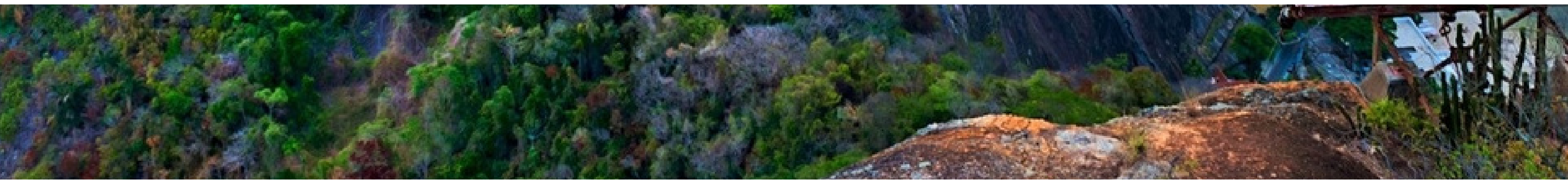
IMPACT REPORT

PHENIX CAPITAL

February 2023

PRIVATE EQUITY FUNDS AT A GLANCE



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If you are a fund investor

and would like to have a live demo of the Phenix Capital Impact Database, please visit www.phenixcapitalgroup.com/impact-database and register your interest.

If you are an impact fund manager

and would like to be considered for listing on the Phenix Capital Impact Database please email sales@phenixcapitalgroup.com. Listing is free of charge.

ABOUT Phenix Capital Group

CATALYSING INSTITUTIONAL CAPITAL TOWARDS THE SDGS

Phenix Capital Group is an impact investment consultant that enables institutional investors to make impact investments.

We assist asset owners and asset managers in aligning their investments with their values, financial objectives, and the Sustainable Development Goals.

Phenix Capital Group is a member/supporter of

Global Compact Network Netherlands

VBDO

Signatory of: PRI Principles for Responsible Investment

GIIN MEMBER

evpa

avpn

Our Vision

We envision a world in which institutional capital helps to end poverty, protect the planet and ensure prosperity for all

Our Mission

Our mission is to enable and catalyse institutional investments that realise financial, social and environmental returns

What we do

To achieve our mission, we enable institutional investors to allocate capital to impact investments through our Events, Impact Funds Database, Impact Fund Assessment and Advisory Services

Learn more at www.phenixcapitalgroup.com

ABOUT IMPACT DATABASE

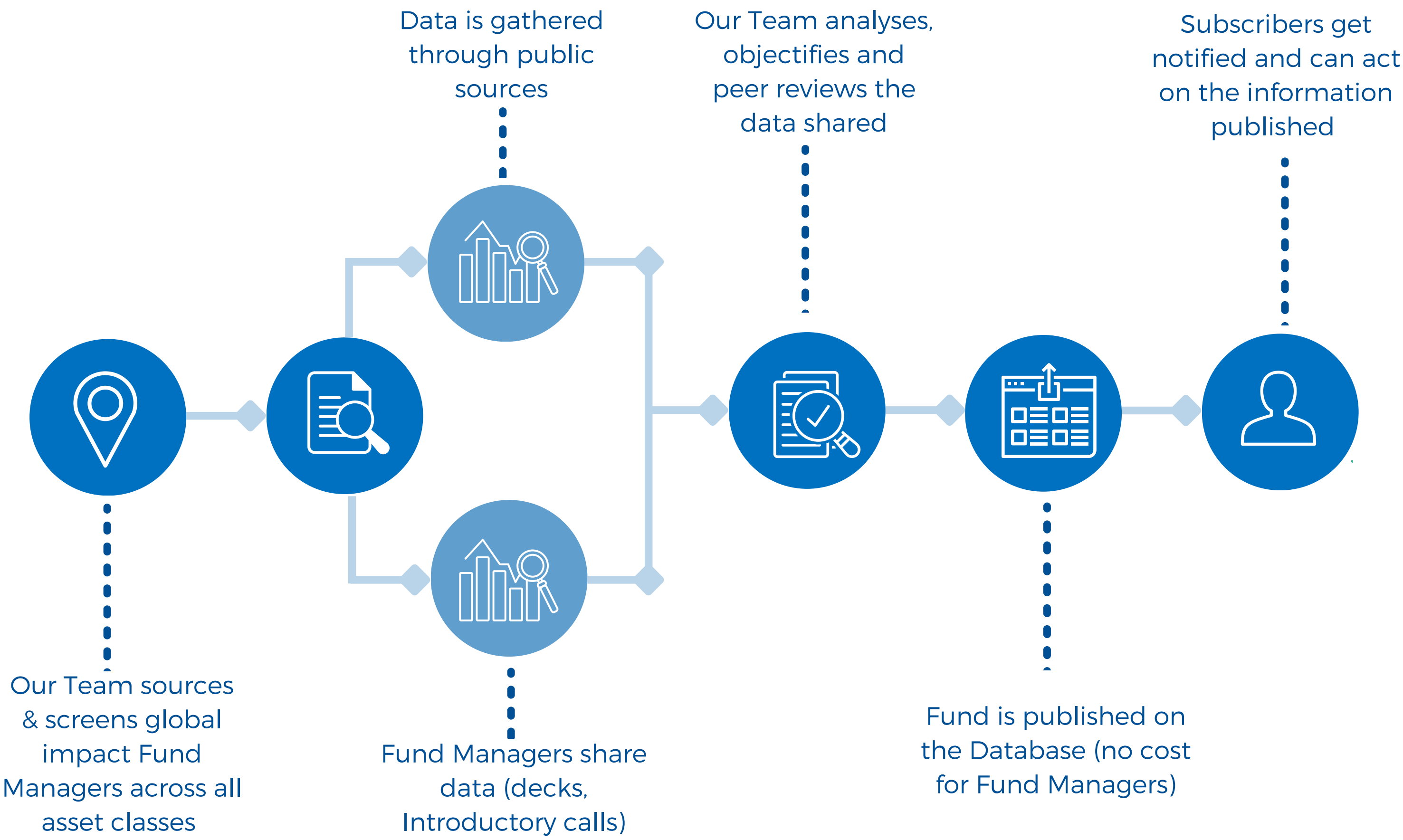
Phenix Capital's mission is to enable the allocation of capital from institutional investors towards social and environmental solutions while supporting the 2030 Sustainable Development Goals (SDGs). With the Impact Database, Phenix Capital aims to provide investors with access to and intelligence on the impact fund market opportunities available to them.

Three main variables have been central to construct, monitor and update the database: **funds considered have an impact proposition, institutional scale, and target market-rate returns.**

Impact Investing goes beyond negative screening and using Environmental, Social and Governance (ESG) integration to reduce harm or avoid risks, to generating intentional positive impact. Phenix Capital defines impact investing as **investing with the dual mandate of financial return and positive societal or environmental impacts**, with the notion of measuring the positive and negative impact of investments, ensuring both **intentionality and additionality** among these.

Phenix Capital's Impact Database features funds that align with this definition through their creation of solutions for global social and environmental issues, whilst prioritising financial returns. This category of impact investments can be referred to as **financial-first impact investments**.

FUND SOURCING PROCESS



INTRODUCTION

PRIVATE EQUITY

The private equity market in general in 2022 was a story of two halves. Growth and innovation continued with the 2021 momentum for the first half of the year, but **the second half saw private equity firms become more cautious** as the global macro impact of the war in Ukraine and rising inflationary pressures restricted access to financing.

From a private equity impact investment point of view, the ongoing impetus for **the energy transition was turbocharged** when the EU's self-imposed sanctions on gas imports from Russia ultimately led to the end of gas supplies to Europe, but it was **food security that jumped into the spotlight**.

UN Sustainable Development Goal (SDG) 7: Affordable and Clean Energy retained its 3rd place in terms of capital raised in impact private equity funds in 2022, while SDG 2: Zero Hunger jumped from 14th place to 5th slot.

Private Equity Impact Database Highlights include:

- **87 private equity impact funds** were launched in 2022
- Committed capital grew by 1.9% reaching €161 billion
- **Private equity funds are the largest category in the database**, representing 54% of the total number of funds
- **Developed market** private equity funds **raised 53%** of the geographical total
- Venture capital impact funds make up **59%** of the private equity sub-strategy funds.

IMPACT THEMES MAPPED AGAINST THE SDGS

The Phenix Capital Group has mapped the SDGs against Impact Themes, which are based on **the most globally endorsed terms used by practitioners in the financial sector** and what's used by generally accepted frameworks, to enable both fund managers and fund allocators to better **understand how the SDGs and it's sub-goals translate into outcome-based investment areas -** by the name that they are commonly known and referred to in the financial industry.

Mapped against the SDGs' sub-goals, our Impact Themes offer a comprehensive way for investors and fund managers in the financial industry to identify what social or environmental outcome is generated by an impact investment and its contribution to the Sustainable Development Goals.

THE REVAMPED IMPACT THEMES ARE ALREADY AVAILABLE IN OUR IMPACT DATABASE FOR FUND FILTERING, VIA THE FUND SEARCH FUNCTION.

PRIVATE EQUITY

DATA OVERVIEW

IMPACT FUNDS

1250

Private equity funds

54 %

Percentage of private equity funds on Phenix Database

626

Fund managers with private equity strategies

63%

Percentage of fund managers with private equity funds on Phenix Database

€161 billion

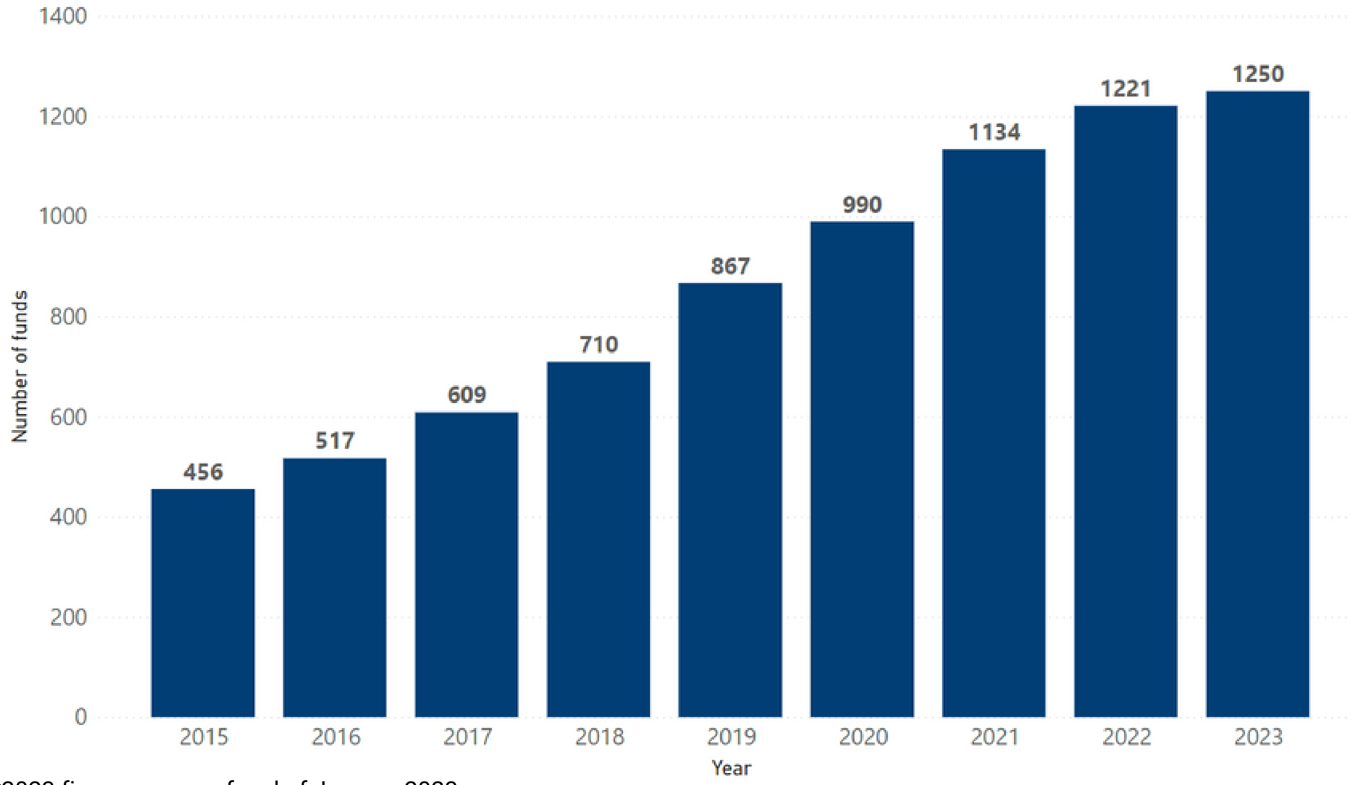
Has been committed towards private equity

30%

Percentage of capital raised towards private equity from the total capital raised on Impact Database

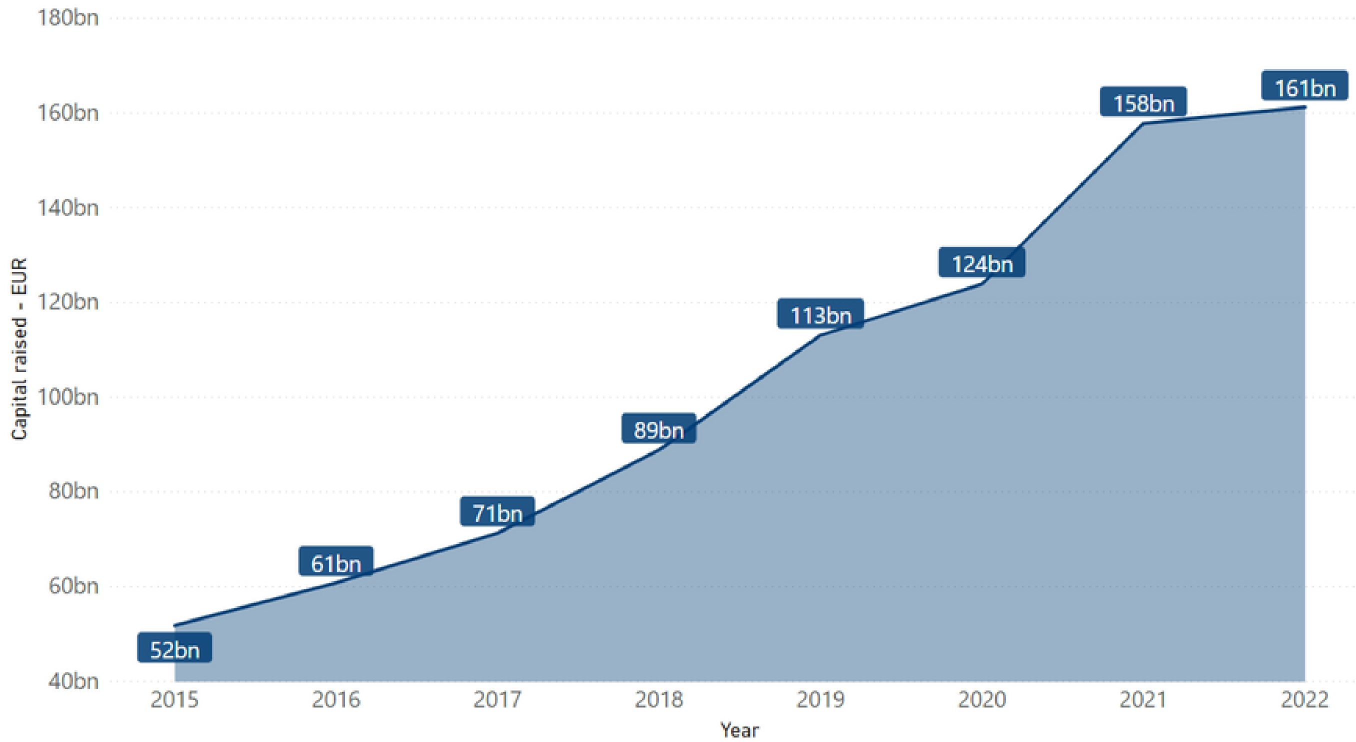
PRIVATE EQUITY IMPACT FUNDS AT A GLANCE

Cumulative number of private equity impact funds added to the Impact Database, including new launches by year



*2023 figures are as of end of January 2023

Cumulative capital raised by year



PRIVATE EQUITY IMPACT FUNDS AT A GLANCE

Private equity impact funds represent 54% of the total number of funds in the Phenix Impact Database, up from 52% in 2021. The number of funds totalled 1250 (end of January 2023) growing by 10.2% from 2021. Assets in private equity impact funds grew by 1.9% to reach €161 billion.

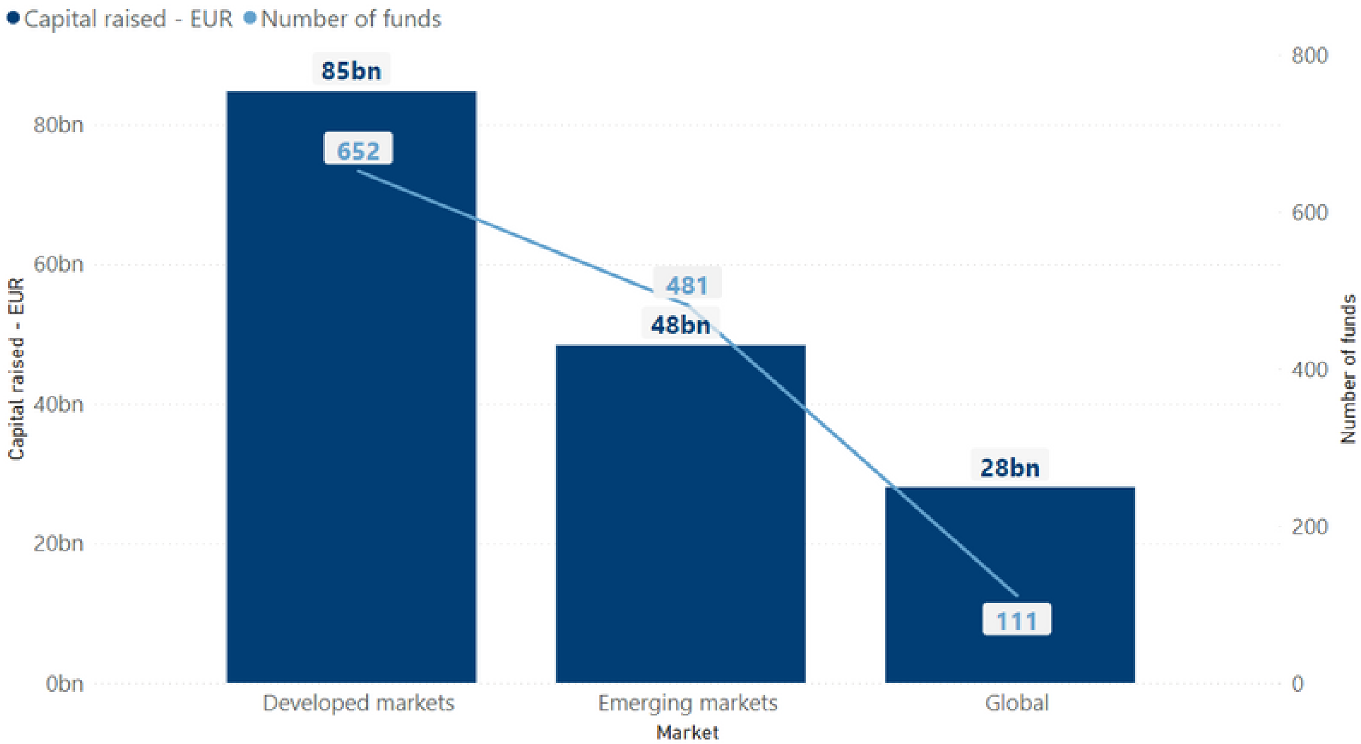
We segment private equity impact funds into three strategies. Venture Capital is typically characterised by high-risk investments in early-stage companies following a growth path in value-add sectors. There are 734 funds in the Venture Capital category and North American-focused impact funds have raised €28.8 billion.

Growth involves minority investments in relatively mature companies looking for capital to continue expansion. There are 546 funds in the Growth category and Global-focused impact funds have raised €26.4 billion.

Buyout focuses on control investments in established firms that are undergoing a fundamental change in operations or strategy. There are 120 funds in the Buyout asset class and North American-focused impact funds have raised €22.5 billion cumulatively.

Geographically, the funds are segmented between Developed Markets, Emerging Markets and Global Funds in the Phenix Impact Database. **In 2022, there were 652 Developed Market impact funds that raised €85 billion; 481 Emerging Markets impact funds that raised €48 billion; and 111 Global impact funds that raised €28 billion.**

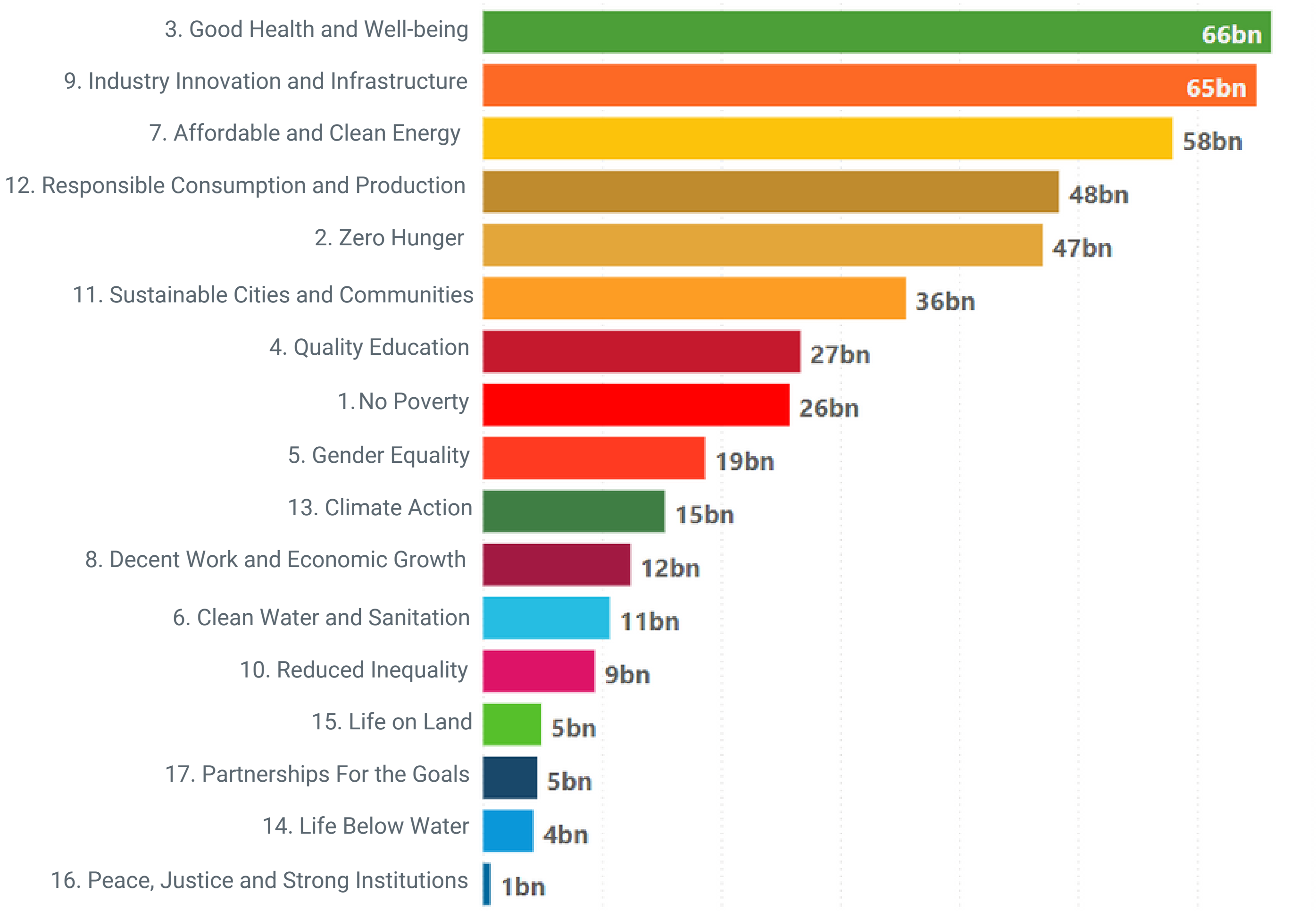
Capital raised (EUR) and number of funds by market targeted



*Data may overlap as funds can target several asset classes, SDGs and/or regions.

SUSTAINABLE DEVELOPMENT GOALS

Total capital raised in Private Equity (EUR) - By SDG targeted



With the war in Ukraine, priorities changed, once again, in 2022 and this is reflected in the focus of private equity impact flows into different SDGs. As a legacy of the pandemic, **SDG 3: Good Health & Wellbeing continues to attract the majority** of the private equity impact capital.

On a cumulative basis, SDG 3, which has 477 funds targeting it as a theme, has now raised €66 billion. As of 2021, SDG 3 had raised €62 billion. Funds launched in 2022 have raised so far €715 million towards this goal.

As a legacy of the war in terms of food security, as well as risk related to increased fertiliser prices and the impact of the cost-of-living crisis, SDG 2: Zero hunger, which was 14th in the rankings in terms of private equity capital attraction, now ranks 5th place with cumulative flows of €47 billion.

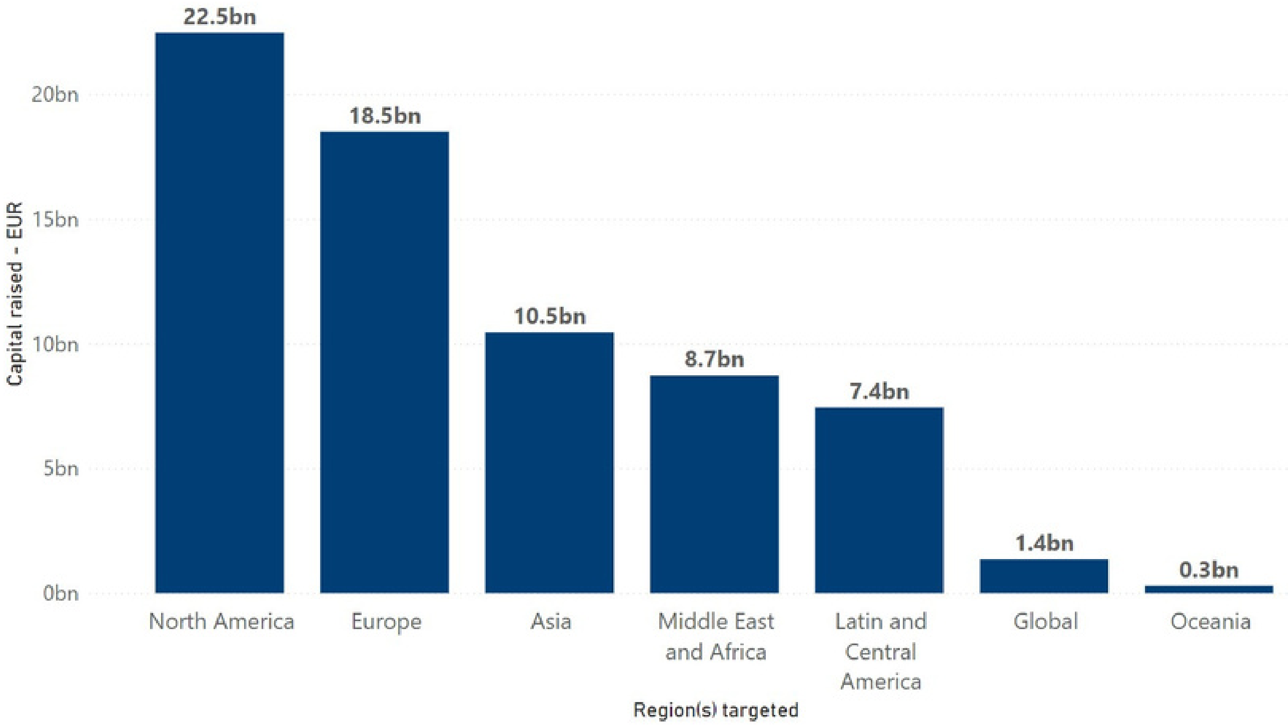
SDG 9: Industry, Innovation, and Infrastructure, which has 424 funds targeting this theme, saw cumulative flows of €65 billion, while SDG 7: Affordable & Clean Energy has 347 funds, and saw cumulative private equity impact flows of €58 billion.

*Data may overlap as funds can target several asset classes, SDGs and/or regions.

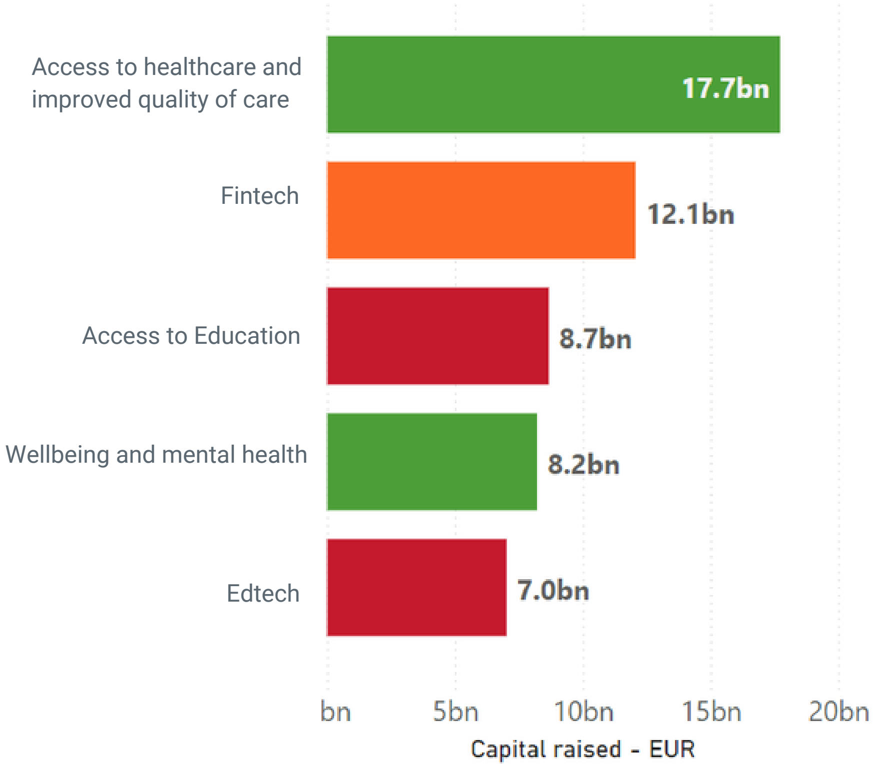
BUYOUT IMPACT FUNDS

Number of impact funds: **120**

Total capital capital raised - By regions targeted



Total capital raised - By impact themes targeted



As of January 2023, Phenix Capital has tracked 210 Buyout funds. Funds launched in 2022 have raised €287 million. As of 2021, 21% of the private equity impact capital went into Buyout funds, as of January 2023 it reached 23 %.

Cumulatively, the Buyout category has seen €41 billion inflows, with North American-focused impact funds cumulatively raising €22.5 billion.

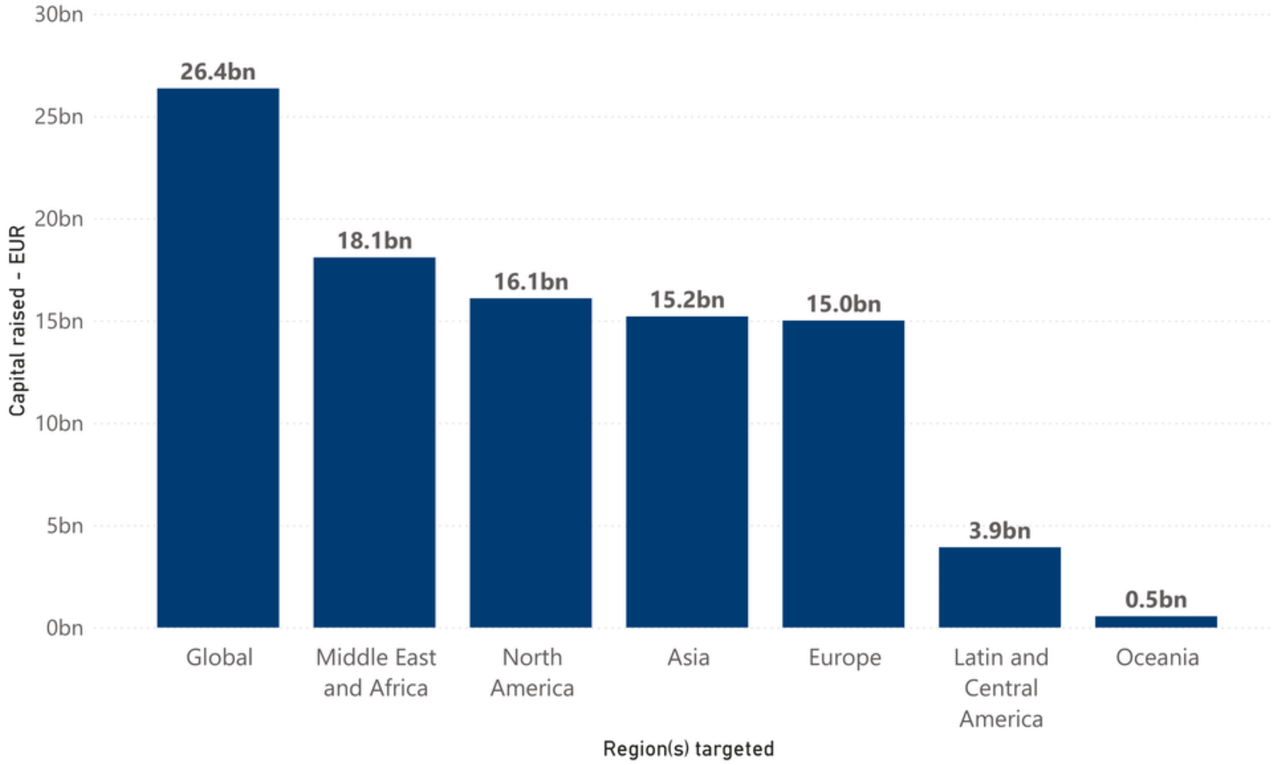
The average Buyout fund size is currently €425.53 million. In terms of SDG themes the flows are focused on health, €17.7 billion, and education, €8.7 billion, primarily in North America and Europe.

*Data may overlap as funds can target several asset classes, SDGs and/or regions.

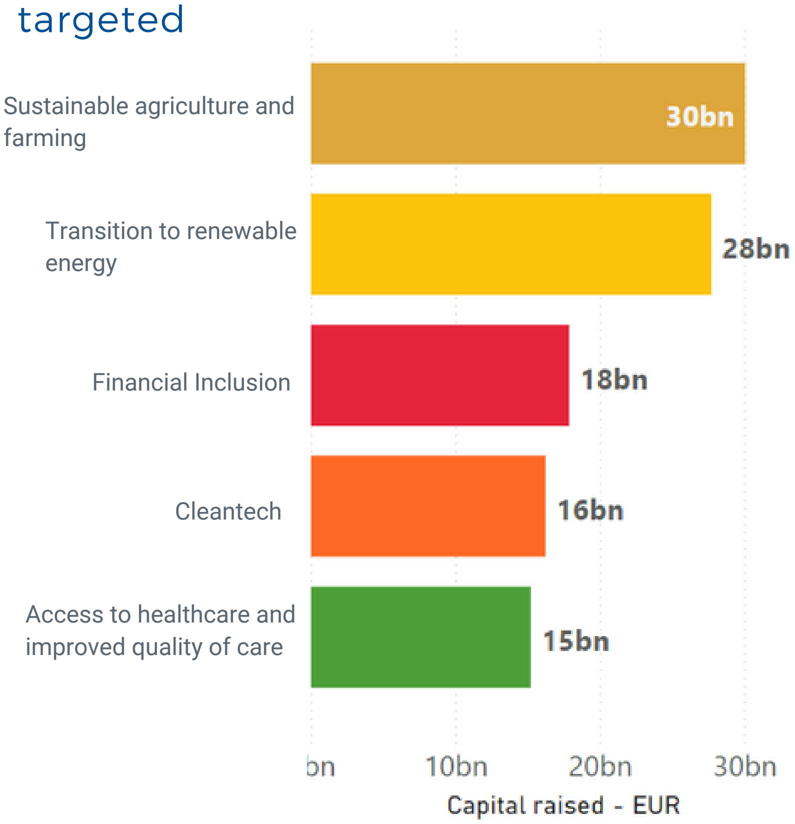
GROWTH IMPACT FUNDS

Number of impact funds: **546**

Total capital capital raised - By regions targeted



Total capital raised - By impact themes targeted



Phenix Capital has tracked 546 private equity funds focusing on Growth, 58 were launched in 2022 and 2023 (January).

Cumulatively, the Growth category has seen €80 billion in inflows, with Global-focused funds cumulatively raising raised €26.4 billion.

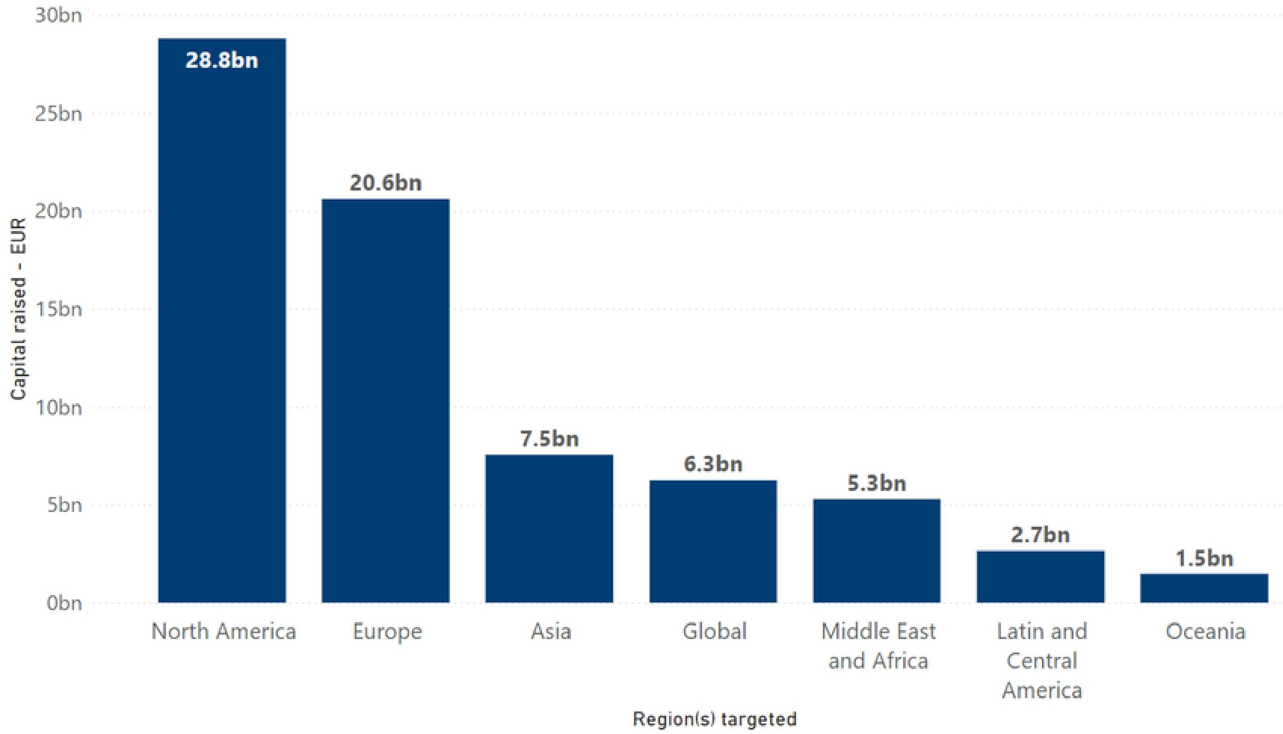
Average fund size in Growth is €178.32 million. In terms of SDG themes the flows are focused on sustainable agriculture and farming, €30 billion, and transition to renewable energy €28 billion, primarily global portfolios but also in emerging markets.

*Data may overlap as funds can target several asset classes, SDGs and/or regions.

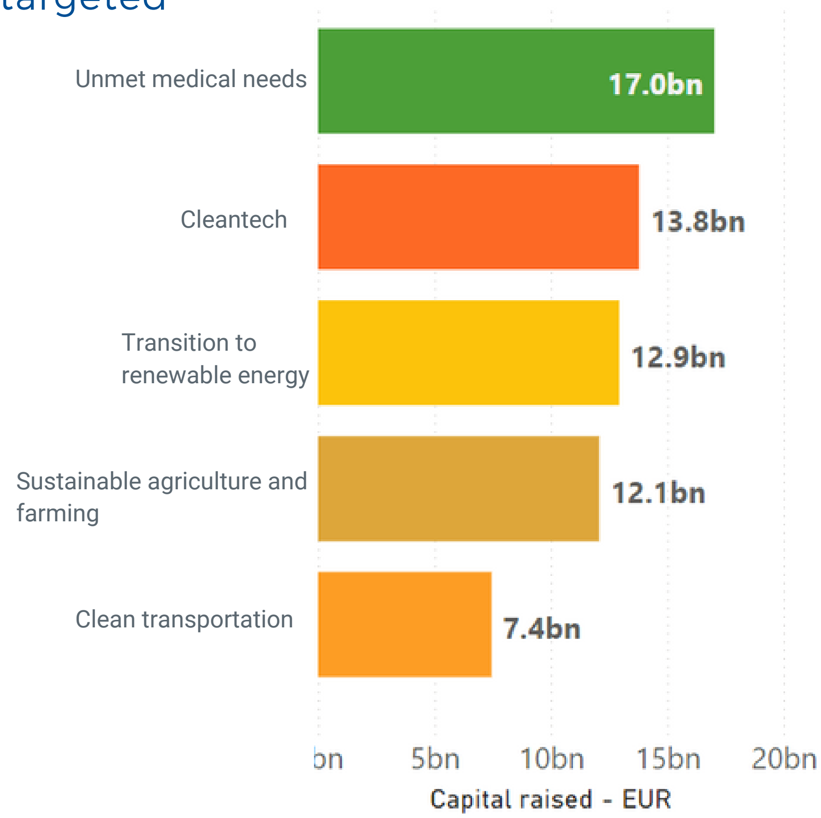
VENTURE IMPACT FUNDS

Number of impact funds: **734**

Total capital capital raised - By regions targeted



Total capital raised - By impact themes targeted



Out of the 734 Venture funds in Phenix Impact Database, 80 were launched in 2022 and 2023 (January). Venture funds launched in 2022 have raised so far €2 billion.

The Venture category has seen €54 billion in capital raised, cumulatively, with North American-focused impact funds raising the most capital.

In terms of SDG themes, the flows are focused on unmet medical needs, €17 billion, and clean tech €13.8 billion, primarily focused on North America and Europe.

*Data may overlap as funds may target several asset classes, SDGs and/or regions.

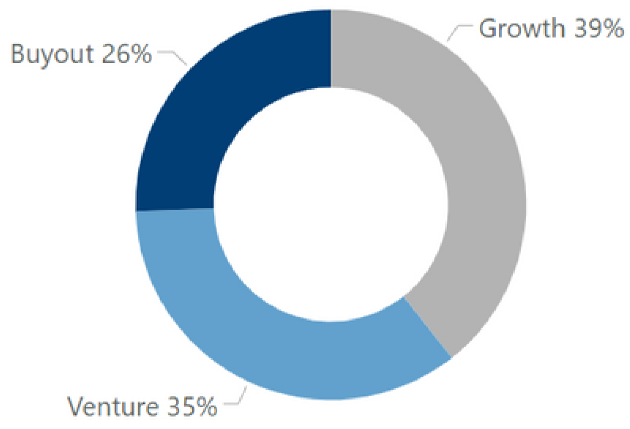
PRIVATE EQUITY IN EMERGING MARKETS

Phenix Impact Database tracks 481 private equity funds that invest in emerging markets. The total cumulative capital invested, including Africa, Asia and Latin America is €48 billion**.**

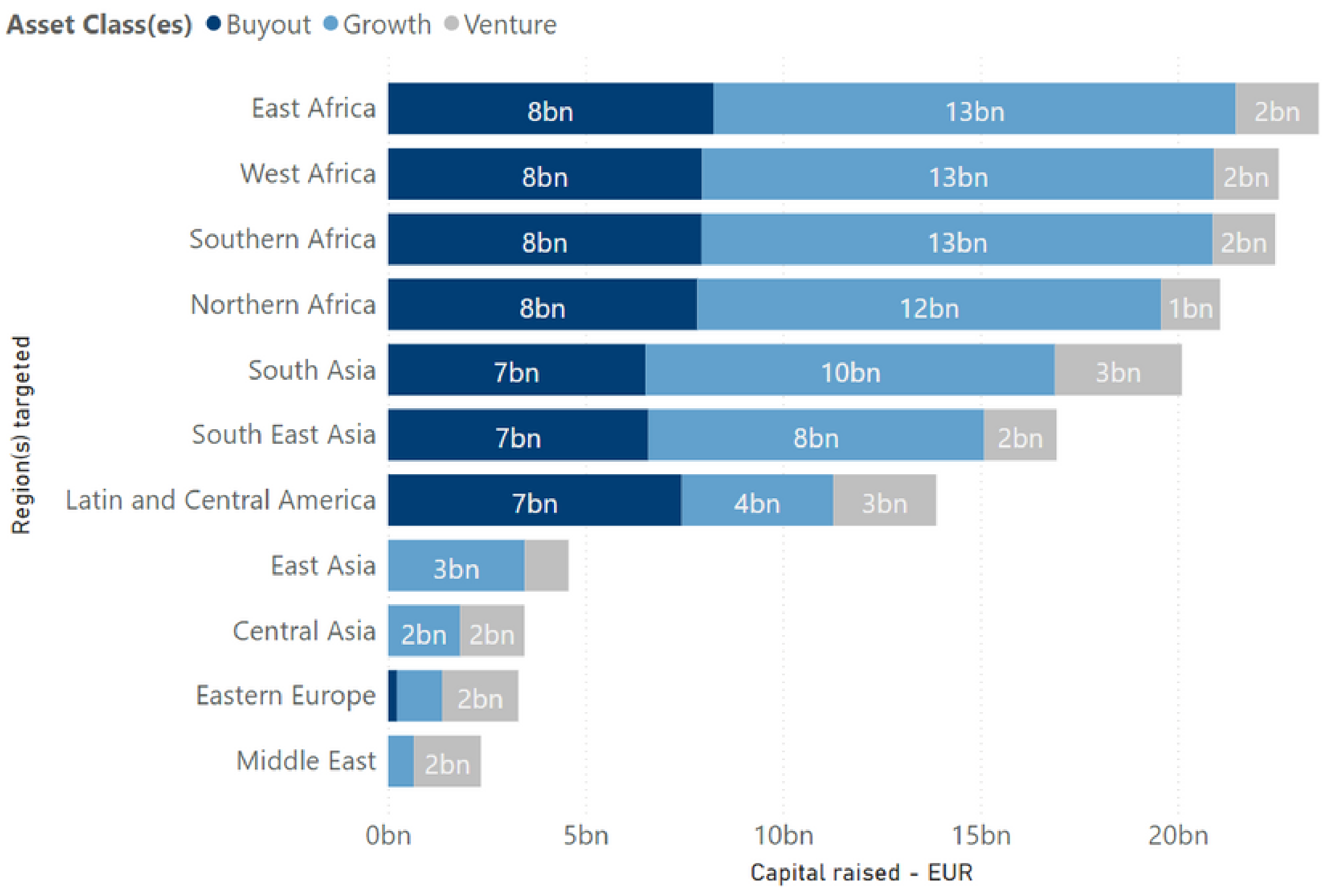
Nearly 40% of the funds target Growth strategies, which has raised 61 % of the total private equity flows in emerging markets, while venture accounted for 20 %. Buyout strategies have raised 19 % of the capital flows.

The impact theme that has attracted the most private equity flows is Fintech - which is related to SDG 9. Financial inclusion is the second most targeted impact theme, followed by sustainable agriculture and farming.

Percentage of number of funds - By asset class



Total capital capital raised - By regions targeted and asset class



*Data may overlap as funds may target several asset classes, SDGs and/or regions.

PHENIX CAPITAL BACK TO BASICS SERIES
in collaboration with Global Impact Investing Network (GIIN)

It is easy to assume everyone in the impact space now knows everything that they need to know. But what about new entrants from different asset classes, such as public market equity experts, or strategies, such as hedge funds. Today, having a sustainable layer in finance is essential, but often knowing where to begin is the hardest part.

Our data is used by investors, impact managers, journalists and asset managers exploring the universe and so we thought it would be useful, on occasion, to publish relevant research, thought leadership or learning aids, in our reports.

Between 2013 and 2016, the **Global Impact Investing Network (GIIN)** trained more than 275 individuals from more than 200 different impact investment funds. Building on and refining the materials used in those trainings, the GIIN consulted with an additional 80 impact investors and fund managers, which has resulted a comprehensive guide offering self-guided, online training materials directly to new and emerging impact investment fund managers.

Each section of the guide is designed to stand alone, allowing readers to absorb the information through their own pace, and review the specific information that is most relevant to their fund's particular stage of development.

A Guide for Impact Investment Fund Managers: A step-by-step resource to creating and managing a private equity impact fund. This excerpt, published with permission from the GIIN, is titled: **Developing a private equity fund foundation and structure.** Link to the full guide can be found below.

Full article: https://thegiin.org/giin-financial-management-resources/

GIIN
GLOBAL IMPACT INVESTING NETWORK

Most venture and private equity funds use a limited partnership as their legal structure (Figure 2), which involves two main types of actors: (1) a general partner (GP) and (2) limited partners (LPs).

The limited partnership is usually a fixed-life investment vehicle, wherein the GP, or the management firm, has unlimited liability and the LPs, or investors, have limited liability and are not involved with day-to-day fund operations. The GP receives a management fee and a percentage of the profits, while the LPs receive a portion of the income and capital gains.

Policies laid out in a Partnership Agreement manage the relationship between the GP and the LPs, covering terms, fees, investment structures, and other items that require mutual agreement before investment. A limited partnership model usually also includes an advisory committee and an investment committee.

Why would a business want private equity investment?

An enterprise may seek private equity (PE) financing for various reasons (Figure 2), but the first and foremost goal is to grow the company to increase its profitability. Private equity capital can increase a firm's working capital, which is an important measure of both a firm's efficiency and its short-term financial health.

These important signals of stability can help attract other investors while giving a business the flexibility to pursue potential expansion opportunities, such as developing new products and services or acquiring other businesses. A PE investment can also give a business the freedom to buy out certain shareholders to restructure their financing.

For entrepreneurs, the fund manager can act as a trusted advisor who can help them make these crucial business decisions.

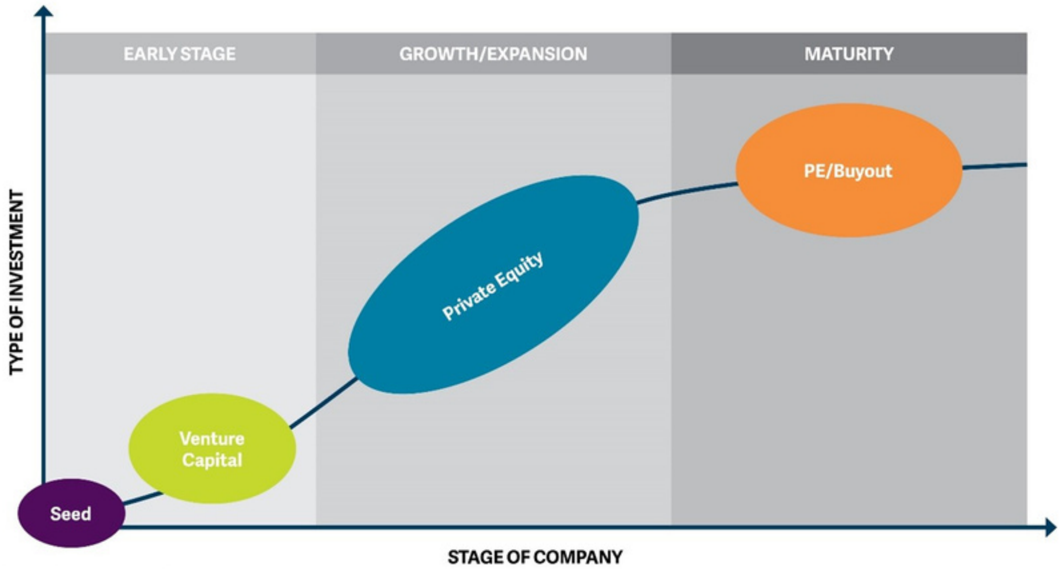


Figure 2: Investment Type by Stage of Company
Source: The GIIN 2018

To operationalize a thoughtful and supported investment thesis requires a robust foundation; this is a crucial piece of effective fundraising. Limited Partners (LPs) interviewed during the development of this guide said that one common reason fund managers fail to secure capital commitments in today's market is that they underestimate the importance of a robust design.

Robust design includes the critical elements of fund structure; a balanced team who can execute for financial and impact returns; a substantial deal flow pipeline that indicates the ability to find good deals and deploy capital; and thoughtful consideration of details including terms, drivers of return, and opportunities to add value.

Fund managers should consider not only how each of these elements may be characterized at the start of a fund's life but also how they may evolve alongside the fund.

Impact funds invest mostly in the early stage, expansion, and growth stages of companies. Through private equity, impact investors can shape portfolio companies' strategies and work directly with companies to help them meet the intended impact.

“ROBUST DESIGN INCLUDES THE CRITICAL ELEMENTS OF FUND STRUCTURE; A BALANCED TEAM WHO CAN EXECUTE FOR FINANCIAL AND IMPACT RETURNS; A SUBSTANTIAL DEAL FLOW PIPELINE THAT INDICATES THE ABILITY TO FIND GOOD DEALS AND DEPLOY CAPITAL; AND THOUGHTFUL CONSIDERATION OF DETAILS INCLUDING TERMS, DRIVERS OF RETURN, AND OPPORTUNITIES TO ADD VALUE.”

The type of capital enterprises receive depends in large part on their stage at the time of investment (Figure 3). For example, expansion and growth capital may be used to fund market or product development, finance increased production capacity, or provide additional working capital.

For this reason, this type of investment capital is sometimes termed development capital. During this stage, the firm is producing and selling products or services while also seeking to expand its output of products or services to increase revenues. At this stage, operating revenues are usually not sufficient to fund the expansion, and so, to expand, the firm seeks financing through formal and informal risk capital or debt.

Impact funds operate mostly in the venture capital and expansion and growth stages of financing. Investing through private equity allows impact investors to directly shape portfolio company strategy and help companies achieve the intended impact.

VENTURE CAPITAL	EXPANSION & GROWTH	BUYOUT	RESCUE/ TURNAROUND	OTHER
Start-up and/or early stage company	Formal company structure in place	Larger, more established company	Distressed company	Secondary purchase of company
Seed: angel investors	Pre-income or post-income	Financial engineering	Refinancing	Replacement equity
Primarily equity & quasi-equity	Phased financing	High leverage & leveraged buyout (LBO)	Financial restructuring	
	Equity, quasi-equity & debt	Lower growth & greater emphasis on efficiencies, restructuring		

Figure 3: Characteristics of Diverse Financing Options
Source: The GIIN 2018

Growing SMEs through Technical Assistance Facilities in Emerging Markets

Fund managers that invest in small-and medium-sized enterprises (SMEs) in emerging markets should also consider the role of Technical Assistance Facilities (TAF) in helping to grow such businesses. Capital alone is often not enough, particularly for SMEs in emerging and frontier markets, many of which need capacity-building support through technical assistance (TA) to ensure sustainable growth.

Technical Assistance Facilities (TAFs)—specific pockets of financing dedicated to the provision of TA interventions—are becoming more common among emerging market SME fund managers. It is important to note that providing TA is not unique to impact investing; mainstream, commercial PE and VC funds also commonly offer TA facilities.

The GIIN's issue brief, **Beyond Investment: The Power of Capacity-Building Support**, found a variety of reasons that interviewed impact investors provide capacity-building support, most commonly (1) to improve the investors' level of competitiveness, (2) to enhance investees' financial performance, (3) to improve or expand the investees' impact, and (4) to strengthen markets more broadly.[1]

Financing for TAFs usually comes in the form of grants, with a fund's LPs, as well as the investee company, bearing portions of the costs. Many interviewees for the GIIN issue brief shared that development finance institutions (DFIs) increasingly provide TAFs alongside their investments.

TAFs are typically sized between 4% and 10% of investment capital. This money is most often used after investment; though pre-investment TA is also performed, it is typically harder to fundraise for.

The usage of TAFs generally falls into two broad categories: (1) TA for business development and (2) TA for building out environmental, social, and governance (ESG) or impact measurement practices. TA for business development includes general support for business planning and accounting, specialized TA for management information systems and legal support, and identification of partnerships and distribution options for products.

"TECHNICAL ASSISTANCE FACILITIES (TAFS)—SPECIFIC POCKETS OF FINANCING DEDICATED TO THE PROVISION OF TA INTERVENTIONS—ARE BECOMING MORE COMMON AMONG EMERGING MARKET SME FUND MANAGERS. IT IS IMPORTANT TO NOTE THAT PROVIDING TA IS NOT UNIQUE TO IMPACT INVESTING; MAINSTREAM, COMMERCIAL PE AND VC FUNDS ALSO COMMONLY OFFER TA FACILITIES."

Common challenges in implementing TA include difficulty raising funds to support it and a dearth of quality consultants or service providers to execute on the needed services. One factor potentially limiting the amount of funding available for TAFs is the perceived risk that TA usage will distort markets.

For example, one DFI constructed the following categorization of TA risks to evaluate funding decisions and design the governance process for using a TAF.

- Pre-investment Risks of TAFs:
  - Spray and pray: Arbitrary allocations of TA in the hope of uncovering or unlocking 'investible' companies.
  - Subsidy: Obscuring the true, long-term prospects of a business and thereby detracting from commercial discipline.
  - Reputation risk: Gaining a reputation for 'handouts' or wasting resources on disingenuous TA applicants who have no intention of meeting investment criteria.

- Post-investment Risks of TAFs:
  - Dependence risk: Avoiding unsustainable or damaging investee reliance on TA.
  - Moral hazard risk: The risk that the availability of TA encourages investments that a fund otherwise would not make.

In addition to the perception of risk, cynicism about the effectiveness of TA may also limit the availability of funding. Few TA providers measure the results of their interventions, which hinders confirmation of the efficiency or effectiveness of TA usage. Despite these challenges, many investors continue to see value in TA and offer it as part of their investments.

Full article: https://thegiin.org/giin-financial-management-resources/

ADDITIONAL RESOURCES:

- Beyond Investment: The Power of Capacity Building Support, The GIIN
- Insights from the Impact Programme: Using Technical Assistance to Build Impactful Businesses, UK Department for International Development
- Five Years of the AAF's Technical Assistance Facility, African Agriculture Fund's Technical Assistance Facility (AAF TAF)
- A Guide to Effective Capacity Building, Asia Venture Philanthropy Network (AVPN)
- A Practical Guide to Adding Value through Non-Financial Support, European Venture Philanthropy Association (EVPA)
- The Role of Technical Assistance in Mobilizing Climate Finance, GIZ
- Private Equity and Venture Capital in SMEs in Developing Countries: The Role of Technical Assistance, The World Bank
- Technical Assistance: A Development Tool Serving the Private Sector, PROPARCO

GLOSSARY & SYMBOLS

Committed capital: Amount committed in a fund vehicle by its limited partners / investors.

Developed markets: We include Europe (excl. Eastern Europe), North America, Asia Pacific (Singapore, Japan, and South Korea only), Oceania (New Zealand, Australia) Middle East and Africa (Israel only).

Direct lending: A specialised form of private debt, in which loans are made to middle-market companies. It is the private debt strategy with lower risk, achieved by using collateral.

Emerging markets: We include Latin and Central America, Asia Pacific (excl. Singapore, Japan, South Korea), Middle East and Africa (excl. Israel) Europe (Eastern Europe only).

Fund managers: Organisation managing commingled, pooled and customised vehicles invested by institutional asset owners. Also called General Partner or GP.

Global: Funds that have an investment geographic scope encompassing both developed and emerging markets.

Impact investing: Investments with the dual mandate of financial return and positive societal or environmental impacts, with the notion of measuring the positive and negative impact of investments, ensuring both intentionality and additionality among these.

Institutional asset owners: Outsourced CIOs, pension funds, insurance companies, family offices, sovereign wealth funds, endowments, foundations, banks, fiduciary managers, discretionary investment consultants. Also called Limited Partner or LP.

Market targeted: Markets fund managers target for their investments: We include Global, Developed markets, Emerging markets.

Mezzanine: A specialised form of financing in which loans are subordinated to banks, with no collateral. It is the most equity-like form of private debt.

Microcredit: A common form of microfinance, characterised by small loans to individuals or small companies.

Private debt: Debt instruments to companies: direct lending, mezzanine, microfinance strategies.

Public debt: Publicly traded fixed income securities: investment grade or high yield, focused on green bonds and municipal and community infrastructure and affordable housing issuers.

Regions targeted: Regions fund managers target for their investments: We include Asia Pacific (East Asia, Central Asia, South Asia, South East Asia), Europe (Western Europe, Eastern Europe), Global, Latin and Central America, Middle East and Africa (East Africa, Middle East, Northern Africa, West Africa, Southern Africa), North America, Oceania.

Target fund size: Amount the fund manager is targeting when raising capital.

Vintage: Year where the fund manager first calls capital from investors.

Full glossary: www.phenixcapitalgroup.com/impact-investing-glossary

DISCLAIMER

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