BRIDGES Fund Management

Big asset managers & the future of investing

How can the world's biggest asset managers help to scale the growth of investing for impact?

VISIONS 20/30

Lisa Hall

Impact Chair
Apollo Global Management

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

I started at Apollo in June 2020 – in the thick of the pandemic, before vaccines, in the immediate aftermath of the 'racial reckoning' following George Floyd's murder. So it really felt like a pivotal moment.

I'd spent more than a decade in the non-profit sector, but I thought it was really important to shift my focus to scale. Impact investing was finally going mainstream; and I wanted to be part of bringing its first principles and philosophy from the roots of the sector to a new player, Apollo, that was building a business from the ground up.

A lot of my thinking was around how we solidify this mainstreaming so that it's not a flash in the pan – so that impact investing is really embedded in these institutions in such a way that it will persist at scale.

Apollo had already done a lot of work leading up to the decision to hire me as impact chair. Decisions had already been made around frameworks and due diligence, and on linking carried interest to impact performance; that was very compelling to me.

It was also compelling that Apollo was going to implement the same late-stage buyout/ control stake approach to impact they use for their flagship fund. Certainly at the time, that was a very clear gap in the market.

And for a long time, going back to my days in the family office, I've been concerned about exits. We'd seen this proliferation of funds – but where were these great impact deals going to go when they had to exit? Most of them were not going to IPO; they would have to be strategic acquisitions, or buyouts by late-stage private equity firms.

HOW LPs ARE DRIVING CHANGE

We just closed the fund at the end of 2022: it was a two-year process, in a very tough fundraising environment, to get to that $1 billion mark. But as we were raising capital, we've been able to deploy half of the fund – roughly $500m – which has been very exciting. So I've seen the business grow from almost nothing, just a vision board and a lot of marketing decks, to an actual fund with deals that are generating great impact.

Investors were very interested in our focus on collinearity: our firm belief that we can generate positive impact returns at the same time as strong financial returns. Apollo has a great track record of generating financial returns, so there wasn't much questioning about that. But the idea that you could have collinearity – i.e., the more impact you create, the better your financial returns; and that these two elements of a business can be quite integrated – investors found that appealing.

Investors also really liked that we tied our carried interest to impact performance, which is not common in impact funds. Others were specifically interested in the late-stage approach: they saw it as a gap in the market, and sometimes a gap in their portfolio.

If there were questions, they were generally around deal size. Our target average investment size is $100 million: could we really find deals of that size that were going to generate strong impact? But we've been quite successful in finding those deals. I don't think we've had to trade off impact for scale.

Every Apollo deal involves ESG due diligence, whether it's being done out of the flagship fund, or the infrastructure

"How do we solidify this mainstreaming so that it's not a flash in the pan – so that impact investing is really embedded in these institutions in such a way that it will persist at scale?"

One of Apollo Impact's first investments was into RDM, a leader in recyclable packaging based in Italy fund, or the impact fund. Solid ESG performance or integration is table stakes now – it's just best practice.

For impact companies, that's still important; but they also have very measurable, positive impact that's being created, whether that's around the environment, education, health or economic opportunity. In the early days of what we now call impact investing, everyone was quite satisfied to measure outputs: the number of students being served, the number of patients receiving care. What we've seen is a shift towards outcomes: did the student actually learn anything in the classroom? Did the patient actually get better?

This differentiation between ESG and impact was not broadly understood. In fact it's not broadly understood across the field of investing. Since I joined, we've come a long way towards getting everybody in the same place on that.

I think I've also helped the firm contribute to the movement of the field, which I feel is very important for new players. I was actually quite a critic of this before I came back into corporate America: I felt there were too many new entrants 'riding the rails for free'. Fundamentally that is just not in the spirit of impact investing. We are still in the early days of this movement, and unless we all contribute to the infrastructure, it will lead to inferior results for everybody.

At the same time, we're drawing from this wealth of intellectual capital that has been created over these past decades. A lot of goodwill has been created that new entrants are benefiting from, so it's important for us to keep giving back.

IMPACT AND SCALE

Being part of Apollo is definitely helpful for origination: we have the entire breadth of the private equity platform, with people constantly looking for deals and talking with bankers. Sometimes there are deals that land on the desks of our colleagues that are too small; or they'll be looking at deals that are quite large, where it makes sense for us to come in and buy a piece of it. We also have resources like the APPS team (Apollo Portfolio Performance Solutions): that team is very closely involved – both at the due diligence stage and then once we've closed – in looking at issues like human capital and technology. As we grow and expand, there's also more sharing of resources across our climate and infrastructure teams.

Over time, the goal is for the firm to move more and more to positive impact deals. I think the market is asking for that. Just like ESG is table stakes today, measuring how much impact you're creating is going to be table stakes in the future.

> "There were too many new entrants 'riding the rails for free'. Fundamentally that is just not in the spirit of impact investing."

Another early Apollo Impact investment was Smart Start, which makes devices that help to prevent drink- driving

There's a lot of talk about greenwashing; that it's just a buzz, and people are just piling on because it's the flavour of the moment. But I think it really comes from investors saying: we want this type of product; we want to make investments that are impactful. And that is causing people to think: "OK, we need to figure out how this is going to work at our firm".

So the initial push has come from LPs; but once the question is asked, people really start to think about using investment as a force for good.

Impact is part of investing responsibly, which is one of the core values of the firm. So there is real buy-in at the most senior levels. Even the fact that we've added an impact fund to the tool belt: that just raises awareness throughout the firm about what it means for a deal to be positive net impact.

THE CHALLENGES AHEAD

Especially with new strategies, people often want to create their own proprietary approach – and that's a real issue for the field.

We just felt that there had been a lot of really good work around impact management, around metrics, around due diligence, around infrastructure, around frameworks for evaluating impact. So the right thing to do was to take this best practice and apply it to what we were doing, rather than trying to reinvent the wheel and start over from scratch. Frankly, I think there's too much of that going on.

LPs really appreciate the move towards standardisation because they've got investments across funds that they want to be able to compare. They want to be able to compare outcomes, and it's much harder to do that when everybody's using a bespoke measurement tool. I don't know if we'll ever get to the place where there's complete harmonisation – where everybody's using exactly the same metric and exactly the same outcomes to assess their investments. But I think we can get close. Just like we have GAAP financial reporting, there'll be a harmonised version of impact reporting.

Particularly around climate, I think we've succeeded in making the argument that this is urgent. Here in the U.S., we've just had the Inflation Reduction Act, which is going to drive a lot of funding into the energy transition. I think we're underestimating the impetus that will create for the private sector: we're going to see an explosion of companies that are focused on clean and renewable energy. They'll need the debt the Government is providing, but they'll also need equity.

So I'm excited about what's possible, not just in the States but globally, around climate.

As for the other areas of the SDGs, perhaps it's a bit aspirational to think we're going to reach them in the next 10 years. But I think that's OK; that's the point of aspirations. Sometimes you have to reset your goals. But as long as you're moving towards a positive goal, that's good.

> "Just like ESG is table stakes today, measuring how much impact you're creating is going to be table stakes in the future"

Lisa Hall is Impact Chairperson, Private Equity at Apollo, where she is responsible for elements of the Firm's new impact investing platform, including serving as Chair of the Advisory Committee for the impact investing business. Prior to joining Apollo in 2020, Lisa was a Fellow in Residence at Georgetown University and previously served as Managing Director for Anthos Asset Management in the Netherlands and as President and CEO of Calvert Impact Capital. Lisa currently serves on the boards of Habitat for Humanity International, City First Bank of DC, and Community Development Trust. Lisa graduated from the University of Pennsylvania with a BS in Economics and holds an MBA from Harvard Business School.

20/30 Visions is a series of interviews with global thought-leaders, exploring how we build a more sustainable and inclusive world in the next decade

BRIDGES
Fund Management

Celebrating
20 years
2002–2022