

The investment case for impact in private equity

Schroders

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There are some well-worn myths and outdated assumptions related to impact investing.

Arguably the most obvious and commonly referenced of these is that investing for impact – that is, making investments into companies or assets that seek to make a positive, measurable social or environmental contribution, alongside a financial return – requires the investor to forfeit performance in favour of purpose.

Put another way, it is widely assumed that impact investing necessarily involves accepting lower returns, as investments do not have value creation as their sole driving aim.

The elephant in the room

In a major new study, Schroders and Oxford University's Business School have provided extensive evidence not only to challenge this view, but that highlights the potential for 'impact' to be a source of alpha and so a driver of positive returns.

The paper is based on data drawn from more than 250 publicly listed companies that have been approved through Schroders' proprietary Impact Framework, which leverages the pioneering 25-year track record of impact asset manager BlueOrchard, and spans more than a decade of performance.

Key takeaways from the research are that impact portfolios delivered strong and competitive absolute and risk-adjusted returns, relative to broader, unconstrained portfolios – and that they also exhibited lower volatility and smaller drawdowns, and so reduced downside risk and demonstrated greater stability during market downturns.

The study also found evidence that companies with higher revenue alignment to impact-oriented products and services (impact materiality) generated superior financial returns, suggesting that impact itself can be a driver of financial performance, and a source of alpha.

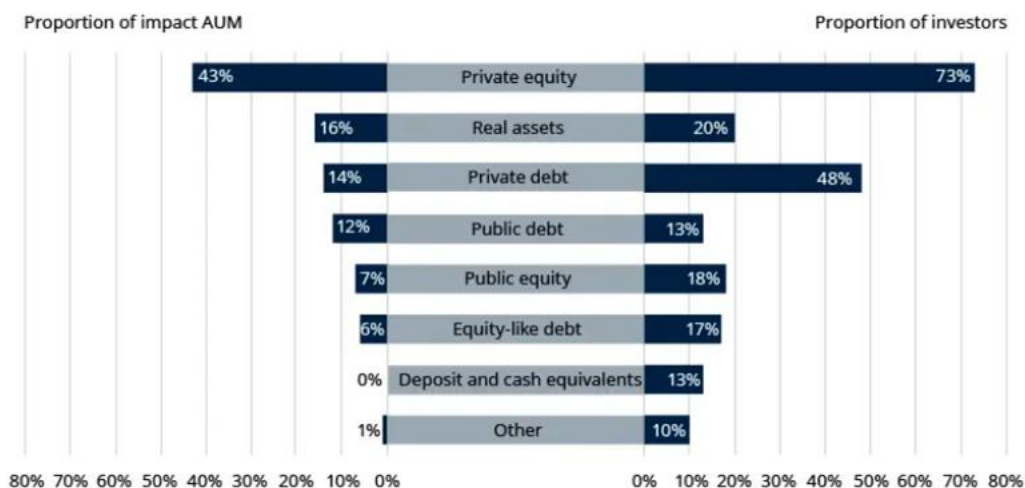
Growth in private equity impact

Impact investing has been a growing phenomenon in private markets – and private equity in particular.

According to the Global Impact Investing Network's (GIIN) *Sizing the Impact Investing Market 2024* report, there is currently close to \$1.6 trillion in impact investing assets under management (AUM) globally, being managed by more than 3,900 organisations.

And according to the GIIN *State of the Market 2024* report, based on its annual impact investor survey, 43% of all impact AUM is allocated to private equity specifically, making this by far the largest single asset class for impact investing. A substantial 73% of survey respondents have at least some of their impact AUM in private equity.

Proportion of impact AUM and investors by asset class



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Source: GIIN State of the Market 2024 report.

Given the high volume of impact assets that are invested in private equity, it is fair to ask if the trends identified in the Schroders and Said Business School paper in listed equity can also be observed in relation to private investments. Evidence from our own investment experience – and industry-level data across the wider private equity sector – suggests that they can.

The Schroders Capital perspective

Starting with our own portfolios, Schroders Capital undertook an exercise to identify all of the direct private equity co-investment transactions in which the underlying company was aligned with one or more of the UN Sustainable Development Goals.

While the majority of these deals were invested before Schroders Capital launched its impact investment strategy within private equity, we back-tested each asset against the core criteria within our Impact Framework to provide a credible overview of our impact-oriented private equity investments. Importantly, this is the same impact framework that BlueOrchard and Schroders used as a reference for the Said Business School research into listed equity referred to above.

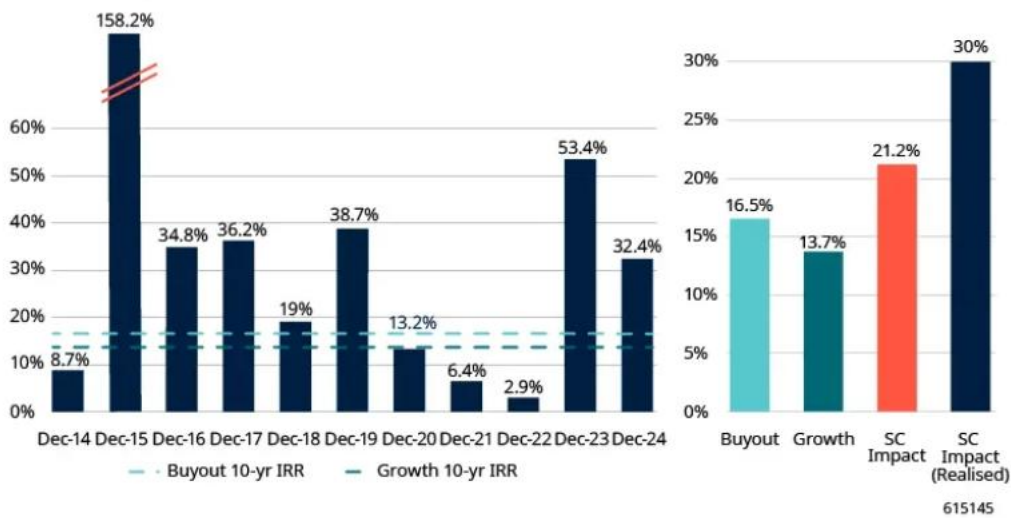
Our identified impact data set includes 118 transactions, to which we committed a total of \$1.8 billion. Geographically the data set closely reflected the breakdown across our wider private equity platform, with close to half of the deals completed in Europe, a little more than a third in the US, and the remainder in Asia. On a sector basis, there was a significant bias to technology and healthcare, which accounted for close to three-quarters (72%) of all deals in the data set.

We then assessed the returns of our impact data set on an annualised basis according to the year of the investment, and compared these to aggregated 10-year returns sourced from Preqin for direct buyouts and growth capital investments, to provide a comparison with returns generated across the wider private equity market. The results can be seen in the chart below.

Private equity impact has historically outperformed

Past performance is not a guide to future performance and may not be repeated.

10-year buyout/growth returns vs. unrealised and realised IRRs for Schroders Capital impact PE investments, 2014–2023



Past performance is not a guide to future results and may not be repeated. Sources: Schroders Capital, Preqin, 2025. Schroders Capital performance data as of Q3 2024, in USD. Preqin industry data as of Q2 2024. Left-hand chart includes Schroders Capital returns over the lifetime of the investment in the impact data set, grouped according to the vintage year in which the investment was made and compared to ten-year horizon IRR returns for buyout and growth capital investments. Right-hand chart shows returns for all Schroders Capital investments in the data set since 2014 (realised returns for investments made 2014-2021) compared to 10-year returns for buyout and growth investments.

In short, overall performance has been strong, with an internal rate of return (IRR) of 21% across our impact data set, rising to 30% for transactions that have been at least partially realised (meaning we have sold some or all of our exposure to generate a return) covering 31 deals between 2014 and 2021. This compares to 10-year industry returns for buyout and growth investments of 16.5% and 13.7%, respectively.

On a year-by-year basis, and comparing to industry returns, our private equity impact investments have generally outperformed, often materially. The most recent years are less relevant for comparison given the early stage of these investments, but we would expect this trend to prevail as our latest impact investments mature.

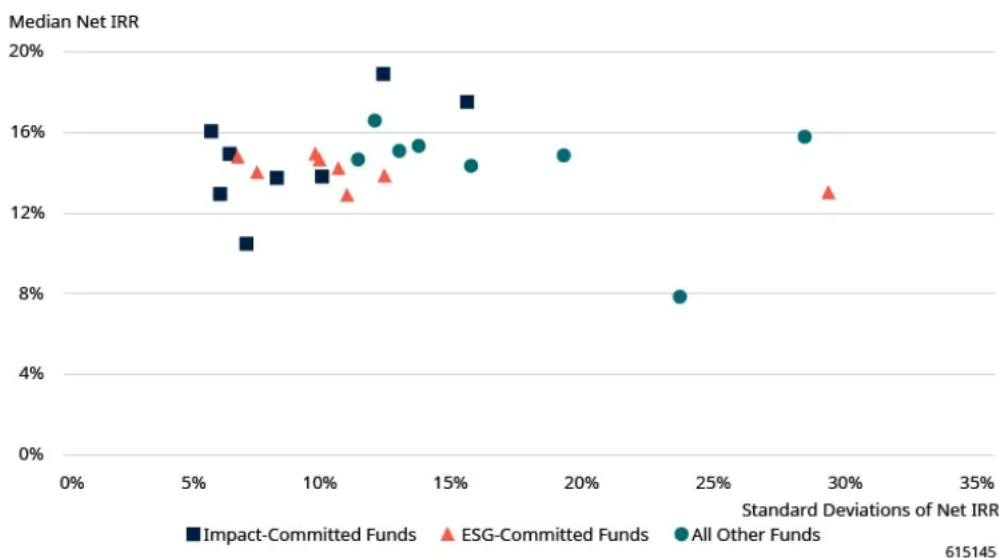
The wider private equity perspective

This outperformance can also be observed in wider industry data, providing evidence that this is a broader trend and not a localised performance dynamic.

For example, and as shown in the chart below, data published in 2020 by Preqin, based on returns from approximately 1,700 private equity funds with vintages between 2010-2017, showed impact and ESG funds performed in line with unconstrained private equity funds – and that impact funds marginally outperformed.

Private equity impact vs. unconstrained funds, 2010-2017 vintages

Risk/return of sustainable private equity funds (vintages 2010–2017)



Average returns and dispersion

Fund type	Average median net IRR	Average Standard Deviation of Net IRR
Impact-committed funds (160 funds)	14.7%	8.7%
ESG-committed funds (767 funds)	14.04%	11.8%
Unconstrained (873 funds)	14.24%	16.8%

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Past performance is not indicative of future results. Source: Prequin 2020.

Notably, these returns were generated with a materially lower level of volatility, with the standard deviation of the returns from impact funds standing at less than 9%, compared to close to 12% for ESG funds and approximately 17% for unconstrained funds. Of course, it is important to highlight that the sample of impact-committed funds was significantly smaller than the ESG-committed and unconstrained fund samples.

Meanwhile, a study published in November 2023 by Pensions for Purpose, a UK organisation that promotes impact investment among UK pension funds, found that impact-focused private equity funds outperformed public markets. Pensions for Purpose gathered performance data from 17 asset managers with close to £19bn (\$25bn) in impact assets under management, of which around 10% was invested in private equity. It then compared these returns to broader public benchmark performance, encompassing the full range of both impact and non-impact companies in the index.

This analysis showed that the average quarterly net IRR between Q1 2014 and Q1 2023 for the cohort of private equity impact funds was 1.7%, slightly ahead of the FTSE All World Index quarterly net return of 1.6%. Again, volatility was found to be lower, with a narrower performance dispersion and an average standard deviation of 3.5%, compared to 8% on public markets.

Conclusion: The case for impact investing in private equity

Industry data provides compelling evidence that impact returns in private equity are at least competitive with, and in some cases outperform, wider market returns. There is also clear evidence that performance relative to the market deviates year-by-year, supporting the view that there are differentiated return drivers for impact investments.

At the same time, the data also evidences that impact returns are significantly less volatile overall than wider market returns. This may at first appear counterintuitive given these investments are highly constrained – but it is equally the case that impact investments are highly selective and actively managed, with a tilt towards sectors and themes that are aligned with long-term mega-trends, such as the global energy transition.

Of course, we are conscious that our observations and investment experience as an active private equity investor and impact investor, in partnership with BlueOrchard, are far from qualifying this as a fully rigorous study – as not all impact investments are made equal. Nevertheless, taken together with the public market study, these findings do challenge persistent myths related to supposed financial compromises with impact investments, which can be seen as a potential driver of positive returns, portfolio resilience and efficiency.