A case for diversified private equity impact strategies

Diversification is key to successful investing, and private equity impact portfolios are no exception. By diversifying across asset classes, strategies, geographies, as well as managers, investors can mitigate risk, improve return potential, and enhance the overall resilience of their portfolios.

By *Jennifer Signori*

In the context of impact investing, diversification allows for a broader range of social and environmental objectives to be addressed. For instance, co-investments, that are made directly into companies alongside a private equity fund, enable impact investors to target specific high impact potential companies by evaluating their products and services. Advantages like mitigating the 'J-curve' and cost-effectiveness are generally well understood. With an impact lens, co-investments have the added benefit of broadening the number and quality of general partners (GPs), enhancing the pipeline of investment opportunities and helping to mitigate concentration risk. Moreover, co-investment opportunities at scale generally represent more mature, later-stage companies, helping to increase exposure to buyout within an impact investing portfolio.

Secondaries, both LP-led as well as GP-led, are another powerful tool in building diversified impact private equity portfolios. For impact investors, secondaries can offer increased exposure to high-impact companies that are already generating measurable outcomes, thus reducing the risk of unproven business models and also improving liquidity options.

Both co-investments and GP-led secondaries, especially single-asset secondaries, are investments directly into companies. Relative to investments into funds where there is a relative degree of blind pool risk, these direct investments allow an investor to conduct impact diligence on a specific asset and to assess to what extent a given company's products and/or services might contribute to addressing social and/or environmental challenges. Investors can then build out an impact thesis or theory of change, tying the company's business activities to immediate outputs, short- and long-term outcomes, and impact KPIs to be tracked over time. It also allows investors to broaden the pipeline by evaluating opportunities at the company or asset level.

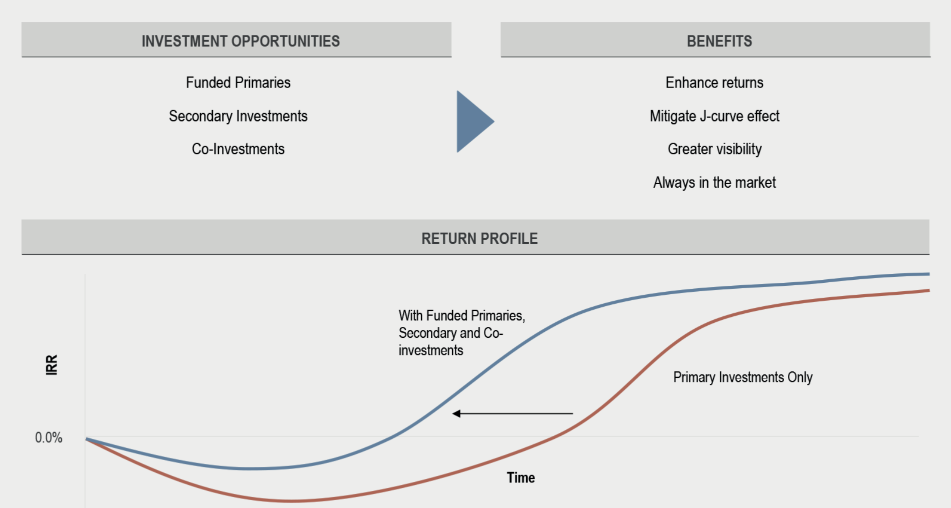
Expanding the opportunity set

While large-cap buyouts often dominate the headlines, small- and mid-cap buyouts represent significant opportunities for both financial returns and positive social or environmental outcomes. These companies, often earlier in their growth journeys, offer increased value creation through operational improvements, strategic positioning, and market expansion.

Overall, the private equity market experienced a rise in the number of small and middle market buyout funds over the past several years in Europe and North America. The number of closed buyout funds less than $ 1 billion in size increased from 197 in 2019 to 263 in 2024 at a 6% CAGR, whereas larger buyout funds, greater than $ 1 billion, decreased in number from 2019 to 2024.[1] Small and mid-cap buyout is a growing opportunity within private equity overall.

In the context of impact investing, small-cap and mid-cap companies may be more innovative, pursue underserved markets, or implement sustainable business models – all of

FIGURE 1: PORTFOLIO CONSTRUCTION BENEFITS OF CO-INVESTMENTS AND SECONDARIES



Source: Neuberger Berman. For illustrative purposes only which can drive outsized impact alongside financial returns. These companies also tend to have more room for operational improvements, which can lead to substantial value creation over time.

Within impact investing, more than $ 1 trillion has been raised over the past ten years.[2] Since 2014, impact capital has been raised within a wide array of strategies, with real assets having raised most of the capital in the past decade and private equity having gained significant share since 2020. However, despite strong growth in impact investing, private markets impact is still a small percentage of the overall market based on assets under management; for example, just 6% of the total capital raised in 2024.[3]

Historically, the representation of real assets and infrastructure within impact private capital portfolios relative to non-impact portfolios that have greater relative exposure to private equity may have skewed financial returns comparisons. Some studies have shown that private equity impact versus non-impact investments have demonstrated comparable industry median IRR. However, the challenge remains that the track records of dedicated private equity impact funds are still early, with most realizations and exits still to come.

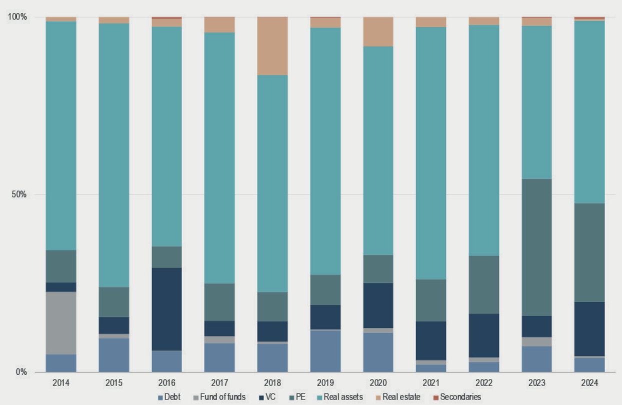
The ability to broaden the opportunity set to not only support dedicated private equity impact funds, but to also employ tools such as co-investments and secondaries, expands the reach within the private equity segment of the market. This supports broadening the investment opportunity set to deploy invested capital as soon as possible into high quality companies within an impact investing portfolio, while also importantly supporting the continued growth of the industry through fund commitments.

Conclusion

We believe building a diversified impact private equity portfolio that incorporates co-investments, secondaries, and fund investments requires access to high-quality deal flow, deep due diligence capabilities, and the ability to act quickly and decisively. For many investors, partnering with a private equity platform can provide the necessary scale and access.

In today's rapidly evolving investment landscape, diversified impact private equity portfolios can offer a powerful way to achieve both compelling financial returns and positive social and environmental outcomes. Incorporating co-investments and secondaries can potentially enhance cost-efficiency, improve liquidity, and reduce risk. Meanwhile, increased diversification broadens exposure to varied private market asset classes and a range of managers. Together, these attributes of a diversified impact private equity portfolio can unlock the ability to generate attractive financial returns and create meaningful impact. ■

FIGURE 2: SHARE OF GLOBAL IMPACT CAPITAL RAISED BY STRATEGY[4]



Source: Neuberger Berman

1 Calculated using data extrapolated from Prequin. 'Buyout Historical Fundraising.' (2025).
2 Includes impact funds raised from 2014-2024 from Pitchbook. 'The State of Sustainable Investing in the Private Markets 2025.' (2025).
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4 Pitchbook. "The State of Sustainable Investing in the Private Markets 2025." (2025).

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SUMMARY

While impact investing has traditionally been associated with niche opportunities, a diversified private equity impact portfolio can help deliver access, efficiency, and returns while driving meaningful social and environmental change.

A portfolio that includes co-investments and secondaries, together with fund investments, increases exposure to small-cap and mid-cap buyout and can unlock a wider range of high-quality opportunities while benefiting from the known advantages of diversification.

PHOTO: ARCHIVE NEUBERGER BERMAN