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Steven Cowan, Carl Balit and Stephen O'Neill

57 Stars the new impact investor on our block

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US-based impact investor '57 Stars', which invests actively in Australia, has developed a thematic approach to its investment strategy. While it still grabs opportunities as they present themselves, the firm is not as opportunistic as you would describe most impact investors.

The privately owned firm, formed in 2005 and managing just under US\$4 billion (A\$6.1 billion), currently looks at four main themes or categories for investment returns: environmental sustainability; healthcare; financial inclusion; and, technology-enabled consumer businesses. In terms of its pure 'impact' strategies, it's the first of those three on which it concentrates.

And its direct investment returns have been very healthy, putting it in the first quartile against both global and emerging markets benchmarks and even better against 'sustainability' benchmarks, over most periods since inception.

Visiting Australia last week, 57 Stars co-founders Steven Cowan and Stephen O'Neill and executive director Carl Balit, said that the firm partnered more than a decade ago with Principle Advisory Services, based in Sydney, to help its growth in Australia and New Zealand, because Principle also had a long history in private equity investing, either as a co-investor or as a third-party distributor. 57 Stars, though, started life primarily as an emerging markets investor. The fund manager's history has led it to a tilt with its impact investments towards developing countries.

The senior partners had worked for a US Federal Government agency known as OPIC, which invested in emerging markets. The agency is now known as the International Development Finance Corporation. Steven Cowan and Carl Balit are both based in Washington, while Stephen O'Neill is based in Tokyo. The 25-person firm has five offices around the world.

Cowan says: "When we were there the portfolio was about US\$20-25 billion and roughly one-quarter of that went into private equity." He says that what 57 Stars does is to have an "unabashed financial focus" on all its investments. "But we can still have a passionate desire to make an impact... We have developed a thesis around our impact investing. We add intentionality, measurement and monitoring to the process. We identify specific investment returns. And we have a combination of tools to help us, some of them proprietary."

The firm uses IRIS+ metrics, which total about 700, for roughly half its analytics, because of the general acceptance of the data source. It has what it calls an "impact evaluation" tool and an "impact valuation multiplier".

Carl Balit says that the manager is guided by trying to help solve big global challenges as defined by the United Nations' Environmental Development Goals (SDGs). It is a bottom-up process but within the general themes of the SDGs. "We have a strategy and process to identify those companies which can both make an impact and generate good returns," he says.

In the opportunistic part of the portfolio, Stephen O'Neill said, a lot of the interesting opportunities lay in the digital space. For instance, technology enabled an investment in a model for small loans in Mexico and a health insurance

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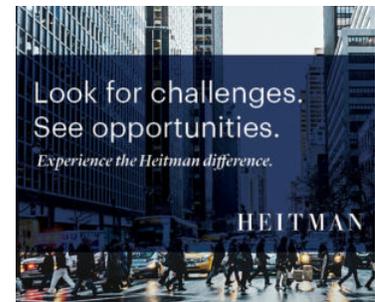
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James Cowper, a director of Principle, said Australia and New Zealand represented good growth prospects for 57 Stars because both countries had an increasing appetite for impact investing, as well as the adoption of ESG principles in general.

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