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Impact investing in real assets

a.s.r. real assets investment partners

Institutional investors increasingly want to contribute to liveable and sustainable communities, cities, and buildings. Regular investment strategies that pay attention to environmental, social and governance criteria (ESG) often do not go far enough. Impact investing takes things one step further. It gets investors to actively contribute to solving social problems on important themes, such as the climate or health and wellbeing. a.s.r. real assets investment partners has developed the Impact Investing Framework to clearly define the subject of an investment and to offer support to investors in formulating an impact investment strategy.

Definition of impact investing

When investing in real assets, it is crucial to have a clear, unambiguous conceptual framework for generating positive impact. With impact investing, a.s.r. real assets investment partners adheres to the definition of the Global Impact Investing Network (GIIN). The GIIN defines impact investing as 'investing with the intention to generate positive, measurable social and/or ecological impact alongside a financial return'. Impact investing goes further than the usual ESG integration activities because, in addition to the usual risk/return objectives, there are one or more standalone ecological or social goals. This intention and its associated objective(s) must be stated clearly in the conditions of an investment process and product, so that it determines the strategy and assets to be acquired within the fund.

To test whether a strategy can be considered an impact strategy, a.s.r. real assets investment partners will carry out an assessment based on three criteria:

- Intentionality: the intention to make a social and/or ecological impact must be anchored in the strategy.
- Measurability: the intended impact must be measurable using concrete KPIs at the asset level. This is so that the impact can be tested to see the extent to which it has been achieved.
- Financial return: there should be some kind of positive return on the investment. This is how impact investing is different from straightforward philanthropy.

According to some parties, there is also a fourth criterion: additionality. However, this is no longer considered a requirement within the GIIN's definition of impact investing. Additionality suggests that the positive effect would not have occurred without the investment. There is a lot of discussion around this criterion, as it is difficult to test in most cases (see also below). Therefore, a.s.r. real assets investment partners does not see additionality as a hard criterion, but rather as an extra facet to determine the extent to which the intended impact is truly unique and makes a difference. It is basically an optional criterion when developing an impact strategy.

Discussion around additionality

Additionality means that the positive effect would not have occurred without the investment. However, situations may occur in which this criterion is difficult to prove in practice. For example: an investor wants to make a positive impact by increasing the supply of affordable rental properties in the Netherlands. This investor might want to invest in newly built assets that fit within their impact strategy. However, if this investor chooses not to purchase those newly built assets, it is not inconceivable for another investor to come along, purchase those same assets and then offer them for an affordable rent. So, the positive effect still occurred even though the original investor never made the investment – in which case, there was no additionality.

Developing an impact investment strategy at a.s.r. real assets investment partners

The Impact Investing Framework developed by a.s.r. real assets investment partners can be used by institutional investors to develop customised impact strategies for real assets. In order to achieve this, the following steps must be completed (see Figure 1 as an example):

Step 1: Determine impact strategy and investment preferences
To preserve intentionality, the investor must formulate an impact strategy. The investor might do this by, for example, including UN Sustainable Development Goals (SDGs) in their SRI policy or by selecting impact themes for which they want to make an active contribution. Their investment preferences must also be mapped out in relation to their impact. This includes regional preferences, types of investment, and risk appetite. a.s.r. real assets investment partners supports investors in determining an impact strategy with regard to real assets.

Step 2: Determine impact themes and objectives of real assets
There has to be a clear plan that lays out how the SDGs and themes can be implemented for impact investing within the asset category of real assets. a.s.r. real assets investment partners is an advocate for standardisation and uses recognised frameworks from the GIIN, the UN Principles for Responsible Investment (UN PRI), and the Finance Initiative of the UN Environment Program (UN EPFI) to turn more holistic impact themes into concrete plans for real assets. a.s.r. real assets investment partners, in consultation with the investor, will come up with clear impact objectives for each theme, all of which will be included in the investor's ESG guidelines.

Step 3: Set underlying Key Performance Indicators (KPIs)
In order to monitor on the formulated objectives, a.s.r. real assets investment partners formulates measurable KPIs. These KPIs are included in the selection of investment funds and are monitored at both fund and asset level to ensure the measurability of the impact.

Step 4: Impact is anchored into the strategy
The investor's ESG guidelines for real assets includes the objectives and KPIs of impact investing. a.s.r. real assets investment partners takes this into account in its selection process, actively monitors the established KPIs with fund managers, and reports on progress to the investor. In its periodic (quarterly) reporting cycle, a.s.r. real investment partners reports on the engagement progress and how the investments are performing compared to set the ESG and impact guidelines. In addition, at the investor's request, a more detailed report is provided once a year.

Applying the a.s.r. ip Impact Investing Framework

Developing a real estate impact strategy using the a.s.r. ip Impact Investing Framework...	...and applying it in practice			
(1) Determine impact strategy and investment preferences - An investor's SRI policy wants to actively contribute to SDG 3 (Health and Wellbeing) through their investment policy. Determine what the range of impact allocation should be and in which type of investment, as well as the regions and sectors within real assets for the desired impact to be realised.	**Impact definition and investment preferences of investor**	3 GOOD HEALTH AND WELL-BEING	'Contributing to an increase in the supply of minimum quality healthcare in Europe with a core risk profile for a minimal ticket of €50 million'	
(2) Determine impact themes and objectives - Through UN EPFI, a.s.r. ip has coupled SDG 3 to themes specific to real estate, which means the impact can be more specifically defined through clear objectives. - According to UN EPFI, the themes 'Inclusive and Healthy Economies', 'Health and Sanitation' and 'Air' are consistent with SDG 3.	**Impacttheme**	Inclusive and Healthy Economies	Health and Sanitation	Air
	Impact objective	Stimulating sustainable, diverse & innovative markets that add value to society and the economy.	Improving healthcare by investing in healthcare real estate and/or real estate to develop medication.	Improving the quality of air in interior spaces of real estate objects.
(3) Set Key Performance Indicators - Clear KPIs are formulated for the themes through UN EPFI. - For example: under the theme Healthcare and Wellbeing, the objective is to offer and increase the supply of quality healthcare, whereby quality is measured through an independent inspection and/or tenant satisfaction surveys.	**KPI's**	(1) Number of tenants with improved access to community and social services, and (2) Access and availability of childcare and schools.	(1) Number of assets that provide minimum quality healthcare. (2) Number of assets aimed at developing medication and vaccination.	Improvement of building ventilation, verified by objective measurements of air quality.
(4) Impact is anchored into the strategy - Inclusion of impact objectives / KPIs in the investment guidelines and the standard investment, monitoring and reporting process. - Particular attention should be paid to the accompanying assurance for the achieved impact.	**Assessment a.s.r. ip**	a.s.r. ip sees a limited number of suitable products in the investor market that meet the impact investing criteria.	a.s.r. ip sees a sufficient supply to implement an impact investment focused on 'Health and Sanitation'.	a.s.r. ip sees a limited number of suitable products in the investor market that meet the impact investing criteria.
	Search & Selection	Start search and selection process based on regular criteria, impact criteria, and associated KPIs.		

Impact investing in real assets in practice

Real assets are ideally suited for making a concrete and measurable impact on a variety of themes. SDGs 3 (Good health and wellbeing), 7 (Affordable and sustainable energy), 9 (Industry, innovation and infrastructure), 11 (Sustainable cities and communities), and 13 (Climate action) all have a close relationship with real assets. Themes within the real assets investment category are affordable housing, healthcare and wellness, the energy transition, and water. a.s.r. real assets investment partners has examined these themes and sees a growing range of global investment opportunities in various (sub)sectors and regions.

It is important to actively monitor the extent to which impact is actually achieved in practice. In addition to an investment product with a regular ESG strategy, the monitoring process applies the three criteria of impact investing: intentionality, measurability, and financial return. a.s.r. real assets investment partners takes these criteria into account during the regular monitoring cycle to ensure the realisation of the desired impact. An important point to bear in mind is the importance of strategies that make the realised impact measurable, especially in instances in which this may be difficult to show.

Shareholders within a private, non-listed structure can have a direct influence on the implementation of an impact strategy. For example, there is the option of acting as an 'anchor investor' and determining a specific strategy in collaboration with a fund manager. On behalf of its parent company, a.s.r. real assets investment partners formed the basis of a European impact strategy that focuses on the active sustainability of real estate with the aim of being CO_2 neutral by 2040 at the latest. During the life of a fund, this kind of structure makes it possible to influence a strategy through engagement. Even if you have a minority interest, influencing a strategy is still possible by aligning with fellow shareholders. This is something a.s.r. real assets investment partners encourages and regularly does.

Impact investing in relation to the Sustainable Finance Disclosure Regulation

In the current investment universe, an impact investment is often linked to the Sustainable Finance Disclosure Regulation (SFDR, Article 9). Given the attractiveness of impact investing, it seems to have become a catch-all phrase that many fund managers like to associate themselves with. However, for a.s.r. real assets investment partners, SFDR classifications or managers' marketing messages do not determine whether and to what extent we designate a particular investment an impact investment. When selecting a suitable impact investment, a.s.r. real assets investment partners use their own criteria from the Impact Investing Framework to assess whether there is an actual impact or (merely) a more far-reaching ESG strategy. An example of how sustainability activities can be classified differently as either ESG integration or impact investing is included below.

Example of practical differences between ESG integration and impact investing
An investment fund that installs 100 solar panels on the roof of a datacentre does not immediately qualify as an impact investment. To do that, there must already be a 'dual return' objective when purchasing a property, in which, in addition to the financial requirements, sustainability measures are taken into account. This is how intentionality is ensured. A distinction is also visible in the disposition process. A fund manager working within a regular ESG strategy can sell properties without making them more sustainable, whereas a property in an impact investment strategy has to be made more sustainable before it can be sold. After all, if a property is not made more sustainable, one KPI has not been met in the 'dual return' structure. Impact therefore goes further than a regular ESG strategy.

Assurance

Assurance is the attainment of an independent assessment by an external specialist, such as an accountant, on the accuracy and completeness of analysed processes, such as the determining of a realised impact. Assurance should ideally be obtained by the fund manager on the impact investing activities, so that the investor can show that the intended impact has been achieved and verified. If it is not possible to obtain assurance at this level, a.s.r. real assets investment partners will request the fund manager to have the data verified externally through other means. a.s.r. real assets investment partners advises investors to get assurance using their own definition of impact investing and on the impact investments made. This way, the positive impact generated is based on sound, objective information, which benefits participants in terms of proving their accountability.

a.s.r. real assets investment partners is pleased to discuss setting up an impact investing strategy and corresponding targets for real assets.

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