

# RM INFRASTRUCTURE INCOME PLC IMPACT REPORT 2022

April 2022



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This report has been commissioned by RM Infrastructure Income PLC ("RMII") and has been prepared by The Good Economy Partnership Limited ("The Good Economy" and "TGE"), a specialist social advisory firm with expertise in impact measurement and management.

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# EXECUTIVE SUMMARY

## ABOUT RMII

**RM Infrastructure Income Plc (RMII) is an investment trust which specialises in secured social and environmental infrastructure lending.**

RMII investments focus on contributing to the following Sustainable Development Goals (SDGs):

- Healthcare (SDG 3) to improve the quality and accessibility of health and social care services
- Education (SDG 4) to improve the quality and availability of childcare and education services
- Housing (SDG11) to improve the supply of quality, affordable housing and accommodation

- Affordable and clean energy (SDG 7) to improve the availability of sustainable energy solutions
- Climate action (SDG 13) to improve the sustainability of buildings and transport
- Responsible consumption and production (SDG12) to improve recycling, waste and sustainable water use solutions.

In addition, RMII practices active engagement on social, environment and governance (ESG) issues in order to improve the responsible business practices of all new borrowers.

As of 28th February 2022, RMII's invested portfolio had an aggregate valuation of £129 million across 33 investments. Overall, the portfolio is 94% invested in private market assets and 6% in public bonds.

## IMPACT ASSESSMENT

This report is the first annual Impact Report produced for RMII by The Good Economy (TGE), an independent advisory firm specialising in impact measurement and management. The report covers the 12-month period to end March 2022. The report provides TGE's assessment of RMII's performance against its stated impact objectives.

RMII formalised its impact approach in 2021, built on a refreshed investment focus with all new lending being allocated to social and environmental infrastructure assets across six target sectors. RMII is on a journey to operationalise this approach but has had limited opportunities to raise and depoly new capital for several reasons detailed in this report. Our assessment takes this journey into account, focusing on the quality of processes being used by RMII to manage towards impact.

### Impact Objectives

Impact objectives are the areas under the direct control or influence of RMII. These objectives frame RMII's intention to contribute to a change in outcomes.



Meet Housing Needs



Meet Educational Needs



Meet Health Needs



Supporting Energy Solutions



Promote a Circular Economy



Improve Building Sustainability



Build Responsible Business

## RESULTS OF IMPACT ASSESSMENT

- RMII systems and processes are now geared towards finding investment opportunities that align with the focus on social and environmental infrastructure.
- Portfolio alignment with RMII impact objectives has increased by 4% in the last 12 months above the baseline alignment figure of 46%.
- Of the investments which are aligned to the RMII impact objectives, all are classified as 'B' or 'C' investments, either benefiting stakeholders or contributing to solutions.
- RMII has seen an increase in the average portfolio impact score from 18.6 to 22.21 in the last six months, indicating the impact intensity of the portfolio is growing. The average across the portfolio for only those investments which align to RMII's impact objectives is 42.56, which will provide a baseline against which to measure progress in future reporting cycles.
- RMII's current portfolio of loans are estimated to support approximately 1,115 jobs. The majority of these are in the construction industry.
- RMII continues to be more regionally distributed than the average private debt fund, with 99% of the value of live loans in the UK being invested outside of London compared to the industry average of 65%.

## CONCLUSIONS

### Strengths

- RMII has a strong regional footprint providing support to SMEs across the UK, including in regions which are otherwise underserved from a 'good jobs' perspective. This has included proactive support to businesses requiring finance to survive the challenges of the coronavirus pandemic and recover afterwards.
- Half of RMII's portfolio is now aligned with the new focus on social and environmental infrastructure sectors, with a clear prospect of contributing to SDG achievement in the UK.

- RMII has demonstrated a commitment to providing high levels of transparency in terms of reporting on its impact. RMII seeks to not only share its results but also the methodologies it uses to manage for impact, incorporating market relevant frameworks such as the Impact Management Project.
- RMII has made good progress in formalising an approach to ESG and impact management. Processes have been put in place to translate high-level impact goals and intentions into actionable, investment specific ESG and impact activities.

### Recommendations to maximise impact

- RMII should continue to build on progression during 2021-22 in reducing exposure to 'legacy' sectors such as hotel and leisure and re-deploy into healthcare, housing and childcare, along with environmental assets.
- RMII could consider introducing a time-bound milestone against which the portfolio can be assessed in terms of the pace of this rotation. In addition, RMII should set a target date for 100% of the portfolio to be aligned with the new impact objectives.
- Over time, RMII should consider shifting towards assessing deals not just on their own merits, but in relation to the overarching portfolio goals.
- In investment decision-making, RMII should be aware of potential tensions or inter-linkages between SDGs, especially those that are not directly aligned to its impact objectives.
- During screening, RMII should clearly articulate the way in which business activities contributes to the SDGs (whether through avoiding harmful practices, benefiting stakeholders through positive societal outcomes, or directly contributing towards addressing the most pressing social and environmental issues).

**RMII continues to be more regionally distributed than the average private debt fund, with 99% of the value of live loans in the UK being invested outside of London compared to the industry average of 65%.**

# HEADLINE RESULTS



**£297 MILLION INVESTED  
SINCE IPO IN DECEMBER 2016**



**33 CURRENT INVESTMENTS  
WITH A VALUATION OF £129 MILLION**



**AS OF MARCH 2022, 15 INVESTMENTS – OR 50% OF THE PORTFOLIO BY VALUE –  
ALIGNS WITH RMII'S IMPACT OBJECTIVES  
ON HOUSING, HEALTHCARE AND ENERGY EFFICIENCY**



## ALIGNED WITH SDGS

- HEALTHCARE (SDG 3)
- HOUSING (SDG11)
- AFFORDABLE & CLEAN ENERGY (SDG 7)
- CLIMATE ACTION (SDG 13)



**RMII CONTINUES TO BE  
HIGHLY REGIONALLY DISTRIBUTED –  
WITH 99% OF THE VALUE  
OF CURRENT LOANS IN THE UK  
BEING INVESTED OUTSIDE OF LONDON**



# 1 INTRODUCTION

## 1.1 ABOUT RM INFRASTRUCTURE INCOME PLC

**RM Infrastructure Income Plc (RMII) is an investment trust which specialises in secured social and environmental infrastructure lending.**

Launched in 2016, RMII – formerly RM Secured Debt Lending Plc – underwent a change in strategy (April 2021) and name (July 2021), introducing a new impact goal to meet the funding needs of quality businesses who are positioned to make a meaningful, measurable and positive contribution towards achieving the Sustainable Development Goals (SDGs) in the United Kingdom by 2030. New RMII investments focus on:

- Healthcare (SDG 3) to improve the quality and accessibility of health and social care services
- Education (SDG 4) to improve the quality and availability of childcare and education services
- Housing (SDG11) to improve the supply of quality, affordable housing and accommodation
- Affordable and clean energy (SDG 7) to improve the availability of sustainable energy solutions
- Climate action (SDG 13) to improve the sustainability of buildings and transport
- Responsible consumption and production (SDG12) to improve recycling, waste and sustainable water use solutions.

In addition, RMII practices active engagement on social, environment and governance (ESG) issues in order to improve the responsible business practices of all borrowers.

As of 28th February 2022, RMII's invested portfolio had an aggregate valuation of £129 million across 33 investments. Overall, the portfolio is 94% invested in private market assets and 6% in public bonds.

RMII is managed by RM Funds, specialists in private credit investments, who have offices in Edinburgh and London.

**TGE worked with RM Funds to define and articulate RMII's impact objectives and to identify the target outcomes to which it aims to contribute.**

## 1.2 ABOUT THIS IMPACT REPORT

This is the first Annual Impact Report produced by The Good Economy (TGE) for RM Infrastructure Income. It covers the 12-month period to end of March 2022.

TGE is an impact advisory firm specialising in impact measurement and management. TGE worked with RM Funds to define and articulate RMII's impact objectives and to identify the target outcomes to which it aims to contribute. This report contains TGE's independent assessment of RMII's performance according to its stated objectives and target outcomes.

TGE uses a mix of quantitative and qualitative data to inform this assessment. This includes analysis of RMII's portfolio data, as well as interviews with the investment manager.

This report also presents the results of a review that TGE undertook on the quality of RMII's systems for managing towards impact. Impact Assured – TGE's proprietary methodology for assessing and benchmarking impact management systems – examines an investor's practices and processes to consider the extent to which impact and ESG considerations are integrated into the investment process and inform decision-making.



## 1.3 CONTEXT

Small and medium-sized businesses are a core driver of employment and innovation, accounting for over 99% of the UK's private sector companies and 60% of employment.<sup>1</sup> SMEs make a crucial contribution to growth and, since they are more rooted in their local communities than larger counterparts, have the potential to play key roles in generating place-based impact.

Sources of financing for small and medium-sized enterprises have shifted in recent years. Bank lending remains important for many SMEs, but can be increasingly difficult to access, while alternative forms of financing are emerging to meet needs across the firm life cycle. One option is private debt – which, according to the British Business Bank, “is often the only, or most viable funding solution for SMEs... who require flexibility in terms of a financing structure”.<sup>2</sup>

Private lenders are well positioned to achieve a positive impact on people and the planet through their provision of SME finance by targeting their funding towards businesses that drive social and environmental outcomes. Despite being one of the world's most advanced economies, the UK faces a range of pressing challenges – not least arising out of growing social and economic inequality, meaning many people and parts of the UK are at risk of being 'left behind':<sup>3</sup>

- In health (SDG3), the UK is facing the challenges of a growing and ageing population, combined with the increasing burden of behavioural and lifestyle diseases.
- In education (SDG 4), more needs to be done to close the attainment gap between disadvantaged young people and

adults and their more affluent peers. The UK also needs to raise the quality and perception of technical education to match academic education to ensure the economy has a skilled workforce to support it in the future.

- In housing (SDG11), the latest data estimates the UK has 1.2 million fewer homes than it needs (given demand), and the need for more homes is increasing. The calculations suggest it will take at least 15 years at current building rates to close the gap, and that not enough of what is being built is affordable.
- In terms of tackling climate change (SDG13) and the provision of sustainable energy (SDG 7), the UK needs to make significant strides in decarbonising its economy through further actions including cutting emissions from transport as well as improving the energy efficiency of homes and buildings.
- Finally, to build a future circular economy based on more sustainable consumption and production patterns (SDG 12), more action needs to be taken to preserve material resources by minimising waste and promoting resource efficiency.

In sectors and businesses that are aligned with the SDGs, companies can increase the scale, depth and duration of their impact if they are able to access appropriate capital. Private debt providers have individual borrower relationships, and deals can be adapted to the specific businesses' requirements. This type of bespoke financing is particularly important as companies face up to the challenges of recovering from the COVID-19 pandemic.

**SMEs make a crucial contribution to growth and, since they are more rooted in their local communities than larger counterparts, have the potential to play key roles in generating place-based impact.**

1. National Statistics. *Business Population Estimates for the UK and Regions 2019 Statistical Release*.

2. British Business Bank. *UK Private Debt Research Report 2020*.

3. HM Government – Department for International Development. 'UK's Voluntary National Review of the Sustainable Development Goals'. June 2019.

# 2 IMPACT ASSESSMENT FRAMEWORK

RMII aims to address the ‘missing middle’ of financing for SMEs and midmarket corporates who can contribute to achieving the SDGs, but whose borrowing requirements – typically in the £5-10 million range – are often too complex for traditional banks and too small for institutional funds.

## 2.1 THEORY OF CHANGE

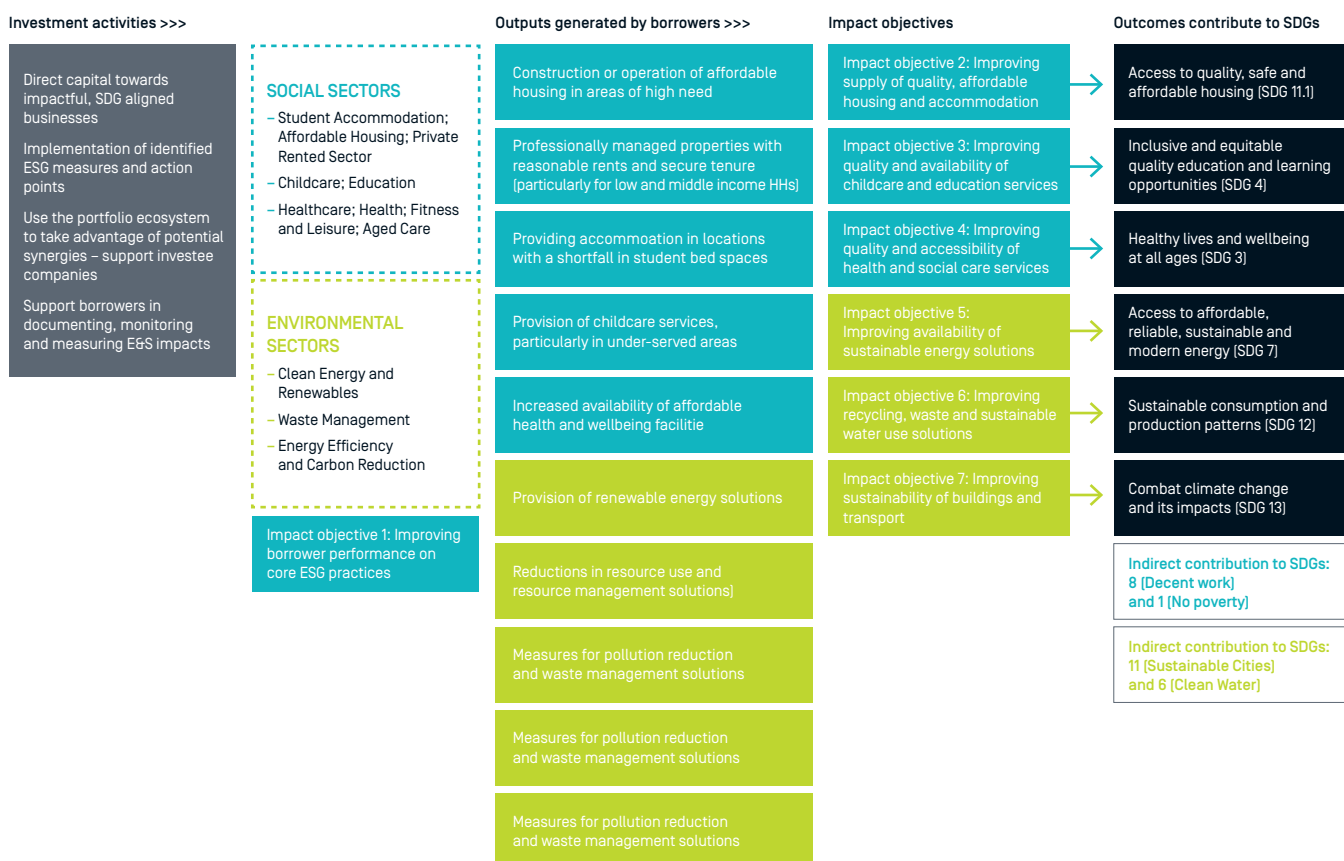
While lending over relatively short time horizons, with an average life of just under 3 years,<sup>4</sup> RMII funding aims to be catalytic, financing social and environmental infrastructure assets and engaging with borrowers to improve their core ESG performance. RMII uses three ‘change levers’ through its investment strategy.

**1 Investment.** Directing capital towards companies with sound business models and strong management teams with the potential to serve needs defined by the SDGs. RMII provides financing to support the growth and development of these businesses.

**2 Engagement.** Supporting borrowers to document, monitor, measure and make improvements in their environmental and social performance. RMII influences and incentivises change by embedding impact considerations and performance requirements within loan documentations, including by covenants related to borrower performance on core ESG practices, as well as sustainability-linked loans.

**3 Signalling.** Signalling the importance of impact integrity to the market by adopting best practice impact measurement and providing full transparency on impact performance. In this way, RMII aims to contribute to raising standards of impact management and reporting across the private credit sector.

The Theory of Change below highlights the key steps in the logic from RMII ‘inputs’ through to positive outcomes for people and planet:



4. The average life of loans outstanding (or loans made) in the current portfolio is 2.31 years.



## 2.2 IMPACT OBJECTIVES

Impact objectives are RMII’s specific aims. These are areas within its direct sphere of influence that frame how RMII attempts to influence positive impact creation.

The table below outlines these objectives. In future Impact Reports, TGE will make an assessment in each of these areas to understand the extent to which RMII is contributing to positive impact. However, as outlined in Section 3, relatively few new investments have been made under the refined focus on social and environmental Infrastructure, and as a result there is not currently enough data on which to draw conclusions.

<p><b>SOCIAL INFRASTRUCTURE</b></p>	 <p><b>Meet Housing Needs</b> Improving supply of quality, affordable housing and accommodation</p>	 <p><b>Meet Educational Needs</b> Improving quality and availability of childcare and education services</p>	 <p><b>Meet Health Needs</b> Improving quality and accessibility of health and social care services</p>
<p><b>ENVIRONMENTAL INFRASTRUCTURE</b></p>	 <p><b>Supporting Energy Solutions</b> Improving availability of sustainable energy solutions</p>	 <p><b>Promote a Circular Economy</b> Improving recycling, waste and sustainable water use solutions</p>	 <p><b>Improve Building Sustainability</b> Improving sustainability of buildings and transport</p>
<p><b>ESG PERFORMANCE</b></p>	 <p><b>Build Responsible Business</b> Improving borrower performance on core ESG practices</p>		

Across the portfolio, RMII aims for an exposure of approximately 75% to social infrastructure assets and 25% to environmental infrastructure. 100% of investments under the new strategy will aim to support borrowers to build more responsible businesses practices.

### Supporting Businesses throughout the COVID-19 Pandemic

In 2021, RM Funds was accredited as a lender by the British Business Bank to provide loans through the Recovery Loan Scheme (“RLS”). The Recovery Loan Scheme supports access to finance for UK businesses as they recover and grow following the COVID-19 pandemic. RM Funds had previously been accredited to provide loans under the Coronavirus Business Interruption loan scheme [CBILS].

A quarter of RMII’s assets under management are invested in CBILS/RLS. RMII is the only listed fund which directly offers investors exposure to these schemes designed to support small and medium-sized businesses whose cashflow has been disrupted by the COVID-19 pandemic.

# 3 IMPACT PERFORMANCE AND RESULTS

This section examines RMII's impact performance from two perspectives: First, the processes, practices and systems being used by the investment manager to manage RMII towards impact. Second, the impact orientation of the current portfolio and alignment with the RMII's sector and impact focus.

## 3.1 PART ONE: IMPACT MANAGEMENT


RMII has a focused impact lending approach to invest in companies that proactively work to avoid harmful practices, benefit stakeholders through positive societal outcomes, and directly contribute towards addressing the most pressing social and environmental issues.


Impact Measurement and Management (IMM) is the process by which RMII's investment manager – RM Funds - can understand the effects of investments on people and the environment and then take action to adapt processes and improve outcomes.<sup>5</sup> RM Funds has developed a bespoke IMM methodology to


align with international approaches to impact measurement, including the Impact Management Project.<sup>6</sup>

RM Funds is on a journey to integrating impact into the investment cycle and is still in a relatively early stage in building its impact process. Since 2019 it has been a signatory to the UNPRI and, prior to the name change, had a responsible investing approach framed around sector exclusions. The new RMII strategy builds in a more comprehensive approach to SDG-aligned positive screening, engagement and impact measurement, as shown below:

	ESG INTEGRATION	EXCLUSIONS/NEGATIVE ESG SCREENING	ESG ENGAGEMENT	POSITIVE SCREENING (ESG IMPACT)	IMPACT MEASUREMENT
RM Secured Direct Lending PLC	Yes	Yes	Partial	No	No
RM Infrastructure Income PLC	Yes	Yes	Yes	Yes	Yes
	Responsible Investment Policy – considering ESG issues associated with any potential investment during the due diligence phase	Sectors and products (e.g. gambling, tobacco, alcoholic spirits, etc)	Working with management teams, helping them recognise and manage the opportunities and risks associated with ESG factors.  Tracking material ESG performance metrics	Sectors and business that contribute to meeting SDG needs	Third party reviewed impact measurement and reporting system.  Tracking impact metrics







5. Drawn from Rockefeller Philanthropy Advisors, Impact Investing Handbook: An Implementation Guide for Practitioners.

6. <https://impactmanagementproject.com/>.

However, RMII has had limited opportunities to use the system due to a relatively quiet period over 2021-22 in terms of new loans. This is because the portfolio is largely deployed, with limited capital repaid during the period and as RMII is trading at a share price discount to Net Asset Value new capital cannot be raised.

As a result, TGE's assessment of the quality of RMII's systems for managing towards impact is based more on the systems being put in place, rather than in use. To-date, no deal has gone through the 'full' impact methodology from origination to passing due diligence and closing. Over time, RM will continue to operationalise the framework as new investments are made into companies aligned with the new RMII impact strategy.

## Impact Assured

TGE's methodology for benchmarking the quality of systems that investors are using to manage for impact is based on ten criteria. Each of these provides a '360' perspective to verify alignment with sustainability standards, emerging regulatory requirements and industry good practices – including those codified in the Impact Principles.<sup>7</sup>

The methodology examines an investor's practices and processes to consider the extent to which impact and ESG considerations are integrated along the investment process and inform decision-making. Specific criteria include:

- The investor has a system to manage impact achievement on a portfolio basis
- The investor has tools and processes to assess the anticipated impact of each investment
- The investor sets appropriate impact expectations and targets against which to track future performance
- The investor has a process to identify and manage the potential negative impacts of each investment
- The investor systematically tracks the impact performance of each investment.

The methodology also takes a deep dive into investors' intentionality to have a positive social and/or environmental impact, and ways to ensure impact integrity. However, these two pillars were not assessed as part of the review, as TGE worked with RMII to articulate its impact thesis and author the current impact report. TGE is not involved in any activities relating to investment decision-making or the execution of the impact approach, and hence can take an independent and impartial view in assessing RMII against the integration criteria.

Looking back on the first year of operationalisation, RM has made the most of limited opportunities to put the framework into practice. Highlights include:

- Distributing an ESG Questionnaire to all companies in the portfolio, including those who entered the portfolio prior to the establishment of the IMM framework. This covers a comprehensive set of over 100 questions on topics including environmental management systems, human capital, business model innovations and leadership and governance. Should responses be forthcoming from companies, this will provide RMII with a robust set of data points on which to base engagement activities. As ESG data flows in, RMII will be able to start to interpret what 'good' looks like in terms of responsible business practices in the SME and mid-market companies, given this segment of the market has not yet been subject to the same scrutiny and standards of ESG performance as larger, listed corporates. This data will also allow RMII to be able to develop a clear articulation of 'red flags' – unsustainable business practices where the distance to be travelled is too great for RMII to leverage change.

- As well as developing the IMM Framework for RMII, RM Funds has also reviewed and refreshed firmwide ESG policies.<sup>8</sup> This set of policies provide a formalised structure for incorporating relevant ESG considerations into investment decision-making and investment monitoring practices across the firm. As a result, RM has refined its Responsible Investment Policy and established an ESG Committee.

- The first meeting of RM Fund's ESG Committee was held in January 2022. At future meetings, the Committee will discuss the material ESG issues against which specific pipeline investments should be assessed before diligence, review responses to the ESG Questionnaire, discuss areas of strength and weakness as well as opportunities for active management. TGE has seen evidence that the ESG Committee has already started to interrogate company responses in detail, and we are confident that this mechanism will ensure that ESG and impact data is not simply collected and sat on a shelf; but used to actively drive decision-making and hold borrowers to account. ESG factors are also framed expansively using a 'double materiality' lens; that is, considering not only issues that are material in terms of influencing financial returns, but also those that are material to positive outcomes for people and planet.

7. [www.impactprinciples.org](http://www.impactprinciples.org).

8. Some of these policies were developed in consultation with The Good Economy. However, in order to maintain the independence of impact assurance and reporting, The Good Economy engaged an external consultant to provide these services with a 'Chinese wall' put in place between any policy-related engagements and the reporting activities.



■ Although there has not been the opportunity to deploy the new impact approach to a deal across all stages of the investment process, RM has integrated the new approach into decision-making at sourcing stage. New deals are now sourced in line with the impact objectives and any potential opportunities which do not align are turned down. RM has also clearly communicated the requirements to their brokers. This shift in decision-making geared towards the new approach is expected to be applied to all stages of the investment process as new investments are made.

■ As a debt fund, RMII's influence over their portfolio is more limited after an investment has closed – at least compared to the leverage of an equity investor. Debt investors do, however, have the opportunity to include covenants and contractual provisions to embed impact considerations or financial incentives within loan agreements. RMII plans to use financial incentives such as sustainability-linked loans in order to improve practices and policies relating to ESG factors. While yet to be deployed, TGE has seen evidence that RM is currently structuring their first such loan with an element contingent on sustainability performance, which will have a meaningful discount applied to the interest rate should certain environmental standards be met during the loan lifetime.

### Sustainability-Linked Lending

RMII is in the process of structuring a sustainability-linked loan which offers financial incentives should certain pre-determined targets be met. The loan would be a three-year facility to a developer and operator in the care home sector for a specific build. RM Funds recognises the importance of integrating sustainability considerations at both construction and operations stage and as such are seeking to incentivise progress at each stage in line with externally recognised standards and benchmarks.

At construction stage, RMII will seek to drive the business towards a high BREEAM rating. BREEAM is the world's leading sustainability assessment method for master planning projects, infrastructure and buildings. At operations stage, RM is considering the best way to track the quality of care and satisfaction rates, potentially through ratings given to the quality of health and social care services by the Care Quality Commission (CQC), the independent regulator of health and adult social care in England.

## Impact Management: Key Findings

The following key IMM elements have been embedded by RMII throughout the investment process, as summarised below.

### Impact screening to lend to responsible and impactful companies:

- Negative screening excludes potential investments in prohibited sectors.
- Positively screen investments to allocate capital towards businesses that focus on achieving the fund's impact objectives, which are aligned with needs defined by the SDGs.
- Assess a potential borrower's ESG performance against a set of core metrics drawn from recognised ESG frameworks and sector-specific standards in order to check whether companies have responsible business practices across their operations and to provide a baseline for potential future improvements in ESG performance.

### Impact scoring and metric selection to assess a company's contribution to impact creation:

- Calculate a positive impact score to capture and quantify the extent to which investments are likely to contribute to improved outcomes.
- Verify each company's impact thesis during due diligence using company data and evidence-based research.

### Impact monitoring and management to hold investees to account for impact:

- Plan to deploy covenants, write impact requirements into loan documentation and provide sustainability-linked loans.
- Systematic process in place to oversee the implementation of identified ESG measures and action points.
- Ongoing assessment of impact of these measures, with an annual update to each company's positive impact score.
- Monitoring of any 'mission creep' in business activity that is at odds with the SDGs and internal screening processes.

### Three areas for potential improvement were noted:

- Given the broad spectrum of opportunities within the social and environmental sectors, RMII should conduct an initial screening from an impact perspective and calculate a preliminary 'ABC' classification (see Section 3.2) as early as possible in the investment process, subject to data limitations. This would help set appropriate expectations about which set of ESG and/or impact metrics RMII will engage with the potential borrower to collect.
- While future investments may be all in line with RMII's focus on housing, healthcare and education combined with environmental services such as energy efficiency, clean energy and waste management – the intensity of impact will vary greatly, for instance by type of asset (intermediate compared to social rent) or level of need (by place). Undertaking early impact scoring – ideally alongside the credit analysis – would determine the portfolio fit in terms of the 'shape' of impact; not just sector or thematic alignment.
- Ensure that key elements of the impact frameworks are included in loan documentation, especially the credit notes. This should set out the baseline ESG performance of the borrower, the relevant impact objective(s) the investment aligns to, as well as the impact score. Such documentation will facilitate external scrutiny and be an important means of driving internal accountability.

### 3.2 PART TWO: PORTFOLIO IMPACT

#### Alignment with Impact Objectives

RMII is now geared towards finding investment opportunities that align with its focus on housing, healthcare and education combined with environmental services such as energy efficiency, clean energy and waste management. However, RMII has a sizeable number of loans made prior to the new impact goal being introduced, so it will take time for the portfolio to be fully directed towards the new impact objectives. Given the average investment tenure, it would be reasonable to expect the portfolio has rotated away from all non-aligned 'legacy' loans towards social and environmental infrastructure within three years.

As of March 2022, 18 of 33 investments – or 50% of the portfolio by value – aligns with RMII's target sectors and impact objectives. This is an increase above the 46% 'baseline' exposure to social and environmental infrastructure sectors at the time of the company name change. In the past year, there have been an additional five investments<sup>9</sup> and sale of six investments. RMII has therefore already made progress since the announcement of the refined investment focus and expects to make further strategic progression over 2022 to reduce exposure to non-aligned sectors such as leisure and business services. However, RM were expecting circa 55% alignment with the new investment focus by the end of 2021. Progress to achieving this was hindered by factors previously mentioned in 3.1.

#### CONTRIBUTION TO OUTCOMES

RMII's strategy for creating intentional impact uses the Impact Management Project's "ABC" framework to classify whether investments are 'Avoiding harm' to mitigate negative social or environmental effects; 'Benefiting stakeholders' to favor socially and environmentally sustainable outcomes; or 'Contributing to solutions' that address the greatest societal needs.

#### The ABC of Impact

According to the Impact Management Project, the overall impact of a Fund can be classified by considering the type of impact that the underlying companies are having on outcomes, which are considered along an 'ABC' spectrum:



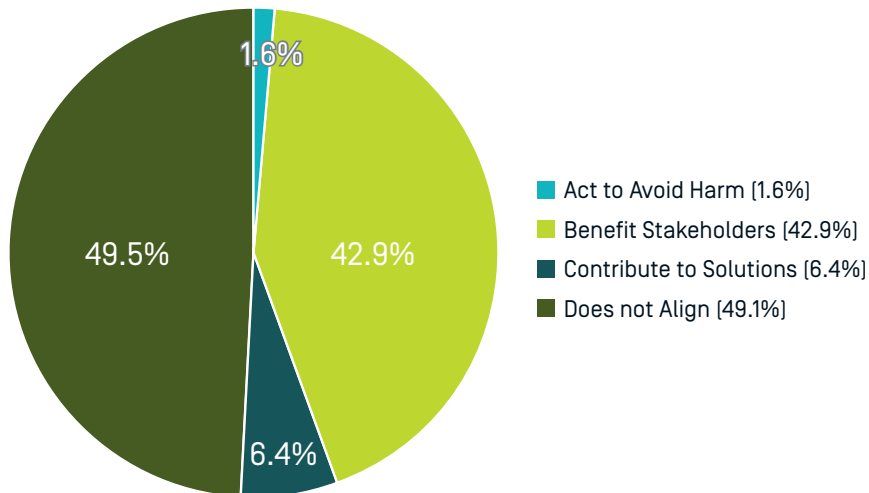
1. Five investments were made within this reporting period (April 2021-March 2022). The five investments also include investment into existing portfolio companies such as through CBILS loans.





RMII aims to tilt its investments towards mainly 'B' and 'C' deals over time but recognises different ways for the fund to be impactful – depending on the nature of the social and environmental outcomes associated with a potential borrower. The figure below shows the breakdown by the ABC typology.

Percentage of Portfolio by ABC(D) Classification (by value)



Of the investments which are aligned, RMII's investments are almost exclusively 'benefitting stakeholders'. More detail on all the aligned deals is provided in the table below. The percent of portfolio by value invested into deals which does not align has

reduced by almost 5% since the 2021 baseline, demonstrating RMII's commitment to shifting its portfolio to focus on investments which are intentional about impact and align with the impact framework.

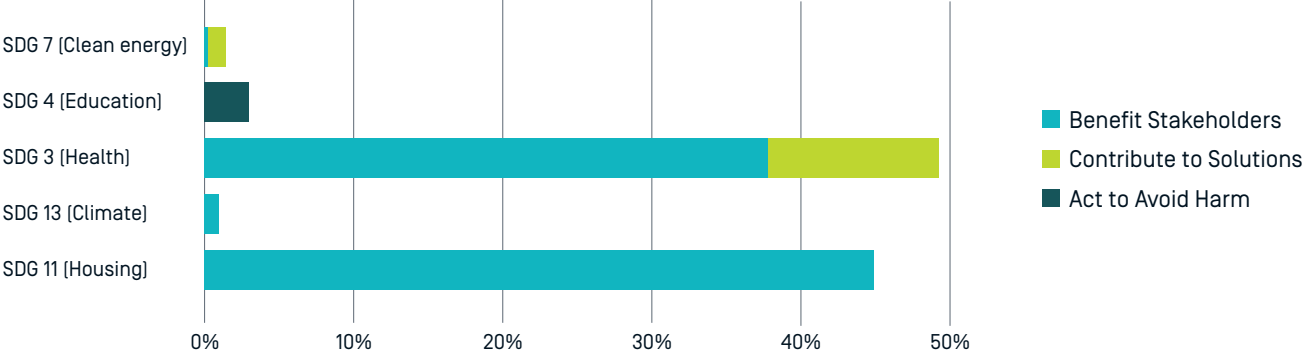
#### ABC Classification of RMII's current loans<sup>10</sup>

	SECTOR/IMPACT OBJECTIVE	WHAT THEY DO	USE OF LOAN	ABC CLASSIFICATION
Company A	Healthcare	Quality care and support for people with learning and physical disabilities, brain injuries, autism and complex needs across the UK	Operations	C
Company B	Healthcare	Operates a number of gym clubs across the UK	Operations	B
Company C	Manufacturing	Manufacturer of electric boilers and air source heaters	Operations	B
Company D	Manufacturing	Manufacturer of electric boilers and air source heaters	Operations Refinance	B
Company E	Energy Efficiency	Energy efficiency consulting, devising energy saving solutions for real estate owners/operators	Operations Refinance	C
Company F	Accommodation	Student accommodation developer with a regional (non-London) focus	Operations Refinance	B
Company G	Education	Independent school seeking to improve environmental efficiency	Operations Refinance	A
Company H	Clean Energy and Renewables	A special purpose vehicle set up to lend to sub borrowers including companies focused on renewable energy	Refinance	C
Company I	Clean Energy and Renewables	Provides a portfolio of air source heat pumps	Operations	B
Company J	Accommodation	Conversion of an existing office building into a c.80-bed student accommodation.	Construction Refinance	B
Company K	Healthcare	Construction of a high-spec, purpose built 205-bed care home with nursing services	Construction Refinance	B
Company L	Healthcare	Construction of a care home	Construction Refinance	B
Company M	Healthcare	Construction of a care home	Construction Refinance	B
Company N	Accommodation	Investment, development and property management services, particularly for student accommodation buildings	Refinance	B
Company O	Opera	Construction of 77 bed student accommodation building	Construction Refinance	B

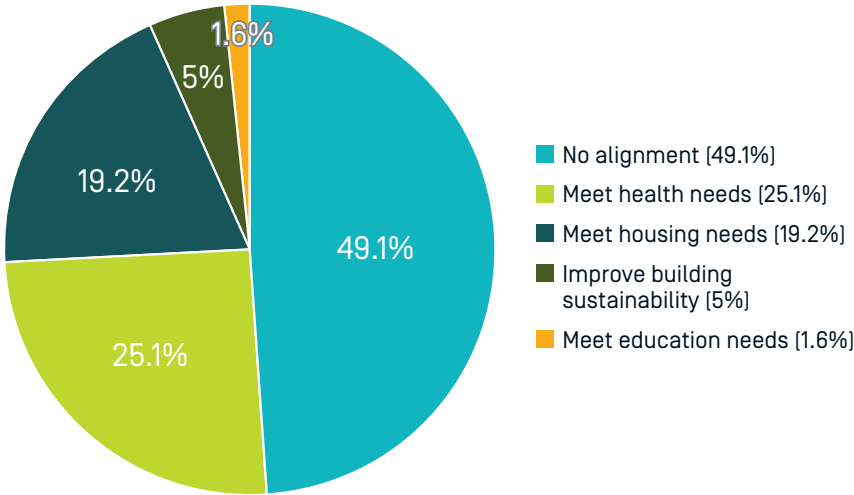
10. Multiple loans drawn by the same company but under different facilities (e.g. CBILS) have been removed.

As a result of the changes which have occurred in the portfolio in the past year, RMII's contribution to the SDGs has evolved. The alignment of the current portfolio to the SDGs is outlined below.

**Percentage of Portfolio Alignment to Target SDGs [by value] broken down by ABC categorisation**



**Percentage of Portfolio by RMII Impact Objective [by value]**



At the heart of RMII’s impact measurement system is the positive impact score, which captures and quantifies the extent to which investments are likely to contribute to improved outcomes. The positive impact score is informed by the following elements:

- The Environmental and Social Outcomes actually delivered by the investment
- The Impact Strategy Ratio reflecting the way in which a business can contribute to the SDGs
- The Capital Impact Ratio reflecting RMII’s contribution to the impact achieved.

**Positive Impact Score Matrix – Aligning with the IMP**

**1. Assessment of E&S Outcomes**  
[Score sum maximum 15]

**E** Energy Efficiency and Carbon Reduction, Waste Management, Clean Energy

**S** Housing, Childcare and Education, Healthcare

**WHAT**  
Avoid a single negative outcome **1-5** Support many positive outcomes

**WHO**  
Well served **1-5** Under served

**HOW MUCH**  
Limited / Minimal / Short term **1-5** Far-reaching / Significant / Long lasting

**2. Capital Impact Ratio**  
[Apply factoring x1, 2, 3]

**What is the contribution of the funding towards creating impact?**  
Would they have achieved this irrespective of the funding, or was RM investment a direct catalyst?

3x Achieved through funding – Sole lender  
2x Achieved through funding – Club transaction

Grow new or undersupplied markets – anchoring or participating in new or previously overlooked opportunities (IMP)

1x Achieved through funding – Transaction was a broadly syndicated deal

**3. Impact Strategy Ratio**  
[Apply factoring x1, 2, 3]

**Are the business activities directly linked to delivering the target Sustainable Development Goals?**

3x **C**ontributes to Solutions  
Directly contributes to SDGs, targeting needs of an underserved population

2x **B**enefits Stakeholders  
Business that benefits stakeholders in an SDG aligned sector

1x **A**cts to Avoid Harm  
Mainly aimed at avoiding negative outcomes (e.g. carbon emissions)

IMP ABC Spectrum

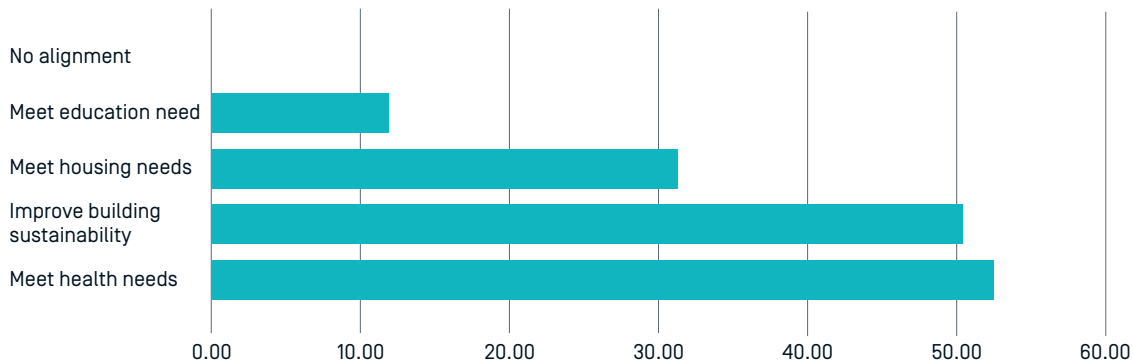


TGE reviewed RMII's portfolio impact score shortly after the name change in 2021 and again for the purpose of this report. These provide a baseline against which to track future progress towards RMII's intensified focus on social and environmental outcomes.<sup>11</sup>

As of March 2022, the average impact score, weighted by deal size, across the whole portfolio is 22.21.<sup>12</sup> This is an increase on the weighted average impact score of 18.41 at time of

the baseline assessment; since RMII has sold several of the investments which did not align. The average score across the portfolio for companies which align with RMII's impact objectives is 42.56. This figure can help benchmark the extent of impact being supported through new deals, and analysed according to SDG, sector and impact objective. At present, RMII's most 'impactful' investments can be considered those meeting health needs, as shown in the figure below:

**Average Impact Score by Impact Objective**



11. Recognising that there was no explicit impact intentionality at the time these investments were made. Accordingly, this alignment should be interpreted as a way of benchmarking future impact performance rather than as commentary on past performance.

12. The maximum impact score for each investment is 135. Investments which do not align with the impact objectives receive a score of zero.

# 4 IMPACT RISK

**Impact risk is the likelihood that impact will be different than expected, and that the difference will be material from the perspective of those being impacted.**

TGE has analysed the potential impact risks relating to RMII using the [IMP's impact risk assessment framework](#). This identifies nine types of impact risk that have the potential to undermine a positive contribution to intended outcomes. TGE has identified the risks that it sees as most relevant to RMII, as well as setting out the level of impact risk and the mitigation strategy that should take place. These risks are updated annually.

IMPACT RISK CATEGORY	LEVEL OF RISK	MITIGATION STRATEGY
<p><b>Evidence risk</b> – Evidence risk is the likelihood that insufficient high-quality data exists to know what impact is occurring</p>	<p>The level of risk posed to RMII is medium.</p> <p>It could be the case that borrowers are unable or unwilling to collect relevant ESG and impact metrics, in which case RMII would not be able to understand impact potential, or track actual impacts.</p>	<p>RMII's IMM framework provides comprehensive guidance and metrics for each impact objective. A smaller set of 'core' ESG metrics together with a larger ESG Questionnaire has been developed. It is recognised that not all companies will be in a position to collect information on all data points, especially as many are SMEs.</p> <p>However, RMII will actively engage with companies to improve their reporting practices. This active engagement has already been demonstrated with the deployment and follow up engagement around the ESG Questionnaire.</p> <p>RMII could also put in place mitigation measures should borrowers not respond, or not be able to complete material sections of the questionnaire, clearly outlining key metrics (e.g. on Scope 1 emissions) where it expects all borrowers to be able to provide information.</p>
<p><b>External risk</b> - External risk is the likelihood that external factors disrupt the ability to deliver the impact</p>	<p>The level of risk posed to RMII is medium.</p> <p>It could be the case that economic shocks and stresses limit borrower ability to utilise capital to improve their viability or growth and therefore lessen their impact potential.</p>	<p>Economy-wide shocks and stresses are beyond RMII's control. However, COVID-19 already materialised one of the greatest external risks. As shown earlier, RMII played a role as delivery partner to the British Business Bank in recovery schemes and so was able to help mitigate business disruption risks for borrowers.</p> <p>At each stage throughout the investment process, RMII has the tools to inform decision-making should external factors disrupt the ability to deliver impact. This includes integrating impact considerations into any exit decisions.</p>
<p><b>Alignment risk</b> - Alignment risk is the probability that impact is not locked into the enterprise model</p>	<p>The level of risk posed to RMII is medium-low.</p> <p>It could be the case that the borrower suffers from 'impact drift' or changes its products/services to lessen its positive impact potential.</p>	<p>RMII seeks to ensure close alignment of each investment opportunity with the Fund's IMM framework.</p> <p>RMII will also update the impact score on an annual basis for all investees ensuring RMII can identify any signs of alignment risk early and take appropriate action. TGE provides a third-party review of the scoring to confirm its accuracy.</p> <p>RMII is introducing ESG performance into covenants and term sheets are reviewed by the ESG Committee, ensuring they are satisfied that ESG and impact considerations are locked into the investment model.</p>
<p><b>Endurance risk</b> – Endurance risk is the probability that the required activities are not delivered for long enough period</p>	<p>The level of risk posed to RMII is medium.</p> <p>It could be the case that due to RMII's relatively short average loan length – currently 2.31 years – that this does not cover a long enough period to bring about lasting change.</p>	<p>RMII will continue to monitor activities undertaken for each investment and loan tenure. RMII will mitigate through building in realistic expectations in terms of what can be achieved during the loan tenure, taking into account the use of proceeds and its relative influence over both the 'construction' and 'operations' phases of real assets.</p>



# 5 DEEP DIVE: PLACE-BASED FOOTPRINT

**A place-based lens can be useful in interpreting the effects of an SME-focused investment portfolio. As highlighted in the recent interest in place-based approaches, the UK is a country of entrenched place-based inequalities which have persisted for generations and are more extreme in the UK than most OECD countries.<sup>13</sup>**

The COVID-19 pandemic and Brexit have combined to move these place-based inequalities to centre stage in public debate – alongside a search for effective and sustainable ways of tackling them. An analysis carried out by The Good Economy of market data demonstrates that investments within themes such as affordable housing, SME finance, clean energy, infrastructure and regeneration are key to place-based impact investing – all of which overlap with RMII focus sectors.<sup>14</sup>

RMII's current portfolio has an effect on the UK's landscape for sustainable and inclusive growth by virtue of its lending activities. These are indirect impacts – as compared to the more explicit and direct focus on thematic RMII impact objectives moving forwards – as RMII has no intentionality around 'place' or job creation. However, a look at the geographic footprint of the current portfolio sheds light on how RMII might be able to direct its ESG engagement activities; as well as on the important role private credit can play in contributing to solving the biggest structural challenges facing the UK economy. This section focuses on all of RMII's current loan book, including companies that are not aligned with the impact objectives.

The RMII portfolio focuses on real asset investments, which have strong potential for job creation. Within the current portfolio, RMII's loans are estimated to have supported approximately 1,115 jobs. The majority of these are in the construction industry with up to 390 construction jobs directly resulting from RMII's loans and a further 430 jobs generated in the supply chain (indirect jobs).<sup>15</sup> The loans supporting investees' operations could support approximately 295 jobs with just over half of these supported directly and the remaining 48% supported in the supply chain.

A recent poll found that half of the UK public ranked better jobs as their top priority for the government's levelling up agenda signalling it is the quality of jobs that matters as much as their quantity. Indeed, the UK's Good Work Plan which sets out the government's vision for the future of the UK's labour market, suggests that everyone should be able to benefit from high quality jobs, regardless of where they live.

Good jobs are those that support three fundamental transformations in society: social cohesion, living standards, and productivity.<sup>16</sup> A portfolio's 'good jobs' footprint can be measured as a function of the 'quality' and 'inclusion' profiles of the sectors which they are supporting.<sup>17</sup> For RMII, half of the capital invested supports businesses in **Construction** and **Medium High-Tech Manufacturing**. The figure below shows these are two sectors which have favourable job quality and inclusion profiles; however, they are also sectors which have seen job growth below that of the national average. RMII's support for these sectors is therefore important in maintaining quality job opportunities.

13. <https://www.impactinvest.org.uk/project/place-based-impact-investing/>

14. *The Good Economy*, Impact Investing Institute and Pensions for Purpose, *Scaling-up Institutional Investment for Place-Based Impact White Paper*, May 2021.

15. Jobs supported has been calculated using Type I Employment Effects and Multipliers from the ONS (2017). Only the portion of the loan to finance construction or operational purposes has been used. Deals outside of the UK and refinancing loans have been excluded from the analysis.

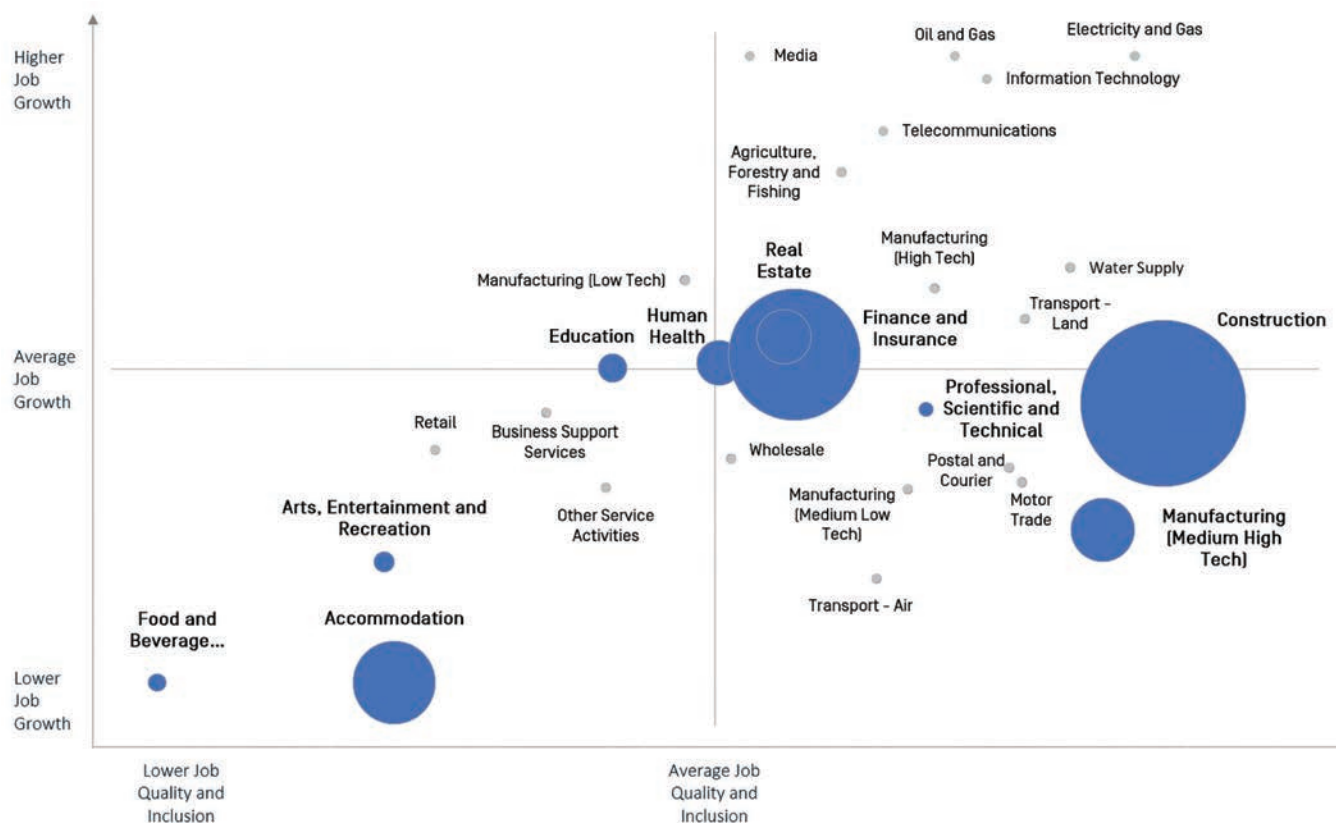
16. IFC Jobs Study, 2013.

17. See Appendix 1 for further details.

**Inclusive Job Growth Performance (benchmarked by the National average)**

- Sectors receiving investment
- Sectors not receiving investment

By Cumulative Value of Loans



On the other hand, 12% of the value of loans<sup>18</sup> made are in sectors with lower job quality profiles such as **Accommodation and Food Services**. Such sectors have been some of the worst effected due to COVID-19 and the resulting lockdowns. These sectors are an important route into employment for young people and those with fewer qualifications, so it is important RMII works with these businesses to ensure they offer jobs with fair contracts, pay decent and equitable wages and offer opportunities for career progression.

Private debt can also contribute to addressing regional inequality in the UK in the context of the agenda to ‘level up’ opportunities across the UK. Debt deals mainly take place outside of the capital, unlike some other segments of the alternative investment space – such as venture capital – that

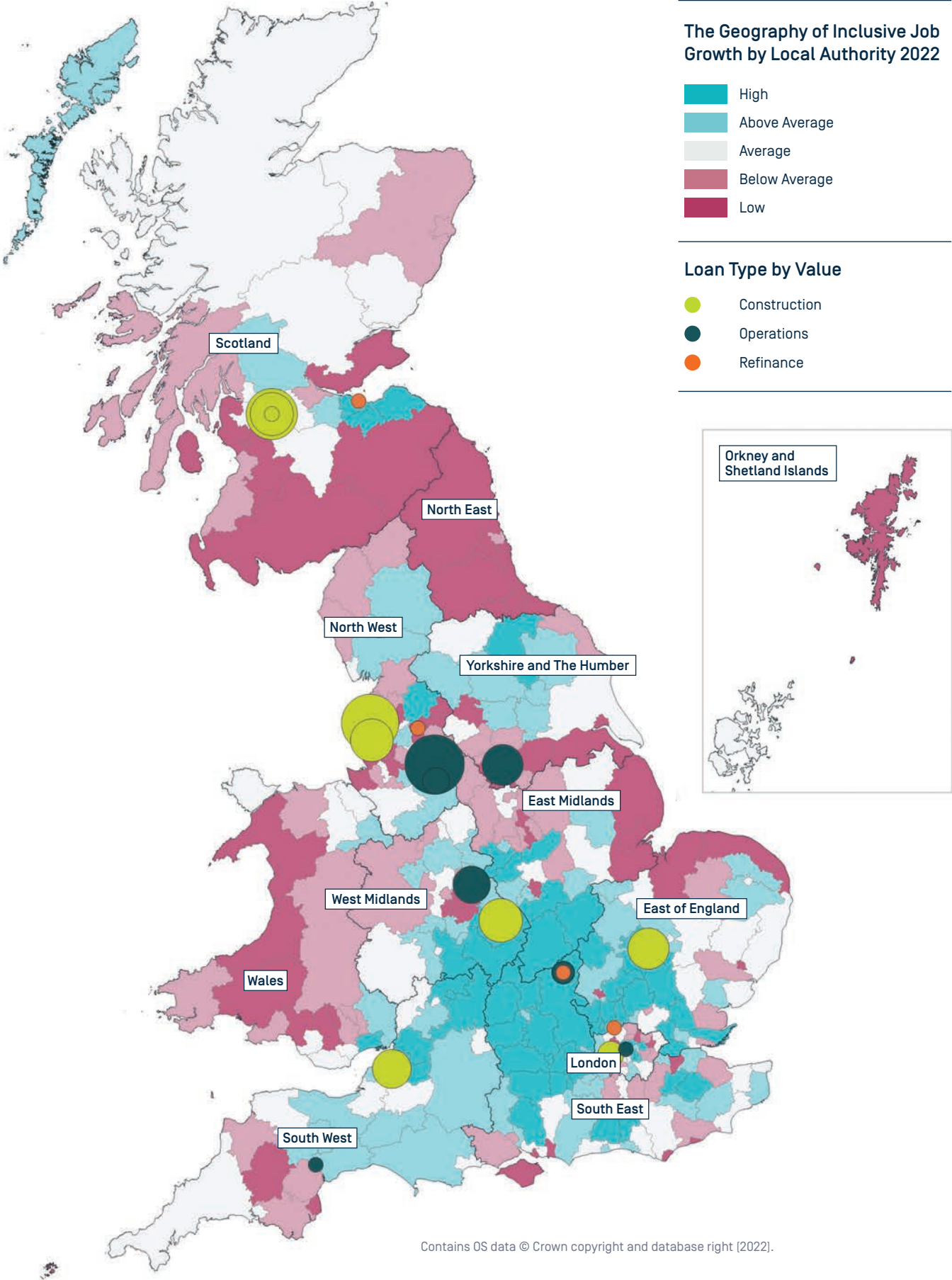
tend to be concentrated in London. Research shows that four in five deals and nearly two thirds of the £18.4bn of private debt provided to companies in both 2018 and 2019 was outside London.<sup>19</sup> RMII continues to be more regionally distributed than the average private debt fund, with 99% of the value of live loans in the UK being invested outside of London compared to the industry average of 65%.<sup>20</sup>

In addition, 59% of capital invested (40% of deals) is in areas in most need of good jobs – that is areas where ‘inclusive job growth’ is ‘below average’. Just over half of the capital invested in construction projects are in these areas, with these jobs particularly important to such places given the construction sector’s favourable job quality and inclusion characteristics.

18. Loans include the ‘legacy’ portfolio which does not align with RMII’s new impact objectives.

19. [British Business Bank. UK Private Debt Research Report 2020.](#)

20. 2018/19 data as used in UK Private Debt Research Report 2020, British Business Bank. The majority of RMII portfolio has been mapped by registered office which may not reflect the full geographical footprint of company products, services and operations. Where it is possible to map the investment to a specific location [e.g. a single asset], this has been done instead.



# CONCLUSIONS AND RECOMMENDATIONS

## STRENGTHS

- RMII has a strong regional footprint providing support to SMEs across the UK, including in regions which are otherwise underserved from a 'good jobs' perspective. This has included proactive support to businesses requiring finance to survive the challenges of the COVID-19 pandemic and recover afterwards.
- RMII is progressing on its journey to integrating impact throughout the investment process, with half of the current portfolio now aligned with the new focus on social and environmental infrastructure sectors. These companies have a clear line of sight to contributing to SDG achievement in the UK, which is monitored through an IMM Framework which incorporates consideration of both 'enterprise' and 'investment' impacts.
- RMII has demonstrated a commitment to providing high levels of transparency in terms of reporting impact performance. Through ongoing performance reporting, RMII regularly shares information on how the fund is meeting its stated impact objectives. RMII is transparent not only in sharing its results but also in sharing methodologies which incorporate market relevant frameworks such as the IMP's 'ABC' classification which RMII use to discern and describe the full scope of its impacts.
- RMII has made good progress in formalising its approach to ESG and impact management. Processes have been put in place to translate high-level impact goals and intentions into actionable, investment specific ESG and impact activities. This includes the roll out and use of the impact framework, establishing an ESG Committee, deploying the ESG Questionnaire and ongoing scoring of investments.

## RECOMMENDATIONS TO MAXIMISE IMPACT

- RMII should continue to build on its progression during 2021-22 in reducing exposure to 'legacy' sectors such as hotel and leisure and re-deploy into healthcare, childcare and housing, along with environmental assets.
- RMII could consider introducing a time-bound milestone against which the portfolio can be held to account in terms of the pace of this rotation. In addition, RMII should set a target date for 100% of the portfolio to be aligned with the new impact objectives, providing investors with a clear expectation of when their exposure to non-aligned assets will be reduced and eventually eliminated.
- Over time, RMII should consider shifting towards assessing deals not just on their own merits, but in relation to the over-arching portfolio goals. For example, the share of the portfolio contributing to health and housing related SDGs is similar. However, the impact score for health investments is substantially higher. Monitoring and identifying such patterns as part of portfolio impact management can signal to RMII that there may be the opportunity to seek new opportunities in housing which have a higher impact 'intensity' as reflected by their impact score.
- In investment decision-making, RMII should be aware of potential tensions or inter-linkages between SDGs, especially those that are not directly linked to its impact objectives. For example, investments into high-end care homes or private educational establishments may generate positive impact for a small number of stakeholders (under SDGs 3 and 4, or through reducing their carbon footprint under SDG 13), but they do not address populations with high levels of unmet needs, and they risk having a negative impact on SDG 10 to reduce inequality within and between countries.
- During screening, RMII should clearly articulate the way in which business activities contributes to the SDGs (whether through avoiding harmful practices, benefiting stakeholders through positive societal outcomes, or directly contributing towards addressing the most pressing social and environmental issues). This will help RMII consider not just whether a borrower will contribute to RMII's impact objectives, but how, and then set appropriate expectations regarding measurement, metrics and ESG performance management issues.

## INVESTMENT MANAGER RESPONSE TO THE RMII IMPACT REPORT

RM Funds has worked hard to implement the measurement and management framework designed in conjunction with The Good Economy. Whilst the volume of new deals has been low during 2021 principally due to our portfolio capital largely having been deployed, we expect this to pick up in 2022 as loans repay.

We note from the report the positive benefits on job creation of our funding and whilst this is not a metric we have reviewed before it is pleasing to see an independent assessment of this additional benefit. The regional dispersion of the portfolio (and our ongoing pipeline) we are well aware of, and it is particularly pleasing to see that this dispersion is greater than that found within an average private credit fund. This dispersion means the fund is very well positioned to deliver on place-based impact.

This framework has improved engagement by the investment manager, RM Funds, with RMII borrowers which we feel can only be a good thing as we seek to promote borrower best practice on ESG and Impact.

RM Funds strongly believes that we can invest private debt capital to drive impact and report back to our investors and stakeholders on the impact that this capital has made through our impact measurement and management framework, including the scoring methodology described above. It also seems clear to us that, whilst impact means different things to different investors, the overall adoption and desire by investors to make impactful investments is growing from a small base and should in time form a strategy that sits alongside now mainstream strategies such as ESG.

**Whilst impact means different things to different investors, the overall adoption and desire by investors to make impactful investments is growing from a small base and should in time form a strategy that sits alongside now mainstream strategies such as ESG.**

# APPENDIX: DATA SOURCES

DATA SOURCE/ EVIDENCE	OVERVIEW	EVIDENCE RISK	LIMITATIONS
Portfolio Credit Notes	Credit notes provided to TGE by RM. For each company this includes terms of the loan, a key summary, background information and rationale for investment.	Low	Reliant on accuracy of data provided by RM.
Interviews with RM staff	Interviews carried out with various members of RM's staff, particularly from the investment team.	Low	Reliant on the accuracy of answers provided by RM staff.
Completed ESG Questionnaires	ESG Questionnaires completed by portfolio companies and returned to RM, provided to TGE by RM. These were provided to TGE to evidence RM's active engagement with the portfolio in line with the new impact approach.	Medium	Reliant on accuracy of data provided by portfolio companies. Few questionnaires were completed resulting in a small sample size.
RM Response Letters to ESG Questionnaires	Following receipt of the completed ESG Questionnaires RM identify areas of strength or improvement for each company, providing written feedback through letters sent to the companies, provided to TGE by RM.	Medium	Reliant on accuracy of data provided by portfolio companies. Few questionnaires were completed resulting in a small sample size.
Impact scores calculated by TGE	Impact scores are calculated using the methodology set out in RM's IMM system using data from the Credit Notes. The scoring will be completed by RM in the future as investments are made in line with the new approach.	Low	The accuracy of the analysis carried out by TGE is reliant on the accuracy of the information provided by RM.
Place-based footprint analysis	Inclusive Job Growth metrics are sourced from the Office for National Statistics (ONS) and Labour Force Survey (LFS), and use the most current data available consistent across the majority of metrics, in this case 2020. The Job Quality and Inclusion indicator is composed of metrics about earnings, earnings fairness, job security and employment of marginalised groups. The Growth indicator is composed of growth metrics about private sector jobs, output, SME businesses, earnings and indirect employment. These economic, business and labour market indicators draw on guidance from organisations such as the Organisation for Economic Cooperation and Development (OECD), the World Economic Forum, the International Labour Office (ILO) and UN Sustainable Development Goals (SDGs).	Low	Where possible data is sourced from Official Statistics published by the ONS. Otherwise metrics are sourced from national surveys such as the Labour Force Survey, or ONS User Requested data such as Employment Multipliers and Effects are used.







THE  

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