STOREBRAND

COUNTRY
Norway

TYPE OF FUND/ORGANISATION
Life insurance and pensions provider

TOTAL ASSETS
Approx. NOK 400 billion (US$ 71.4 billion) as at 31 Dec 2012 (including Swedish subsidiary SPP Livsforsikring)

"By applying strict selection criteria, Storebrand illustrates how a major institutional investor can identify and invest in well-structured, institutional-quality funds that offer both good risk-adjusted returns and clear and measurable social impacts."

INTRODUCTION

Storebrand is the leading provider of life insurance and pension funds in the Nordic region. Sustainability is integral to its values, vision and commitment to customers. It invests according to a range of guidelines covering a wide range of ethical, governance and sustainability issues and it employs various responsible investment strategies, including screening, engagement and integration. In addition, Storebrand has defined an explicit 'social investment' strategy within its alternatives allocation. To date, it has invested approximately NOK 400 million (US$ 70 million) across a range of funds in the microfinance, SME finance, health and agriculture sectors.

This case study focuses on the latter two sectors, particularly the strict criteria Storebrand uses to identify and evaluate these investments. It is one of a series of case studies produced by the PRI Initiative's Environmental and Social Themed Investing Work Stream.

KEY POINTS

- Experienced, specialist staff developed and oversee the implementation of an explicit social investment strategy, with clear interrelated goals, that guides the Group's investments. These goals are to achieve required risk-adjusted returns by making diverse investments across a range of sectors that generate clear social impacts.
- Storebrand addresses the difficulty of identifying institutional-quality investments from among the ever-increasing impact funds available by holding to strict fund selection criteria: a clear investment proposition, a good investment track record, an appropriate structure and effective risk sharing or risk mitigating mechanisms.
- Investments in the health and agriculture sectors – among others – can deliver the combination of financial and social returns sought by institutional investors like Storebrand.
- Given the political, geographic and sector risks associated with investments of this type, the Group diversifies its investments and sets single country, single sector and single manager thresholds to limit its exposure.

RATIONALE

Storebrand is the leading provider of life insurance and pension funds in the Nordic region. Sustainability is an integral part of the Group's values, vision and commitment to its customers. It states[1] that as a supplier of savings for pensions, it is entirely essential that it has the ability to think long term and generate returns for the customer that do not ruin the world in which the customer will draw his or her pension. Further, its overall ambition is for its products and services to help to solve the problems of society and create sustainable development, locally and globally – while at the same time generating a positive financial return.

Storebrand began making 'social impact' investments in 2006, which it defines[2] as 'investments in commercial businesses in developing countries that have a clear social profile, such as healthcare services for low and middle income parts of the population.'

1 Corporate Sustainability Report 2012, Storebrand
2 www.storebrand.no/site/stb.nsf/Pages/microfinance.html

TYPE AND STRUCTURE OF INVESTMENTS

As of 31 December 2012, Storebrand had committed approximately NOK 400 million (US$ 70 million), from within its total alternatives allocation to social investments. The approximate split between its four target sectors is: 65% microfinance, 15% SME finance, 10% agriculture and 10% healthcare. The funds and direct investments offer a range of pure equity, pure debt and a hybrid combination – including some unique and innovative structures. This case study focuses principally on its health and agriculture investments, as these sectors still attract relatively few institutional investors even though investments can be found that deliver the combination of financial and social returns that institutional investors like Storebrand seek.

Box 1: The Norwegian Microfinance Initiative (NMI)[3]

NMI is a strategic partnership established in 2008 between the Norwegian public and private sectors to invest in microfinance institutions (MFIs) in developing countries and provide professional assistance and technical support to these institutions. Storebrand is one of the founding partners of NMI, along with several other Scandinavian investors. NMI invests via funds run by experienced managers with demonstrable track records; these funds supply a mix of debt and equity to MFIs. The NOK 240 million (US$ 40 million) NMI Frontier Fund expects to generate a net IRR of 5% over the lifetime of the fund; the NOK 360 million (US$ 60 million) Global Fund expects to generate 4%.

MICROFINANCE AND SME FINANCE

Microfinance investment accounts for Storebrand's largest social investment allocation of around NOK 260 million (US$ 45 million). It invests through the Norwegian Microfinance Initiative (NMI), profiled in Box 1, as well as three other established microfinance fund providers.

Storebrand also invests through two well-established funds that provide finance to the small and medium sized enterprise (SME) sector. One makes equity investments into SMEs and microfinance institutions in emerging markets; the other makes loans to a network of banks that support SMEs in Central Asia.

AGRICULTURE

Storebrand has also identified agriculture as a target impact investment sector; it currently has only one investment in this sector but is looking to expand this allocation. The Incofin Fairtrade Access Fund, launched in 2012, is an open-ended fund that makes long-term loans to farmers' cooperatives and associations in Latin America that have Fair Trade certification. It plans to expand into Africa and Asia in a second phase. At the end of March 2013, the fund had commitments of US$ 4.9 million and hopes to reach a total overall fund size of US$ 25 million by the end of 2014. Storebrand provides debt financing to the fund.

HEALTHCARE

The fourth sector that Storebrand invests in is healthcare. To date it has made two investments: one in the Eye Fund I, launched in January 2010 by Deutsche Bank's Community Development Finance Group, and the other in the Global Health Investment Fund launched in September 2013.

The Eye Fund I is a unique US$ 14.5 million fund that makes loans to hospitals that specialise in serving the poor by treating eye conditions and blindness. It is a partnership between Deutsche Bank, the International Agency for the Prevention of Blindness (IAPB) and Ashoka, a not-for-profit organisation that provides financing and professional support to a large network of social entrepreneurs around the world.

The fund combines financing from different types of investors with different motivations but a shared goal – to save millions of lives in low-income countries – to create a common investment platform. Development finance institutions finance the equity tranche, private foundations the mezzanine tranche, and fiduciary investors the senior tranche.

The fund is also intended to initiate transformation of the eye care industry by providing borrowers with technical assistance to transfer the management information systems, management expertise and best practices implemented by the world's leading eye care organization for the poor, the Aravind Eye Hospital in India.

Storebrand was also a cornerstone investor in the Global Health Investment Fund launched in September 2013, with total initial commitments of US$ 94 million. Run by LHGP Asset Management, the fund will invest in new drugs and vaccines, emerging diagnostic tools, child-friendly formulations of existing products, expanding manufacturing capacity and other applications that will help bring affordable technologies to those most in need.

To help mitigate the risk of investing in the clinical development of new technologies, the Gates Foundation and the Swedish International Development Cooperation Agency have committed to cover potential first losses in the Fund.

3 www.nmimicro.no

APPROACH

Strong corporate focus: Storebrand has a particularly strong commitment to embedding sustainability considerations across its business and throughout its investments codified through a series of guidelines approved by its Board.

Delegated authority: Storebrand's clients delegate responsibility to the Group to invest as it sees fit, in line with its fiduciary duty and its guidelines. Social investments are approved by its investment committee and must meet the same stringent criteria and follow the same rigorous investment processes as all other investments.

Specialist staff: In 2011, Storebrand hired a professional with a background in investment banking and development finance to develop a social investment strategy, and build and manage its social investment portfolio.

Clear social investment strategy: The social investment strategy has three principal aims:

1. To achieve returns commensurate with the risk and asset class within which each investment sits (i.e. private equity, fixed income, etc);
2. To make diversified investments that spread and balance the specific risks associated with them;
3. To contribute to clear and measurable social development.

Investments must satisfy five criteria:

1. Have a clear, focused investment proposition;
2. Be within a market or sector with a reasonable level of maturity;
3. Focus on emerging markets and serving low-income people;
4. Demonstrate a strong pipeline of investment opportunities – either in the form of funds or direct investments.
5. Be structured appropriately to facilitate institutional investment and mitigate risk.

Storebrand identified the four sectors profiled above – microfinance, SME finance, agriculture and health – as those with the greatest potential to fulfil these criteria.

CHALLENGES

1. **Identifying funds suitable for an institutional investor:** In recent years, 'impact investing' has attracted a great deal of attention. Many new funds have come to the market, set up by motivated and talented people. At the same time, the number of investment opportunities in emerging markets is increasing. However, somewhat paradoxically, Storebrand finds it difficult to identify 'institutional quality' funds; most are too small, too early stage or not mature enough in their approach. Storebrand addresses this challenge by holding to the clear criteria outlined above to select funds.

2. **Managing the risks inherent in social investment funds:** The types of funds and direct investments that Storebrand invests in typically present quite significant levels of country risk, political risk, natural disaster risk and/or sector risk. It manages these risks by carefully reviewing them in the evaluation process and setting thresholds for single countries, single managers and single investments – both at the portfolio and fund level.

3. **Managing transaction costs:** Being well known for its interest in social investment funds, Storebrand is frequently approached with investment proposals by fund managers, intermediaries and individual companies. It therefore has to be careful about how it allocates its scarce resources: the evaluation process for making a US$5 -10 million social impact investment is the same as making a US$ 50 million investment in well-established assets. Once made, social impact investments also take as much management time as other investments despite the volumes still being fairly modest.