

Sarona: A private investment firm with a heart



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Sarona is a private impact investment firm, deploying growth capital to reach growth-stage companies in high-growth countries across frontier and emerging markets. It is essentially what is called a fund of funds. It invests in a number of different impact investment funds and, in some ways, acts like a mutual fund of private investment vehicles. One of the main differences is that you cannot move in and out of your investments in this type of fund of funds.

Through their primary strategy of investing in local private equity funds, they seek to build companies that deliver high risk-adjusted returns while promoting positive ethical, social and environmental values. They aim to carefully select only those local managers who are able to demonstrate that they add real strategic and operational value to the companies they invest in. They believe that small to mid-market companies, in their expansion stage, represent one of the best risk-adjusted opportunities within these fast-growing markets and they prioritize this for two reasons. Often it is these fast-growing companies that create the most and best employment for growing populations and offer good returns to the investors.

Because it is extremely difficult to capture these types of opportunities without a local presence, they adopt the fund of funds approach to investing. The fund of funds model enables them to focus on cultivating lasting relationships — built on mutual trust and respect — with experienced local fund managers who are able to navigate the complex realities of their home markets.

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Sarona Frontier Markets Fund 2 has been widely recognized as a particularly successful example of a good impact investment fund of funds. With a \$15mm equity guarantee from the Canadian government, and a \$50mm credit guarantee from OPIC (a U.S. government agency), the fund raised \$150mm of equity and debt, driving private capital into mid-market companies in a careful interplay of finance and values. Environmental, social and governance (ESG) considerations are at the core of how Sarona implements its strategy.

In 2015, the companies in Sarona's portfolio made great strides in their effort to create and improve jobs. They reported a 6 percent increase in the number of jobs, resulting in 86,145 full-time positions at 146 reporting companies. The number of net jobs created was 4,558, or 31 jobs per reporting company. Companies continued to provide high quality benefit packages. Health insurance was the most popular benefit (69 percent). The majority of employers also provided maternity and paternity leave (57 percent) and disability coverage (50 percent).

Sarona's ESG and impact policy outlines how the company's beliefs will be reflected in its operations. It sets expectations for how Sarona will consider ESG issues and impact outcomes in its funds. For Sarona, consideration of ESG issues means taking material, ethical, environmental, social and governance risks and opportunities into account when making investment decisions. At the same time, Sarona defines impact investments as investments made with the intention of generating positive social and environmental outcomes alongside a financial return.

Sometimes, the work of a fund group such as Sarona jumps off the page when one cites an example. With the support of the Canadian government and a group called MEDA, Cleopatra Hospital Group in Egypt is setting an example with a pilot training scheme designed to empower nurses and enhance their skill set. Encouraged by the fund manager invested in by Sarona, The Abraaj Group, Cleopatra also implemented a sophisticated, female-oriented HR policy and benefit scheme that ensures staff is paid according to merit rather than gender — something that is altogether uncommon in Egypt.

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