

VAN LANSCHOT KEMPEN

INVESTMENT MANAGEMENT

Impact Investing 2.0

Impact above and below the waterline: investing for systemic change

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For professional investors only

Impact investing with a systemic lens

Responsible investors use a range of complementary tools to manage risks and influence change, ranging from exclusions and ESG integration to stewardship through voting and engagement. Impact investing adds another dimension by intentionally steering capital towards positive, measurable real-world outcomes alongside financial returns.

Traditional impact approaches focus primarily on the direct effects of deployed capital and individual solutions. Impact investing with a systemic lens goes further, considering the underlying structures, market dynamics and behavioural shifts needed to achieve lasting positive outcomes at scale. Because interconnected social, environmental and economic challenges require a holistic approach that addresses both symptoms and root causes.

We call this Impact Investing 2.0

In this white paper, we show how a systemic approach to impact investing can help investors:

- Pursue expected financial returns while contributing to meaningful sustainable transitions;
- Build portfolios that generate impact both above and below the waterline;
- Identify managers capable of delivering impact alongside investment outcomes;
- Measure and report impact in a way that reflects both direct results and structural change.

Authors:



Eszter Vitorino
Lead Expert
Impact Investing



Robin Schouten
Executive Director
Alternative Investment Solutions

> Impact investing is part of a broader sustainable investment toolkit. While exclusions set boundaries, ESG integration incorporates sustainability factors into investment decisions and stewardship seeks change through voting and engagement, impact investing intentionally targets measurable social or environmental outcomes alongside financial returns.

One goal, multiple drivers of impact

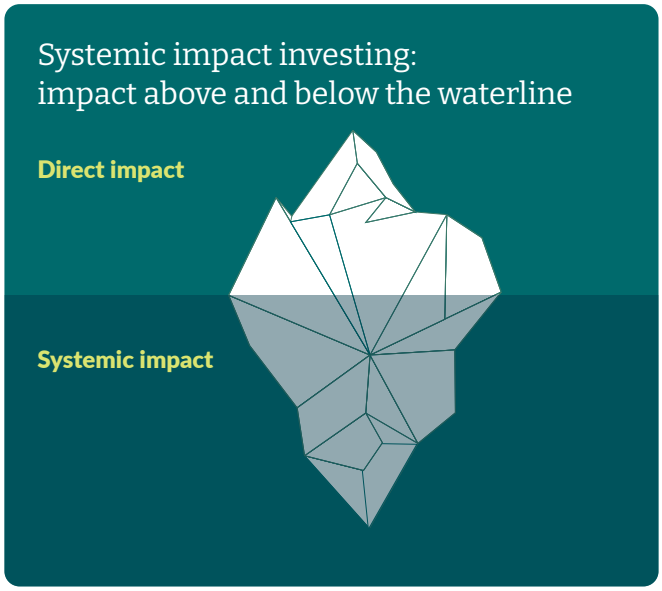
Impact Investing 2.0 starts with a clear definition of the long-term outcome an investor seeks to achieve. Once that objective has been established, it can be translated into a range of complementary investment themes and solutions. Because many of today's social and environmental challenges are interconnected, achieving meaningful change requires a broader, more systemic perspective.

Take climate change as an example. Addressing it requires more than the transition to a low-carbon economy alone. Climate adaptation, resource efficiency and the shift towards a more circular economy all play an important role in supporting a successful transition.

By considering these interconnections from the outset, investors can identify solutions that reinforce one another and collectively contribute to the intended outcome. This includes investments that deliver direct, measurable impact, as well as those that support broader changes in consumption patterns, production systems, value chains and other underlying structures that shape long-term outcomes.

Direct and systemic impact...

The iceberg below illustrates the distinction between direct and systemic impact. Above the waterline are the direct outcomes of an investment: tangible, measurable and immediately visible. Below the waterline lies systemic impact: the underlying changes in markets, value chains and behaviours that can drive broader, long-term transformation. While often less visible, these effects can be catalytic, influencing entire sectors and helping to create lasting change.



A practical example illustrates this approach. Suppose the ultimate objective is to combat climate change while reducing pressure on natural ecosystems. Investing in the development of a large-scale solar park can directly reduce reliance on fossil fuels and lower carbon emissions. Providing growth capital or debt financing to a battery manufacturer can further accelerate the energy transition. These are examples of direct, or "above-the-waterline", impact.

Systemic impact lies beneath the surface. Around one-tenth of global carbon emissions are linked to food loss and waste. Investments in businesses that shorten food supply chains, improve agricultural efficiency or extend the shelf life of fresh produce may not appear directly connected to climate mitigation at first glance. Yet they can make a meaningful contribution to reducing emissions and resource consumption, helping to address the underlying drivers of environmental pressure under the waterline.

...lead to a robust impact portfolio

Direct impact is often achieved through investments in real assets, such as sustainable infrastructure and farmland. By contrast, systemic impact with a catalytic effect is typically driven by private equity and venture capital strategies, where innovation, scalability and the potential of market transformation play a central role. Private debt complements this approach by providing financing needed to scale high-impact businesses and projects.

Different impact strategies can also reinforce and complement one another over time. Investments that generate direct impact often produce measurable results relatively quickly. The effects of venture capital and growth-oriented private equity may take longer to emerge, with businesses typically requiring around five to seven years to reach scale.

Bringing together investments with different return characteristics, risk profiles, time horizons and impact pathways creates a well-diversified portfolio. This combination enables investors to capture both direct and systemic impact while enhancing portfolio resilience.

The nature-positive model portfolio on the following pages illustrates how this can be translated into a practical investment solution.

A nature-positive impact portfolio (example)

Climate change and nature loss are increasingly recognised as two facets of the same challenge. At the same time, ecosystem degradation creates risks across virtually every sector of the economy, making it an increasingly relevant consideration for institutional investors. A nature-positive impact portfolio seeks to address these interconnected issues through a systemic lens. By combining different private market asset classes investors can generate direct impact in the relatively short term while contributing to systemic changes in the medium to long term. Innovative companies are often at the centre of this process. Through new technologies and solutions, they can help drive change across entire value chains and sectors.

Above the waterline

Direct impact through regenerative agriculture: the basis

Desired outcome: directly contributing to improving soil health while reducing pesticide use.

Investments in regenerative agriculture can contribute directly to carbon sequestration in the soil and improvements in soil quality. While some improvements can be observed quickly, more profound recovery usually occurs within three to seven years.

Real asset investments have historically been characterised by relatively stable return profiles, limited volatility and inflation-hedging properties.

Case study: A global farmland fund investing in the transition from traditional farmland to regenerative farming practices that restore nature and enhance biodiversity.

Below the waterline

A. Venture capital

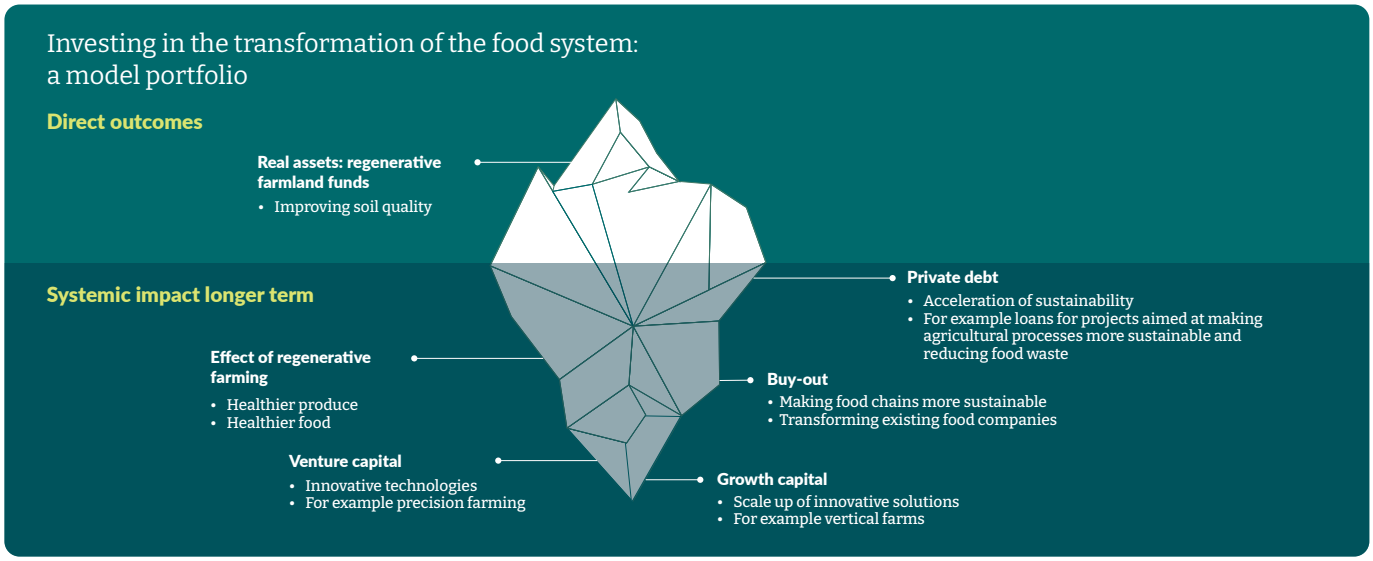
Desired outcome: accelerating systemic change through the development and scaling of innovative technologies.

Venture capital investments target innovative businesses with the potential to reshape food and agricultural systems. Examples include precision farming technologies, advanced storage solutions and innovations that significantly reduce food loss and waste.

Whilst these technologies typically can carry a higher risk in their early stages, successful innovations can be scaled across value chains and markets, and can drive broader systemic change, delivering a catalytic impact beyond the individual company.

Case study: Globally, around one-fifth of all food available to consumers is wasted. In addition, over 10 per cent of food produced is lost within supply chains, before it even reaches the consumer.[1] A technology company that develops software for end-to-end automated planning of food production and distribution can help tackle this problem. Backed by a venture capital firm, the company's solution can improve forecasting, optimise supply chains, and reduce food loss and waste across the food system.

Investing in the transformation of the food system: a model portfolio



B. Private equity growth capital

Desired outcome: scaling innovative solutions.

Growth capital helps innovative businesses scale solutions that support more sustainable food and agricultural systems, including biological pest control, climate-resilient crop varieties and vertical farming technologies. As these companies move beyond the early-stage phase, they aim for stable, often double-digit returns, typically with lower risk than venture capital.

Case study: A biotechnology company developing banana varieties that are more resilient to climate change and less susceptible to spoilage during transport, helping to reduce food waste and pressure on agricultural land. Another example is a technology company that develops natural alternatives to conventional fungicides and other crop protection products, reducing pesticide use and supporting biodiversity.

C. Private equity buyout strategies

Desired outcome: making entire supply chains more sustainable by transforming existing businesses

Buy-out strategies focus on companies with established market positions and scale, but where there is potential to improve sustainability performance. By transforming these companies into more sustainable market leaders, investors can help reduce negative impacts across entire supply chains and accelerate the adoption of better practices throughout an industry. Buy-out companies generally offer expected returns slightly below those of growth capital.

Case study: The property sector is estimated to account for nearly 40 per cent of global CO_2 emissions.[2] Almost a third of this comes from (the production of) building materials and the construction process, with the remainder from operating the building. Positive impact can be achieved through companies providing integrated smart-building solutions that improve energy efficiency, reduce emissions and enhance sustainability performance across the building life cycle.

D. Private debt

Desired outcome: accelerating the transition to more sustainable business models for companies with limited access to capital.

Private debt can accelerate both direct and systemic impact, particularly among small and medium-sized enterprises and in emerging markets. By linking financing to sustainability outcomes, investors can help reduce emissions, waste and soil degradation while supporting the transition to a more circular food system. At the same time, these investments can offer predictable cashflows and single-digit expected returns with lower risk than equities.

Case study: One of the underlying funds within our impact portfolio has financed a coffee producer specialising in shade-grown coffee. This cultivation method enhances biodiversity, supports healthier water systems and reduces the use of synthetic inputs, contributing to more sustainable agricultural practices and lower freshwater pollution.

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[1]UNEP Food Waste Index Report 2024

[2]40% of emissions come from real estate; here's how the sector can decarbonize – United Nations Environment – Finance Initiative

Five dimensions of successful impact investing

Building a resilient, high-performing portfolio requires consideration of more than impact alone. Expected returns, risk, costs and governance are equally important. A robust impact strategy therefore balances all five dimensions, ensuring that positive impact and strong investment outcomes reinforce one another.



Diversification plays a central role in this approach. By investing across sectors, regions, asset classes and time horizons, investors can manage risk while improving the likelihood of achieving both financial and impact objectives. The result is a portfolio that is better positioned to withstand changing market conditions while maintaining exposure to a broad range of impact opportunities.

Many solutions to systemic challenges are supported by powerful long-term trends and growing capital needs, creating attractive investment opportunities. In our experience, managers and strategies with a strong focus on impact are also characterised by disciplined investment processes, clear governance frameworks and robust risk management.



Return and impact go hand in hand

We are living through a period of profound transition, as technological innovation, societal change, resource constraints and geopolitical turmoil reshape economies and create new investment opportunities.

With the capital entrusted to us, we focus on innovative frontrunners and future market leaders with scalable business models driving major societal transitions. This helps us to accelerate positive change while creating sustainable financial value for long-term investors.

Impact investing is not about accepting lower expected returns. It is about recognising that long-term value is shaped by the interconnected dimensions mentioned above, and that overlooking any one of them can mean missing opportunities.

The real tension is not necessarily between impact and expected returns, but between long-term outcomes and short-term trade-offs between investable themes or technologies.

Portfolios must be designed to steer towards broader outcomes while remaining resilient through market pressures.

Financial returns matter precisely because they allow businesses and investors to stay invested long enough to see outcomes materialise, and because they attract more capital to solutions that work. This is particularly important in private markets, where patience is a structural requirement.

A portfolio designed for impact must therefore also be designed for endurance and built around scaling potential of underlying investments. When impact is deliberately managed, carefully measured and transparently delivered, financial performance and positive societal outcomes can reinforce one another.

Please see the Q2 quarterly report of the Kempen Private Global Impact Solution for an example of a five-year track record of a Global fund-of-funds impact solution (page 5).

A systemic approach to manager selection

To build an impactful and robust portfolio for clients, we combine a 'top-down' assessment of market developments with a 'bottom-up' selection of fund managers.

Our analysis identifies the most compelling opportunities associated with the intended impact outcome. In doing so we consider factors such as scalability, market maturity, attractiveness across (sub)asset classes and geographical diversification. This shows us where capital can most effectively support financial objectives and systemic change.

This analysis is the foundation for a targeted selection of fund managers. We assess how each manager's strategy contributes to the intended impact and systemic objective. By combining complementary managers and strategies, we seek to build portfolios in which investments reinforce one another and collectively contribute to long-term change.

Integration of financial results and impact

Achieving the intended outcomes, i.e. meeting impact targets, depends entirely on the careful selection of managers. The process of selecting impact managers requires a broader perspective than traditional manager selection. Alongside strong financial credentials, managers must demonstrate a clear ability to contribute to the desired impact outcome. Crucially, financial performance and impact should reinforce one another.

It is exactly the combination and integration of financial performance and impact creation that is essential and forms the basis for scalable impact. Only businesses and solutions that are economically viable can achieve lasting scale and attract the capital needed to drive broader change. Where impact and commercial success go hand in hand, both investors and society can benefit.

To achieve systemic impact, we seek to work with managers whose strategies complement one another in terms of their role within the broader system, the timing of their contribution and nature of the impact they deliver. Together they create a cohesive portfolio designed to support meaningful and lasting change.

Key criteria

We therefore apply three criteria that focus not only on individual performance, but also on the ability to contribute to coherent, targeted impact at portfolio level:

- **A strong track record of both impact outcomes and financial robustness:** financial performance and investments must align with the ultimate impact objective.
- **A credible impact organisation:** impact should be embedded throughout the organisation, supported by robust governance. Previous investments must demonstrate that financial value creation stems from the realisation of impact.
- **A strong team:** teams must possess in-depth sector knowledge (for example, in the circular economy or regenerative agriculture), enabling them to assess complex emerging technologies, identify systemic opportunities and support companies as they scale.

Case study: attractive theme, weak execution

Selecting the right manager is essential to achieving the intended objectives and protecting client assets.

A manager or strategy may initially seem like an ideal match, but may reveal weaknesses during due diligence that outweigh the attractiveness. In this example, we excluded a specialist impact manager whose thematic focus aligned closely with a nature-positive portfolio and appeared capable of contributing to systemic change.

Our due diligence identified several concerns regarding the robustness, scalability and risk profile of the strategy:

- **Concentration risk**: A substantial proportion of the fund's assets was concentrated in a single company, weakening both the financial risk profile and the contribution to robust systemic change.
- **Weak governance**: The organisational structure and investment discipline ultimately did not meet our requirements for robustness.
- **Insufficient impact measurement**: The impact KPIs and measurement methodologies did not meet institutional standards and provided insufficient insight into system-wide outcomes.

Measuring what matters with a focus on structural change

A crucial aspect of impact investing is measuring and reporting on the sustainability outcomes of investments. This helps investors understand the tangible results their capital achieves and how it contributes to broader systemic change.

Effective impact reporting should demonstrate both the direct effects of the solutions being funded and the broader, systemic changes that contribute to structural transformation. Every additional megawatt of renewable energy capacity contributes to direct CO_2 reduction. This direct impact also has a secondary systemic effect, as it contributes to the broader energy transition. This demonstrates that direct impact can also contribute to systemic change.

The challenge lies in demonstrating the contribution of investments whose primary impact may only emerge over time, such as a start-up developing innovative 'vertical farming' methods. While such a company may currently show few measurable emissions reductions, it could have a transformative effect on the agricultural sector if its solutions are successfully scaled.

Collecting, structuring and assessing impact data is therefore an integral part of a professional impact investment process. The underlying data must enable impact specialists to monitor performance over the years. Not everything that can be measured is relevant to the intended impact targets and not everything that is relevant can be easily quantified. The question is therefore not how much is measured, but whether the information being collected is meaningful.

From objective to (sub)theme and KPIs for broad-based change

A client's impact objectives can be translated into specific investment themes and sub-themes. In doing so, we use the IRIS+ terminology, the internationally recognised standard that maps impact goals to the United Nations' Sustainable Development Goals.

Sub-themes are linked to appropriate, measurable and investable Key Performance Indicators (KPIs). We assess these KPIs for relevance, coverage, reliability and applicability, ensuring they provide both insight into individual investments and are meaningful in the context of other positions in the portfolio.

From measurement to meaning

In addition to measurement and reporting, we regard active engagement and ongoing evaluation as essential elements of the impact investment process. Discussions with, and visits to, fund managers and underlying companies play an important role in validating impact outcomes.

A baseline assessment at the outset of an investment provides a clear point of reference. This enables investors to monitor not only direct results, but also the broader systemic effects of their investments over time.

Impact ultimately comes to life through the stories behind the figures. By highlighting specific companies and funds in our reporting, we illustrate how innovative solutions contribute to tangible improvements for people and the environment.

The KPIs are the link between thematic ambitions and concrete, reportable results at portfolio level

Impact objective	Themes examples	Sub-themes examples	KPI's examples
Strengthening natural capital	**Biodiversity & ecosystems**	• Protection and restoration of terrestrial ecosystems • Reduction in pesticide use	• Hectares of reforested land • Hectares of ecologically managed land • Tonnes of CO_2 sequestered • Percentage reduction in pesticide use
	Sustainable / regenerative agriculture	• Sustainable food supply • Improvement in soil quality	• Percentage improvement in organic matter • Tonnes of organic fertiliser used • Tonnes of organic food produced



The case for systemic impact investing

Investing with a systemic lens goes beyond generating positive outcomes through individual investments. It focuses on the underlying systems and structures that shape social and environmental challenges.

By starting with a clearly defined impact objective and applying a systemic perspective, investors can build portfolios in which complementary investments reinforce one another and collectively contribute to meaningful change. Systemically focused portfolios combine different asset classes, investment strategies and impact pathways, each playing a distinct role in supporting long-term outcomes. Importantly, impact does not come at the expense of expected financial returns. On the contrary, both dimensions can reinforce one another.

Success ultimately depends on implementation. This requires selecting managers and investments with proven investment discipline, a credible impact organisation and the expertise needed to deliver both financial and societal outcomes. The impact portfolio must be aligned with the investor's objectives and risk appetite, while a robust measurement and reporting framework should demonstrate how the portfolio contributes to both direct and systemic impact. Drawing on our experience managing impact mandates, we help clients translate impact ambitions into practical investment solutions and measurable results, both above and below the waterline.

Would you like to learn more about our approach to impact investing and how we can support you?

Please feel free to reach out.



Jonathan Craddock
Principal Director
Fiduciary Management UK

j.craddock@vanlanschotkempen.com

Van Lanschot Kempen Investment Management has been helping investors navigate the world of impactful private market investments since 2017. Over the years, we have built solid expertise and a strong track record, offering institutional investors access to high-quality impact solutions.

Since 2024, we have collaborated with **Collective Action**, a centre of excellence with deep expertise in sourcing and evaluating private impact investments. This partnership reflects a shared ambition to help investors contribute to systemic change. Focusing on themes such as biodiversity, climate and circularity, we seek to accelerate impactful investments and drive positive change across various sectors and asset classes.

COLLECTIVE ACTION

Kom verder

{moving·forward·together}

There's a saying in Dutch, Kom verder. It means many things and it's our business philosophy. It captures the way we work with clients, but also the way we steer our investee companies to deliver shareholder value through active engagement.

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General risks associated with investing in impact strategies

Please bear in mind that all investments are subject to market fluctuations. Investing in these strategies entails risks arising from the volatility of equity, bond, currency and interest rate markets, which may adversely affect performance. Under exceptional market conditions, the specific risks may increase significantly. Prospective investors should be aware that the underlying investment funds often pursue a more alternative investment strategy than traditional investment funds. Some investments, particularly private (unlisted) strategies, may involve assets that are illiquid, difficult to value and/or exposed to significant market, credit and liquidity risks, including the risk of insolvency or a ban. In such circumstances, an investor's ability to realise their interest in the strategy may be limited due to a lack of available liquid assets.

VAN LANSCHOT KEMPEN

Van Lanschot Kempen
Investment Management NV
20 Gracechurch St,
London EC3V 0B