# How two former Macquarie impact gurus built a $450m fund at Palisade

Former Macquarie execs Steve Gross and Jeremy Wernert launched their own impact investing firm within Palisade, targeting three goals: zero emissions, zero waste and zero inequality.

Palisade Impact invested in materials recycler Repurpose IT as part of its circular economy thematic. *Supplied*.

**Steve Gross** spent 16 years with **Macquarie Group**, holding roles that included overseeing asset management operations across the Asia-Pacific and establishing the company's impact investing division, before deciding to launch his own impact investing business with former colleague **Jeremy Wernert**.

The pair developed an infrastructure investing model that prioritises environmental and social progress without sacrificing risk-adjusted returns. They decided to branch out on their own and eventually teamed up with other ex-Macquarie bankers at **Palisade Investment Partners** — an infrastructure investment boutique founded by another former Macquarie operative, **Roger Lloyd**.

Adopting a private equity-style approach, focusing on improving a select number of investments by investing in management and making bolt-on acquisitions, the pair established Palisade Impact in 2021. A year later, it finalised a $450 million capital raise for its inaugural open-ended fund.

So far, the team has made three investments in energy transition, healthcare, and digital inclusion — all consistent with the three key themes of their impact investment strategy: zero emissions, zero waste and zero inequality, as Gross explains in this interview with *Capital Brief*. The transcript has been lightly edited for clarity and brevity.

**Why did you leave Macquarie to set up your own business?**

I set up the global impact investing business at Macquarie. Jeremy's last role at Macquarie was as the head of Macquarie Capital in Asia. We have a long track record of doing things in this space, but really wanted to do it for ourselves in our own way.
We set up Palisade Impact with two things in mind. We want to deliver really strong investment returns for investors, and we want to deliver a demonstrable impact that enhances value. There's a view in Australia that, rightly or wrongly, that you have to give something up for impact. That you're effectively creating concessionary returns for delivering an impact. And it's our view that you can never have a big enough impact if you're having to give something up.

That's the North Star of what we're doing at the moment, demonstrable, measurable impact where we can actually create value from doing that.

**How did you end up launching your business within Palisade Investment?**

Palisade is a minority owner in our business, so we're effectively an affiliate of Palisade and the management team owns the rest together. Pinnacle Investment Management owns a small amount, so the majority of the business is owned by management.
That provides great alignment, so we all benefit with the success of investors in our business going forward. A lot of the heritage of Palisade through former Macquarie people. I was first asked to talk to Palisade in late 2020 by ex-Macquarie people that I know.

One of the things I've learned from covering the asset management industry for many years is that investors want more from fewer managers or less money. They're not looking to add a new manager, you know, they're looking to get more out of their existing managers. We certainly had the opportunity to set up our own business.

But from what I've seen in the asset management industry, the better option was to have some kind of Supported Independence from with a an existing, highly capable, mission- aligned manager like Palisade, that allowed us to leverage off their fantastic track record, their strong institutional capabilities and a really strong investor and loyal investor base.

**Describe your investment strategy in a nutshell.**

We invest in next-generation infrastructure businesses. We look for businesses that, over the medium term, have strategic competitive advantage, stable cash flows, high barriers to entry — but we apply a private equity mindset. We ensure that we're investing with very strong management teams which are highly incentivised and aligned, both from an impact and a financial perspective.

We support them actively on growth, both for their impact and the business generally. We have operating partners that we bring into some of the businesses to help them get better and evolve. But it starts with really, really strong, powerful management teams.

**You've recently completed your first capital raising. How did it go?**

We thought we would raise $150 million but we raised $450 million. We launched the fundraise at the start of January 2022. It felt like there was this period of three months where everyone wanted an Impact Fund. And then we closed in May that year and the market shat itself. If we were one month later, or one month earlier, we would have, we would not raised the money.

**What's your asset allocation strategy and what thematics inform it?**

We have three themes that we target which, unimaginatively, we call the race to zero. So zero emission, zero waste and zero inequality. Zero emissions is net zero, zero waste is circular economy and zero inequality has a bit more breadth so that we're looking at digital inclusion, health care and retirement accommodation.
But effectively, we want impacts across all of those things. And even more ideally, each investment [will] have some kind of impact on each thing, if we can, but it's that's unusual.

Within those three themes, there are 30 subsectors in the infrastructure space, and we rank those 30 sectors according to returns, impact and executability and within those, we basically focus on six sub sectors that have the highest ranking across all of those three areas.

Of the six, we have five areas covered at the moment. We want to add more exposure in energy, zero emissions, and more exposure to healthy living. And we constantly evaluate that, we constantly evaluate that matrix of where to focus our time. It's because we invest at the intersection of infrastructure, changing regulation, changing technology and changing business models.

**What investments have you made thus far and how do they speak to these themes?**

We've got three investments, **PureSky Energy**, which is an energy transition and community solar business. We have **Repurpose It**, which is an organic waste recycling business, and we have **Gigacomm**, which is an internet infrastructure business, but it offers that at a much lower cost, which enables us to offer that to community housing and social and affordable housing to bridge the digital divide.

We made three investments over the last 12 to 18 months. We will look to buy another two, but then we'll use those businesses to buy other businesses and bolt them on and invest more capital in the businesses we already own.

That will necessitate us putting more capital in. We will have more capital, and have more investment opportunities than we have capital in the fund. And so I expect that will mean we'll look to bring other forms of capital into those businesses where we can.

**What does the fund structure and return profile look like?**

We target returns of 13-15% and over the medium term and we look to deliver growth in the early years, and create yield in late years. We’re an open ended fund, so theoretically, we can hold on to the assets in perpetuity.

Do you see the world any differently from other impact fund managers and to date, have you done anything that's unique or seen as countercyclical?

I don't think it's a common view to say that impact investing can enhance value. I think our approach is to focus on incumbency, so to buy a business and then use that business to enhance impact further.

For example, we wouldn't look to buy a small business that theoretically can create a new technology that has great impact, because that's really hard to do, and it's really hard to scale.

What we do is buy a big business that's having an impact, and then look to add those smaller businesses on there to further enhance that, bigger businesses impact, You can grow your impact exponentially from a position of strength.

Incumbency is so powerful in impact. You know, as an example, if you own, we own a recycling business, an organic recycling business, there's far more power in having that business invest in new forms of recycling technology and using its existing waste relationships to then utilise that technology fully to create really strong outcome recycling outcomes, than it is to buy the business on its own and then hope you can scale it up.

**Is the model generally similar to the approach taken within Palisade proper?**

It's very much what Palisade does. They look to buy good businesses and then add to those businesses. Palisade created Intera renewables, which is the third largest renewable generator in Australia. That's the aggregation of seven separate renewable energy investments across wind and solar.

They bought a large airport and then have bolted on a couple more airports to it, and have . done similar things at the port of Portland. It's very much a model, and it's a really smart model, because certainly in what we've seen at **Gigacomm** and **Pure Sky** and

Repurpose IT, you're investing in this group of people, you're investing in a great business.

But it's become great because it's got this great management team who not only have immense capability, but they've been in the industry for so long and know everybody. Everyone trusts them. They've got long term, enduring relationships.

**What's next for Palisade Impact after you bed these investments down?**

I think once we've done the next round of investments, the focus will be to continue to invest in the existing businesses. So further investing, I would expect we just do through those investments and invest further capital for growth in those businesses.

We'll diversify those businesses in that way. If I was guessing, I'd say once, you know, once we add two more platforms, you know, we'd probably stick on those for another 12 months, and then really just focus on deploying further capital into the existing businesses.