

# IMPACT INVESTING IN EMERGING MARKETS

AMSTERDAM  
31 MAY 2022



CFA Society  
Netherlands

vba

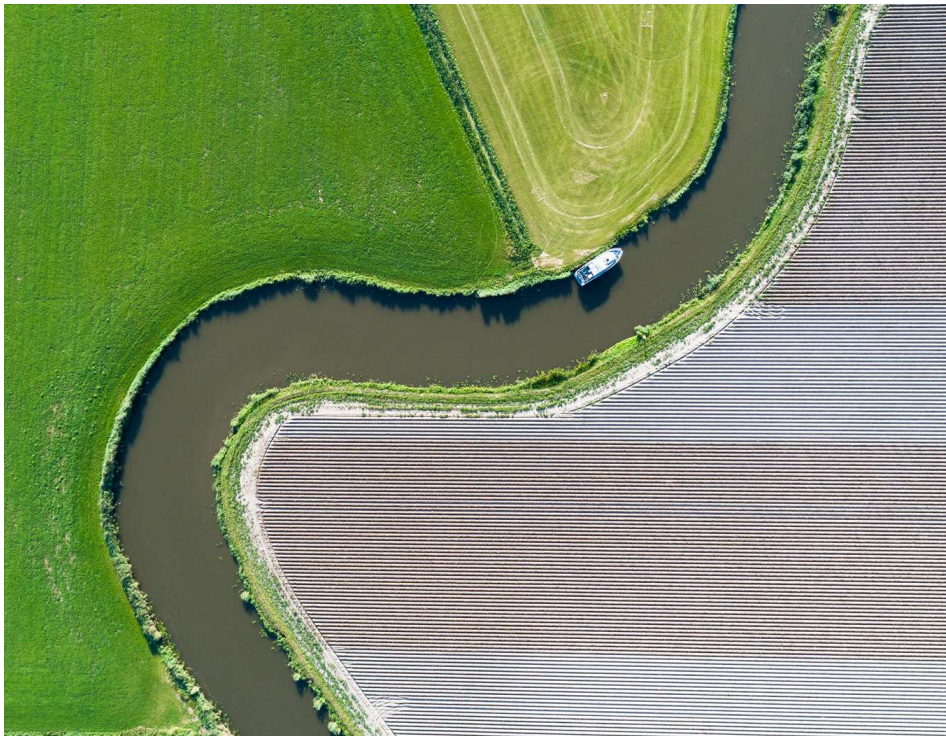


# PROGRAM

- 15.00 – 15.10 Welcome and opening by **Kees Verbaas**
- 15.10 – 15.20 **Denise Odaro** - IFC
- 15.20 – 15.45 **Gert Dijkstra** – APG
- 15.45 – 16.05 **Timothee Jaulin** – Amundi  
*“Sustainable Bonds – Building Resilience in Emerging Markets”*
- 16.05 – 16.30 **Felix Hermes** – BlueOrchard/Schroders  
*“Sustainable Infrastructure – A Building Block for Growth in Emerging Markets”*
- 16.30 – 17.00 Closing panel discussion and wrap-up by Kees Verbaas

# APG Asset Management “On Impact investing in Emerging Markets”

Amsterdam, May 31st, 2022



**CFA SOCIETY  
NETHERLANDS**

**vba**

# APG Asset Management in a glance

Unique Investment approach consistently implemented across regions



€626 billion AUM



70% managed in-house  
30% top-rated external managers




40+ Nationalities




70% Male  
30% Female



500+ Relationships with the leading managers across all continents

  
170 (92)

  
760 (251)

  
80 (59)

 Service Investment Solutions

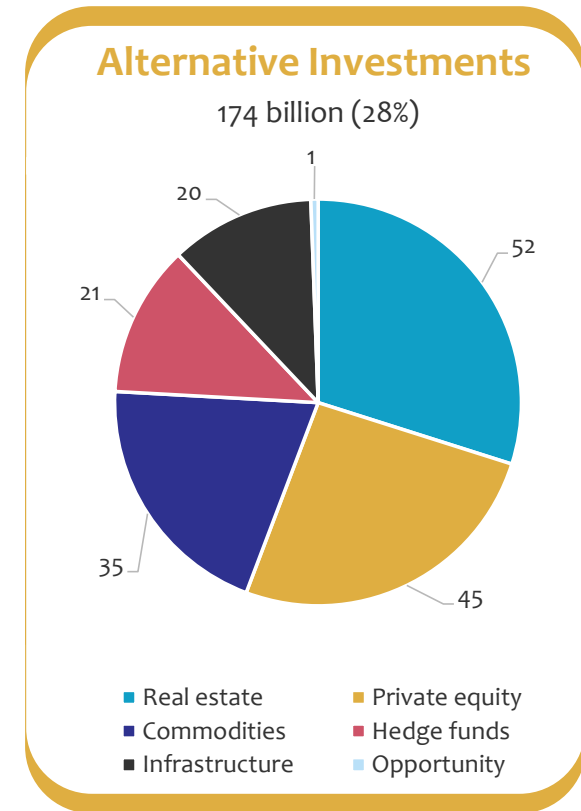
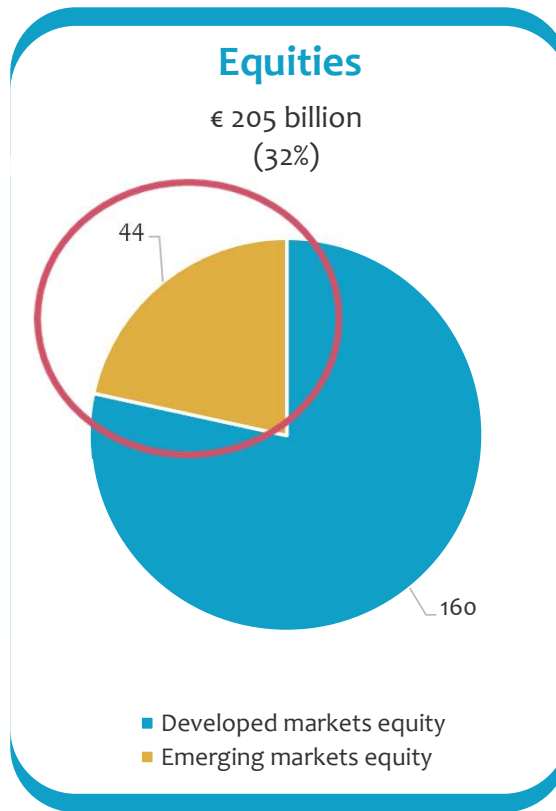
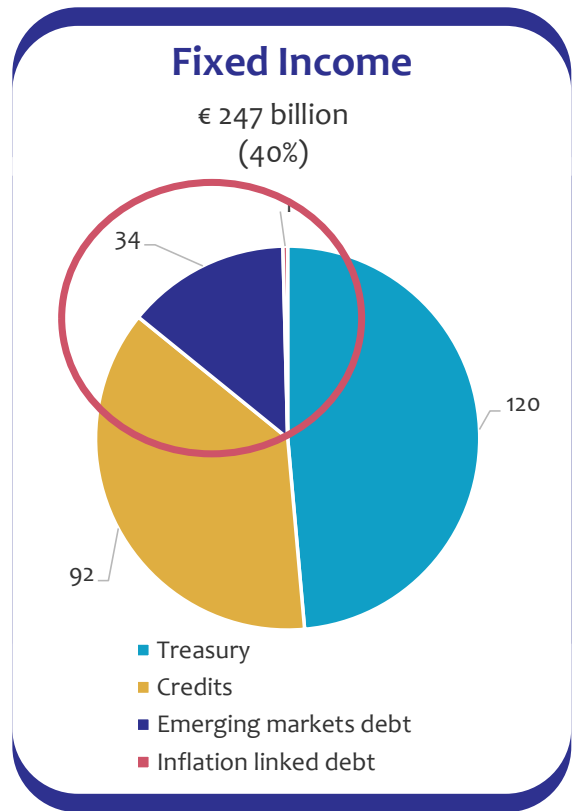
 Digitalization

 Responsible Investing

 People and Culture

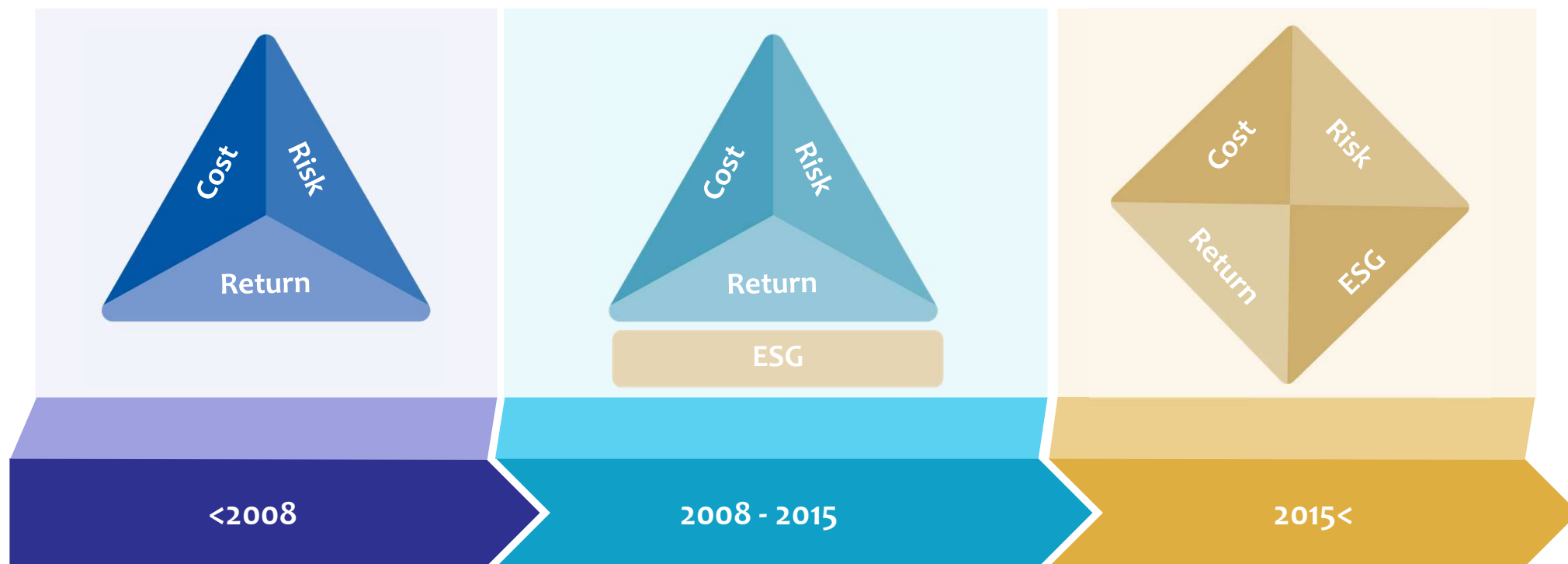
# APG Asset Management Investments

Mature and diversified portfolio of €626 billion under management, constructed to help our clients meet their investment objectives



# Investment process at APG AM – the evolution

Integration of ESG factors into the investment framework from awareness as a separate lens towards a fully integrated part of all steps and contributions in the investment process







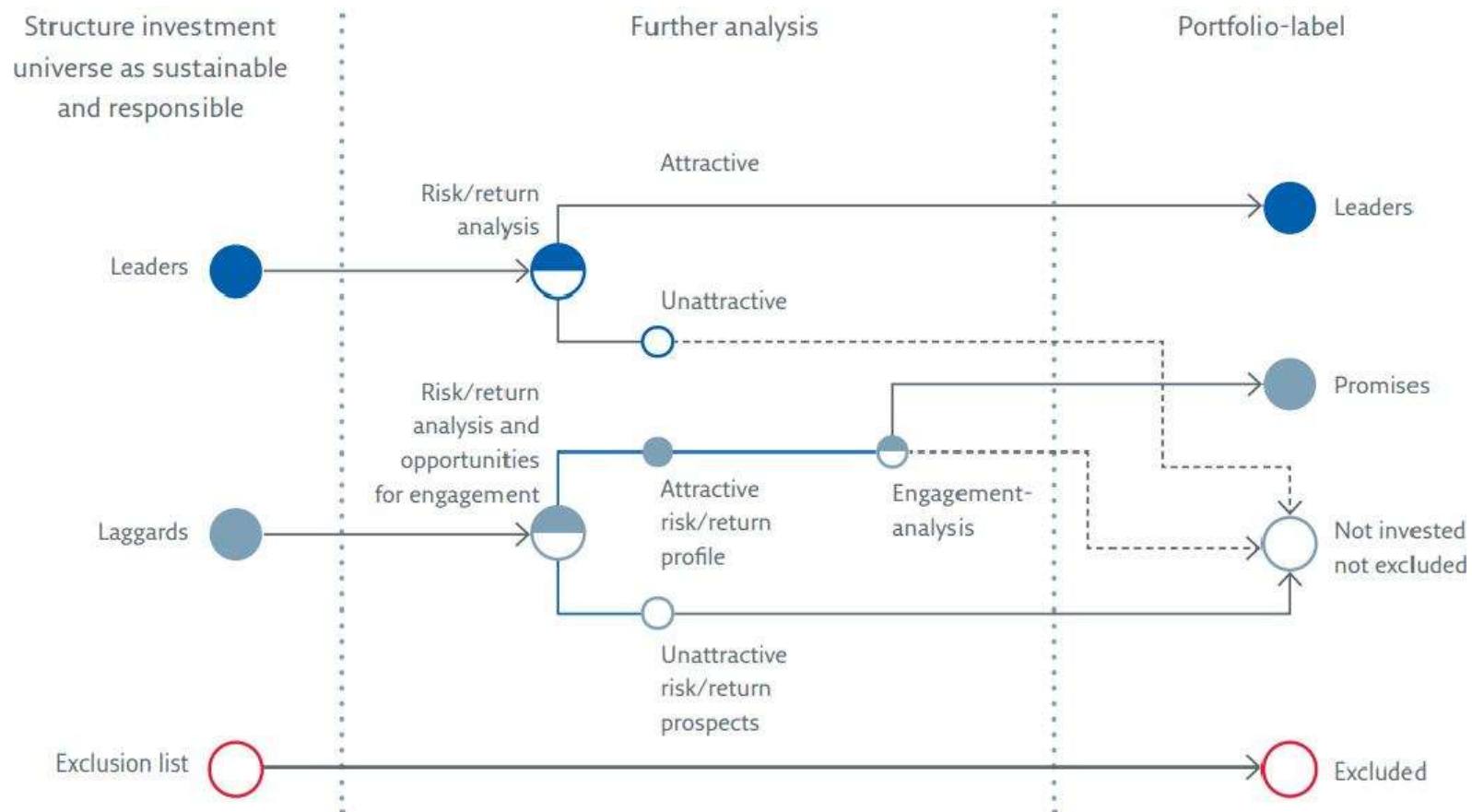
# ESG: Developments among investors

APPROACH	TRADITIONAL INVESTMENTS	RESPONSIBLE INVESTMENTS			PHILANTHROPY	
				IMPACT INVESTMENTS		
FOCUS	FINANCIAL ONLY	NEGATIVE SCREENING	ESG INTEGRATION	IMPACT DRIVEN		IMPACT ONLY
				FINANCIAL-FIRST	IMPACT-FIRST	
FINANCIAL GOALS	Target competitive risk-adjusted financial returns			Accept low risk-adjusted returns	Accept partial/full capital loss	
FEATURES	Manage ESG risks					
	Pursue ESG opportunities					
	Intentionality: delivering impact is central to underlying assets/investments					
	Impact investment is measured and reported					
IMP INTENTIONS	MAY OR DO CAUSE HARM	ACT TO AVOID HARM				
		BENEFIT ALL STAKEHOLDERS				
		CONTRIBUTE TO SOLUTIONS				



# Inclusion and ESG integration

## Inclusion Policy in Capital Markets



# Sustainable investment examples

## Investment examples



**Goal 7: Clean energy**  
Producer of windmills: Vestas



**Goal 12: Responsible consumption and production**  
Producer of bioplastics: Avantium



**Goal 8: Decent work and economic growth**  
Indian Hotels: Lemon Tree



**Goal 2: Zero hunger**  
Danish bio science company: Chr. Hansen

# Example: APG AM - EMD Private Credit Fund

**APG AM invest \$750 million in development banks**

\$750 million that is being put into a new fund, is partly intended to combat climate change. The investments concern, e.g., loans for projects for the generation of sustainable energy, e.g., solar panels.

In addition to renewable energy, we also want to contribute to other UN development goals, such as sufficient food for everyone.

- APG AM, on behalf of its clients ABP and bpfBouw, finances projects in developing countries
- This moves APG AM further towards 'sustainable' investing
- Using extensive selection, APG AM controls risks



# EM focused private credit fund called ILX Fund

- An aggregator and invest in a diversified portfolio of loan participations originated and structured by multilateral and bilateral Development Finance Institutions (DFIs) globally.
- Focus of DFIs is to increase support to the private sector and infrastructure investment across EMs.
- The DFIs select investments that will have positive SDG impact.
- Following the UN-supported '*Billions to Trillions*' funding requirement to support the SDGs, the strategic focus of all DFIs is to mobilize and catalyze private sector long-term capital for development finance in EMs.
- The mandates of DFIs aim to contribute to sustainable economic development, make impact investments in key economic sectors, provide market-based risk-adjusted returns, with robust ESG safeguarding and positive SDG impact.





# Active Engagement

- ILX actively engages with DFIs and invests in syndicated DFI-originated loans thereby co-investing with leading DFI's in selected high-impact private sector loans across EMs.
- Hard-currency denominated loan participations provide medium and long-term finance to projects and companies across core sectors, like infrastructure, renewable energy, agribusiness, manufacturing and financial institutions.
- Through investing in a diversified portfolio of loan participations originated and structured by DFIs, ILX can balance risk and return to create long-term value and provide the opportunity to have a positive environmental and social impact
- The ILX Fund can provide APG AM access to a diversified pool of attractive private credit investments with demonstrable SDG-targeted development impact across EMs and we can benefit from the extensive ESG safeguarding provided by the DFIs.



# ESG Safeguarding & Direct SDG Impact

- Sustainability objective DFIs: avoid, minimize and mitigate any potential negative ESG impact and directly and measurably contribute towards the SDGs in EMs.
- ESG and SDG objective benefits from experience and high standards of the ESG safeguarding and SDG impact investment objectives of the DFIs.
- DFIs adhere to high policy standards, have a longstanding track record and extensive teams to manage the ESG and SDG implementation and processes.
- The DFIs aim to achieve direct project-level impact by financing the private sector in Emerging Markets and actively contribute to the ongoing development of impact reporting standards, including SDG reporting metrics.



# The DFIs that ILX will co-invest with are 5 leading Multilateral Development Banks

- African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB Invest) and International Finance Corporation (IFC) and the Dutch entrepreneurial development bank (FMO)
- The Dutch government is a founding shareholder in all these institutions. Funding for the pre-close incubation of ILX has been provided by the German and UK Government development agencies (KfW, German state-owned investment and development bank, and DfID, the UK Department for International Development).



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# Sustainable Infrastructure in the Global South

## A growing asset class to address climate action

Felix Hermes, Head of Private Equity & Sustainable Infrastructure

April 2022

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# Experienced senior investment professionals, and local research and investment expertise

Luxembourg • Geneva • Zurich • Tbilisi

**21 years**  
experience in Impact Investing

**14 years**  
avg. experience of investors

**7 years**  
management avg. tenure

Invested in over  
**90 countries**

Provided services to  
**230m people**



Lima • Nairobi • Singapore

**125+**  
staff

**52%**  
female staff

**34**  
languages

**38**  
nationalities

**7**  
offices

Note: Map indicates all investments by country as of 31 December 2021 since inception, figures as of 1 January 2022.  
Source: BlueOrchard.



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# Debt financing of sustainable infrastructure assets in emerging markets globally



Financing a Just Transition



Expected income generation



EM debt and impact experts

Note: As of March 2022. Source: BlueOrchard.



# Sustainable Infrastructure: Investing for climate mitigation, social and economic development and for closing the SDG funding gap

## Infrastructure

Infrastructure is responsible for **79% of total greenhouse gas emissions**



**Approx. 75% of the SDG funding gap** of USD 2.5tn p.a. is a gap of infrastructure investing in EM



80% of global population is living in EM, **97% of global population growth until 2050 is expected in EM**

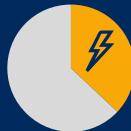


EM GDP is forecasted to **grow by 5.1% in 2022** compared to 4.5% in DM



## Energy

Energy generation and infrastructure is responsible for **37% of total CO<sub>2</sub> emissions**



EM will provide **88% of the growth** in electricity demand over the next two decades



Renewable energy sources are the cheapest source of new electricity in **90% of the world**



## Transport

Transport is responsible for **16% of total greenhouse gas emissions**

**2.5bn new city dwellers** are expected by 2050

1bn people live more than two kilometres from an **all-season road**



## Digital

**4bn people lack internet access**

Only about 26% of Africa's rural population **have internet access** and 47% of its urban inhabitants

**327 million fewer women** than men have smartphone access to mobile internet; accentuating the gender divide

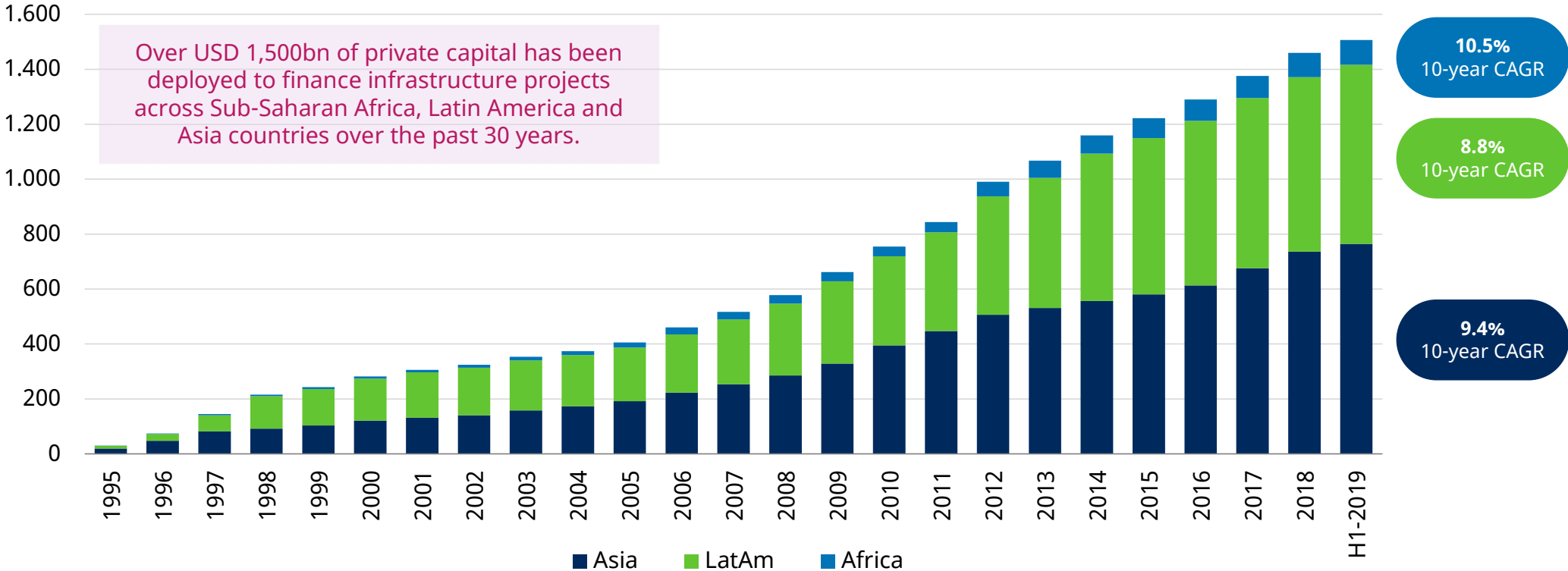


Note: As of March 2022.  
 Source: OECD 2021. IMF 2021. UNOPS Infrastructure for Climate 2021. SwissRe Sigma 2020. UNCTAD World Investment Report 2014.  
 Forward looking views and forecast may not materialize.

# Infrastructure in emerging markets is a fast growing asset class

## Cumulative Private Participation in Infrastructure (PPI) investments in EMs

In USD billion (cumulative), 1995–2019 (H1)

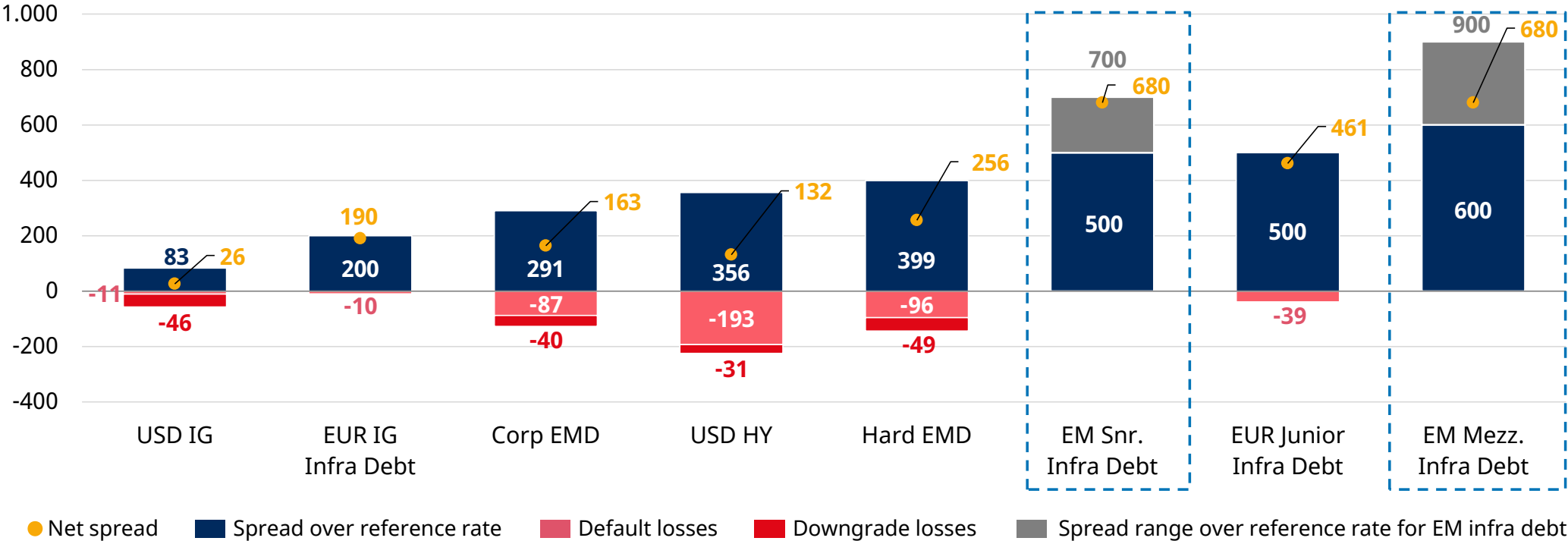


Note: As of March 2022. Based on available public data – Investment amount unavailable for ~10% of deals registered in the World Bank PPI database. Source: World Bank PPI database, January 2021. Shown for illustrative purposes only and should not be viewed as investment guidance.

# Good relative value of emerging market infrastructure debt

Expected net spread to be received after all losses

In bps



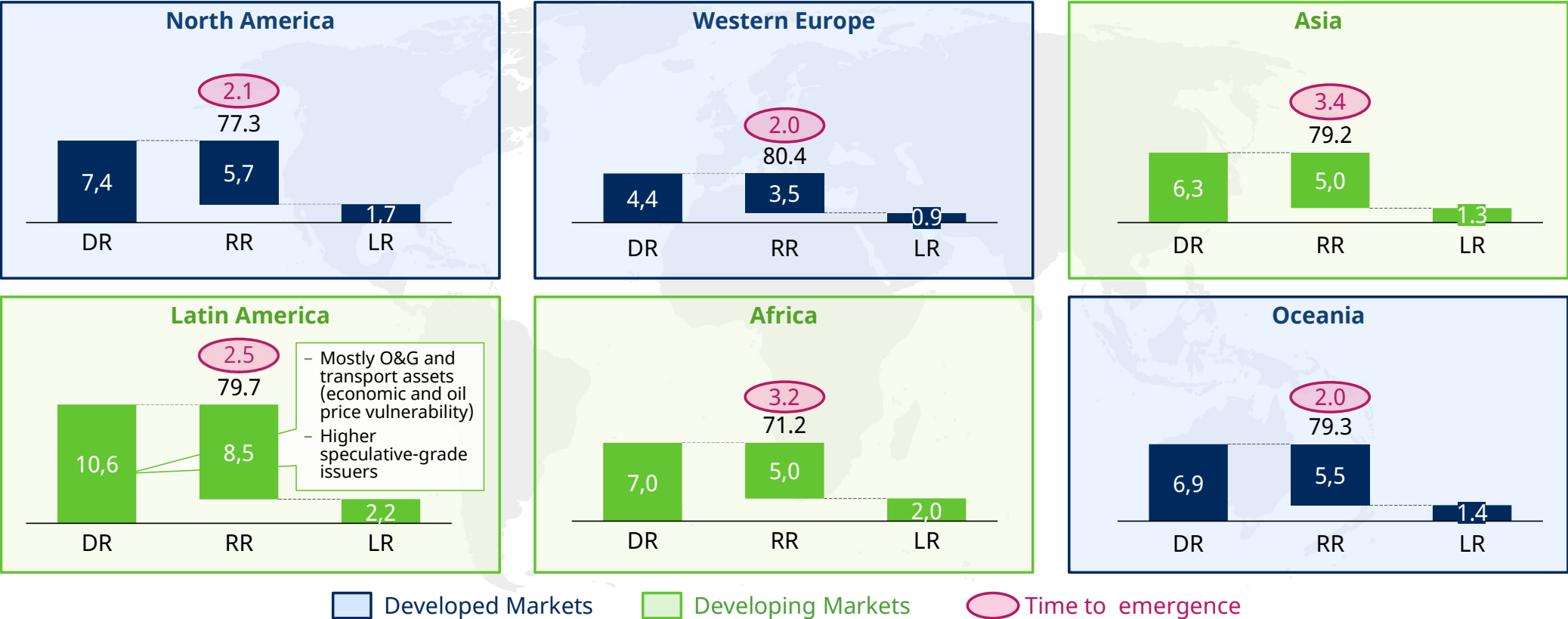
Past performance is not a guide to future performance and may not be repeated. 1. Average net spread. Note: As of January 2022. There are no guarantees that the investment objective will be achieved. Source: Schroders Capital, 2021.



# Risk of losses in emerging market infrastructure in line with developed markets

## Project finance default rates and time to emergence

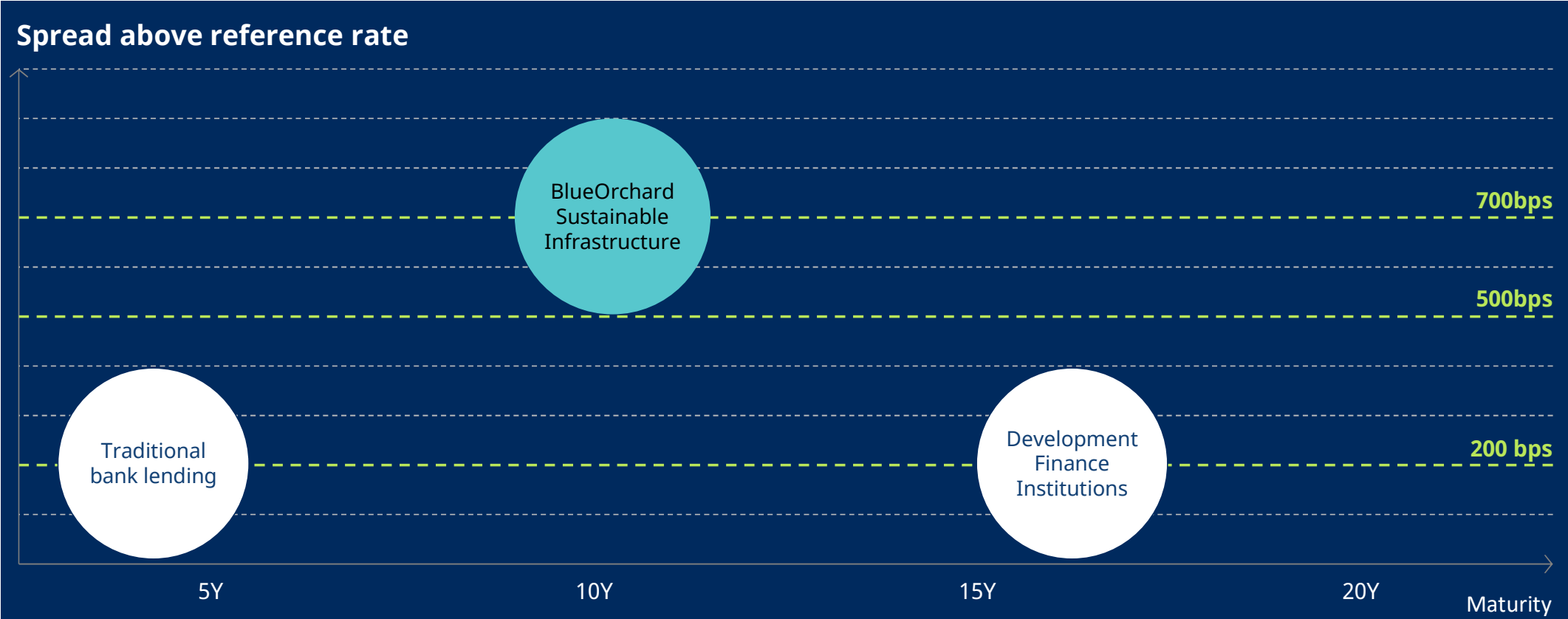
10-year cumulative default rates (DR), recovery rates (RR), loss rates (LR) in percent, time to emergence in years



Note: As of September 2021.  
 Source: Project finance default and recovery rates: Moody's 2019. Shown for illustrative purposes only and should not be viewed as investment guidance.

# Differentiated strategy:

BlueOrchard Sustainable Infrastructure fills the funding gap between local commercial banks and international DFI's



Note: As of March 2022. Indicative only. Source: BlueOrchard. Past performance is no guarantee of future results.

# Strategy targets vital, low risk Sustainable Infrastructure sectors

## Renewable energy



- Off-grid and micro-grid, distributed generation
- Grid-connected renewable generation
- Technologies: solar, onshore wind, small-hydro

## Sustainable transport



- Inland waterway navigation
- Electric vehicles and charging infrastructure
- Ports, ferry operations
- Public transportation (rail, bus)

## Energy infrastructure and energy efficiency



- Grid infrastructure (transmission & distribution)
- Energy efficiency (smart metering, isolation)
- Energy storage

## Data infrastructure



- Telecommunication towers
- Cable and fiber networks
- Data centers
- Integrated telco companies

Note: As of March 2022.

Source: EDHEC TICCS; BlueOrchard. Shown for illustrative purposes only and should not be viewed as investment guidance.



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# Comprehensive and effective risk management

## Mitigation of key emerging market risks

### Political and economic risk



- Country selection/priorities (political and economic risk drivers)
- Portfolio construction (geographical diversification, country allocation limits)
- Involvement of developed country governments (e.g. DFIs)
- Structuring and political risk insurance (PRI)

### Legal, tax and regulatory risks



- Strong regional network and expertise
- Selection of partners (e.g. quality of sponsor)
- Structural and governance arrangements (e.g. jurisdiction, domiciles)
- Involvement of developed country governments (e.g. DFIs, guarantees)

### Currency risk (transferability and inconvertibility)



- Prioritize hard currency markets and loans
- If local currency risk, fully hedged back to USD
- Structural and governance arrangements (e.g. jurisdiction, domiciles)
- PRI

## Infrastructure risk management tools

### S&P rating



- Project/asset rating based on S&P methodology - Informs view on expected credit losses and probability of default
- Minimum facility credit rating threshold of BB

### Infrastructure Debt Score Card



- Internal tool which evaluates an investment based on 10 macro and 48 micro criteria
- Applied to senior & subordinated loans
- Useful guide to DD focus areas

### BlueOrchard B.Impact



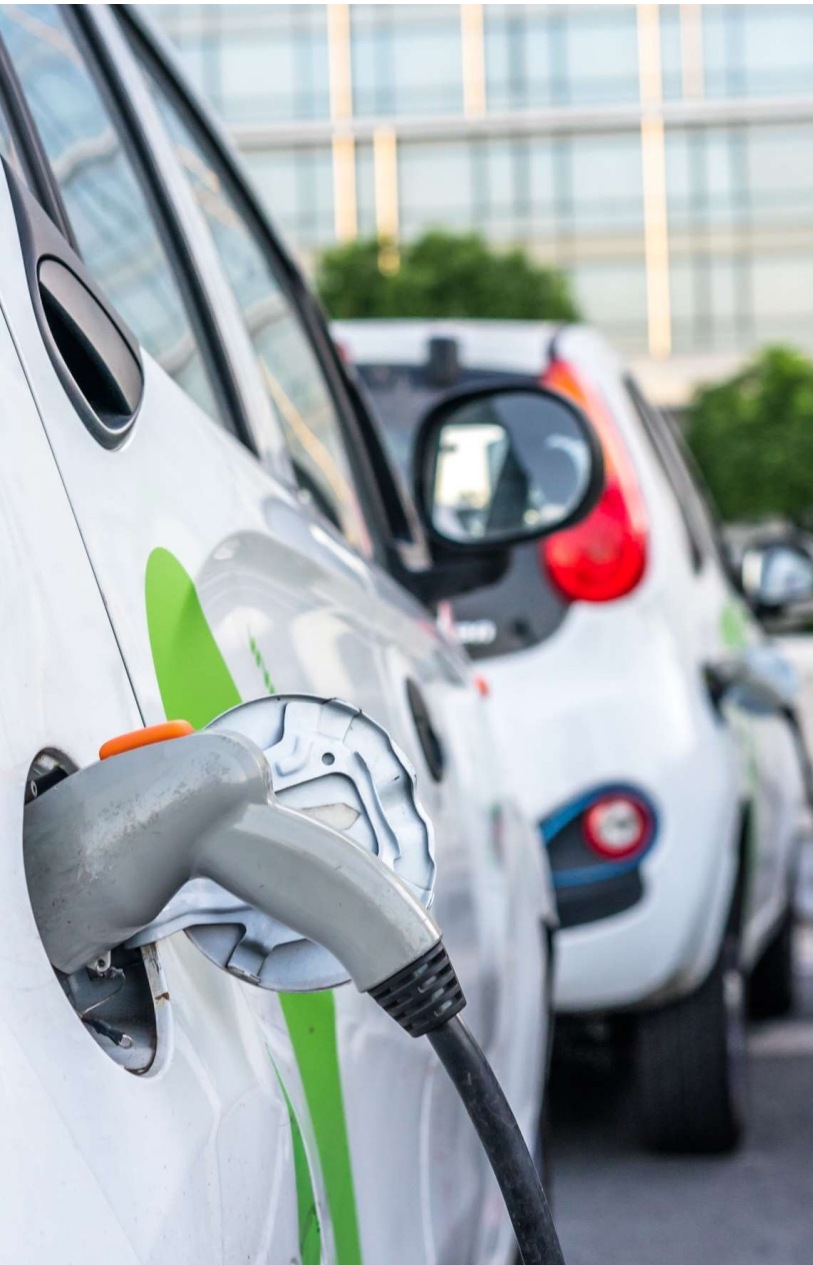
- Assessment and scoring of ESG risks
- Identification of mitigation measures
- Reporting throughout the holding period

Note: As of March 2022. Source: BlueOrchard. There is no guarantee the risk management strategy will achieve its objectives.



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# Clear impact strategy and best-practice impact management framework

## Impact strategy of BlueOrchard Sustainable Infrastructure

### Intent



Mitigating climate change



Closing the SDG funding gap

### Transaction Additionality



Addressing underserved Sustainable Infrastructure sub-sectors



Flexibility in funding & refinancing of Sustainable Infrastructure and corporates



Active transaction agenda with rigorous E&S risk review, impact management



Speed in structuring and approving transactions, ability to anchor investments

### B.Impact Framework



ESG scorecard & dashboard



Sustainable Infra. Impact scorecard & dashboard



SDG mapping and alignment

Note: As of March 2022. Source: BlueOrchard.



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## Illustrative fund-level reporting

### Indicative impact targets realized through the portfolio

Based on target fund size of USD 250m

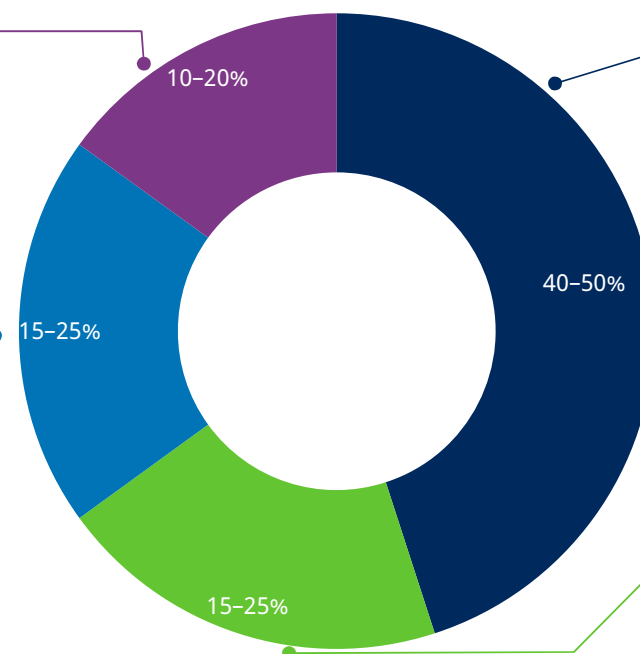
#### Energy Infra. & Energy Efficiency

- 28-55,000 LED street lamps financed, resulting in 8-15,700 MT of annual CO<sub>2</sub> emissions savings
- 21-42,000 MT of annual CO<sub>2</sub> emissions savings realized from grid losses reduction projects



#### Data Infrastructure

- Deploys 500 to 1,500 telecom towers depending on the type of site
- Provides telecom access to 125,000 to 350,000 individuals in emerging markets depending on site application



#### Renewable Energy

- 80-100 MW of new Renewable Energy capacity added across wind and solar projects
- 110-135,000 MT of annual CO<sub>2</sub> emissions saved
- Caters to the electricity needs of 230-290,000 individuals in emerging countries



#### Sustainable Transport

- 4-8,000 trucks replaced by river barges
- 850,000-1,700,000 tons of freight displaced from roads to waterways each year
- 81-160,000 MT of annual CO<sub>2</sub> emissions savings realized through waterway freight transportation



Note: As of January 2022. Based on indicated portfolio. The actual portfolio will evolve over time and may have different characteristics and allocations compared to what is presented above. There can be no guarantee that the performance objective will be achieved. Source: BlueOrchard.











# Sustainable Infrastructure pipeline example: Run-of-River Hydropower in Indonesia



### Key details

Technology	Run-of-River Hydropower
Country	Indonesia
Type	Greenfield
Construction	2 years
Operation	25 years

### SDG Goals and Impact KPIs<sup>1</sup>

 	Units of clean energy generated
 	CO2 emission savings
 	Effective capacity of the power plants
 	Temporary and permanent jobs created
 	Sponsors gender diversity



Experienced management team with existing track record of developing and operating over 2GW of energy assets



Committed to finance the construction of a portfolio of 3 run-of-river hydro projects for a total capacity of 30MW



High visibility of cash flows favored by long-term PPAs, diversification across assets, and strong hydrological profile



Large and growing energy market, with supportive regulatory environment



Best-in-class standards for development and construction, supported by KfW and ADB in the development phase and in compliance with IFC Performance Standards and Equator Principles

1. KPIs will be reported at least on a semi-annual basis. As of February 2022. Note: References to these assets are for illustrative purposes only and are not a recommendation to buy and/or sell. These assets are example constituents of the indicative portfolio and may not form part of the actual portfolio. The actual portfolio will evolve over time and may have different characteristics and allocations compared to what is presented above. Source: Project developer.











# Case study: Telecom access in rural Sub-Saharan Africa



### Key details

Technology	Telecom towers for rural areas
Type	Greenfield
Deployment	5 years
Operation	10 years

 	# of new mobile subscribers
  	# of sites deployed and villages covered
 	Data volumes and voice volumes
	Temporary and permanent jobs created



Experienced tower developer and operator with existing track record of 1,000 sites



Fully used to finance the roll-out of 10,000 sites across various countries in Sub-Saharan Africa – access for 9m people



Strong geographical diversification ensuring coverage for one village per site across 20+ countries



Strong customer diversification with different top tier Mobile Network Operators (MNOs) contracts in each country



10-year contract with international MNOs

1. KPIs 1-3 reported on a monthly basis, KPI 4 reported annually. Note: References to these assets are for illustrative purposes only and are not a recommendation to buy and/or sell. These assets are example constituents of the indicative portfolio and may not form part of the actual portfolio. The actual portfolio will evolve over time and may have different characteristics and allocations compared to what is presented above. As of Q1 2021. Source: Project developer.

# Value proposition of Sustainable Infrastructure

## Investment objective

**Aim to provide market rate returns in USD** from an underlying portfolio of debt from emerging market infrastructure projects or companies, contributing to climate mitigation, social and economic development and closing the SDG funding gap.

## Portfolio benefits



Potential for attractive risk-adjusted returns with premium over developed markets



High resilience and diversification from other asset classes



High impact strategy with best practice impact management framework

## Investment characteristics in brief



Emerging market infrastructure debt/companies



Bias towards greenfield assets in line with impact mandate



No leverage at portfolio level



SFDR article 9 classification



BB rating equivalent debt

Note: As of March 2022. Source: BlueOrchard. Objectives and intended outcomes may not be achieved. Diversification cannot ensure profits or protect against loss of principal. The fund has the objective of sustainable investment within the meaning of Article 9 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR").



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# Risk considerations

## General risk factors

- Limited partnership structure
- Price of interests
- Foreign exchange rates
- Interest rates
- Country risk
- Credit risk
- Counterparty risk
- Market volatility
- Liquidity and political risk

## Risk factors relating to investments in emerging countries

- Political and economic risks
- Legal risks
- Ability to enforce legal rights
- Natural disasters and pandemics
- Limited information
- Large influence of public sector
- Unstable political situation: high likelihood of conflicts and hostilities

## Investment in infrastructure assets generally

- Investments longer than term
- Illiquid investments
- Non-controlling investments
- Termination of subcontractors
- Environmental liabilities
- Sustainability risk

As of March 2022. Note: Risk factors set out here are not exhaustive. Before making an investment decision with respect to Interests prospective Investors should carefully consider all of the information set out in the Memorandum, as well as their own personal circumstances.  
Source: BlueOrchard.

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Thank you



# Schroders



**THANK YOU FOR YOUR  
ATTENDANCE**



# APPENDIX

# ARE YOUR ESG READY?

Learn more about the  
**Certificate in ESG Investing**



# Introducing the CFA Institute Certificate in ESG Investing

The CFA Institute Certificate in ESG Investing offers you both practical application and technical knowledge in the fast-growing field of ESG investing — an opportunity to both accelerate progress and demonstrate purpose.

## Product Details:

- **\$675 registration cost**
- Self-paced study program, **130 hours of study time** recommended
- **2-hour 20-minute examination**, available at Computer-Based Testing centers or Online Proctored testing (where applicable)
- **100 question, multiple choice & item sets**

To learn more or register, scan the QR code below!

**SCAN ME**



**CFA Institute®**  
Certificate in ESG Investing

# HOW TO EARN THE CERTIFICATE



A qualification **created by practitioners, for practitioners**, developed to deliver knowledge and skills required by investment professionals to integrate ESG factors into the investment process.



**Self-paced study program**, supported by a dedicated training manual.

Recommended study time is **130 hours on average**.

**No formal entry requirements** but prior investment knowledge is helpful.



**2 hour 20 minute exam**, 100 questions: multiple choice and item sets.

Price is **USD 675** including study materials and exam registration.

Testing is conducted through **Prometric Online Testing (Pro-Procter) or Prometric Test Centres**.

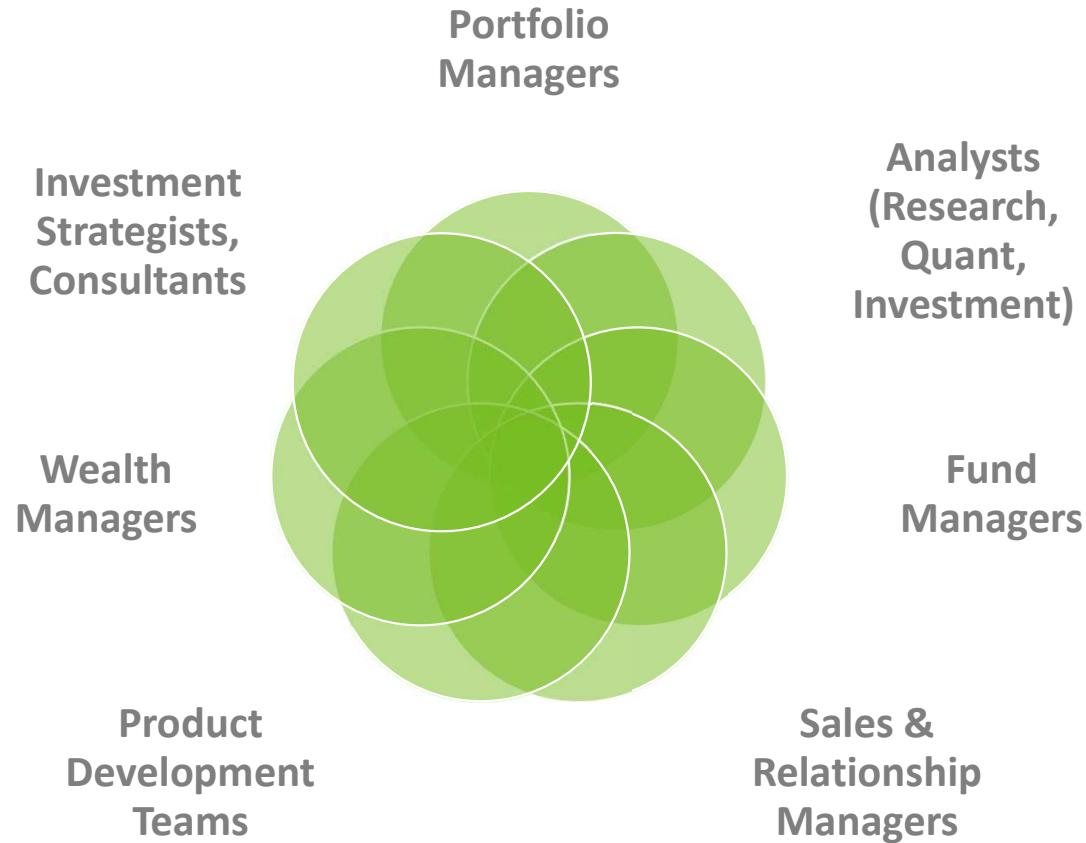


**Over 17,000 registrations since UK launch in 2019.**

Leading employers are:

- adding it to approved training subsidy programs;
- mandating it for certain job functions;
- Referencing employee pass rates as a metric in RFPs and pitch books.

# WHO IS THE CERTIFICATE DESIGNED FOR?



# TOPIC BREAKDOWN BY CHAPTER

- ESG Concepts & Approaches
- Benefits & Challenges
- Materiality of ESG Issues
- ESG Megatrends

- Size & Scope of ESG Investing
- Key Market Drivers
- ESG Issues & Sustainability Trends
- ESG Implementation Challenges

- Key Evidence-Based Environmental Concepts
- Megatrends & Relationship to Business Practices
- Applying Material Impacts on Investment Opportunities

- Key Evidence-Based Social Concepts
- Social Issues & Relationship to Business Practices
- Applying Material Impacts on Investment Opportunities

- Corporate Governance Frameworks & Models
- Applying Material Impacts on Investment Opportunities
- Applying Factors to Financial Modelling, Risk Assessment, etc.

- Purpose of Engagement & Stewardship
- Stewardship Codes & Principle Requirements
- Methods and Engagement in Practice (+ by asset class)

- Objectives of ESG Integration by approaches and challenges
- Qualitative & Quantitative Approaches by Asset Class
- ESG Databases & Software
- CRA's ESG Scoring, Screening

- Portfolio Construction & Mgmt.
- ESG Factors on Strategic Asset Allocation Models
- Evaluating ESG Investments
- Managing Risk & Return, Passive Portfolios

- Mandate Construction and Effective Delivery of ESG Investing
- ESG Screening
- Client Types & ESG Strategy
- Reporting, Monitoring, and Measurement



# TAKE ACTION USING THE LINKS BELOW

1. [Learn More about the Certificate in ESG Investing](#)



2. [Opt-In for More Information on the Certificate in ESG Investing](#)



3. [Register Now for the Certificate in ESG Investing](#)



4. [Review the Syllabus for the Certificate in ESG Investing](#)

