



Building impact investing in emerging markets

*VOX Capital's experience as a pioneer
in Brazil shows the opportunities – and
challenges – of attracting impact-
focused capital in emerging markets*

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N.B. This essay is an edited version of the transcript of Daniel's 20/30 Visions interview, which you can watch at www.bridgesfundmanagement/2030Visions.

VOX is a pioneer fund management company in Brazil. We've been doing impact investing for over 14 years now, since early 2009.

We currently have about \$200 million under management; mostly in venture capital, where we've raised three generations of fund (the first in 2012, the second in 2016, and a third one in 2021). We manage two early-stage funds in specific verticals – one for healthcare and one for financial services. And we've recently started moving into new asset classes: we now have a fixed income fund and a credit fund, plus a number of other new products in the pipeline as we look to bring more people to impact.

When we first started fundraising for VOX in 2009, our biggest challenge was scepticism. If we even managed to get a meeting with someone, we'd get one of three reactions. Some found it cute, but naïve. Some thought the idea made no sense. And some – mostly people who'd worked in finance for a long time – would actually get angry with us. They'd say things like: "You kids don't know hard it is to make a good financial return; why would you add something else to it?"

By 2020, though, when we were raising our third fund, suddenly everyone was socially conscious and claimed to have been doing impact investment forever. So there has been a huge shift.

However, we're still having to make the case for impact investing. Even when we achieve good exits, people say that it's just luck. We just don't have a large enough set of indicators or data that confirms that impact investing is also financially successful. And unfortunately, in the real world, investors are still much more concerned about the financial return. For many, the impact is great – as

long as you don't sacrifice much (or any) of the return.

So we have to make the case that this kind of investing is financially feasible and competitive. And we're still struggling with that, because there isn't enough data. Our second fund is in the top quartile of VC funds worldwide; it's returning five times the principal. But there needs to be more funds like this.

To some extent this is a matter of time. But we're also trying to change behaviour by creating impact experiences related to the investments – not only more robust impact reporting, but also short documentaries about the people impacted by the investments, to bring out the human side of the impact.

IMPACT IN BRAZIL

For the first 12 years of VOX, we focused on social impact: delivering better education, healthcare, and financial services solutions for the low-income population in Brazil, to ensure more or better access to these basic services.

But when we talk to international investors about social impact in Brazil, they look at the average income. And we are not a low-income country; we are an average-income country (albeit one of the worst according to the Gini inequality index).

Then two years ago, we started developing our environmental thesis – and Brazil is obviously home to the Amazon region. So conversations about Brazil made a lot more sense to international investors in terms of environmental impact.

Politically, Brazil – like many other places – is highly polarised right now. But from our perspective, the inflow of capi-

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Brazil is attracting much attention from international investors with a focus on sustainability because of the Amazon rainforest, the so-called 'lungs of the planet'

(Photo by Daniel Granja on Unsplash)



tal to Brazil responds much more to the economic situation than the political situation. And I really like Marina Silva, the new environmental minister: she's a long-time environmental activist, and former candidate for the presidency. Now she's running the ministry, I believe that will open doors with international investors.

We're already seeing some of the larger asset managers who have raised impact funds starting to look at Brazil. Overall, that's a positive – because it raises awareness about this whole theme and makes it less marginal. But I am sceptical about 'mixed institutions': those who have a carbon sequestration fund on the seventh floor, while on the tenth floor, they're issuing debt to coal miners. Over time, these institutions will only sustain their market positions if they shift their whole mindset and operations towards generating impact.

In our view, the 'impact investing box' is useful as a way of giving context when you move into this area. But it's also limiting, because it validates a whole set of investments that don't care about impact: you have the 'impact investments' here, and then you have the 'traditional' or 'normal' investments over there.

What we're trying to say is that every investment has an impact, positive or negative. And given the state we are in the world right now – inequality, war,

economic crisis, the climate emergency – we don't have the luxury to invest without thinking about the impact of our investments. Our goal is to break that impact investment 'box', so every investment cares about the impact.

THE ROAD TO 100% IMPACT

One way we're trying to do that is through our fixed income fund. We realised that although we were trying to serve the low income population, we could only offer products for the wealthiest of the wealthy, and even they would only allocate 1-2% of their wealth. So we wanted to democratise impact investing.

What we found was that the biggest trade-off is not between return and impact, but between liquidity and impact. There are not enough true impact assets that are traded daily on market, in order to create truly impactful liquid products. But we wanted to start building bridges. So we looked at the public equities market in Brazil, and identified companies with any line of service that was delivering one of the 169 sub-goals of the SDGs. Then we buy the debt of these companies. That's the compromise we make to create liquid products that fit within the impact management umbrella.

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And it's been a success. We went public in December; since then, the fund has doubled in size to \$5m. We have people that are investing \$20 through platforms, which is exactly what we wanted.

This is part of the move we've been making since 2020 from VC fund manager to asset manager or product house. The first step on our roadmap is to create a full portfolio, so everyone can invest for impact – and those who want to can invest 100%, or close to 100% of their portfolio in impact (I'm the guinea pig of this; 100% of my money is in our funds!). We're launching a private pension fund. We're launching an equity index, based on the same strategy as the fixed income fund. And we're also looking at an environmental real estate strategy related to land use. So we have plenty of products in the pipeline.

In some places, especially the U.S. and Europe, there are large institutions that are already building a 100% impact portfolio; if you want to allocate all your assets to impact, there's a solution for you. In Brazil there isn't. So we need new products for that.

We're also focused on developing more impact assets – which, over time, could turn into retail products. So for example, the land use fund will be for professional investors initially; but we are already creating a roadmap for it to become part of a retail product.

We're also launching a web platform, so we can give investors an improved impact experience. As a sector, we need to commit more resource to advertising and telling people about this. A big challenge we face is how to shape the message to make impact investing more available and more interesting to a larger group of people.

At VOX, our theory of change is that eventually, all the money will care about the impact it is generating.

The younger generations are more concerned about impact than previous generations. If you talk to people aged 30-35, it's almost a no-brainer; they just don't own many assets yet. So as they get older, even if the older generations never change at all, the market is going to evolve based purely on that generational shift. And if there's a particular crisis, or multiple crises around the world, it will happen faster.

Will it be fast enough? I don't know. I'm cautiously optimistic, because I have to be. But it's definitely getting harder to stay optimistic.

One thesis we're developing is around investments that increase the resilience of local systems – that can potentially alleviate the pain if anything happens at a macro level.

So for example, with our new land use fund, we will be buying degraded land and turning it into productive land or agroforest (in partnership with large co-operatives). The thesis is that we buy it cheaper because it's degraded; then seven years later we sell it for more money because it's greener, healthier, more productive. And if everything goes wrong – war, financial crash, etc – there will at least be land that is producing food locally for more people.

Daniel is a Partner and co-founder of VOX Capital, Brazil's first impact investing venture capital firm, focused on high-potential businesses serving the Brazilian low-income population through products and services with the potential to improve their lives.

Daniel has over 20 years of experience in marketing, business development and start-up investment. He has been working with the Brazilian low-income population since 2007. Daniel has an MBA with high distinction from HEC Montreal and a BA from EAESP/FGV in Brazil. He is a board member for several companies, member of the ANDE Global Executive Committee, a World Responsible Leader by the BMW Foundation and a Professor at the Impact Investing Executive Program at Said Business School, in Oxford.





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