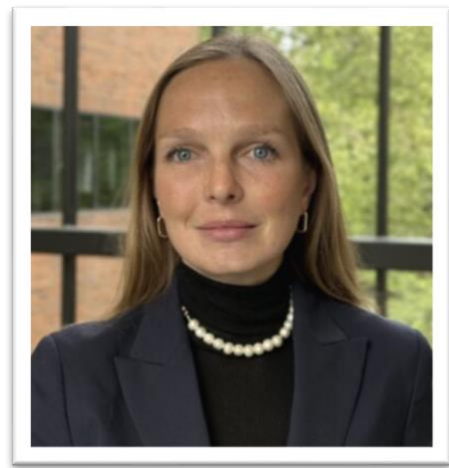




Variant's Hicks On Making An Impact On More Than Investors' Finances

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Chuck Jaffe, in this episode of The NAVigator podcast interviews Drake Hicks, Head of Impact Investing at Variant Investments. Drake and Chuck discuss the unusual intersection of closed-end funds with impact investing, which goes beyond ESG (environmental, social and government principles) to invest in projects which have a purpose beyond just a profit margin. The firm runs the Variant Impact Fund, a high-yield closed-end interval fund whose assets are aligned with the United Nations' sustainable

development goals, and Hicks talks about how shareholders benefit from the interval structure

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

CHUCK JAFFE: Drake Hicks, vice president and head of impact at Variant Investments is here, we're talking about impact investing and interval funds, it's time for The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization representing the full spectrum of the closed-end fund business from investors and users to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today we're looking in a direction that is not where most closed-end funds and interval funds go, because while there are closed-end funds of all

types, very few of them follow what you'd consider responsible investment principles, and by that I mean socially responsible, although I'm not a big fan of the socially responsible term because it's not that everybody else is irresponsible. But Drake Hicks leads the impact investment process at Variant Investments, which runs the Variant Impact Fund, that's ticker symbol IMPCX, it is a closed-end interval fund that is built to offer investors access to less liquid alternatives investments in the pursuit of high current yield, and it looks for income generating assets that are aligned with the United Nations' sustainable development goals. You can learn more about the fund and the unique approach Variant brings to the interval fund and tender-offer fund space by going to VariantInvestments.com. And if you want to learn more generally about closed-end funds, interval funds, and business-development companies, go to AICAlliance.org, that's the website for the Active Investment Company Alliance. Drake Hicks, thanks for joining me on The NAVigator.

DRAKE HICKS: Thanks so much for having me, Chuck.

CHUCK JAFFE: I should point out that while impact investing and ESG, environmental, social, and governance investing, while those terms are often used interchangeably, they're not actually the same thing. Generally speaking, ESG is about incorporating environmental, social, and governance factors into the investment decision making, to make them factors in the financial analysis and then identifying companies that exhibit responsible business practices. But impact investing, as I understand it, involves investments where there's the intention of making positive and measurable change alongside generating a financial return. So no matter how you define social investing, there's not a lot of it in the closed-end space, but at Variant you guys expressly say that the structure helps you follow your impact goals. So how do you square that discrepancy if there's a benefit to ESG and impact investing, why aren't we seeing more of it with closed-end funds?

DRAKE HICKS: You know what, Chuck, that's a fantastic question. We are, from what I understand, the only impact and interval fund structure out there. Now I'm not saying other private credit vehicles don't offer some liquidity options, but we are a very unique structure, and I am calling to the universe to try and find alternatives out there so that we can actually continue to build out this program, right? Half the battle is not only building currency and building compelling rationale for impact, especially in the uncertain world we sit in, but also selling the asset class and building education around why private credit specifically in the

niche private credit strategy is just a natural extension, or potentially even a unique pathway for expressing these dual objectives, so we're thinking that generating financial return, and that's a quantitative data point that and I can receive on a daily basis, but also that impact. And so at Variant, specifically with an impact fund, we're trying to draw the [inaudible 0:03:44] line, an invisible line from that credit investment to that measurable impact, something that you can track when you invest that one dollar and see what that dollar can create on the other end. It's really about connecting the dots, as business grows, impact grows, we're looking for that collinearity.

CHUCK JAFFE: Let's talk a little bit about how you do that. At Variant, like I said, you guys follow the United Nations' sustainable development goals, explain those goals and help us understand how your take on impact investing is different from that more standard ESG fund.

DRAKE HICKS: Definitely. So an ESG fund, you're really looking at the internal operational risk and understanding what's happening inside. There's not that intention to generate output that suggests a positive return on an outcome, right? So we have a very unique approach at Variant, we take seven steps, any deal that comes through the pipeline is going to take the general private credit bottom's-up approach to analysis, so we bring that financial rigger, the investment team collaborates directly with the impact team, so you're looking at the financial and impact lens as one. We look at exclusion lists, so thinking about any extractive practices, you're looking at any kind of alcohol, tobacco, controversial weapons, the typical exclusion list that we may see in family offices or pension plans, we're not unique in that way. We then take a very diligent ESG approach, and that's based on materiality, so we're looking at capital access and financial inclusion in Africa, and then we're looking at a lease to own model in Peru, we're thinking about different material risks that would show up in that business and that unrecognized risk that would pertain to some bottom-line financial impact someday. So we want to take a look, we want to understand what's happening there, it doesn't necessarily preclude it, but it invites a conversation to diligently talk to the counterparty or the originating deal and saying, "Hey, what's going on here? Have you thought about XYZ? We've seen this in a different business model and we'd love to discuss ways to mitigate this risk." Now that's step two, step three, we're a niche player, that's what Variant's DNA is, that's where we come with the traditional \$2.8 billion private credit

fund, we look for interesting deals, and so we're looking where our capital will actually be additives, we're looking for that additionality. If not us, what is the alternative? That's a bit aspect of where our impact dollars really drive incredible outsized impact, where other players are just not serving the population, so we take a diligent approach there. We then look at broad SDGs, now there's 17 SDGs, they've come out of the Paris Accord, it's kind of the first layer of language that is very highly recognized globally, and why that's helpful is it kind of builds consensus of, "Okay, you're focused on financial inclusion, maybe no poverty, that's UN SDG 1, we can all align on what we're talking about broadly. Now for us it's not enough, for example, so we've co-developed an impact assessment framework with four different pillars with Tideline, a very well-known consulting firm, they do a bunch of other really good stuff, thought research, they support direct allocators too, their CEO's based in Portland, so we have a great working relationship with them. When a deal gets to that point, that is when we go to committee and we process it, so we're weighting a deal, we're seeing how it matches up against other deals in the portfolio, we're understanding it, we're basically using it as a piñata, and that session precludes the investment committee. So the Impact Committee is a separate committee meeting where we're weighting, we're diligence-ing, we're kind of piñata-ing, and we're also raising questions to ask the end deal team to say, "Okay, we want to kind of figure out these answers before we are comfortable investing out of the Impact Fund." When it then goes to committee is when we decide, is it the object of the Impact Fund or is it the object of our traditional fund? So that's kind of pathway five, we then look at Iris+, so the Iris+ metrics are a generic standardized approach where you externally report out, once again, that's consensus building to understand and keep us all accountable to the measurable impact we're delivering, and then we look at the DEI aspects. So we're looking to say, hey, are you thinking about other populations that you're serving, are you considering markets, and once again, that's just good business. One of our deals in Africa, we support small loans in the \$300 to \$350 space, 65% of the borrowers are women and there's a 2% loss rate, that's just good business.

CHUCK JAFFE: It is good business, but these days everything gets politicized. ESG has been considered and called "woke", which is now in some places considered a bad term, but long before anybody called it even ESG, when it was simply social investing, the idea was to do well by doing better. This is a very different type of investment from that standard ESG fund,

how much do you benefit from, we've got this structure here that allows us to be long-term investors? How much are you not benefiting from all of the backlash against woke and DEI?

DRAKE HICKS: I'm a relatively new joiner to Variant, so when I'm thinking about a team I want to join, I'm thinking about, okay, does this give me the runway, the agency to do what I want to do, with a good foundation of good work? Is there a high integrity model? Is there great individuals that have been around for a while and dedication? We are just good investors, plain and simple. When the deals come in the funnel, they're not necessarily impact or with our traditional fund, they get tagged down the line when there's some impact element. I'm not saying it's reactive, but the DNA of the Variant team has been already investing where there has been lacking capital access, they've already been in emerging markets, they've already been investing in affordable housing, they've already been investing in renewables, so fundamentally these are good deals. Then you look at, okay, well, what is the impact they're driving? Is there [inaudible 0:09:25]? Is there additionality? And is there intentionality and is there measurability? So what we've done in the Impact Fund is the good deal comes in and then we've enunciated the impact. I do not bother myself with the rhetoric around ESG, I don't really care what you call it honestly. In the next 10 years it's going to be called something different, and the next 20 years, if I'm still around, it's going to be called something different. So in a lot of ways we are not really, we're not an ESG fund, we're very simply impact forward, meaning we do good deals and there's a measurable impact outcome, we're really not focused on the ESG vernacular rhetoric. I don't think that's a place we need to tease out, and honestly because it's a small part of what we do, it doesn't pertain to our strategy holistically.

CHUCK JAFFE: Closed-end fund investors are notoriously driven by things that have nothing to do with impact. It's, "I'll own a fund. If it goes down, I'm going to look to tax-loss selling." "I'm going to look to narrow discounts," all those sorts of things. I would assume your investors really don't do that, that they come in and they understand what they're getting and they want to be there. Or is there a quotient, and obviously as an interval fund, anybody who's there can't necessarily just come in and out willy-nilly, but is everyone on board because they've got to be? Or is this a case where, hey, if the discount gets big enough, people are going to come in and it will change the way the fund functions a little?

DRAKE HICKS: We are not immune to market forces or the macro-economic environment, but the thing is, what we're doing is we are a bright spot in this world right now, we have these incredible heartbeats behind the data point. We can tell you, Chuck, "You like XYZ? Well, you know what, we're investing in this way and this is the impact that you're driving." It's this beautiful values alignment, and with that becomes a stickier relationship, and we've seen that. As you rightly said, we are an interval fund structure, we then are a semi-liquid fund so we offer quarterly liquidity up to a certain percent of NAV that we must distribute, we have never been gated. Redemptions have been low, and that's because we have people that really like what we're doing. We've got a 9% trailing one-year distribution, we've got 9.6% net since inception, and we've got a four-year track record, so we're sitting in a wonderful [inaudible 0:11:41] position, where we've done well, we're showing that impact in our annual impact report, we're delivering that market rate return, we're multi-thematic, so when areas that become soft, we can kind of move in places where there's incredible amounts of tailwinds, and we're addressing underfinanced markets. So it's a pretty unique strategy in the way that we've been developed, and we've been able to deliver on what we do. One of our founders always said, "Let's do what we say we're going to do it, and do it well," and that's all we're trying to do. I'm not trying to have this hockey curve type balloon payment structure, we want to deliver on consistent results with consistent impact, and that's what we've been able to achieve.

CHUCK JAFFE: Last question. You have achieved that to the tune of about 9.5% annualized returns since inception, but how does somebody categorize what this fund does when they're just looking to do it from the portfolio? Take away the impact side and I am not sure where I benchmark you. Do I benchmark a fund like yours against high yield because you're looking for high current income? What's the appropriate use of this fund beyond just, I want to be investing in ways that I think will make the world a better place?

DRAKE HICKS: I think that's a great question, Chuck, and it's hard to sometimes describe, and I would say different asset owners, asset management firms, wealth managers, they kind of categorize us different, but we're an alternative business, we're a liquid credit solution, we're a ticker purchase, so you can basically be on risk, on impact, day one, you can buy us through an advisor day one. There's daily valuations, there's low minimums, it's the 1099 reporting income distribution model, but it's also private, so you're gaining access to more liquid

measures, so we're kind of like that liquid private credit alternative. It is difficult, but in respect to some of the benchmarks that you mentioned, we kind of get benchmarked against them all. I know that's an unsatisfactory answer, but when we're looking at fixed income or looking at high-yield product, it's a little bit of both. We sit in between maybe a mutual fund and private funds, and we have overlapping aspects of both types.

CHUCK JAFFE: In the case of Variant Impact, it is ticker symbol IMPCX. Variant in general, really interesting company, you can check out VariantInvestments.com for more information on what they do and how impact investing works. Drake Hicks, thanks so much for joining me on The NAVigator.

DRAKE HICKS: Thanks so much, Chuck. Such a pleasure, and looking forward to hearing from you.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and I'm Chuck Jaffe and I'd love it if you'd check out my show on your favorite podcast app or by going to MoneyLifeShow.com. To learn more about interval funds, closed-end funds, tender-offer funds, and business-development companies, go to AICAlliance.org, that's the website for the Active Investment Company Alliance. Thanks to my guest Drake Hicks, head of impact investing at Variant Investments, which runs the Variant Impact Fund, a closed-end interval fund trading under the ticker symbol IMPCX. Learn more about the firm and its take on interval and tender-offer funds by going to VariantInvestments.com. The NAVigator podcast has something for you every Friday, make sure you never miss an episode by subscribing or following along on your favorite podcast app, and if you liked this podcast, please leave a review and tell your friends because that stuff really does help. We'll be back next week, and until then, happy investing, everybody.

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