Inside London's fight to become the global capital of 'Impact Investment'

Since 2015, venture capital investment into impact technology start-ups in the city has surged by almost 800pc

By Hannah Boland
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When Jamie Cox, 23, was thinking of launching a new start-up, it wasn't Jeff Bezos, Elon Musk or Mark Zuckerberg that he looked to for inspiration. It was David Attenborough.

A year after leaving university, and with one start-up already under his belt, Cox had considered launching a project in financial technology. But what he really wanted was to tackle a bigger challenge: climate change. For years, he had been gripped by Attenborough's documentaries. "I've always been a real fan, because he shows how you can change things."

To marry his two interests, Cox decided he would set up TreeCard, a London-based debit card company which, instead of taking a larger cut of the fee retailers pay to process transactions, gives 80pc of profits to planting trees.

TreeCard is now weeks away from launch, still fielding requests from potential customers over its wooden debit cards - but Cox says demand from investors around the city is already huge, "even those you'd historically think of cut-throat capitalist investors".

"I won't name names, but what they're saying to us that they're shifting away from things like oil investments. They've actually started pitching that to us as a selling point."

Cox is not alone in experiencing this, and it is something which is only likely to become more common in the coming months.

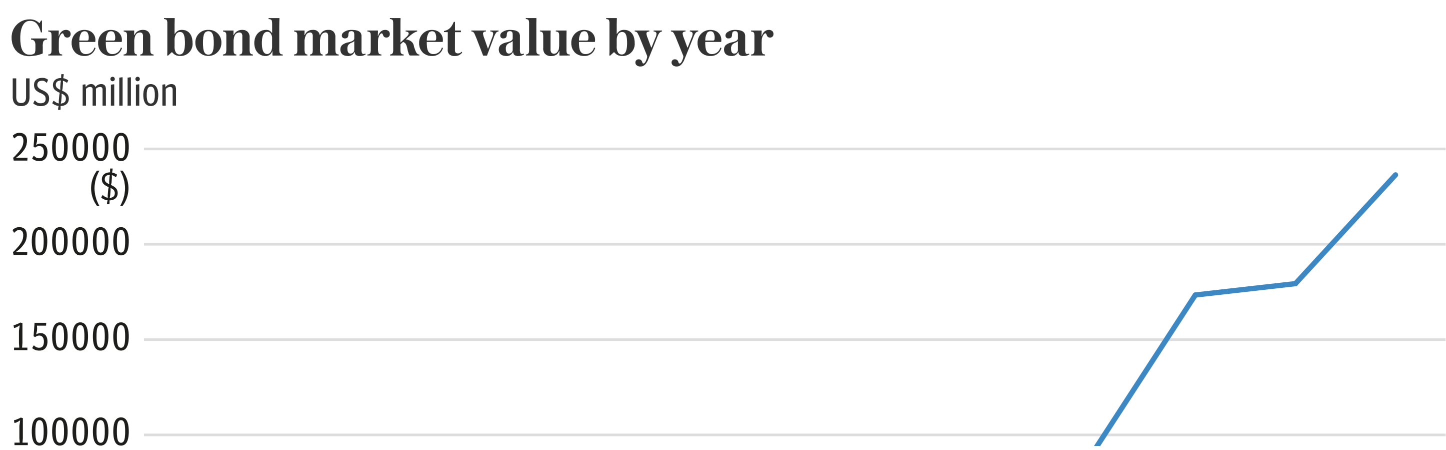
Rishi Sunak today made his strongest signal yet that the Government would be pushing to promote London as the global centre for green and sustainable investment.

The Chancellor had already made it clear he was keen to set London up as a clearing hub for green financial products, including green bonds, a move which would capitalise on the growing investor interest in the space.

In his spending review, Sunak said he would be "mobilising the financial sector to support innovation and manage climate-related financial risks".

As part of this, he will be "implementing a green taxonomy that defines which economic activities tackle climate change and environmental degradation to help better guide investors".

A new UK infrastructure bank, meanwhile, will start investing alongside private investors to get Britain to net zero emissions by 2050, while further cash would be allocated to carbon capture, electric vehicle and hydrogen projects, as previously announced by Boris Johnson earlier this month.



What this will do is build on a trend that has already started to materialise in the capital. Already, London is becoming a global centre for what is known as “impact investment”, where cash is funnelled into start-ups working in areas that are socially or environmentally beneficial, including eco-friendly ventures.

In recent years, the amount of private cash targeted in this space in London has risen significantly. Since 2015, venture capital investment into impact technology start-ups in the city has surged by almost 800pc. In Europe, more broadly, it has risen by only 3.1 times over that same period.

This wave of cash has meant that a plethora of start-ups tackling these issues have sprung up in London. Since 2006, 241 impact start-ups have launched in London, almost the same amount as in Berlin and Stockholm combined. In San Francisco, meanwhile, only 95 “impact” start-ups have been produced.

“The UK is a leading hub for venture in general in Europe, and also for impact venture,” explains Douglas Sloan from Big Society Capital, a private company investing into funds targeting positive social impact. “A lot of the venture capitalists in the space are based in London, and so a lot of activity happens in London.”

This is not activity which has dropped off with the recent Covid-19 crisis. In fact, across the ecosystem, there is huge interest in this area, says Sloan. “We’re seeing more fund managers interested in impact investment. We’ve spoken to probably ten times more managers this year about investing their funds with an impact lens versus two years ago.”

A number of venture capital funds have been interested in the space for quite some time. Local Globe is among those to be backing companies which have a positive social impact, and partner Suzanne Ashman Blair says she has seen first hand the number of earlier stage funds investing in these companies for a while.

"There are getting to be more and more now, more excitingly, we're starting to see some late stage capital in the impact venture space."

There is certainly much activity in the sector. Earlier this year, Giant Ventures was launched, a venture capital fund split between London and Los Angeles which plans to invest $1bn over the next decade in backing companies throughout various stages of their lifespan.

Tommy Stadlen, a co-founder and general partner at the fund, says Giant is making a huge bet that the largest companies in the future will be “impact” firms. “If you look back at the last decade, with a few exceptions, a lot of Big Tech has been created that has not necessarily been incredibly meaningfully useful to society. And I think this decade, that is going to flip.”

Stadlen says there are “early signals that now is the time to invest in this area”, with the recent success of Tesla “dragging the entire automotive industry into electric” being one of the most significant.

In his view, “corporate social responsibility is dead, so if the core purpose of your business is not contributing to society then what is the point of having a greenwashing campaign where you’re planting trees on the side”. “Where the core of your business is serving a social purpose, then it works. But if you're trying to tack it on, I think people see through all that.”

For some, there remain questions about how viable such business models are, and whether purely positioning a business as one to tackle a social or environmental issue is a financially sound prospect.

Eric Archambeau is a co-founder of Astanor Ventures, which recently launched its own $325m “Global Impact Fund”. He says there are “good reasons” that investors haven’t piled into “impact investing” in the past: “It’s very difficult to force feed a lot of money into a company that is not scalable and will not be sustainable in the long-term."

“If you try to apply impact investing into sectors, like can you be an impact investor in gaming? I don’t think so. Can you be a financially successful investing in something that is more of a philanthropic venture? Probably not," he says. “There’s a relatively narrow field in which we can successfully be an impact investor.”

Not everyone takes a similar view. Adam Rimmer at FloodFlash, an insurtech start-up which uses sensors to process flooding claims quicker, says when he is pitching his company to venture capitalists, it is as a commercial opportunity in its own right.

“We don't seek out investors specifically because they have an impact investing angle.” But, he says, what he has increasingly found is that those investors have started looking at consumer trends and working out where the economy is going to be in ten years time.

“As millennials and Gen Z get older and richer, they’ll be the ones controlling the spending. These are big social problems which are much more on people's minds now than they were 10 years ago, and will be more in people's minds in 10 years’ time.”

Sunak’s measures to “build out a green curve over the coming years helping to fund projects to tackle climate change” could mean a shift in attitudes happens much quicker than even Rimmer expects.

Impact investing may have already become a major trend in London. But, with low-carbon infrastructure projects set to receive fresh funding from green gilts, London's position as a world centre of the industry could soon be cemented.

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