

# Impact Private Credit: Investing beyond the bottom line



Alexandra Tixier  
Co-Head Development Finance and Impact Credit



Diane Mak  
Head of Impact Strategy



Ricardo Cavillotti  
Lead Portfolio Manager

**Investors can help to address some of the global economy's most pressing challenges through impact private credit, an emerging asset class focusing on a broader perspective of business value than profits to incorporate people and the planet.**

Climate change. Social inclusion. The Covid-19 pandemic. These pressing and varied global issues have highlighted various problems, from food and water security to inequality and healthcare and education access. And more investors want to use their capital to address these and many other societal and

environmental challenges.

This focus is what's driving the increased interest in impact investing. Traditionally, impact has been associated with specialised impact equity investing. More recently, interest has picked up in a lesser-known area of impact investing: impact private credit (also known as impact private debt).

Both prioritise providing funding to companies focused on delivering measurable environmental or social benefits through their product or services, as well as financial gains.

## Key takeaways

- Social inequality and climate change are some of the varied societal challenges focusing investor attention on finding ways to effect positive change.
- Impact investing goes beyond an environmental, social and governance approach by focusing investment only on companies generating significant positive change via the products and services they provide
- Challenging the consensus view that impact investments are only possible via equity, interest is growing in impact credit as an innovative, targeted, and effective response to big global issues, including climate change.
- The financing is provided to firms delivering positive financial returns, as well as material and measurable environmental or social positive outcomes.
- While impact investment has mainly been in private markets, some asset managers are also increasingly exploring it in listed equity markets, according to Global Impact Investing Network.

## An investment approach beyond ESG

Impact investing takes investors beyond an environmental, social and governance (ESG) approach. The latter – becoming an increasingly standard part of the investment process – measures companies’ performance against a range of metrics outside of financial factors that may still have a material impact on financial returns. Impact investing goes further by making financial returns only one factor in measuring a company’s performance.

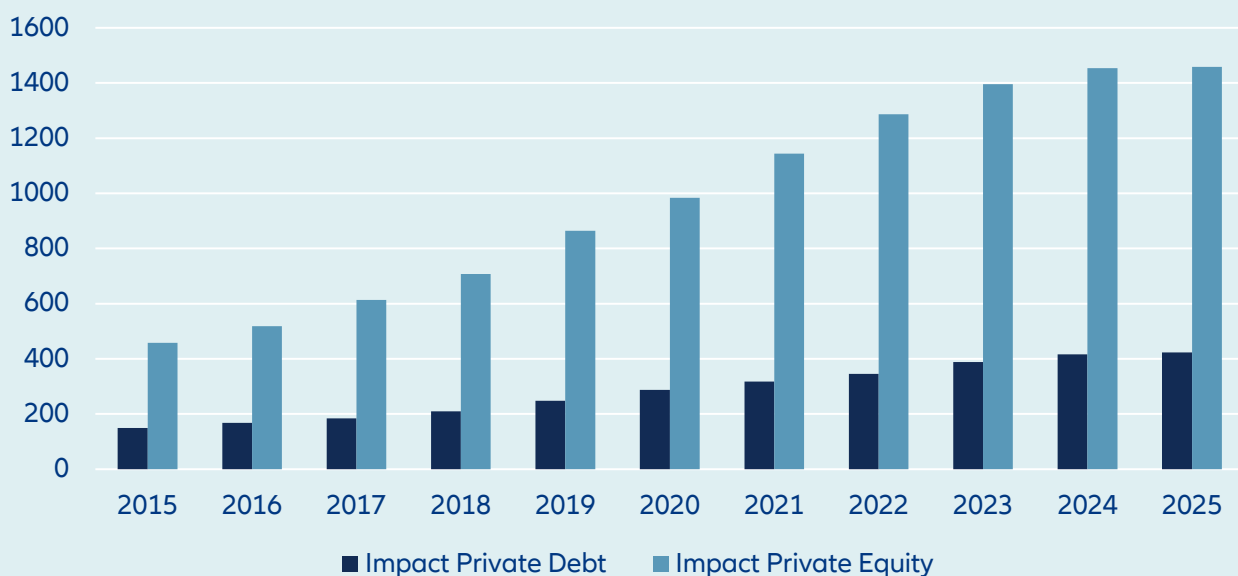
Fund managers channel investment only to those companies whose business models deliver positive and measurable change to society and the environment, as well as financial returns. And while ESG has gained most traction as a framework for change among listed companies, impact investing has the potential for a wider reach – to businesses outside public markets.

## Impact private credit emerging as part of the solution

Impact investing has gained traction over the past two decades – galvanised by investor desire to respond to crises besetting the global economy and society. Impact investing assets under management have reached USD 1.5 trillion.<sup>1</sup> Private equity is often associated most closely with impact investing – and there’s been significant growth of impact private equity funds since the Covid-19 pandemic due to greater recognition of the challenges facing society highlighted by the outbreak. But private credit is also attracting more attention (see Exhibit 1 and 2). By working with asset managers that lend to companies or projects committed to realising value for the environment and society, as well as profits, investors can begin to shape an investment strategy in line with their values – and financial goals.

Structuring techniques such as blended finance<sup>2</sup> are also starting to gain traction with asset owners to mobilise large-scale capital into impact projects in emerging markets or technologies.

**Exhibit 1: Number of Private Impact Funds**

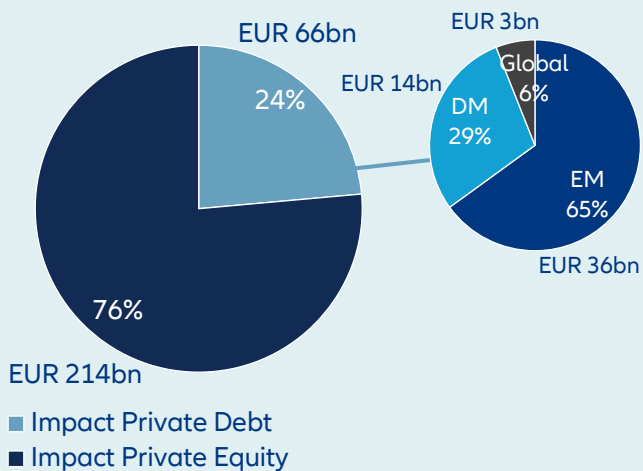


Source: Impact Report Private Equity Phenix Capital January 2025 & Impact Report Private Debt Phenix Capital June 2025

1. Hand et al. (2024). Sizing the Impact Investing Market 2024. The Global Impact Investing Network (GIIN). New York.

2. Blended finance combines private and public capital to fund large scalable structures.

**Exhibit 2: Global Impact Funds capital raised**



Source: Impact Report Private Equity Phenix Capital January 2025 & Impact Report Private Debt Phenix Capital June 2025. Impact Fund Universe Report, March 2025

### Supporting the development of borrowers providing solutions and scale them

Impact private credit can support the development of a range of different small to mid-cap companies based in developed markets providing intentionally a solution which addresses one of our key societal challenge. For example, companies providing low-carbon services or circular economy solutions to different industries, or affordable and specialised healthcare or education services to populations who would otherwise not have had access. Impact private credit can support the growth of these borrowers through the next phase of their development, scale their businesses through for instance further internationalization of their footprint, new distribution channels opening, and bolt-on acquisitions financing.

In some cases, they might be unable to get adequate funding from other sources. That might be because they're an early-stage business looking for growth capital or because banks and other traditional finance providers generally stick to lending to companies focused on more traditional business segments.

But borrowers can also include companies seeking to raise credit for the first time to fund specific impact-related goals.

### From humble beginnings: the evolution of impact private credit

From a desire by eighteenth-century Methodists and Quakers to invest in line with their beliefs to a push by Civil Rights era activists to screen out sectors or companies deemed unethical – impact investment can trace its roots back to socially-responsible investing movements of the past.

Equally, private credit has also emerged from a niche partly focused on distressed debt to a more mainstream product after the global financial crisis that is today used for financing everything from agriculture to renewable energy. Private debt, as defined by the Global Impact Investing Network, involves placing bonds or loans with a select group of investors, rather than being syndicated broadly. Impact private credit combines both trends in a financing tool that is not publicly tradeable.

And demand is growing. Private debt impact funds are looking to raise EUR 83 billion (while having raised already EUR 66 billion since 2015), according to a June 2025 report by Phenix Capital.<sup>3</sup>

Much of the asset class's focus is on sectors with the greatest urgency to effect change – environmental sustainability, financial inclusion, healthcare, education, food security, and social infrastructure.

### Incentives to effect and align change

Requiring borrowers to provide regular financial reporting and comply with certain financial tests (i.e. financial covenants) is one of the common ways lenders monitor and influence the financial performance of borrowers. Lenders can take a similar approach when providing funding for environmental or social issues. This means incorporating impact reporting requirements and impact covenants into credit documents to safeguard the use of funding and to incentivise the acceleration of impact generation.

A tool to incentivise impact delivery are impact-linked margin ratchets, where we may work with company management to identify specific impact key performance indicators (KPIs) and targets – like the number of

3. Source: Impact Report on Private Debt, June 2025, Phenix Capital.

individuals with new access to health services or carbon emissions avoided by the company's customers (due to the company's products or services). Outperformance by the borrowing company on the agreed KPIs can then lead to a reduction in the loan interest margin.

### Private credit as a potential alternative

Private credit offers several strengths over both private equity and public debt – for both the investor and the company receiving the funding:

#### For the investor:

- Help in achieving both impact and financial goals through lending to small to mid-cap and robust businesses providing solutions supporting sustainable, social and climate-friendly initiatives.
- The chance to increase investments in businesses as they grow, benefiting from potential upside.
- Diversification benefits: given their illiquid nature, private credit investments tend to have a lower correlation with public capital markets and lower return volatility in turbulent markets.
- Higher recovery rates than public markets during downturns<sup>4</sup>, while fewer lenders help ease the complexity of debt restructuring.

#### For the company:

- Credit solutions tailored to the needs of the company and an investment approach adaptable through the stages of a company's growth.
- No dilution of shareholdings and no handover of control of the business, a potentially attractive option, particularly for founder-led firms.
- Flexibility in funding structures relative to public markets, enabling funding to be tailored to suit the short- to medium-term goals of the business and helping to enhance returns for shareholders.
- Partnership with a long-term investor ensuring

confidentiality and certainty of execution

- Collaboration with an investor with aligned impact objectives and expertise, to accompany the company on its impact journey

### Targeting the right approach

To maximise the possibility for positive change, investors need a robust impact methodology to ensure impact as well as returns are achieved. Allianz Global Investors' impact framework integrates impact across the lifecycle of an investment via a four-step approach<sup>5</sup>:

- 1. Establishing impact objectives:** to ensure that the investment strategy targets key societal challenges in line with the United Nations Sustainable Development Goals (UN SDGs).<sup>6</sup>
- 2. Assessing impact significance and contribution:** applying our impact scoring system to inform our investment selection and decision-making.
- 3. Identifying key performance indicators and engaging with investees:** measuring and reporting against meaningful impact KPIs to demonstrate impact delivery, alongside active engagement with investees over the investment lifecycle to support impact generation.
- 4. Continuously testing, learning and market-building:** to strengthen our approach and impact generation.

As more investors look to invest beyond the bottom line, impact private credit is likely to emerge as an increasingly integral tool to effecting positive environmental and social change.

4. Understanding Private Credit, Goldman Sachs Asset Management, 20 October 2022.

5. For further detail, see: "Managing and measuring impact in private markets" by AllianzGI's Diane Mak.

6. United Nations Sustainable Development Goals are seventeen interlinked objectives designed to serve as a shared blueprint for peace and prosperity for people and the planet.

**Investing involves risk.** The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted. This material has not been reviewed by any regulatory authorities. In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. laws. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced, except for the case of explicit permission by Allianz Global Investors. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional /professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors UK Limited, authorized and regulated by the Financial Conduct Authority; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK).