

# HarbourVest Partners Stewardship Initiative Q&A

More private market investors today are seeking exposure to sectors and companies focused on sustainability themes. Managers able to address this growing market will need to identify their own optimal approaches for accessing these opportunities and providing them to their clients. In the following interview, Natasha Buckley, Head of ESG, and Edward Powers, a senior member of our Solutions team, discuss HarbourVest's Stewardship Initiative, which is already resonating with clients globally.



**Natasha Buckley**  
Vice President, ESG



**Edward Powers**  
Managing Director



**HarbourVest**  
**Stewardship Initiative**

## As more private investors allocate to impact investing, what challenges do they face?

**NB:** Firstly – it’s highly gratifying to see the growing appetite from investors for impact solutions, driven by a conviction that sustainable investing can drive returns, rather than lower them. There is certainly an expanding market to meet these needs. However the biggest obstacles that these investors face in deployment are the lack of scale in higher-growth potential impact investing opportunities, an inconsistent universe of managers, and fragmented standards and reporting practices. Investors have both the capital and the will to invest in impact-focused opportunities, but they want to do so at scale with proven managers.

**EP:** That’s why we think co-investment is the right solution at this stage. The impact market is still expanding. We believe that co-investment gives investors a broader, diversified range of impact opportunities that keep the focus at asset-level rather than being limited to the universe of impact funds currently available. In addition to what these funds are offering, we see managers sourcing great opportunities, which certainly create positive impact as we define it, but who aren’t necessarily classifying themselves an impact fund.

## Can you explain HarbourVest’s approach for providing investors more exposure to these types of investments?

**EP:** Our large and experienced co-investment team has a long-term track record of investing in private markets and sources from all types of managers. Because of the sheer volume of deals we see each year, we felt we were uniquely positioned to build something that is focused on delivering sustainability outcomes, with the potential to also maintain and drive return.

Over the past year or so, we have developed and refined a strategy we call the HarbourVest Stewardship Initiative, which seeks to create portfolios of companies from our direct co-investment and/or real assets deal flow that we believe a) have a positive impact, and b) meet our pre-defined performance criteria. Built in an SMA format, this solution has the potential to give investors more direct exposure to a diverse range of private market assets aligned with certain positive-impact themes. Investment themes include health, education, environmental and sustainability, community, and inclusive finance.

### Investment thesis



#### Targeted return and investment selection rigor

Designed to have same risk/return profile and rigorous due diligence process as all potential HarbourVest direct co-investment portfolios with diversification and scalability potential



#### Purified exposure to sustainability themes

Meets portfolio construction requirements and sustainability objectives



#### Cost efficiency

Co-investing typically comes at lower cost than traditional 2/20 private equity funds



#### Differentiated access to experienced managers

Distinct way to partner with GPs



#### Diversification benefits

Strategic complement to a core private markets allocation

## Targeted themes and goals

Theme	Goal
Health	Provide clinical services, products, and pharmaceuticals to improve health outcomes
	Provide non-clinical products and services that increase affordability/accessibility of care and improve health outcomes
Inclusive finance	Lower barriers to financial system accessibility for small and mid-sized businesses (SMBs) in emerging markets
	Lower barriers to financial system accessibility for individuals
Environmental & sustainability	Support the proliferation of clean energy generation
	Prevent, detect, and remediate environmental damage
	Reduce resource consumption and waste
Education	Provide quality academic and vocational education programs
	Improve student outcomes and teacher efficacy
Community	Support the safety and security of individuals, organizations, and communities
	Build, maintain, and optimize emerging markets infrastructure
	Support the operations of non-profit, government, and social welfare organizations

Intended for illustrative purposes only. There is no guarantee that investments in the strategy will achieve the stated goals. Not intended to predict the performance or outcome of any future investment in a HarbourVest fund/account. These are not prescriptive guidelines and investment strategies may change based upon market conditions, available investment opportunities, and client preferences.

### How did you choose these investment areas?

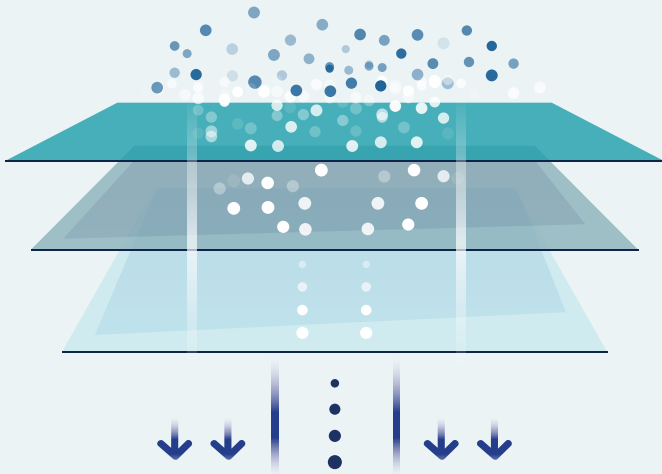
**EP:** We consciously focused on investment themes where we have a strong pipeline, and which are significantly oriented toward impact. We identified these by performing a back-testing exercise on our past deal flow and by assessing areas of potential growth – for example, we expect to see an evolution in renewables opportunities through our real assets strategy pipeline. From there, we identified sub-goals within those themes that we felt best fit our definition and description of impact.

**NB:** We also mapped these sub-goals to the UN Sustainable Development Goals (SDGs), which were established in 2015 by all UN Member States as an urgent call to action for achieving a more sustainable future for all. When Stewardship Initiative investments correspond directly to the underlying targets of the 17 SDGs, we will record this to better understand our own positive contributions to this vital effort.



# IMPACT MANAGEMENT PROJECT

## Applying the IMP dimensions to the Stewardship Initiative filter



<p><b>WHAT</b></p> <p>What are the positive outcomes of the investment?</p>	<p>Investment classification</p>
<p><b>WHO ≡ HOW MUCH</b></p> <p>Who is the beneficiary, and will they experience significant, long-lasting impact?</p>	<p>Beneficiary alignment</p>
<p><b>RISK + CONTRIBUTION</b></p> <p>What is the risk of negative ESG impact? Does the lead sponsor have the ability to actively manage ESG risks and opportunities for the investment?</p>	<p>ESG Risk mitigation</p>

### How does the investment and impact filtering process work?

**NB:** We will apply the same rigorous due diligence process to Stewardship Initiative opportunities that we follow with all potential HarbourVest investments. We think these opportunities will be just as compelling as others we execute, and oftentimes these opportunities also flow into our other pools of capital, reflecting this point. More conceptually, the Stewardship Initiative strategy acts as a filter on incoming deal flow.

The filtering process is supported by the five dimensions of the Impact Project Management (IMP), a global consensus on impact management and measurement norms. We have adapted the underlying data categories defined by the IMP to our filtering process and have built in thresholds that objectively qualify deals for the Initiative. It's important to note that this filter layers on top of an existing foundation of ESG integrated analysis for all our direct deals.

### Do you have a long-term vision for the Stewardship Initiative?

**EP:** Our ambition is to demonstrate the performance case for scalable, sustainable investing through mainstream private equity channels. Our impact thesis is that we can play a key role here as an influencer in private markets. As interest continues to build behind this strategy, the more we can actively source sustainability-themed opportunities through our GP network and drive engagement on impact reporting.

We believe this is absolutely achievable and that investing with purpose through a mechanism like the Stewardship Initiative is where private markets investing is headed. Indeed, in our view, it is our role as a responsible steward of capital to provide this solution to you, our investors.

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