IMPACT REPORT

June 2024

PHENIX CAPITAL

PRIVATE DEBT
FUNDS AT A GLANCE

CONTENTS

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

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.

www.phenixcapitalgroup.com

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 & Webinars, Impact Databases, Impact Fund Assessment and Placement Services

ABOUT IMPACT DATABASE

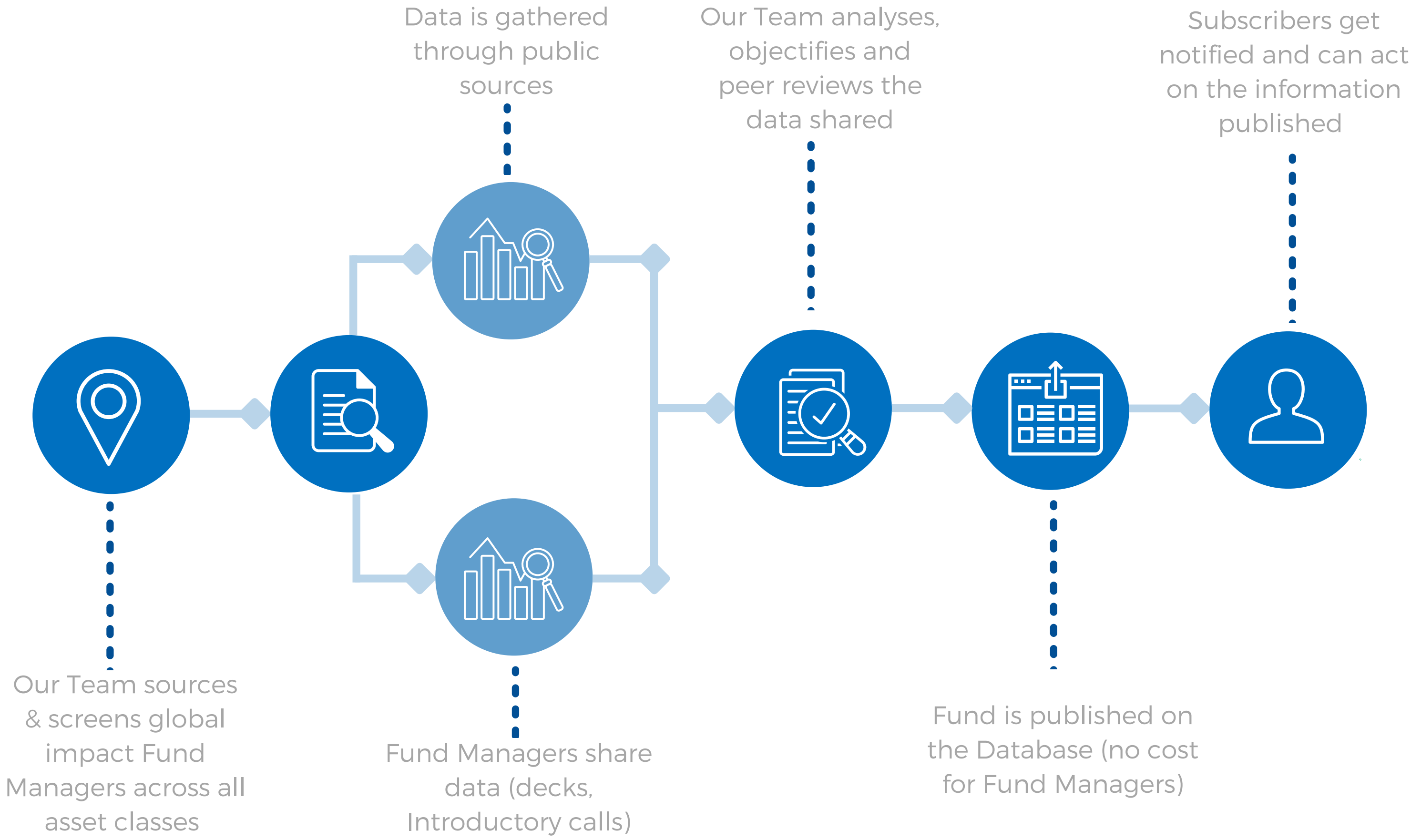
Phenix Capital's mission is to enable the allocation of capital from institutional investors towards social and environmental solutions while supporting the 2030 Sustainable Development Goals (SDGs). With the Impact Database, Phenix Capital aims to provide investors with access to and intelligence on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

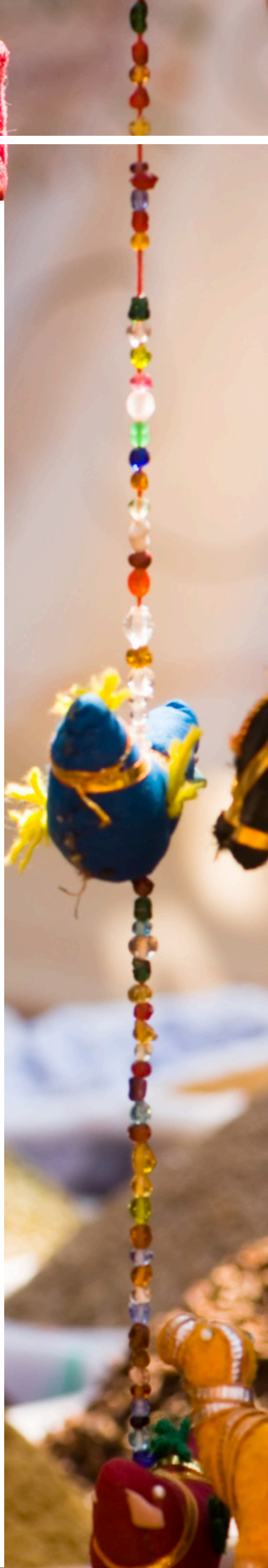
Impact Investing goes beyond negative screening and using Environmental, Social and Governance (ESG) integration to reduce harm or avoid risks, to generating intentional positive impact. Phenix Capital defines impact investing as **investing with the dual mandate of financial return and positive societal 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 debt has become synonymous with emerging market investing. Also known as private credit, micro, small, and medium sized companies are an essential economic building block for the emerging markets as they generate employment, produce goods and services that contribute to regional development. Almost 70% of the private debt impact funds in the database have an emerging market focus.

Diversification, potential to increase investments, impact and higher recovery rates are reasons why many investors prefer private credit over private equity and public debt particularly in the emerging markets. Beneficiaries of the loans typically benefit from tailored credit solutions, no dilution on shareholdings or control handover, and flexible funding structures with shorter- or medium-term goals.

In terms of financing, however, this sector is often too small to qualify for loans by banks or public markets, and too big for microfinance organisations. Private market options include direct lending, mezzanine finance, and microcredit (for definitions, see Private Debt Funds 2023).

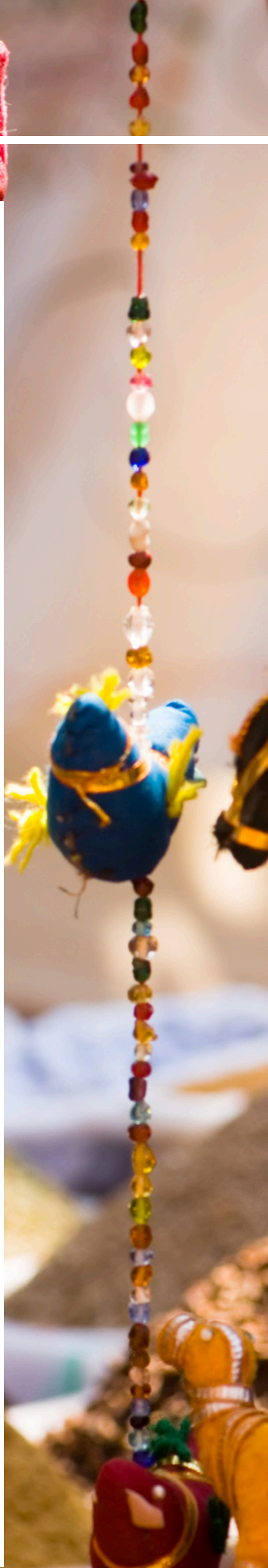
Blended finance is also gaining momentum as asset owners' team up with organisations to mobilise large-scale capital into impact projects in emerging markets. According to Convergence, blended finance has mobilised approximately $217 billion in capital towards sustainable development in developing countries to date.

Since the last report, the universe of private debt impact funds has grown by 1.8% to reach a total of 394 funds, roughly 14% of the total number of funds in the database. Of these, 117 are open for investment from a total 218 investment managers.

Given their typically regular cash flow, lower volatility, when compared to equities, and a relatively stable returns profile, investors like this strategy as a gateway to the emerging markets.

While the largest number of private debt funds are Africa focused, 30.7% of the universe, at 23.9% Asia is the next most popular region for product development. In fact, in February, Tikehau Capital joined forces with Singapore-based brokerage firm UOB-Kay Hian to launch an Asia Pacific credit strategy to tap Asia's fast-growing private credit market.

This report also takes a look at the impact metrics that global/developed market private debt funds prefer, namely net zero and the environment. This compares to emerging market debt fund impact funds that are focused on social metrics, an issue that urgently needs attention a) to achieve Paris Alignment and b) for emerging market companies to be able to compete from a sustainability point of view in the global market place.



From a Sustainable Development Goals (SDGs) point of view, the emerging market bias of private debt funds shows up in terms of number of funds focused on the different SDGS. No Poverty (SDG1) has 203 private debt funds, compared to Climate Action (SDG13) that has 81.

To address this, a couple of climate-related initiatives took place last year. In October, British International Investment (BII), the UK's Development Finance Institution signed a Memorandum of Understanding with Amsterdam-based ILX Management, an SDG and climate-focused emerging market private debt fund.

The partnership will co-finance up to $500 million of debt transactions to facilitate long-term sustainable development across developing economies and low-income countries in Africa, Asia, and the Caribbean.

BII and ILX, which has $1.05 billion from investors such as ABP, bpfBOUW and Pensioenfonds Vervoer, will invest across a broad range of sectors including renewable energy, infrastructure, financial services, manufacturing and agribusiness to increase the flow of capital into impactful businesses and projects.

They will establish a roadmap to mobilise private sector capital, specifically focusing on providing institutional investors with greater access to high-impact private debt investment opportunities in scalable businesses driving productive, sustainable and inclusive growth.

Last April, Climate Fund Managers teamed up with Cardano Asset Management, which runs the Cardano Impact Financial Inclusion Fund, to launch Cardano CFM Emerging Markets Climate Credit Fund, a private credit fund targeting $1 billion that will focus on renewable energy opportunities across emerging markets.

Also, as part of addressing climate change in Africa and emerging Asia, at COP28 in November, Temasek and the European Investment Bank agreed to invest in LeapFrog Investment's new climate strategy that will focus on investments in companies that provide green tools and technologies such as 2-wheeler EVs, rooftop solar providers, and smart farming businesses.

According to the Investor Roadmap for Inclusive Green Growth report, Southeast Asia, and Africa represent 25% of global climate emissions but could account for as much as 73% of emissions by 2050 without urgent action.

Key takeaways

- 248.7% growth in number of private debt impact funds since 2014
- 69% private debt impact funds have an emerging market focus
- 30.7% of the private debt impact funds focus on Africa
- 63.6% growth in allocations by funds of funds since 2023
- 30% private debt impact funds are open for investment

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.

BE PART OF THE
IMPACT REPORT

Every month Phenix Capital Group publishes a new Impact Report, bringing up-to-date data on impact investments and interviews with impact fund managers and investors from the field.

PAST REPORTS INCLUDE:

See all Impact Reports on our webiste, visit: https://phenixcapitalgroup.com/impact-report

WOULD YOU LIKE TO BE FEATURED IN THE NEXT EDITION?

Featured interviews are carefully chosen taking into consideration the theme from the month and the expertise of the person to be interviewed, besides the company where he or she works.

Talk to our team about opportunities to be featured. Upcoming report topics include:

MONTH	REPORT THEME
August 2024	Infrastructure
September 2024	SDGs/ Investor report
October 2024	Real Estate
November 2024	Gender Lens
December 2024	Public Equity

Contact us to learn more about how to be featured in our reports.

PRIVATE DEBT

FUNDS

OVERVIEW

394

Private Debt Funds on Impact Database

218

Fund Managers on Impact Database with Private Debt strategy

117

Open for investment Private Debt funds

95

Organisations with open for investment Private Debt funds

€50bn

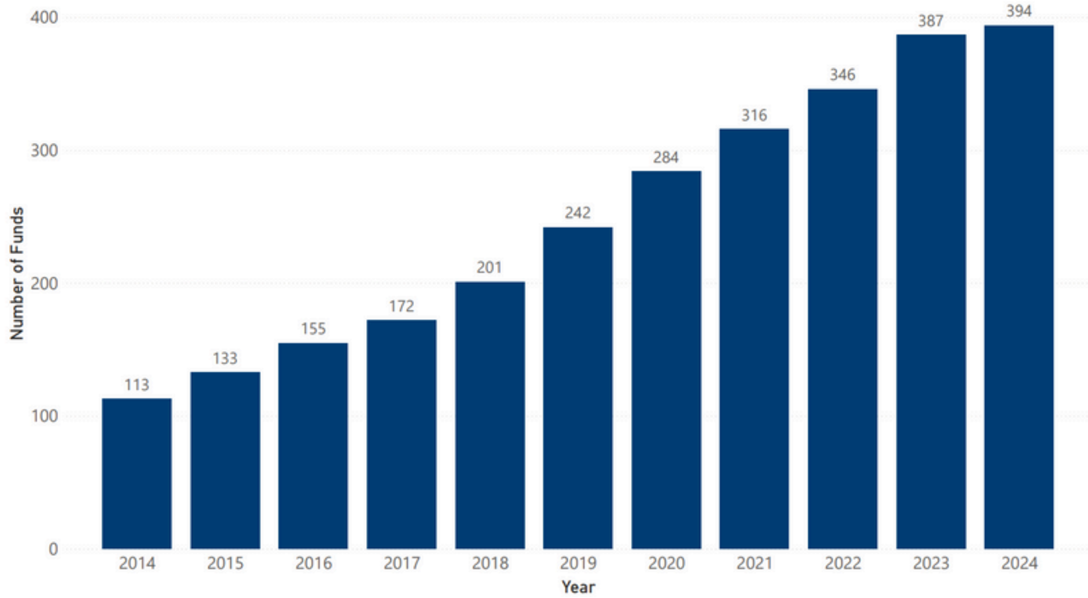
Total capital raised towards private debt funds

€44bn

Total target size of open for investment funds

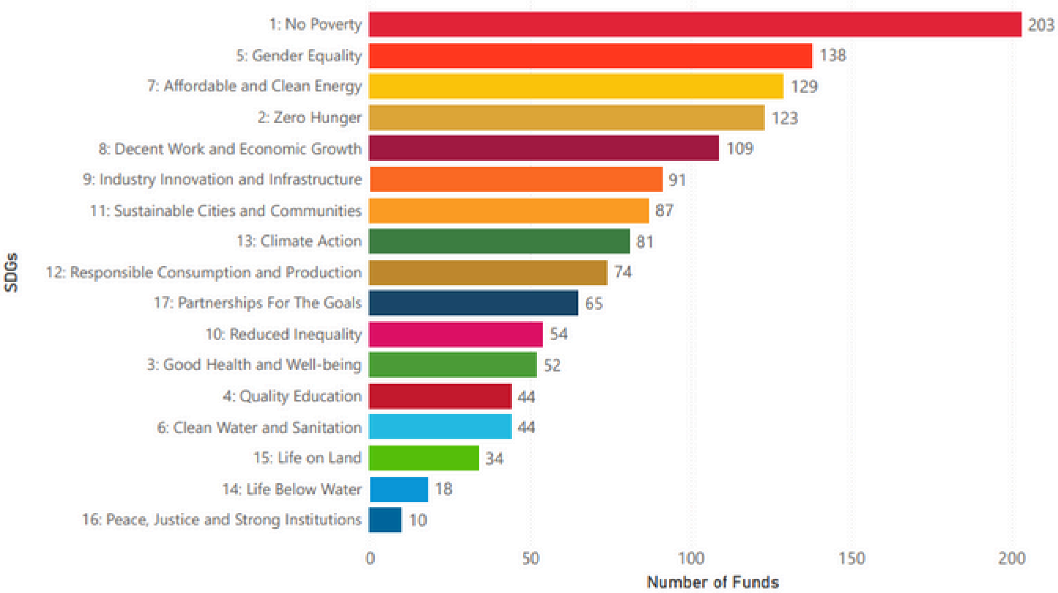
DATA OVERVIEW

Cumulative Number of Private Debt Funds



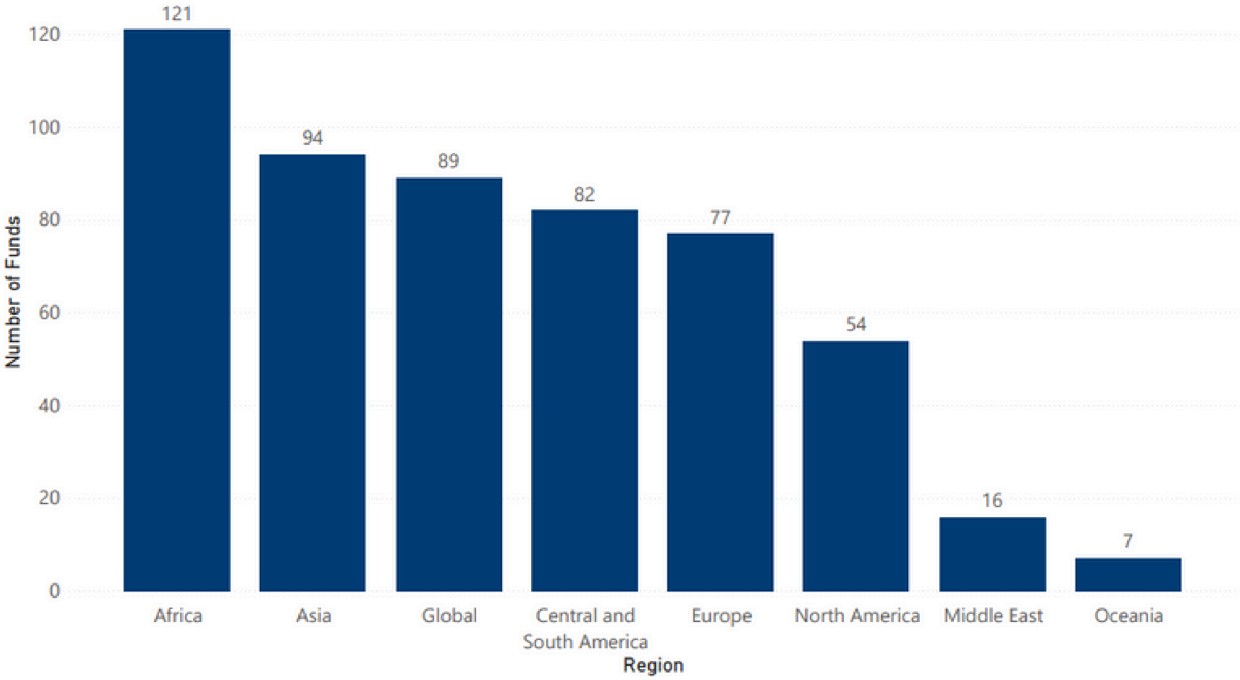
Since last year's private debt impact fund report, the number of funds has grown by 1.8%, bringing the growth rate in the last decade, since Phenix Capital started tracking impact funds, to 248.7%. It has become the prevalent asset class with which to invest in the emerging markets. It is popular with investors, particularly those interested in exploring Africa, due to the stable risk-adjusted returns. In general, but in Africa in particularly, mid-market businesses, central to emerging market economic growth, are in a financing no-man's land, too large for micro-finance and deemed too small for traditional banks. This credit gap is the private debt investment opportunity in many emerging markets. The popular investment themes reflected by the Sustainable Development Goals (SDGs) are sectors with the greatest ability to bring change and include: No Poverty (SDG1); Gender Equality (SDG5); Affordable and Clean Energy (SDG7); and Zero Hunger (SDG2). There are also 109 funds focused on SDG8: Decent Work and Economic Growth.

Number of Private Debt Funds Targeting UN SDGs



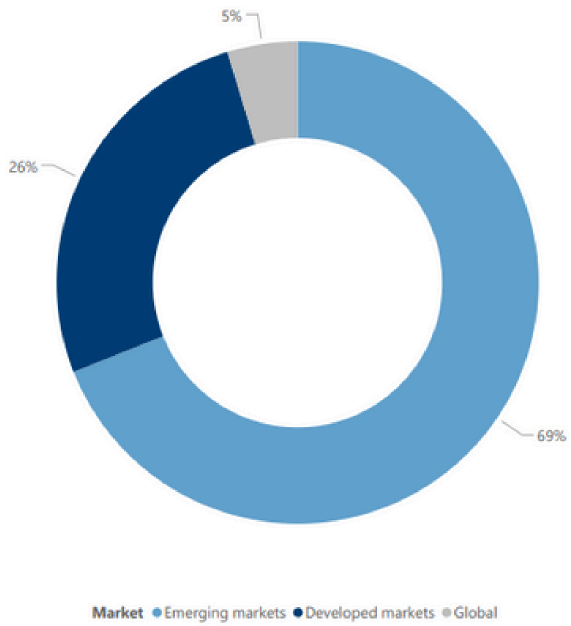
PRIVATE DEBT FUNDS AT A GLANCE

Number of Private Debt Funds per Region Targeted



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

Distribution of Private Debt Funds by Market Targeted



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

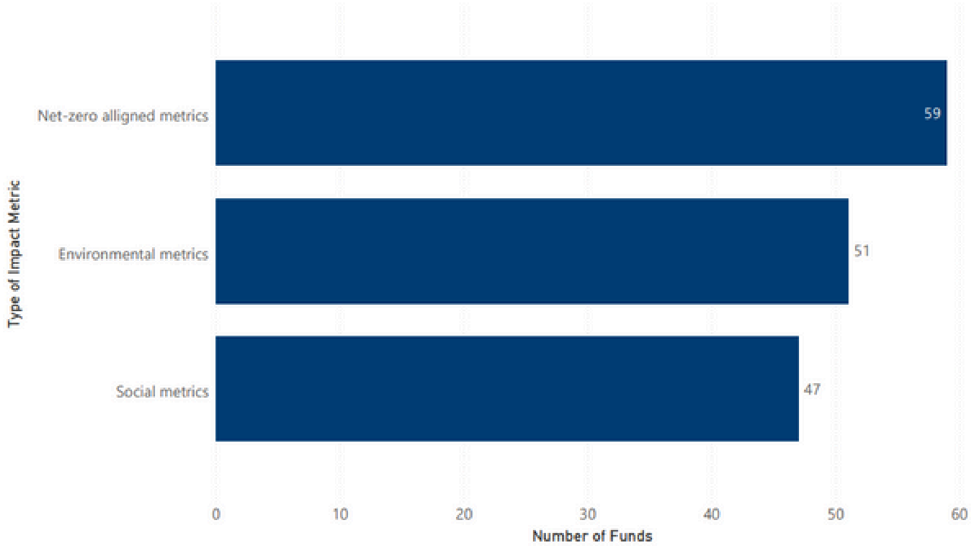
Private debt funds have become the go-to vehicle for closing the SDG financing gap in the emerging markets, with 69% of the private debt funds in the database focusing on this region. However, 30.7% of this private debt impact fund universe, equivalent to 121 funds, is focused on investing in Africa.

Asia makes up 23.8% of the private debt funds, while South and Central America make up 20.8%. Focusing on the mid-sized companies creates employment, goods and services, all of which create tax opportunities and so support the economy.

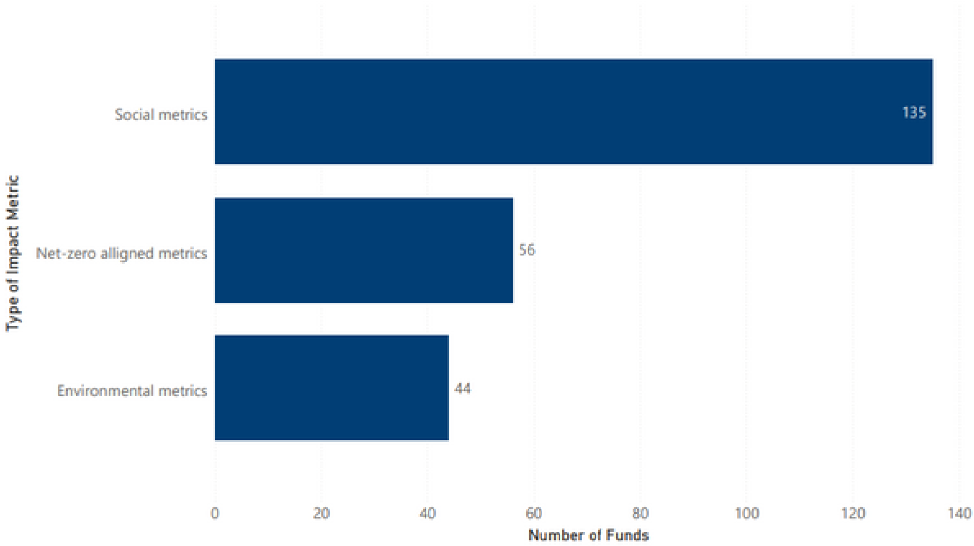
The developed markets make up 26% of the private debt impact fund universe, with nearly 20% of the funds focused on Europe and almost 14% in North America.

Although global market investing in private debt only makes up 5% of the geographic distribution, in terms of number of funds there are 89 funds, equivalent to 22% of the private debt fund universe, which target a global remit.

Number of Private Debt Funds per Type of Impact Metrics - Developed and Global Markets



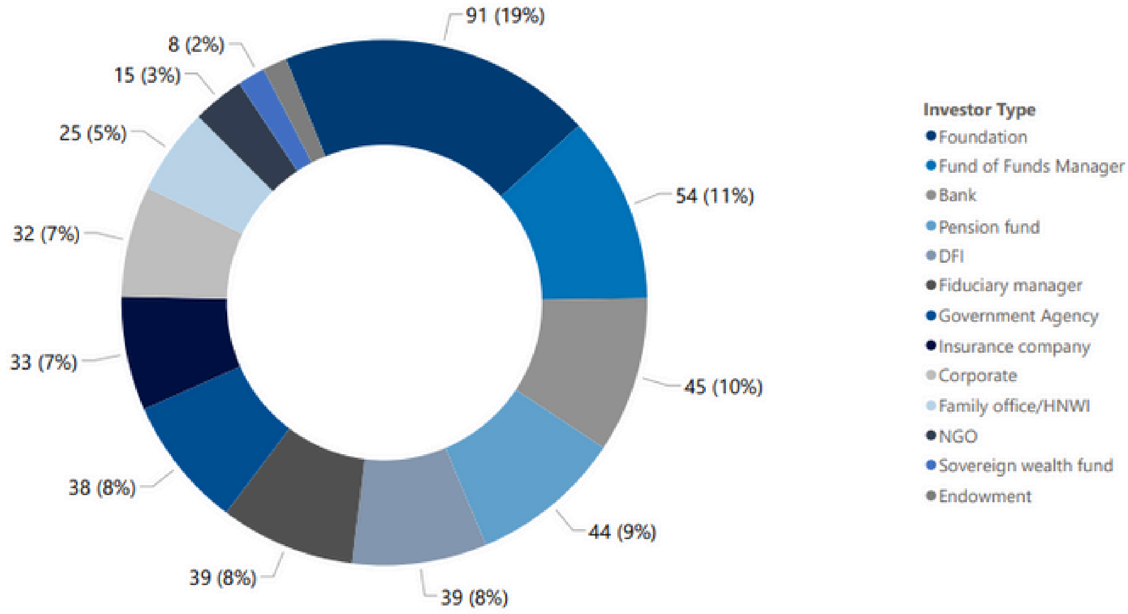
Number of Private Debt Funds per Type of Impact Metrics - Emerging Markets



It is also important to compare at the impact metrics of private debt funds between regions. Looking at the developed market/global universe (top chart), which makes up 31% of the funds, it is interesting to note that the majority of the impact metrics these private debt funds are targeting net-zero aligned (59 funds) and environmental (51 funds) with social metrics a focus for 47 of the funds in this geographic comparison.

The opposite is true when looking at the emerging market private debt impact fund universe. Here, 135 of the funds are looking at social metrics, followed by net-zero aligned (56 funds) and environmental (44 funds). What has become clear at various COP meetings, and resulted in the creation of the loss and damage fund, is that these regions are more susceptible to and less able to cope with climate-related disasters. Yet, research from BCG has found that emerging market consumers weigh climate change and sustainability in day-to-day decisions far more than consumers in developed markets do.

Distribution of Private Debt Investors by Investor Type and Region Invested

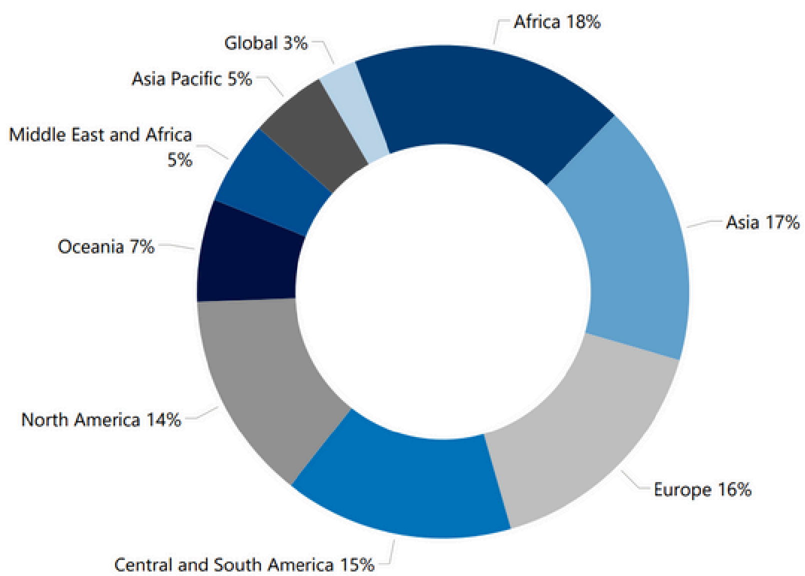


*Data may overlap as funds can target several asset classes, SDGs and/or regions.

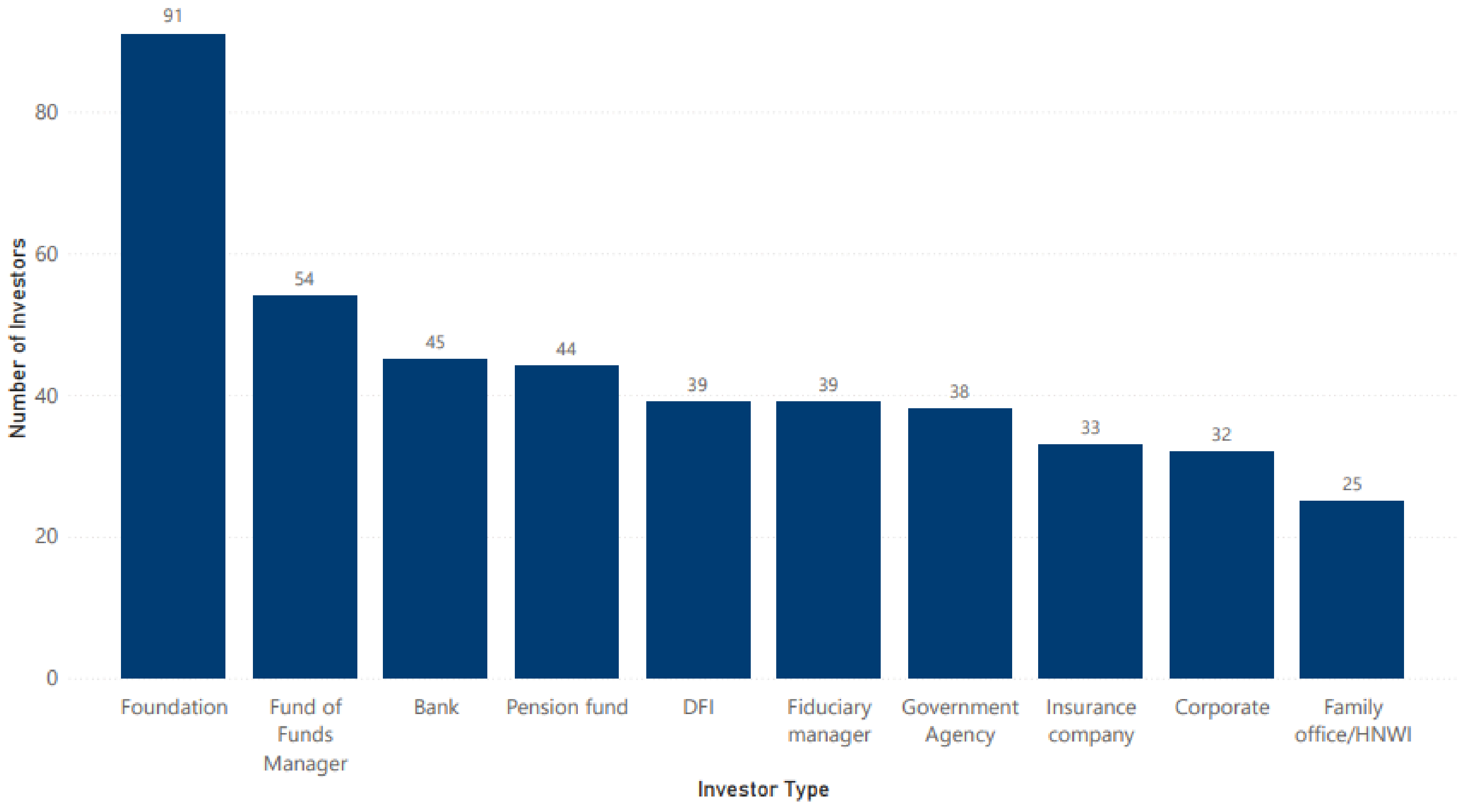
Private debt impact funds feature in the portfolios of all 13 types of investors with foundations being the most prevalent type of investor with 91 institutions allocating to private debt. This is followed by 54 funds of funds, 45 banks and 44 pension funds, with all four investor types making up 49% of the institutional investments in these funds.

Endowments and sovereign wealth funds are seemingly the least interested in private debt impact funds, although many sovereigns invest in private credit in the emerging markets, just perhaps without an impact focus.

In terms of geography, 50% of the investors have an emerging market focus with Africa (18%), Asia (17%) and Central and South America (15%) garnering the majority of the institutional investor assets.



Number of Private Debt Investors by Type



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

Comparing the private debt impact fund appetite of institutional investors since last year's report, it is interesting to see that while foundations continue make up the majority of the investors in private debt impact funds, this group of investors has only seen a growth of 16.7% in terms of allocations to funds. Family offices and high net worth individuals, continue to be the smallest group in terms of numbers but it has seen a 31% growth.

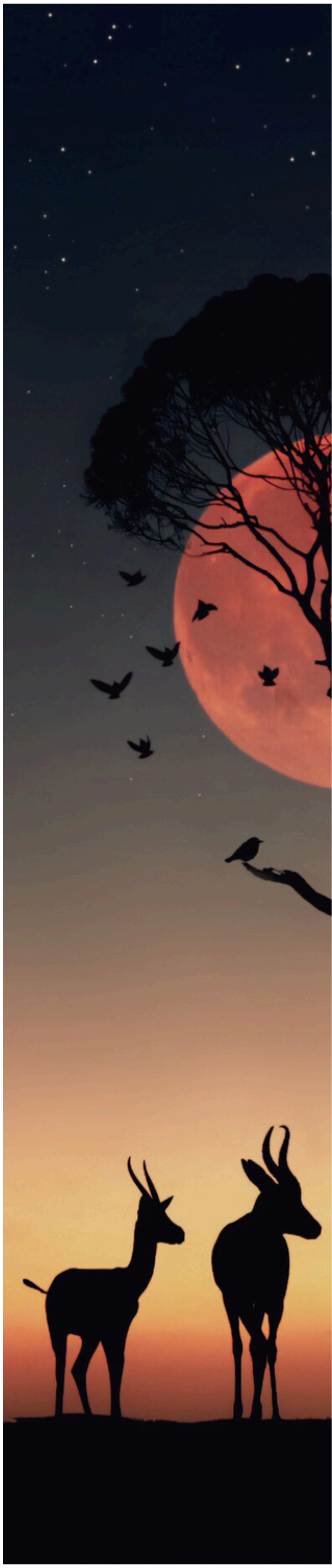
The most interesting growth of 63.6% has come from the funds of funds community that lagged in sixth place last year. Development Finance Institutions and pension funds have seen a growth in the number of private debt funds they invest in by 30% and 25.7%, respectively. Corporates, which were fifth in the ranking last year, have seen a decline of 5.9% in their private debt allocations.

One of the reasons that foundations continue to be the biggest investor in private debt is likely to be that often their mission has less urgency about returns and is more about impact as long as it aligned with their mission and vision. That said, to be able to continue giving part of their portfolios need to provide regular income even during periods of extreme volatility, and private debt can do both.

Whilst allocating directly, The Gates Foundation through its $2.5 billion Strategic Investment Fund describes its self as "…impatient optimists with patient capital". The fund allocates across six main themes and the portfolio is currently allocated across 88 investments, with 14 focused on directly allocated private debt.

Foundations often provide catalytic capital, through blended finance, as a way to increase private sector investment in sustainable development. Among the most active philanthropic investors in blended finance are: Shell Foundation, Bill & Melinda Gates Foundation, Omidyar Network, and Oikocredit, according to Convergence. Among the more prolific Development Finance Institutions in the blended finance space are: International Finance Corporation, Netherlands Development Finance Company, US International Development Finance Corporation and the European Investment Bank.

DEEP DIVE:
PRIVATE DEBT IN AFRICA



Africa, the second largest and second most populous country, is a growth opportunity waiting to be unlocked. The African continent is made up of 54 countries and its 1.39 billion people make up 17% of the global population total, a figure that is expected to rise to 2.5 billion by 2050.

Gross domestic product stands at $3.1 trillion, slightly below India's $3.4 trillion but growth is expected to average 3.8% and 4.2% in 2024 and 2025, respectively, making it the second-fastest-growing region after Asia.

Over the next three decades, the Sub-Saharan Africa region will experience the fastest increase in the working age population of all regions, with a projected net increase of 740 million people by 2050. Up to 12 million youth will enter the labour market across the region every year in the coming decades, yet only about three million new formal wage jobs are currently created each year.

Africa's fast-growing, young population has helped to turn the continent into the world's mobile banking leader with the highest number of services, account holders and transactions. This is one example where technology is enabling accelerated growth and while not all markets are politically stable, many of the key ones have relative political stability.

This is the other side of the "African Narrative" that not all investors see. Mobile and digital banking has helped millions of African's gain finance in areas where traditional banking networks do no reach and through them distributing micro loans to small businesses.

But businesses need access to both equity and debt and in Africa there is a shortage of debt markets with traditional banks preferring to lend against secured collateral, rather than cash flow.

In Africa, small and medium sized enterprises (SMEs) account for more than 90% of businesses and almost 80% of employment, effectively Africa's growth engine, but it is estimated that there is at least a $421 billion funding gap for the continents SMEs.

So, when a business becomes too big for a micro loan and too "risky" for a bank loan, where do they go?

Private debt is rapidly becoming the growth capital/debt financing life-line by plugging the funding gap to these mid-sized businesses, offering more flexibility, such as short-term loans, and more bespoke financing that can work around business cash flow.

Such financing enables companies to grow; drives more direct employment opportunities, as well as goods and services for consumers that all create economic opportunities and potential for increased taxation.

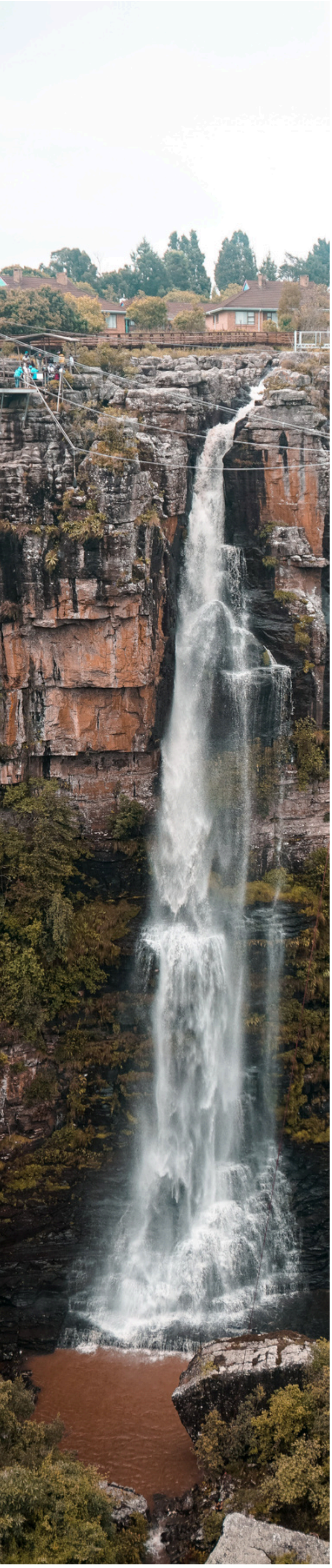
Private debt financing typically comes in the format of a specialist debt fund manager. BluePeak Private Capital is an example of an impact-driven private capital fund investing in mid-market businesses operating in Africa across several sectors through privately negotiated subordinated & mezzanine instruments.

BluePeak's first close was in 2021 with British International Investment (BII) committing $30 million as an anchor investor. The second close completed in September 2023 raising $156 million and collectively its investors include: African Development Bank; European Investment Bank (EIB); US Development Finance Corporation; FMO; SwedFund; Caisse des Dépôts et Consignations Tunisia; and South Africa-based private investor Sango Capital.

According to the 2023 sustainability report, the fund has invested $70 million in four companies: Grit Real Estate Income Group (industrial property), Africure Pharmaceuticals (generic pharmaceutical products), IENG Group (infrastructure to telecoms sector), and Watu Holdings Limited (financing for 2 and 3 wheeler motorcycles).

Development Finance Institutions (DFIs), often found as anchor investors in private debt funds in Africa, are critical as their 'first-movers' investments helps to de-risk projects that are often considered too high risk by private investors.

While SMEs might be the driving force for growth, existing larger companies still need to raise financing and currently, the size of African debt capital markets is less than 3% of the continent's GDP. Growth requires long term financing and domestic capital markets are essential for this. To this end, Ninety One, Africa's own investment manager born from Investec, has launched three credit opportunities funds.



The first one, Investec Africa Credit Opportunities Fund 1, was sub-Saharan Africa's first corporate debt fund and its aim was to kick-start the development of African debt capital markets and provide long term capital to sustainable businesses of different sizes and sectors across a wide range of countries in the region (excluding South Africa).

BII provided a $30 million investment, while the International Finance Corporation (IFC) plans to invest up to $75 million in Africa Credit Opportunities 3 Fund, Ninety One's third Africa focused closed-end private credit fund with a target size of $500 million. The purpose of Fund 3 is to invest in US$ denominated senior loans and bonds issued by mid- to large-sized corporates across Africa.

In terms of geography, Ninety One's private credit strategies have invested in Angola, Botswana, Ghana, Ivory Coast, Kenya, Mozambique, Namibia, Nigeria, Senegal, Tanzania, and Uganda. In terms of sectors, the fund managers see opportunities in three main categories: infrastructure and telecoms; banks and financial institutions; and consumer and services.

For impact, the firm's aim is to make investments that reduce greenhouse gas emissions, provide jobs, reduce gender inequality, and contribute to the tax base of the communities in which they operate.

With respect to telecoms, the idea is to invest capital to improved access to clean, reliable, and affordable power, water, transport, digital infrastructure, and social infrastructure while aiding a fair energy transition. The finance-related investments are aimed at promoting financial inclusion and deepening financial markets, while the third sector is all about investing in business growth and job creation.

Ninety One is also the investment manager for the Emerging Africa Infrastructure Fund (EAIF), a Private Infrastructure Development Group (PIDG) company, which has raised $294 million of additional debt facilities, in one of the largest blended finance debt packages for African infrastructure.

Backed by Allianz Global Investors, Standard Bank, and KfW, the German state-owned development bank, the fund will invest across various infrastructure assets, including those aligned with the energy transition, low-carbon economies, and energy-efficient smart cities.

Allianz Global Investors committed a further €75 million and $50 million to EAIF; while Standard Bank, provided a $75 million multicurrency revolving credit facility with sustainability-linked features and a $25m sustainability-linked term debt facility; and KfW committed a further €60 million loan to EAIF.

Since EAIF's establishment in 2001, the fund and its partners have completed 96 projects and mobilised total investment commitments of over $2.1 billion across 20 African countries and 10 infrastructure sectors.

As mentioned in the introduction, climate-related investing typically takes a back seat in the emerging markets, but blended finance is one way to channel investor money to decarbonisation and climate mitigating investments.

According to the IFC, climate financing in Africa will account for $1.1 trillion by 2030 or 5.1% of worldwide climate-smart financing demand. IFC invests in banks, microfinance institutions and Non-bank Financial Institutions (NBFIs) to channel sustainable capital towards transition finance.

In 2021, climate finance accounted for 32% of IFC investments and IFC mobilised $3.6 billion for climate. For every dollar invested in climate finance, IFC mobilised 92% from other investors making IFC the largest climate-related investor in Africa.

The EIB is also addressing the need for urgent climate infrastructure, by investing in $40 million in Acre Impact Capital's Export Finance Fund I, an innovative private debt fund designed to accelerate climate infrastructure investment across Africa. The infrastructure financing gap in Africa is estimated to be more than $100 billion every year.

It is the first fund investing in commercial debt of export credit agencies transaction to catalyse climate-infrastructure in Africa. Thematically, the fund will support renewable power, health, food and water scarcity; sustainable cities; and green transport.

Africa's potential is clear. Private debt funds, many of which have been supported by DFIs, have started to build a credible, and stable base on which impact investors can start to participate in Africa's growth story.

Their allocations will be essential to achieve scale, but in return, a well-designed Africa private credit strategy debt, over equity investing, a can avoid difficult exits given the illiquid stock markets and local currency depreciation risk.

PHENIX IMPACT FUND ASSESSMENT

Phenix Impact Fund Assessment is a proprietary framework developed in close consultation with institutional asset owners and industry leaders, for the purpose of **assessing the robustness of a fund's impact proposition**.

On 6 themes and 45 criteria, it examines to what extent the policies, procedures and human resources are in place to deliver the impact that a fund aims to create.

ASSESSING THE ROBUSTNESS OF IMPACT FUND PROPOSITIONS

Uncover strengths and weaknesses

Adopt industry best practices

Prepare for institutional impact due diligence

100/100 PHENIX IMPACT FUND ASSESSMENT

January 2024

VISIT SITE >>>

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), ia (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

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