KEYNOTE INTERVIEW

Impact as standard

Taking an impact-focused approach will soon be a requirement and not a differentiator, say Udayan Goyal and Matteo Stefanel, managing partners at Apis Partners

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Q What does impact investing mean to you as a firm? How do you define it?

Udayan Goyal: Impact means investing with the intention of effecting positive change in society. That is incredibly important to us, which is why we made the decision to launch Apis Partners as natively ESGI – ESG and impact-focused, to have this as part of our DNA. We view everything through that lens. In addition, there is a realisation today that impact investing can also produce tangible economic results – long-term risk adjusted returns can be improved with an ESG and impact focus. So, taking an ESGI approach just makes total sense.

Matteo Stefanel: We have been completely deliberate and intentional about the intended impact of our investment mandate from day one. We believe that an impact agenda needs to be deeply embedded in everything we do, and not just an add on. That is how we effectively deliver both non-financial and financial returns for our investors. We call it IRR-plus and it is literally embedded in our strapline – delivering 'returns with responsibility'.

Q Do you consider impact to be its own investment class?

MS: No, we don't. Treating impact as a separate asset class paves the way for making excuses. The moment you treat impact as something different, you are laying the foundation for the theory that impact can be excused for yielding lower returns. We reject that entirely. Not only is that not true, but it is also detrimental to the global impact agenda. Impact funds need to be held to the same standards when it comes to financial performance because, at the end of the day, impact is just one element – albeit an important element – of that organisation and its investment approach.

UG: There has been a dramatic shift in thinking on this topic. Initially the market did regard impact as its own investment class – wrongly in our opinion. That is no longer the case. Impact originated within private equity but has now spread into just about every other asset class, including publicly traded vehicles. Impact is not its own separate asset class – it is a tool that can be used in any asset class to make meaningful investment decisions.

Q If impact is not a separate investment class, but a core component of overall investment activities, how should investors be formulating and articulating their approach to creating impact?

MS: I think it is tremendously important to be clear and to be granular about the impact mandate of the investment vehicle you are creating. That means that your investors can hold you accountable for delivering on that mandate. You need to define at the outset what impact outcomes you are looking to achieve. You need to measure those outcomes. You also need to report back to your investors, so that they can judge if you have achieved what you set out to achieve, in exactly the same way that they would hold you accountable on meeting financial targets – there is absolutely no difference between how the two should be managed.

Q Private equity has traditionally sought to emphasise its positive impact in relation to job creation. Does that represent an impact strategy?

UG: Job creation cannot be the only pillar of impact. Of course, it is important, but more often than not, job creation is a positive byproduct of any successful investment. As an investee company grows, it tends to hire more people, so job creation represents the lowest common denominator when it comes to impact creation. You need to be able to demonstrate far more than that when it comes to the positive impact that you create.

We always seek to articulate the local and sector-specific impact we are targeting in the context of our impact mandate and defined theory of change. We are focused on the financial services sector, centred on creating financial inclusion in the growth markets of Africa and Asia and we are granular on how this impact can be manifested – for example, we focus on the disintermediation of cash – transitioning into electronic forms of financial services, which solves distribution challenges and creates access to those services for people that could not access them before.

MS: Let me give you a tangible example. DPO Group – Direct Pay Online – is a company that we have recently exited. That has been a tremendous deal for our investors financially, but it has also been a tremendous deal from an impact point of view. There were 7,000 merchants using DPO's payment technology when we first invested. At exit, that number had risen to over 60,000. That is nine times the number of merchants, each with their own individual customer bases, who can leave the cash economy behind, with all its drawbacks and friction costs.

Payment volumes have grown from 3.5 million to over 50 million.

A star in the making

Chennai-based Star Health is a leading health insurance business in India, a country with a population of over one billion. When Apis Partners first invested, the company was covering less than six million of those lives. Today, less than four years later, it is covering approximately 20 million.

Out of those lives covered, a number are covered at no profit to the company, through a scheme run in collaboration with Tata Trusts, designed to provide a positive societal contribution to village communities in India. "The idea is to provide health insurance to the needy that fall outside the main health net of the country," says Apis Partners' Matteo Stefanel. "These are lives that are changed completely. Impact investors used to talk about the number of lives touched. Forget about touching. I am talking about the number of lives changed – the number of lives saved."

Star Health's employment figures have also increased significantly since Apis' original investment, going up by 50 percent to around 14,000. The company is now poised to list, in what Stefanel describes as the "hottest IPO" in India. "That investment is proof that you can do well financially and change the world for the better," he says. "We are immensely proud of this company."

And those merchants have themselves grown by an order of magnitude thanks to being able to accept digital payments. Then there is my favourite statistic: not only has the number of employees risen from 68 to 432, but many of those employees earned a one-time bonus of two or three times their yearly salary as a result of DPO's extremely successful exit. There are some long-serving janitorial staff in the company that received four times their annual salary as part of this scheme. That is changing people's lives.

Q Is ensuring an equitable share in value creation a key tenet of the firm?

MS: Absolutely. That may involve ensuring greater female employment, for example. Many of our companies start out with less than 20 percent female representation when we first invest, but we are currently at between 30 and 50 percent in each company across the portfolio. Or it may involve success-related compensation, in the form of employee stock option plans that we help to design, as is the case with DPO.

We have a similar ethos when it comes to compensation within the firm. Carried interest goes right across the organisation to the most junior level and our employees have the opportunity to co-invest into our funds, even for small amounts. We work hard to ensure that all direct and indirect employees feel appreciated and rewarded, with no glass ceiling and no ethnic, gender, or racial divide. That is extremely important to us.

Q How would you describe LP attitudes towards impact?

UG: Impact has become the zeitgeist of the asset management industry, and the pandemic and other social movements that have emerged have only added to that. There is also a growing recognition and acceptance that impact enhances long-term risk adjusted returns. While impact used to be the remit of development finance institutions and foundations, the conversation has now broadened significantly.

That, in turn, has brought with it a greater focus on impact washing, and the need to be aware of it – LPs want this to be something real and not just window dressing or a fig leaf. Generally, however, I would say that the question investors are now asking around impact has evolved from 'why', to 'why not', and they are increasingly demanding specific and sophisticated impact approaches from the managers that they invest in.

> *"Impact has become the zeitgeist of the asset management industry"*
>
> **UDAYAN GOYAL**

Q What is your approach to measuring impact? What are the challenges associated with this and how can they be overcome?

UG: We are of the view that what gets measured, gets managed. Not only does it need to be measured, it also needs to be reported on. To that end, we have created AIMS – the Apis Impact Management System, which incorporates our proprietary impact management framework, designed specifically for measuring impact within the financial services sector. Here we collect both qualitative and quantitative impact data.

It also incorporates elements outlined by the Impact Management Project, which is led by the IFC and PRI. Adopting the IMP guidelines was natural for us because there was a great deal of overlap with our own in-house framework – namely identification of the 'what', 'who', 'how much' and 'contribution', as key dimensions of impact measurement – this overlap served to validate our existing impact measurement efforts.

Across the industry there is a risk that impact data and measurement can be unstructured, which highlights the importance of establishing clear frameworks and the end-to-end integrated impact management processes. We have put significant effort within the industry to promote this agenda.

Q How do you see the role of impact evolving within the broader financial ecosystem going forward?

UG: Impact started out within private equity and has now spread into pretty much every other asset class. At a very basic level, that integration is here to stay. Asset owners – whether that is retail investors, family offices, strategics or DFIs – are all increasingly demanding that impact becomes a feature of how their assets are managed. They want their capital to generate that IRR-plus that we mentioned earlier.

MS: I believe that in five to 10 years there will not be any funds that do not integrate an impact approach. Impact will no longer be a term that we use to describe a certain group of investors, it will just become the accepted norm. Impact will not be a differentiator, it will be a requirement. ■