
Case study: Asset Manager of the Year

This award is for impact-oriented investment houses placing or allocating impact capital.

Vital Capital

Founding date	2011
Geography	Uganda
Sector	Financial services
SDG	16 of the 17
Web	https://vital-capital.com/

Background

Vital Capital is an impact investor with a focus in sub-Saharan Africa. The company identifies overlooked opportunities and aims to build scalable businesses that transform lives. Vital Capital turns critical challenges associated with the provision of water, food, healthcare and sustainable infrastructure into high-return opportunities that deliver impact at scale. Since inception in 2011, Vital's investment strategy has been guided by the conviction that creating positive, sustainable impact can go hand in hand with delivering market-rate, risk-adjusted returns for investors. With \$350m in assets under management (AuM), Vital Capital has invested in 16 companies, tracking an internal rate of return (IRR) of more than 20% while providing transformative solutions to meet the essential needs of 22.6 million individuals.

Originality of design

The company combines 30+ years of on-the-ground operational experience with the flexibility to provide capital to four critical areas: water, food, healthcare, and sustainable infrastructure. Vital considers investing in ventures and businesses at two ends of the investment spectrum: greenfield stages and special opportunities seeking a control position. This makes Vital less likely to compete on over-subscribed investment opportunities.

Meeting unfilled needs

Vital Capital turns critical challenges associated with the provision of water, food, healthcare and sustainable infrastructure into high-return opportunities that deliver impact at scale. So far, the company has met the essential needs of 22.6-million people, with 44% of the end beneficiaries living in rural areas. The fund's bold ambitions are growing. It aims to reach 100-million people with transformative impact outcomes and to support 200,000 jobs and livelihoods through its portfolio companies.

Theory of change

If Vital Capital invests in and builds companies that address four essential needs – food, water, healthcare, and sustainable infrastructure – then its investment activities will lead to positive outcomes in these areas. Ultimately, this will result in the long-term impact of transformed and improved well-being of underserved communities and the environment.

The company's impact strategy has been developed with firm-level and thematic-level logic models. The firm level impact thesis articulates the role of the investor and the pathway to achieving Vital Capital's ultimate impact mission to achieve "transformed and improved well-being of underserved communities in growth markets and the environment". Each thematic thesis demonstrates the causal relationships between activities, outputs, outcomes and long-term impact objectives which are linked to the Sustainable Development Goals. These ensure that Vital Capital's impact objectives are intrinsically tied with their investment strategy such that 100% of the investments create impact.

Impact thesis

Vital Capital believes that increasing the availability and affordability of essential elements will drive transformative impact by overcoming critical social and environmental challenges. Vital Capital generates this transformative impact by focusing on four of the most pressing challenges facing the markets in which it invests:

- I. Food – increased availability and affordability of basic nutrition, and increased income for farmers, leads to broad improvements in community health and financial resilience
- II. Healthcare – making healthcare more accessible and affordable leads to improved health for more people and save lives
- III. Water – increased access to clean water and building wastewater solutions improves personal and social wellbeing and reduces negative environmental strain
- IV. Sustainable infrastructure – building sustainable infrastructure is fundamental for long-term social and environmental health

With a vision to build vital, future-proof companies, Vital Capital works with investees across all four themes to drive innovation in one or more strategic areas: climate (investing in climate solutions and resilience and implementing decarbonisation strategies); gender (working with investees to achieve alignment with the 2X Challenge, which focuses on investing through the gender lens to reduce inequality); and jobs (improving job quality and driving job creation).

Linkages to global frameworks

The Vital Capital Environmental and Social Impact (ESI) approach is guided by a host of applicable national and international ESI guidelines and good practice standards. Consequently, Vital Capital follows and holds its investees to the following: applicable national and local ESG laws and regulations; International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability (2012); International Labour Organisation (ILO) Labour Conventions; and UN Guiding Principles on Business and Human Rights (UNGPs) (2011).

Impact

Vital Capital's impact since inception includes:

- 100% of capital invested in impact
- 16 investments, six exits
- 22.6-million individuals' essential needs met, 44% of end beneficiaries live in rural areas
- Over \$730m in local purchases by portfolio companies (\$84m paid directly to smallholder farmers)
- For each dollar invested, over 2.5x circulated in local economies
- More than 64,000 jobs and livelihoods supported
- 50,000 smallholder farmers engaged receiving \$83m in direct payments
- Contributing towards progress in 16 of 17 UN SDGs
- 1.04-million tonnes of carbon dioxide mitigated through renewable energy sources
- Over 200,000 training hours provided to investee staff

Vital Capital's impact in 2022:

- 5.8-million individuals served with essential goods and services
- \$4.76m in payments to smallholder farmers
- \$11m committed; invested funds \$100m
- \$5m in local supplier purchases
- 10,429 jobs and livelihoods supported

By using its unique dual gatekeeper model, Vital Capital weighs financial and impact considerations when underwriting and managing investments. Translating this approach into practice, Vital Capital has established a four-gate investment evaluation process where its dual-track model investment team follows a formalised review of deal origination, preliminary screening, due diligence and investment decision making. This process integrates a two-gate committee process (investment committee and impact committee).

Deals are initially screened and reviewed for alignment with Vital Capital's impact objectives with standardised ESI screening and preparation of an initial rating through its rating tool, the Vital Impact Diamond. In due diligence, impact objectives are validated with key performance indicators (KPIs) selected from Vital Capital's ESI KPI dashboard to gather baseline data for which future performance will be measured against. The initial Impact Diamond is validated and the SDG contribution is assessed. All investments are subject to rigorous final assessment by the impact committee and a separate investment committee, which function independently of one another. Each committee has the power to veto any proposed investment. With this approach, Vital Capital ensures complete independence of decision-making between the two groups, while impact, ESG and financial factors are treated equally and evaluated jointly by Vital's investment team as part of the due diligence process. In post-investment impact management, impact is monitored on a periodic basis assessing ESI performance against preliminary KPIs, and the Impact Diamond is evaluated on an annual basis. Investment professionals work towards impact objectives which are part of their annual appraisal process.

Vital Capital's ESI approach is guided by a host of applicable national and international ESI guidelines and good practice standards. It follows and holds its investees to the following: applicable national and local ESG laws and regulations; International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability (2012); International Labour Organisation (ILO) Labour Conventions; and UN Guiding Principles on Business and Human Rights (UNGPs) (2011).

Vital Capital turns critical challenges associated with the provision of water, food, healthcare and sustainable infrastructure into high-return opportunities that deliver impact at scale. So far, the company has met the essential needs of 22.6-million individuals, with 44% of the end beneficiaries living in rural areas.

The fund's bold ambitions are growing, targeting to reach 100-million people with transformative impact outcomes and to support 200,000 jobs and livelihoods through portfolio companies.

Vital Capital's four themes were selected based on the intersection of its operational expertise, under-funded, high-demand consumer segments and the potential to achieve transformative impact aligned with global priorities. Those elements allow Vital Capital to have a unique contribution as an investor by:

- Differentiated, impact-focused origination and due diligence processes
- Responsible investment structuring to facilitate business growth
- Strategic building, enhancement and turnaround of companies' operations and impact through experience, deep operational expertise and networks
- Identifying key market gaps and developing overlooked greenfield opportunities

To Vital Capital, being a responsible investor is a precondition to being an impact investor. Therefore, Vital's ESG approach is comprehensive, guided by international standards and implemented throughout the investment cycle. Vital Capital has adopted the IFC's sustainability framework and its Environmental, Health, and Safety (EHS) guidelines and implemented an extensive investment process to categorise, assess, screen and improve investees' ESG performance.

Each of the Impact Diamond's four dimensions is designed to manifest a potential investee's alignment with the company's impact strategy and to evaluate the impact of the investment in question according to four key dimensions. In each dimension, a rationale, with supporting information, should be provided for context, to support assumptions, and highlight issues for consideration should the deal progress:

- I. Evaluating strategic alignment with Vital's impact objectives and an assessment of the impact management project's "what", "who" and "how much" dimensions
- II. Assessing the level of Vital Capital's unique contribution to the social/environmental outcomes that people/planet experience, relative to what would have been achieved anyway
- III. Identifying the three most material risks to the achievement of Impact and analysing these risks according to the likelihood and consequences of the risk occurring.

Vital Capital uses a mix of both industry standards and preparatory tools to measure and manage its impact. Since 2015, it has been rating all its investments with the preparatory Vital Capital Impact Diamond. The first dimension of the diamond is the "transform dimension". This assesses every investee in terms of scale, depth and duration.

The third dimension of Vital Capital's Impact Diamond implores the company to identify the three most material risks to the achievement of impact and analyse these risks according to their likelihood and potential consequences.

Financial performance

Vital Capital's investments target an internal rate of return of over 20%. It has executed 16 investments – all in impact – with six exits completed. Portfolio companies have expended more than \$730m in local

purchases with \$84m paid directly to smallholder farmers. For each dollar invested, over 2.5 times that amount has circulated in local economies.

Potential for replicability

Vital Capital builds and rebuilds companies. With six successful exits, the organisation plans to replicate some of the companies it has built. Replication is therefore an integral part of Vital Capital's work. That Vital Capital invests across four themes indicates the replicability of its model across different sectors. Within these themes, the company also invests in different markets across different continents.

The themes that Vital focuses on: food, water, healthcare and sustainable infrastructure, demonstrate the applicability of the intervention across different sectors. Only when Vital Capital identifies that it can scale up an intervention will it invest in it.

Risks

The risk of failing to achieve the required rate of return is ever-present and Vital's rigorous pre-investment due diligence minimises that risk. Furthermore, identifying the three most material risks to the achievement of impact is one of the key aspects of Vital Capital's investment strategy.

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