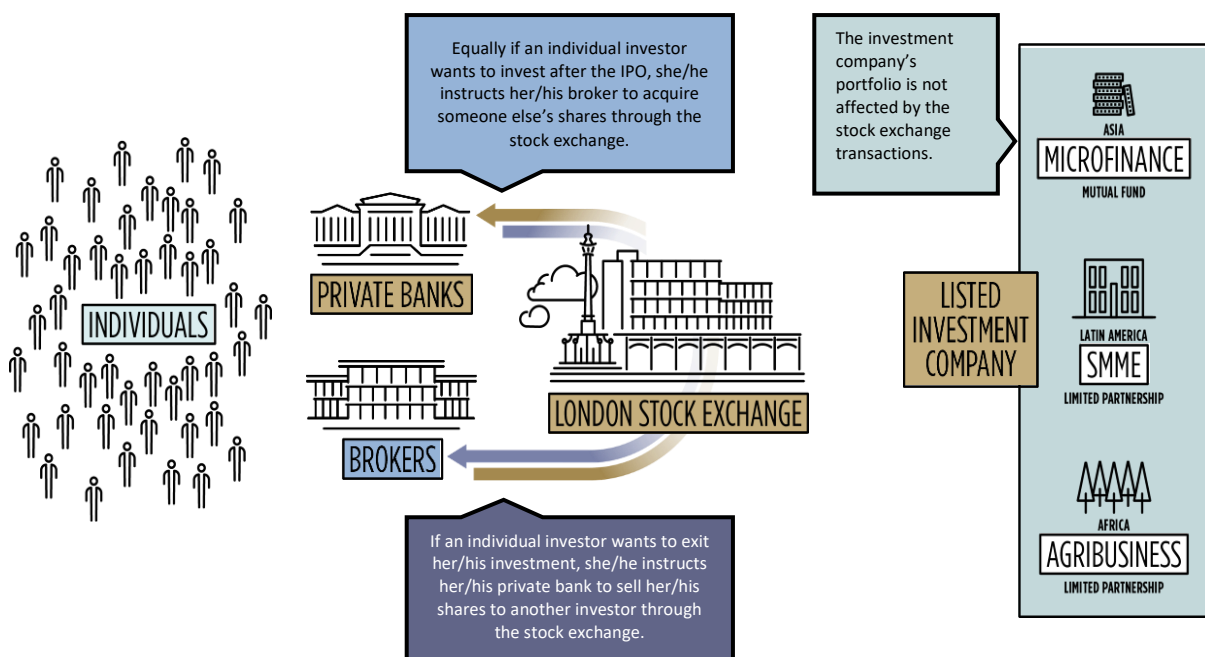


Figure 1: Listed Closed-End Company Model

*Investment companies, however, have no such issues, as they have a fixed number of shares in issue at any one time, which are traded backwards and forwards on the stock market, which has no impact on the portfolio.*

*In addition to allowing managers to take a longer-term view, this enables investment companies to invest in less liquid assets classes such as private equity, venture capital and commercial property, with the potential to deliver better long-term returns or higher levels of income.” (www.aic.co.uk, 28 April 2015)*

Shares in an investment company are traded on a regulated stock exchange, such as the LSE. Investors can dispose of their shares by selling them to other investors through the exchange. Under normal circumstances, there is no creation or redemption of shares. This in turn explains the most commonly recognised issue associated with exchange listed investment companies; the share price is determined by supply and demand rather than directly linked to the net asset value (NAV) of the company’s investments. Shares typically trade at a premium or a discount to NAV, depending on whether there is excess supply or excess demand.

Shareholders are represented by an investment company’s board of directors, and can vote on issues raised at annual or extraordinary general meetings.

Where there is excess demand for the shares of the investment company, the board can decide to proceed with a secondary offering of shares, thereby increasing the size of the fund. If there is a persistent excess supply, and shares consistently trade at a discount to NAV, the board can decide to buy back shares, or to offer shareholders the opportunity to redeem part or all of their shares at NAV.

## Investment Companies as Funds of Illiquid Funds

CEICs have been used to build funds of funds, and more specifically portfolios of investments in alternative funds, such as hedge funds and private equity limited partnerships. The illiquid

nature and/or high minimum investment requirements associated with these vehicles make investment companies one of the very few access structures available to individual investors.

As most emerging market focussed impact investing funds display similar characteristics to alternative investment funds, if only because a great many of them are structured as private equity vehicles, the investment company structure offers the same attractive features in the impact investing context.

## The United Kingdom and European market

The UK is an attractive market to launch an impact investing CEIC for a number of reasons:

### Familiarity with the Structure

Investment companies have been a feature of the UK’s financial markets for over a hundred years and financial intermediaries and most investors are therefore familiar with the structure. The established specialized brokerages (Investec, Winterfloods, JP Morgan Cazenove, Numis, etc) regularly place investment companies’ shares with an identified client base of private banks, pension funds, insurance companies and family offices.

The level of governance required for a listing on the LSE offers an added layer of investor protection. In addition listed UK shares are eligible for investment through the tax-efficient ISA scheme.

### Investor Universe

Notwithstanding the high GDP per capita and investable assets of the UK’s population and the assets under management of its financial and pension institutions, London is one of the world’s largest financial centres, and is home to many private banks, multi-family offices and foundations. These constitute the core target audience for the launch of the proposed investment company.

In addition shares in London listed investment companies have historically successfully been placed with financial institutions in other European countries, many of which are private banks with established impact investing agendas such as BNP Paribas, UBS, Credit Suisse and ABN Amro to name a few.

### **The Existing Market for Socially Responsible Closed-End Investment Companies**

The renewable energy infrastructure CEIC sector listed on the LSE has risen from its inception less than five years ago to a market of around six funds with a combined current market capitalisation in excess of GBP 3.5 billion. This has become a well-defined sector in its own right and is currently one of the most active sectors in the UK market in terms of new

issuance. Most of these funds focus on wind and solar generation and offer significant appeal to individual investors. The private wealth management market is well represented as investors in this space.

A good example of public money being used to catalyse private capital in the sector is the government backed cornerstone investment in the 2013 IPO of the Greencoat UK Wind PLC investment trust on the LSE. The then UK Department of Business, Innovation and Skills made a GBP 50 million investment that facilitated GBP 210 million of private capital into the wind energy sector. BIS subsequently sold its shares to additional private investors in 2015. Building on the success of its IPO, this investment trust has now grown its market capitalisation to GBP 916 million, including a recently concluded successful share issue.

# Impact Investment Trust PLC

Impact Investment Trust PLC (Impact PLC) was conceived as a vehicle to help catalyse private capital at scale to be invested alongside public and philanthropic capital for the purposes of creating positive social and environmental impacts in emerging and frontier countries. The mobilisation of new sources of capital is essential if the UN SDG funding gap is to be met as existing sources of development capital – primarily public and philanthropic – are insufficient. According to Deloitte the UK and European wealth management sectors managed over USD 5 trillion in 2015. As the largest investors for development in the developing world, the European DFIs, according to the association of European Development Finance Institutions (EDFI), accounted for just USD 40 billion of this amount, underlining the scale of the opportunity for mobilising private capital.

Impact PLC will be structured as a CEIC under the laws of the United Kingdom, and will be listed on the premium segment of the LSE. Its capital will be raised as the result of a fund raising exercise culminating with its IPO in H1 2017. The target audience for the fund raising road show is the private banks and wealth managers that act as gatekeepers for high net worth and mass affluent individual investors. The shares will however be available to all investors. It is hoped that as much as USD 150m can be raised at IPO, although the company would be viable at a lower amount. These assets will be deployed across a portfolio of impact investing private equity funds investing in high impact sectors SMEs across the developing world.

Impact PLC shall seek to deliver positive impact on the lives of local populations in developing countries by (a) investing in high impact sectors, (b) providing growth capital to

SMEs and (c) building responsible businesses. In addition the measuring and reporting of impact outcomes will be key to the success of Impact PLC's mission.

## Corporate Structure and Governance

Impact PLC will be governed by a fully independent board which will delegate operational functions, including investment advisory and portfolio construction services, to various service providers. The Board's primary responsibility will be to act on behalf of shareholders in ensuring that Impact PLC adheres to its impact strategy and investment mandate.

It is important to note that the independence of the company from the investment adviser is a crucial mitigating factor to the risk of mission creep, and the independent board acting in the interests of a wide range of impact-minded investors will ensure that the company maintains its impact integrity. This independence was facilitated by the UKAID grant funding which covered the costs of structuring the vehicle.

The UKAID funding from DFID facilitated for Eighteen East to conduct a thorough due diligence and selection process for service providers, in particular the investment advisor. The ability to select and partner with high quality, experienced and capable service providers is crucial to the acceptance of Impact PLC by private banks, who are typically extremely risk averse when it comes to introducing their clients to new products.

Impact PLC's corporate structure and its consortium of service providers are detailed on the following page.

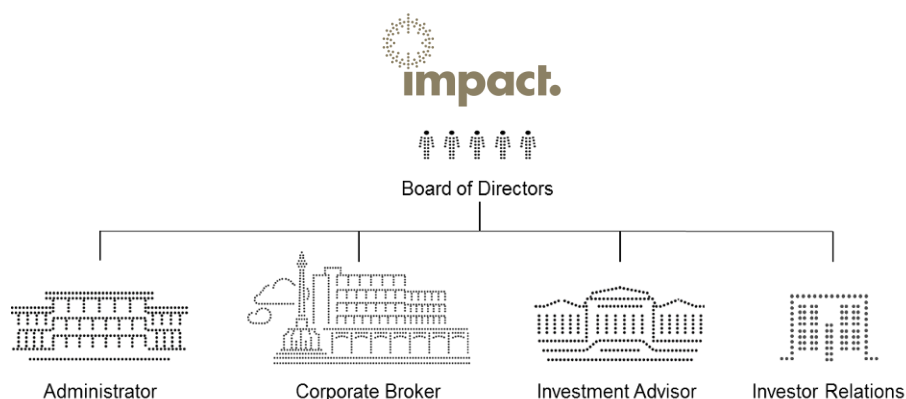


Figure 2: Corporate Structure

### Investment Adviser – Obviam AG

Obviam AG is the investment adviser tasked with advising the board on the management of Impact PLC's portfolio. The investment adviser's responsibilities include managing relationships with and conducting due diligence on potential underlying impact investing managers, and facilitating the company's investments in the selected portfolio of managers.

Obviam is the investment manager of the Swiss DFI SIFEM and has an extensive history of making investments into impact and development focussed funds across the developing world.

### Administrator – Capita PLC

Capita PLC will fulfil the role of administrator. It is responsible for fund accounting and calculating the NAV for the investment company on a quarterly basis, as well as the role of company secretary and registrar.

### Corporate Broker – Investec Bank PLC

The corporate broker will manage the relationship between Impact PLC and the LSE and the United Kingdom Listing Authority (UKLA). It will also advise the company's board on market movements and how to manage the company's share price (share buy backs, discount control mechanisms, secondary share

issues). It will also, in conjunction with other brokers, make a market in the company shares.

Investec will act as the sponsor during Impact PLC's listing process.

### Auditor – Deloitte LLP

The auditor Deloitte LLP will conduct initial and annual audits of Impact PLC's accounts.

### Investor Relations Adviser – Eighteen East Capital Ltd

Eighteen East Capital Ltd will provide investor relations services to Impact PLC. This will entail maintaining the company's website, publishing the quarterly letters to investors in conjunction with the investment adviser and participating in investor road shows in cooperation with the corporate broker.

### Legal Counsel – Stephenson Harwood LLP

Stephenson Harwood LLP will advise the board with regards to its tax, regulatory and legal compliance duties.

## Impact Strategy and Investment Mandate

### Impact Strategy

Impact PLC's impact strategy and investment mandate have been constructed in collaboration with all stakeholders, and in particular drawing on the expertise of DFID and Obviam.

The impact strategy (figure 3 below) is designed to ensure that investments are focussed on improving the lives of poor populations in developing economies. It is built around 3 pillars; firstly investment into high impact sectors, secondly the provision of

growth capital to SMEs, and thirdly the building of responsible businesses.

### Investment Mandate

Impact PLC's investment mandate (figure 4 below) is derived from its impact strategy and has been designed to provide investors, many of whom will be making their first impact investment, with a diversified portfolio exposure to emerging and frontier market impact investments.

By combining small, impact first, higher risk funds with larger, finance first, lower risk funds, Impact PLC will seek to mitigate risk, maximise impact and achieve a net return of 8% pa.

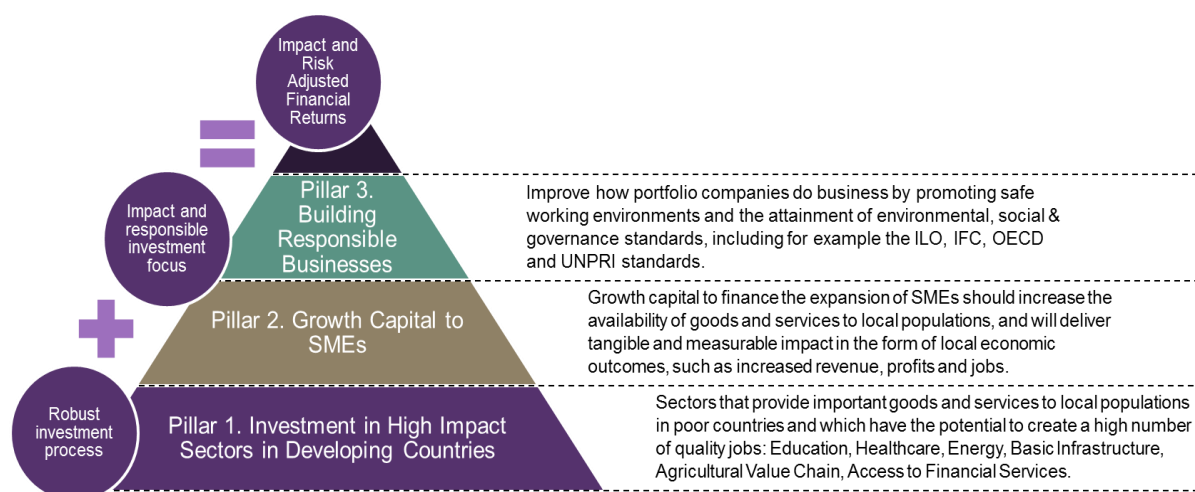


Figure 3: Impact Strategy

	Fund of funds portfolio expected to initially comprise 10 to 15 growth capital impact investing funds
	Investment in developing economies with a country nominal GDP per capita being generally less than \$12,000
	Locally managed investment funds generally with AUM of \$50 to \$200m, with a maximum first close of \$250m
	Investment focus on high impact sectors
	Underlying funds are expected to each make growth capital investments in 10 to 15 SMEs
	Investment in cash and high impact fixed income vehicles until deployed into growth capital impact investing funds

Figure 4: Investment Mandate

# Test Marketing Results

The conversations held as part of the test marketing exercise focussed on assessing the demand from **private wealth managers** (private bankers, independent wealth managers and family offices) that act as aggregators and gatekeepers for individual investors. In parallel, Eighteen East engaged with potential **cornerstone investors**, which in this case are considered to be institutions that are supportive of the concept. Cornerstones are potentially willing to commit to a large, patient investment in the expectation that this would incentivise additional individual investor

capital to follow and thereby fulfil the important role of catalysing private capital for development purposes.

What follows is a summary of the results of Eighteen East's engagements. This information will hopefully provide key insights into the level of private investors' latent demand for this type of vehicle. This should prove useful information in addressing the challenge of bringing additional mainstream capital to impact investing in emerging and frontier markets.

## Private Wealth Managers

During the final quarter of 2016 Eighteen East, working with Impact PLC's appointed sponsoring broker and investment adviser Obviam, conducted a series of test marketing meetings with 20 private banks, wealth managers and family offices across the UK and Europe.

The purpose of these meetings was to test the following:

- Current degree of investor interest to invest in an impact investment product that has positive social benefits for low-income people in emerging and frontier markets.
- Extent to which an LSE listed investment trust would be an attractive structure.
- Extent to which the unique governance arrangements in the proposed Impact PLC vehicle are valued by potential investors.

## United Kingdom:

This is the largest jurisdiction for investors in investment trusts and there is wide familiarity with the structure. Meetings were held with 11 institutions which included a mix of mainstream private banks and wealth managers. Whilst some have a documented impact investing strategy, the panel included institutions with no prior knowledge of the space.

The rationale for including a sample of the latter class of investors was to gain an understanding of the level of interest in the wider wealth management market.

## Switzerland:

Switzerland is one of Europe's largest private banking centre and several of the country's largest private banks have already displayed various levels of interest in impact investing products. Meetings were held with three of the largest Swiss private banks as well as two specialist wealth managers that are active in the impact space.

## The Netherlands:

The wealth management market in the Netherlands is the most developed from an access to impact products perspective. It is home to a vibrant impact investing community and some of its private banks are leaders in the field. Three meetings were held, two with private banks and one with a specialist wealth manager.

## Methodology

The selection of test marketing targets was done in conjunction with the sponsoring broker and was intended to provide a representative, comprehensive and unbiased sample of the overall investor appetite for such a vehicle. Private banks and wealth managers were selected from the following countries:

In addition to the above two further meetings were held with large global private banks with clients across multiple jurisdictions.

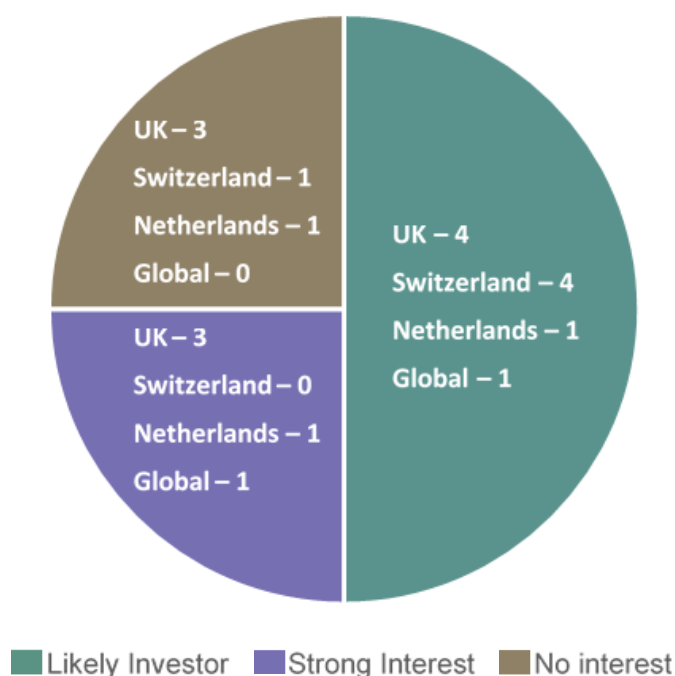
## Results

The results of the exercise were broadly positive and have established that there does appear to be sufficient appetite for the launch of the proposed Impact PLC vehicle. Of the private banks and wealth managers engaged, ten indicated they are most likely to participate in an IPO and another five expressed a strong interest but need additional information before confirming their intention to invest. To provide further context some of the larger private banks stated their intention to take up percentage allocations, whilst others indicated their willingness to invest from both their discretionary and advisory client portfolios. These are considered to be encouraging dynamics.

The chart below provides a graphical representation of the likely interest on the part of the private banks and wealth managers met during the test marketing exercise.

- Investor has indicated they would support the IPO
- Investor has indicated that they want to support the IPO, but need to do more work before they can confirm their ability to do so
- Investor has indicated they will not, or are unlikely to, support the IPO

It should be noted that investors are naturally reluctant to provide an indication of interest at test marketing. 'Blue' results are considered to be very positive. 'Green' results are considered as positive results, with a reasonable probability of an investment being made.



**Figure 5: Test Marketing Results**

## Findings

Beyond the levels of interest expressed by the various institutions through the test marketing exercise, several themes and learning points emerged through the process.

### Overall Demand

The demand for emerging and frontier markets impact investing across the private wealth management sector in the UK and Europe is confirmed. The vast majority of meetings clearly indicated that gatekeepers are well aware of client demand for the space. It is however still seen as a niche and due in part to the lack of precedence in the form of existing products there is uncertainty over the appropriate size of allocations.

### Investment Trust Model

The investment trust model is seen as a good conduit for this demand. This is especially true of those private wealth managers who are familiar with the structure, but equally those that were unfamiliar predominantly expressed their approval of the model.

The independent structure designed by Eighteen East, and the emphasis on strong governance were well received, in particular by those investors who are familiar with the impact investing concept and wary of the scope for the potential blurring of the lines between profit and purpose over time.

### Investment Adviser

There was wide recognition of the fact that there are not many impact investment managers with the requisite experience, performance history and institutional capacity to meet the stringent requirements of private banks. In this regard Obviam AG, in its de facto capacity as a DFI and with its long history of successfully making and exiting investments across developing countries, is seen as a strong manager.

### Impact Strategy and Measurement

There was no uniform understanding of what impact investing should or shouldn't be on the part of investment managers. There was

however a recognition, driven by client inputs, that genuine impact products should clearly articulate how their impacts will be targeted and measured. Once again Obviam's long track record and experience in selecting and working with fund managers to deliver and report real and measurable impact was seen as highly desirable.

### Size of the Fund Raise

The size of the investment trust is an important factor, as certain private banks are bound by a minimum fund size and a maximum allocation expressed as a percentage of the fund size (typically 10%). A sizeable cornerstone investment is therefore a strong catalyst for success.

### Cornerstone Backing

An anchor investment would be a very effective instrument in the success of the IPO, particularly if the investor has strong impact investing credentials. Such an investment would both increase the size of the fund raise and leverage larger allocations as described above, and send a strong signal to the wider market. Several private wealth managers were quite direct in asking whether various well-known development orientated institutions would back the vehicle through an investment.

### Gatekeepers

The test marketing road show provided reassuring evidence that the overwhelming majority of the gatekeepers that were spoken to took a positive and open-minded attitude, actively seeking to help impact investing grow through their support of the Impact PLC initiative.

As with any innovative product however, the disruptive nature of the Impact PLC structure can present challenges for private banks that prefer to promote their own products and may perceive it as a threat in the context of an individual institution's impact investing strategy and product range.

### Collaboration

The broader point derived from the previous topic is that the impact investing teams within

private wealth organisations can be catalysts or stumbling blocks for the growth of the sector, depending on willingness and ability to invest in independent products. A key advantage of the specific Impact PLC structure is that it provides an opportunity for multiple private banks and wealth managers to allocate to an unbranded product, thereby potentially achieving the necessary scale that is otherwise difficult for any one institution to create purely on the back of their own client base.

## Cornerstone Investor Demand

Through the course of the second half of 2016 Eighteen East continued extensive engagements with a number of philanthropic and development institutions that have stated their intention to support the impact investing and development finance markets. These included eight DFIs and four foundations in Europe and North America.

These institutions have all in one way or another professed their intent to help bring private capital to invest for impact and a genuine interest in solving the liquidity gap that the proposed structure is targeting.

As discussed above, it is a well-documented fact that the majority of individual investors are prevented from investing for impact alongside DFIs and foundations by the unsuitable liquidity and regulatory characteristics of most traditional impact investing vehicles. A basic requirement of the democratization of impact investing is the creation of vehicles that can be accessed by a wider audience. It is obvious that institutional impact investors do not otherwise need to use such vehicles in the normal course of their business.

Whilst the institutions Eighteen East held conversations with do see the need to catalyse aligned private investment as a strategic objective, their investment mandates and priorities have to date not been adapted to enable their teams to make catalytic

investments in vehicles that are designed specifically to bring new sources of capital to bear.

Most of the investment professionals Eighteen East engaged with stated their catalytic objectives are adequately met by acting as the cornerstone investors of direct private equity funds in developing countries. Whilst this might indeed eventually result in facilitating investment in these funds by institutional private investors, and has certainly helped to create a healthy pipeline of investment opportunities, it does not constitute a solution to the democratization challenge. By extension this narrow operational focus on the part of DFIs does limit their ability to assist in the development sector's overarching challenge to catalyse significant additional private capital for the attainment of the SDGs.

Other explanations provided by institutions for not engaging included an exclusive focus on fostering investment from their own country's private investors, the additional cost of investing in a fund of funds, the lack of a mandate to hold listed securities, a less than perfect geographical investment mandate match, and the inability to invest through the services of a fellow DFI.

The learning point is very clear. Whilst their action has historically been the biggest vector of growth for the impact investing sector, the majority of DFIs have to date not adapted their business models to make catalytic investments in structures designed to attract new sources of capital to the space. To quote the candid words of one otherwise very helpful DFI executive 'it's not what we do'.

Foundations' concerns were focussed on the broad mandate of the project compared to their preferred mission related model. Unsurprisingly, support is therefore most likely to come from a foundation that has embraced the growth of the impact investing sector as a whole as its 'cause celebre'.

# Conclusions

Impact investing is a beautiful idea, one that in time can alter the very assumptions underlying the generally accepted investment paradigm. Whilst its growth is indisputable when measured by the number of talented individuals embracing its tenets, or by the number of conferences held to sing its praises and prophesize its advent, the frustration is equally evident when the actual amounts of capital deployed are discussed in hushed voices in the corridors of the same conferences. Is impact investing, the assembled crowds murmur, all talk and no walk?

Every budding asset class or investment theme must in its infancy solve a difficult equation where the risks and the costs of individual product development must be reconciled with the limited pools of assets willing to take the first daring step. Impact PLC was designed to help increase the latter by adopting a disruptive attitude to the former. Its structure was developed with catalytic UKAID financial support from DFID, and its design will deliver a truly independent vehicle, one that does not belong to any one financial institution, but one that allows all of them to collaboratively provide their individual private clients with a first flexible, liquid, regulated, diversified opportunity to invest for impact. Thus far it has brought together the energies of the United Kingdom's government, the Swiss DFI's manager, a British-South African investment bank, a French chairman of the board, and a cohort of global service providers.

The work leading to the test marketing exercise on which this report is based was meant to provide concrete evidence of the demand for impact investing in the private wealth management sector, once the liquidity barrier is removed. Rather than asking wide ranging questions about a very theoretical intention to increase allocations to impact investing in the years to come, DFID and Eighteen East

decided to present investors with the blueprint for a real product, that could be made available to the market in a matter of months.

The feedback from the private banking professionals met during the road show has been very positive. Demand from their underlying clients is real and confirmed, and many of them are ready to bring it to bear. There is a wide acceptance that a pioneering vehicle must be launched to clear the path for the growth of a wider sector in years to come.

Size, as always, matters. Investors are often bound by criteria created with mature asset classes in mind, and minimum fund sizes and maximum holdings can stand in the way of even the most supportive of allocators. In the context of a listed investment trust, size can however form part of a virtuous circle, as liquidity will benefit from a larger fund raise with a diversified investor base.

On the strength of these findings, the Impact Investment Trust PLC team will embark on the journey to its IPO on the London Stock Exchange, reaching out to private banks and wealth managers across Europe. Its members will strive to bring the opportunity to as many participants as possible, but at this early stage of impact investing history, success can only be achieved through a wide ranging collaborative effort.

Whilst the product is designed to be accessible to individual investors, the importance of catalytic institutional investment cannot be underestimated. Institutions with a genuine desire to help bring new sources of capital to bear do however need to accept that catalytic investment cannot be business as usual, and that their investment criteria must be adapted accordingly.

To paraphrase Charles E. Weller, now is the time for all good men and women to come to the party.

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