MAKING *the* MARK

Investor Alignment with the Operating Principles for Impact Management

APRIL 2020

TIDELINE

TABLE *of* CONTENTS

ABOUT TIDELINE

TIDELINE is a majority women-owned consulting firm that provides specialized advice to clients developing impact investment strategies, products, and solutions. Tideline is also a leading provider of independent impact verification services to asset owners, asset managers, and enterprises. To learn more, please visit www.tideline.com.

Tideline's assessment is based on its analyses of publicly available information and information in reports and other material provided by clients. Tideline has relied on the accuracy and completeness of any such information provided by clients. The assessment results represent Tideline's professional judgment based on the procedures performed and information obtained. All dollar ($) amounts are in USD unless otherwise noted.

ACKNOWLEDGMENTS

The establishment of impact management standards, as codified in the Principles, would not have been possible without the pioneering work of UNPRI, GRI, SASB, B Lab's GIIRS, IRIS and the GIIN, the Impact Management Project, and many other organizations to develop and implement best practices for the practice of impact management and independent verification. The GIIN has been an especially powerful driving force in the conversation about impact management through its foundational surveys and research on impact measurement and management practices.

We would also like to thank our clients for their willingness to share information about their impact management practices and their openness to learning while working with us through the verification exercise. Their commitment to transparency and accountability is essential to scaling the impact investing field with integrity.

The lead authors for this report are **Christina Leijonhufvud**, Managing Partner at Tideline, and **Bryan Locascio**, Senior Associate at Tideline. Co-Managing Partners **Ben Thornley** and **Kim Wright-Violich** were also instrumental in providing feedback and insights for the report.

The Tideline team responsible for the aggregated verifications includes **Benjamin Cooper, Megan Cosgrove, Shivam Desai, Serena Fu, Olivia LaFond, Teo Lamiot,** and **Joshua Zail.** Research contributions from **Charley Clarke, Lauren Dixon,** and **Katie Suarez** were also essential to the success of the verification projects featured in this report.

We would also like to thank **Dmitriy Ioselevich**, CEO & Founder of 17 Communications, and **Dustin O'Neal**, Founder & Creative Director of Great Jones Studio, for their expert guidance in writing and designing this report, respectively.

TIDELINE'S VERIFICATION CLIENTS[1]

CLIENT	COUNTRY
BlueOrchard Finance Ltd.	*Switzerland*
Calvert Impact Capital	*USA*
CDC Group PLC	*UK*
European Bank for Reconstruction and Development (EBRD)	*Multilateral*
Kohlberg Kravis Roberts & Co. L.P. (KKR)	*USA*
LGT Venture Philanthropy Foundation	*Switzerland*
LeapFrog Investments	*Mauritius*
Nuveen, a TIAA company	*USA*
Partners Group AG	*Switzerland*
PG Impact Investments AG	*Switzerland*
UBS Group AG	*Switzerland*

1. Tideline has completed 13 verifications for 11 clients, with two verifications each for two different clients that have multiple impact investing businesses.

FOREWORD

Like millions around the world adjusting to life under the COVID-19 pandemic, I have spent the last few weeks in self-isolation with my family. While I am fortunate to have a safe place to stay and a career that allows me to work remotely, I am more acutely aware than ever that the lives and livelihoods of those less fortunate are under threat.

More than perhaps any moment in history, this crisis has exposed and exacerbated the fragile, inequitable, and unsustainable nature of our social, economic, and environmental systems. History offers powerful lessons about how to rebuild and reimagine the systems upon which our society is constructed. One lesson we should take away from this pandemic is the need to rethink the role private capital can play in shaping a better world and building a more sustainable and inclusive society for when we emerge on the other side of this crisis.

Impact investing is an important part of this equation. The financial community has increasingly begun to adopt impact investing, (defined by the GIIN as “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return”), but to scale impact investing with integrity, we need two things: universal standards for impact management and a reliable mechanism for holding impact investors accountable to these standards.

The Operating Principles for Impact Management, the result of a multi-stakeholder effort to create a set of best practices for impact investors, provides a framework for meeting both of these critical market gaps.

Led by the guidance set forth in the Principles, a growing number of investors—from private equity and private credit firms to development finance institutions and public markets investors—have begun to steer their capital towards positive social and environmental outcomes. These investors are part of a movement to embrace a more holistic approach to impact investing that focuses not just on *measuring* impact but on *managing* for impact as well. Moreover, by signing onto the Principles, these same investors are committing themselves to independent verification of their impact management systems and processes. The verification required by Principle 9 provides a way for all stakeholders—asset owners, employees, beneficiaries, and society more broadly—to hold impact investors accountable for their practices.

Good intentions are insufficient. An impact label without the actions and accountability to back it up is of no value. The combination of standard setting and verification is what gives the market confidence that intentions are backed up by practices, outcomes are backed up by evidence, and impact labels actually mean something. This combination is also what has helped countless other industries, products, and practices earn the market's trust, from credit ratings in the financial markets to organic labels in the consumer food market.

Robust impact management is critical to ensuring private capital flows are effectively directed to the world's sustainability challenges and the Principles represent the roadmap for implementing such a system. The vision behind these Principles offers hope that in the not-too-distant future we will arrive at a shared understanding of the potential of private capital to improve lives, empower ideas, and build resilience in our communities. This future is within our grasp.

Christina Leijonhufvud
MANAGING PARTNER | TIDELINE

EXECUTIVE SUMMARY

This report provides an in-depth analysis of investor alignment with the Operating Principles for Impact Management ("OPIM" or the "Principles"), a set of common standards for disciplined management of impact among impact investors. These Principles were formally introduced in April 2019 by the International Finance Corporation (IFC) in collaboration with a wide range of industry stakeholders. Importantly, these Principles include a requirement for independent verification of how signatories are aligned with these Principles, providing a valuable mechanism for holding investors accountable.

Tideline, an impact investment consultancy founded in 2014, established a new service in early 2019 to verify investor alignment with the Principles. This offering draws from Tideline's experience helping over 70 clients develop impact investment strategies, products, and solutions, as well as the firm's expertise from working with clients to improve their impact management (IM) processes. As of the publication of this report, Tideline has completed 13 independent verifications for impact investors managing more than $70 billion in combined impact assets, representing an authoritative sample of the impact investing market and a significant share of the nearly 100 signatories to date. (see the full list of verification clients on Page 3).

By sharing the aggregated results of these verifications, Tideline hopes to provide a useful reference illustrating the current state of alignment with the Principles and describing best practices and common challenges in the practice of impact management. This report includes the following:

Section 1: Introduction

pages 11-13

We describe the impetus for the creation of the Principles: to build consensus around the essential features of impact investing and create standards against which investor practices can be evaluated. The Principles build on many of the frameworks and standards that have guided impact investing to date, including the United Nations Sustainable Development Goals (SDGs), the Impact Management Project (IMP), and the GIIN's IRIS+. Importantly, the Principles, and the built-in requirement for independent verification of alignment, focus on an impact investor's practices, not the impact performance that results from their activities.

Section 2: Verification as a Public Good

pages 14-15

We highlight the potential for the independent verification required by Principle 9 to contribute to the broadening and deepening of impact investing. The Principles can apply to all investors, regardless of investment strategy, asset class, assets under management, or years of impact investing experience. Independent verification of investor alignment allows stakeholders to compare and contrast different approaches to impact management. We believe that verification brings three important characteristics to the impact investing market:

- **Discipline** – verification encourages impact investors to take steps to adopt industry best practices, continuously raising the bar for performance across the industry
- **Accountability** – verification provides a mechanism for evaluating whether impact investors' actions and results are consistent with their claims, ensuring greater transparency and credibility across the market
- **Comparability** – verification allows stakeholders, whether asset owners, intermediaries, or beneficiaries, to evaluate different approaches to impact investing using consistent frameworks and benchmarks

Section 3: Verification Methodology

pages 16-18

We explain our proprietary verification methodology, which examines not only an investor's Compliance with the letter of each Principle, but also the Quality and Depth of an impact investor's approach to impact management. This methodology helps ensure that the verification process is a learning opportunity and value-add for signatories rather than simply a 'check-the-box' exercise.

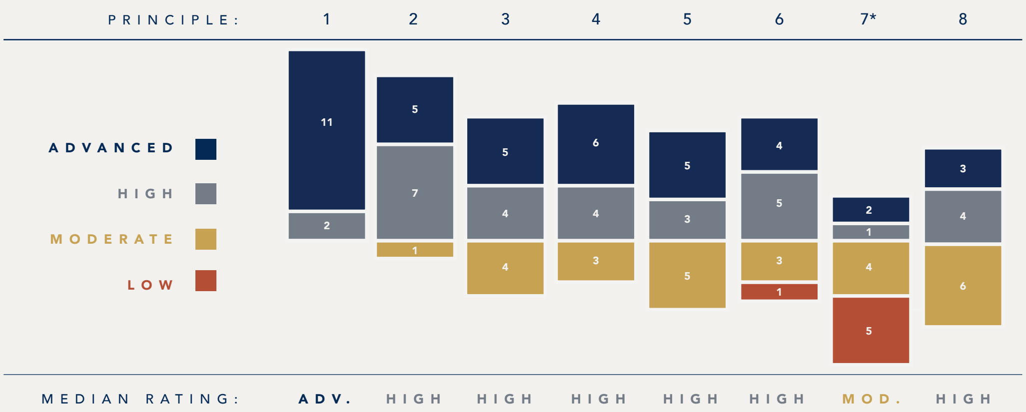
Section 4: Verification Findings

pages 19-42

We present our overall findings based on the aggregated data from the 13 verifications completed to date and include an analysis of best practices and suggestions for areas for improvement for each Principle. Tideline's proprietary rating system evaluates the degree of investor alignment with the Principles on a four-part scale (Low, Moderate, High, Advanced) to show which Principles impact investors tend to excel at and which Principles warrant more effort.

The aggregated results of these 13 verifications are shown in the figure below. While our research sample is likely skewed toward larger investors and early adopters of the Principles, we believe the findings here are still applicable for the broader impact investing market. We expect to have a larger sample to report on in future studies as more verifications are completed.

AGGREGATED VERIFICATION RESULTS



This graph provides a visual representation of investor performance against each Principle. Investors receiving ADVANCED or HIGH ratings on a Principle are shown in the top half of the chart and investors receiving LOW or MODERATE ratings are shown in the bottom half, so the vertical positioning of each column shows the overall distribution of ratings for each Principle.

**One investor received an "N/A" rating for Principle 7 (see Page 39 for details) so that column includes 12 ratings instead of 13.*

The Principles were developed to outline "essential features of managing investments into companies or organizations with the intent to contribute to measurable positive social or environmental impact, alongside financial returns."[2] With this objective in mind, we discovered that:

- **Impact investors in our sample generally excel at articulating their impact intentions and have made significant strides to operationalize those intentions across their investment portfolio.** Investors make their impact intentions clear by defining specific goals that are: aligned to the Sustainable Development Goals (SDGs) or another accepted standard; linked to measurable impacts; and credibly supported by the investment strategy (Principle 1). Many investors also use industry standards to assess each investment for its potential positive impact (Principle 4) and have processes in place to integrate impact considerations throughout the investment process in a consistent way across individual investments (Principle 2), though several still struggle with aligning staff incentive systems to the achievement of impact.

2. IFC (2019): *Investing For Impact: Operating Principles for Impact Management.*

- **Impact investors have work to do when it comes to engaging with investees to support the achievement of impact.** While many investors have a well-reasoned articulation of their intended contribution, they often fall short in establishing robust evidence (Principle 3). Investors also have room for improvement in how they monitor unintended impacts and hold investees accountable for ESG or impact underperformance (Principles 5 and 6), and particularly struggle to consider the effects of their exit on the sustainability of impact (Principle 7).
- **The impact investing market has broadened its focus from impact measurement to impact management.** Effective impact investors recognize that impact management entails not only assessing and monitoring intended and unintended impacts, but also continuously looking for opportunities to make improvements (Principle 8). Independent verification (Principle 9) can help identify challenges and point to ways impact investors can enhance their impact practices.

Section 5: Conclusion

pages 43-45

We offer key takeaways and a call to action for various stakeholders to continue the work of building the impact investing field:

- ASSET OWNERS should encourage all asset managers to become signatories to the Principles and use the Principles to hold managers accountable to industry best practices.
- ASSET MANAGERS should align themselves with the Principles and make regular independent verification a core part of their value proposition alongside a commitment to continuously improving the quality of their practices.
- STANDARD SETTERS should continue to build robust guiding principles for each segment of the impact investing market while also supporting the development of the verification infrastructure necessary for upholding standards and vetting impact claims.
- ADVISORS & SERVICE PROVIDERS, including institutional consultants, placement agents, and wealth managers, should use the Principles to evaluate managers and better identify and differentiate best-in-class impact investors.

While best practices in impact investing and impact management are constantly evolving, the pioneers of this industry have made significant headway in establishing the standards and practices upon which the market can continue to develop and scale with integrity. The Principles represent the next step in that evolution. This is good news for beneficiaries—the pensioners, civil employees, retirees, and the individuals, communities, and ecosystems—who stand to ultimately benefit from a stronger commitment by investors to managing the social and environmental impacts of their investments. The widespread adoption of impact management best practices has the potential to do more than just transform the impact investing market: it could revolutionize how we think about capital altogether.

SECTION 1

INTRODUCTION

How can we know whether the products we buy truly fit their labels? This is a question that all customers ask, whether an individual considering a purchase of food or a car, for example, or an investor contemplating buying a stock, bond, or other financial instrument.

To make these sorts of decisions, customers rely on an array of standards, ratings, and certifications. Consider the organic food market: in the early days of the movement in the 1970s, consumers primarily made their organic produce purchases at local stores and farmers markets. Mottos like "know your farmer, know your food" emphasized the important role that personal trust and community played in providing assurance of high-quality farming practices. As demand increased, organic food was distributed to far-away grocery stores and it became nearly impossible for consumers to assess how their food was grown.

Some governments began to regulate "organic" labeling, but a lack of universal standards and certifications prevented the label from providing meaningful assurance due to the variation in requirements and the fact that many producers were not bound by them. Unchecked use of the "organic" label—as well as myriad other labels such as "natural," "wild," and "pesticide-free"—penalized producers that held themselves to high standards, especially as many consumers bought from less rigorous producers out of confusion or hesitated to spend additional money without greater confidence in produce quality.

The challenge in impact investing

These challenges are not unique to organic food. In fact, they arise in almost any market where it is difficult to evaluate the quality of a potential purchase.[3] The impact investing market faces similar hurdles today as it evolves from a niche practice to a core part of mainstream finance. As more investors enter the market and adopt the "impact" label in response to client demand, it becomes increasingly difficult to evaluate the claims these investors make about their potential to generate both strong financial returns and positive social and environmental outcomes. Without a clear understanding of what "impact" means, the entire impact investing field suffers.

3. Akerlof, G. (1970): "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." The Quarterly Journal of Economics.

As the Global Impact Investing Network (GIIN) stated in its 2018 *Roadmap for the Future of Impact Investing* report, "the practice of impact measurement and management (IMM) is currently highly idiosyncratic, restricting the ability across the field to understand, communicate, or compare performance. The industry needs to focus on enhancing the standardization and rigor of impact management practice, so that investors can be significantly more effective in driving toward impact goals."[4]

Developing standards

In April 2019, the International Finance Corporation (IFC), the private investment arm of the World Bank, joined the growing list of players working on this standardization challenge with the release of the Operating Principles for Impact Management ("OPIM" or "the Principles"). These Principles (Figure A) were developed in partnership with a wide range of impact investing industry actors—including asset managers, asset owners, development banks, and other financial institutions—to ensure that the Principles would apply to a wide range of investment strategies and asset classes.[5] In total, 60 investors managing more than $350 billion in assets invested for impact signed on to the Principles when they were first announced, together committing to "support the development of the impact investing industry by establishing a common discipline around the management of investments for impact."[6] As of April 2020, the list of signatories stands at 94.

FIG. A

THE OPERATING PRINCIPLES FOR IMPACT MANAGEMENT[7]

STRATEGIC INTENT

1 Define strategic impact objective(s), consistent with the investment strategy.

2 Manage strategic impact and financial returns at the portfolio level.

ORIGINATION & STRUCTURING

3 Establish the investor's contribution to the achievement of impact.

4 Assess the expected impact of each investment, based on a systematic approach.

5 Assess, address, monitor, and manage potential negative impacts of each investment.

PORTFOLIO MANAGEMENT

6 Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

IMPACT AT EXIT

7 Conduct exits considering the effect on sustained impact.

8 Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

INDEPENDENT VERIFICATION

9 Publicly disclose alignment with the Principles and provide regular independent verification of the extent of alignment.

4. GIIN (2018): *Roadmap for the Future of Impact Investing: Reshaping Financial Markets.*
5. Mirchandani, B. (2019): "What You Need To Know About The IFC's Operating Principles For Impact Management." Forbes.
6. IFC website: "Impact Investing at IFC: What are the Impact Principles."
7. IFC (2019): *Investing for Impact: Operating Principles for Impact Management.*

The Principles build on many of the frameworks and standards that have guided impact investing to date, including the United Nations Sustainable Development Goals (SDGs) and the work of the Impact Management Project (IMP), and present a unique opportunity to achieve a formalized consensus against which investors can be evaluated and scrutinized.

“We didn’t really have until now a framework for what it means to be an impact investor. The need is clear, and it is very important.”

- Rekha Unnithan, Co-Head of Impact Investing at Nuveen[8]

8. Bradford, H. (2019): “New Impact Investing Principles Bode Well for Growth.” Pensions & Investments.

SECTION 2

VERIFICATION AS A PUBLIC GOOD

What distinguishes the Principles from previous efforts to develop an impact investing standard is the requirement of independent verification and disclosure of a signatory's alignment with the Principles. This requirement, enshrined in Principle 9, has the potential to be transformative for the impact investing market on multiple levels. We believe that verification brings three important characteristics to the impact investing market:

- **Discipline** – verification encourages impact investors to take steps to adopt industry best practices, continuously raising the bar for performance across the industry
- **Accountability** – verification provides a mechanism for evaluating whether impact investors' actions and results are consistent with their claims, ensuring greater transparency and credibility across the market
- **Comparability** – verification allows stakeholders, whether asset owners, intermediaries, or beneficiaries, to evaluate different approaches to impact investing using consistent frameworks and benchmarks

"The requirement for annual impact disclosure and independent verification is unique and can help provide real transparency into the investment firms that have a deep commitment to impact embedded in their systems, processes, [and the] way they do business."

- **Jennifer Pryce**, President & CEO of Calvert Impact Capital[9]

The Principles, and Principle 9 specifically, have the potential to benefit not just the investors who undergo the verification process, but also the impact investing field more broadly. To our knowledge, the Principles represent the first time that impact investors have been required to track, report, and publicly disclose their impact management practices, representing a significant step towards increased transparency.

9. Bradford, H. (2019): "New Impact Investing Principles Bode Well for Growth." Pensions & Investments.

Likewise, we believe that verifiers also have a responsibility to be transparent and contribute to the critical work of building this field. To that end, this report presents aggregated and anonymized findings from Tideline's verification engagements completed to date. The purpose behind sharing these findings is to provide insight for industry practitioners into best practices and shared challenges, and to ultimately create benchmarks against which the field can track progress on specific impact management practices.

Just as the development of common standards and verification requirements in the organic food industry has led to greater confidence in the "organic" food label, we believe that the Principles can build trust in the "impact investor" label. The Principles provide a much-needed set of common standards, and we hope this report helps drive the proliferation of verifications that will incentivize and encourage adoption of best practices and make impact investing more accountable to the world it claims to be improving.

SECTION 3

VERIFICATION METHODOLOGY

Recognizing that the verification requirements may present a substantial hurdle for both new and long-time impact investors, Tideline in early 2019 began developing a methodology that could be both efficient and rigorous. Specifically, we aim to provide actionable guidance on each Principle through a proprietary approach designed to help impact investors understand and institute best practices rather than simply ‘check-the-box’.[10] The result of this effort is a customized approach that builds on the firm’s experience working with a range of asset managers and asset owners as an impact investing consultant.[11]

To create a holistic picture of an investor’s impact management (IM) approach, the verification methodology relies on a three-step process—Learn, Assess, and Review (see Figure B below).

FIG. B

TIDELINE’S APPROACH TO INDEPENDENT VERIFICATION

LEARN

- Review all relevant materials (e.g. investment memos, checklists, policy documents, etc.)
- Conduct interviews with members of the team responsible for implementation of IM processes

ASSESS

- Assess an investor’s IM system based on the Compliance, Quality, and Depth of an investor’s practices
- Assign a score from Low to Advanced to indicate the degree of alignment with each of the Principles
- Deliver a presentation with assessment findings and discuss potential areas for enhancement

REVIEW

- Consider any additional information or documentation made available to ensure accuracy of findings prior to finalization
- Draft Verifier Statement to convey independent verifier’s view on the extent to which the IM system aligns with the Principles

This process involves first collecting and analyzing a wide range of materials (e.g., investment memos, checklists, policy documents, etc.) and randomly selected transaction case studies. That information is then supplemented with interviews of investment and impact team members. Once

10. Tideline’s verifier statement excludes Principle 9 to defer to the OPIM Secretariat on assessing alignment with the disclosure and verification requirements.
11. Tideline (2019): *Integrity Through Verification: Tideline’s Approach to Verifying Alignment with the International Finance Corporation’s Operating Principles for Impact Management*.

we have these necessary foundational materials, we then closely examine not only an investor's Compliance with the letter of each Principle, but also the Quality and Depth of an investor's practices (see Figure E on the following page for an example of the verification methodology in practice).

FIG. C

COMPLIANCE
of the system with a threshold level of practice

QUALITY
of the system's design, in terms of its rigor and consistency

DEPTH
of particular sub-components of the system, focused on robustness

Using these three characteristics as a lens, we use a proprietary rubric to assess the degree to which an investor's practices align with each Principle and assign a rating (see Figure D). This rating system is designed to help highlight opportunities for investors to enhance their impact management processes, especially since best practices will continue to evolve over time.

FIG. D

ADVANCED	Limited need for enhancement
HIGH	A few opportunities for enhancement
MODERATE	Several opportunities for enhancement
LOW	Substantial enhancement required

Each verification project is a learning experience both for Tideline and the client. With each project, we become more attuned to common challenges and better equipped to point clients toward potential improvements. Constructive dialogue with our clients about the results helps drive better implementation of impact management practices and allows us to continue to refine this methodology based on what we learn.

"We started the verification process with opened eyes and ended it with wiser eyes. We learned how much more we can do in this journey, as striving for excellence in our own impact practices is not a sprint but a marathon."

\- **Maria Teresa Zappia**, Deputy CEO and Chief Investment Officer at BlueOrchard Finance

With this process-oriented approach to each verification, we are able to collect high-quality data on the degree of alignment with each Principle and generate the insights contained in this report.

FIG. E

VERIFICATION IN PRACTICE

The proprietary rubric Tideline developed to assess investor impact management practices focuses on three qualities of alignment for each of the Principles: Compliance, Quality, and Depth. Here is as an example of what this assessment looks like in practice, using the sub-criteria for Principle 7.

- **Compliance:** Does the investor have formal processes or policies in place stipulating how impact is considered at exit?
- **Quality:** To what extent is this process applied regularly and consistently across an investor's investments?
- **Depth:** Which other best practices has the investor put in place to promote responsible exits?

Tideline's team analyzes an investor's practices for each of these criteria based on the available information (e.g., documents, interviews, etc.) and then assigns an appropriate rating. Practices that achieve Compliance with the text of the Principle receive at least a "Moderate" rating, and an investor that also demonstrates Quality and/or Depth in their practices (relative to the broader impact investing market) can advance to a "High" or "Advanced" rating.

Although the other Principles have their own sub-criteria, this overall methodology is used to evaluate alignment with each of the Principles.

MAKING *the* MARK

Investor Alignment with the Operating Principles for Impact Management

VERIFICATION FINDINGS

SECTION 4

VERIFICATION FINDINGS

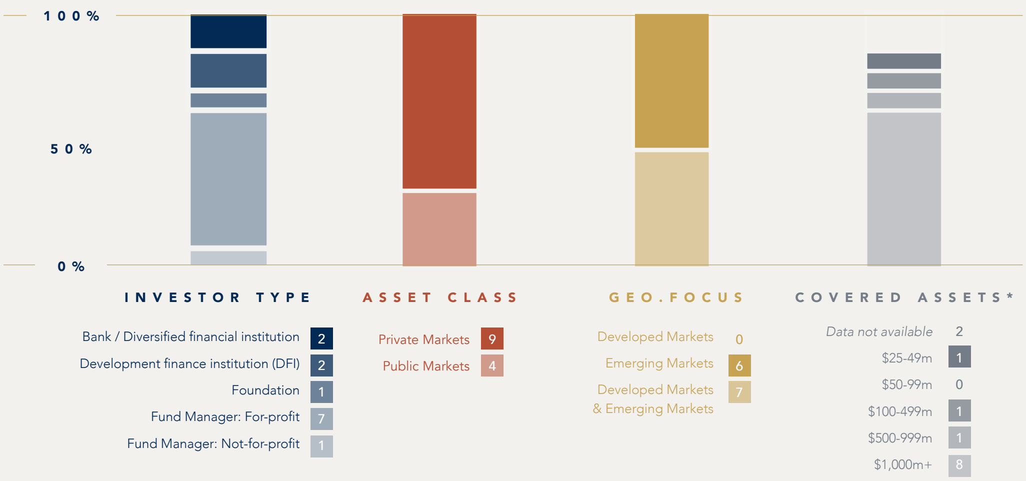
In this section we provide a summary of the investors contained in our research sample, the reporting requirements mandated by the Principles, and the aggregated results of the first set of verifications completed by Tideline. These verifications span a spectrum of institutional asset managers and asset owners investing across a variety of asset classes, including private and public equity, real assets, and private and public debt.

Figure F below provides a breakdown of the clients by type of firm, primary asset class, geographic focus, and covered assets (the assets that they manage in alignment with the Principles).

Our sample is not random: many of these investors were among the original signatories to the Principles, and large investors are overrepresented relative to the impact investing market broadly.[12] Though this sample of 13 verifications across 11 organizations is not necessarily representative of the broader market, it still provides insight into shared strengths and challenges, and we expect the sample to continue to grow in future reports.

FIG. F

CHARACTERISTICS OF IMPACT INVESTOR SAMPLE



**Two of the thirteen investors in our sample are either not yet signatories to the Principles or are still in the process of raising capital, so their Covered Asset information was not included in this chart.*

12. Investors managing more than $1 billion USD in impact assets comprise over 60% of our sample, while over 75% of respondents to the GIIN's 2019 survey of the impact investing market have less than $500 million in impact assets under management (see the GIIN's 2019 Annual Impact Investor Survey).

Reporting Requirements

The reporting requirements in Principle 9 call for both a **Disclosure Statement** (prepared by the signatory) and a **Verifier Statement** (prepared by an independent verifier), each of which must include specific information.[13]

PRINCIPLE 9

Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.

The OPIM guidance for Principle 9 stipulates that investors should:

1. Publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed.
    a. These disclosures are subject to fiduciary and regulatory concerns.

The **Disclosure Statement** should describe how each Principle is incorporated into the signatory's investment process and identify any areas where the signatory believes there are opportunities to achieve greater alignment with the Principles. This statement should be published on the signatory's website before the first anniversary of that impact investor becoming a signatory to the Principles.

The **Verifier Statement** should include: the date of the most recent verification and/or the planned date of the next verification, the intended frequency of verification, the amount of Covered Assets that are managed in alignment with the Principles, and a summary of the operations and qualifications of the independent verifier. The independent verifier does not necessarily need to be a third-party verifier. Some signatories have chosen to meet this requirement by establishing independent verification committees in house, or by using existing in-house independent audit units. If the verification is performed by an internal unit, the statement should include a description of the verification process and how it is separate from operational units.

These requirements represent a tall order for most signatories, many of whom may still be in the early stages of building out their impact management processes. Even for the most experienced impact investors, the level of transparency and diligence required by Principle 9 represents a big step forward.

13. These reporting requirements were included in a document that the IFC sent to signatories in April 2019 titled Reporting Requirements and Template for Annual Disclosure Statement. Additional details about the reporting requirements are included in the *Guide to Investing for Impact* published by the IFC in 2019.

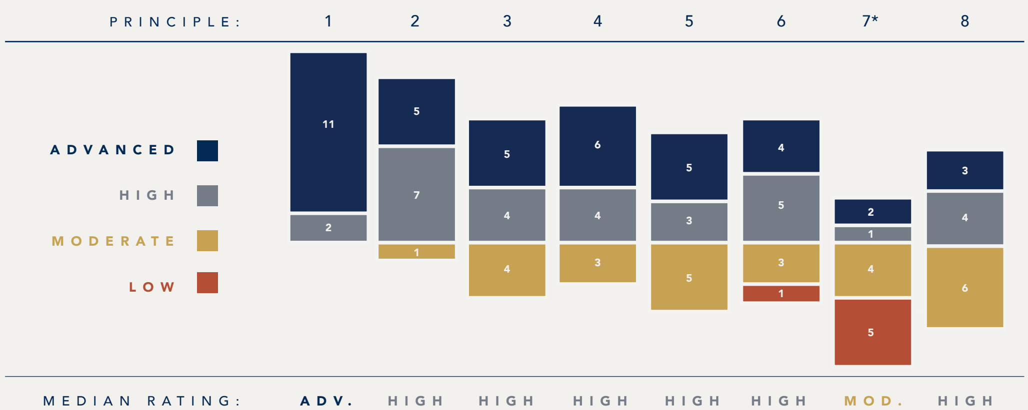
Aggregated Results

As of April 2020, Tideline has completed 13 verifications and we expect to have as many as 20 completed by the end of the summer. While each of these verifications is unique to the investor in question, there are some common themes and challenges worth sharing to advance the continued industry-wide pursuit of best practices.

To protect the confidentiality of our clients, the results of these 13 verifications in Figure G have been anonymized and aggregated.

FIG. G

AGGREGATED VERIFICATION RESULTS



This graph provides a visual representation of investor performance against each Principle. Investors receiving ADVANCED or HIGH ratings on a Principle are shown in the top half of the chart and investors receiving LOW or MODERATE ratings are shown in the bottom half, so the vertical positioning of each column shows the overall distribution of ratings for each Principle.

One investor received an "N/A" rating for Principle 7 (see Page 39 for details) so that column includes 12 ratings instead of 13.

Based on these results and our perspective from having completed more than 100 impact investing consulting projects to date, we have observed the following:

- ***Impact investors in our sample generally excel at articulating their impact intentions and have made significant strides to operationalize those intentions across their investment portfolio.*** Investors make their impact intentions clear by defining specific goals that are: aligned to the Sustainable Development Goals (SDGs) or another accepted standard; linked to measurable impacts; and credibly supported by the investment strategy (Principle 1). Many investors also use industry standards to assess each investment for its potential positive impact (Principle 4) and have processes in place to integrate impact considerations throughout the investment process in a consistent way across individual investments (Principle 2), though several still struggle with aligning staff incentive systems to the achievement of impact.

- *Impact investors have work to do when it comes to engaging with investees to support the achievement of impact.* While many investors have a well-reasoned articulation of their intended contribution, they often fall short in establishing robust evidence (Principle 3). Investors also have room for improvement in how they monitor unintended impacts and hold investees accountable for ESG or impact underperformance (Principles 5 and 6), and particularly struggle to consider the effects of their exit on the sustainability of impact (Principle 7).

- *The impact investing market has broadened its focus from impact measurement to impact management.* Effective impact investors recognize that impact management entails not only assessing and monitoring intended and unintended impacts, but also continuously looking for opportunities to make improvements (Principle 8). Independent verification (Principle 9) can help identify challenges and point to ways impact investors can enhance their impact practices.

We expect the level of alignment across these Principles to fluctuate as impact investors improve their processes, benchmarks for best practices evolve, and new players enter the market. We plan to track and report on alignment of both current and future signatories that engage Tideline for an independent verification. We hope that this data serves as a useful benchmark for tracking the evolution of the impact investing market and identifying challenges that may require greater field-wide collaboration.

On the following pages, we review each Principle individually to comment on where the practices of the investors in our sample align closely with the Principles and where there are specific areas for improvement.

Tideline Perspective

Impact investing in public markets vs. private markets

Although the Principles were developed with a private markets lens (given most impact investing to date has taken place in the private markets) they are also meant to apply across asset classes for any organization investing "with the intent to contribute to measurable positive social or environmental impact, alongside financial returns."[14]

Two components of this definition that continue to be challenging for public markets investors are contribution and measurability. Broader sustainable investing strategies in the public markets often involve assessing the ESG practices and performance of companies to avoid poor performers, select best-in-class performers, and/ or prioritize ESG improvement. Though some of these investors also engage with investee companies to encourage them to improve ESG practices or disclosures, there is generally less emphasis on the contribution an investor makes to a company's impact.

The Impact Management Project (IMP) has provided guidance on the categories of contribution that are feasible for public markets investors. Typically, public markets investors can ***"signal that measurable impact matters"*** by making public commitments and dedicating time and resources to impact management. They can also ***"engage actively"*** with their investees by having conversations with management about impact and ESG, joining the board, providing strategic advice and support, or attempting to influence a company through shareholder resolutions and proxy voting.[15] Thinking through a logical contribution narrative supported by evidence can help public markets signatories align with Principle 3. Understanding the impact an investor can have on an investee can also help determine the extent to which the guidance on responsible exits in Principle 7 applies to an investor's strategy. When investors trade highly liquid securities on secondary markets, their "exits" often have minimal impacts on the companies they have invested in, but investors contributing by ***"growing new or undersupplied capital markets"*** may need to be more thoughtful about the effects an exit might have on the sustainability of impact in low-volume and less liquid markets.

Regarding measurability, most common ESG metrics provide information about the actions and direct outputs of a company. However, to address Principle 4, public markets investors often have to go beyond traditional ESG metrics to collect data on the impacts a company's actions have on beneficiaries.

Strong alignment with these Principles can be challenging for public markets investors, but it is not out of reach for those that are thoughtful about the impacts they create and innovative about how they use data to collect evidence and inform their strategies.

14. IFC (2019): *Investing For Impact: Operating Principles for Impact Management.*
15. Neuberger Berman & the Impact Management Project (2019): *Having A Positive Impact Through Public Markets Investments.*

Tideline Perspective

Direct investors vs. indirect investors

Asset owners deploying impact investments can sometimes be many degrees removed from their impacts on the beneficiaries they intend to support. Imagine an asset owner invests in an impact fund-of-funds manager that then invests in multiple impact asset managers that invest in various community development finance institutions and microfinance institutions that, in turn, deploy capital to enterprises serving communities around the world. When intermediaries share the responsibility for deploying an asset owner's capital to drive impact, transparency and accountability throughout the investment chain are of key importance.

The Principles not only guide the practices of investors deploying capital directly into enterprises and projects serving end beneficiaries, but also provide indirect investors deploying their capital through investment intermediaries with a checklist of practices to look for in the asset managers through which they invest.

Indirect investors can also use the Principles to guide their own impact management practices, including by defining the impact objectives that will drive their selection of asset managers (Principle 1), demonstrating how they contribute to the impacts of their asset manager investees (Principle 3), monitoring the progress of the impact funds in their portfolio and taking action when appropriate (Principle 6), and improving decision-making based on what they learn from their investments (Principle 8).

Our assessment of indirect investors examines both how their own practices align to the Principles and the extent to which they use the Principles to evaluate and monitor their asset manager investees.[16]

16. Note that some impact investors pursue both direct and indirect strategies within a single portfolio.

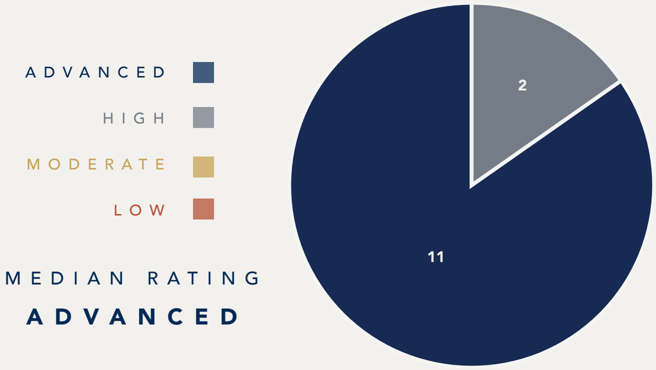
PRINCIPLE 1

Define strategic impact objective(s), consistent with the investment strategy.

Guidance

The OPIM guidance for Principle 1 stipulates that investors should:

1	Define **strategic impact objectives** for the portfolio or fund to achieve positive and measurable social or environmental effects aligned with the Sustainable Development Goals (SDGs) or other widely accepted goals.
2	Ensure that the impact objectives and investment strategy are **consistent.**
3	Ensure there is a **credible basis** for achieving the impact objectives through the investment strategy.
4	Ensure that the scale and/or intensity of the intended portfolio impact is **proportionate** to the size of the investment portfolio.



100%

of the investors in our sample articulate impact objectives explicitly aligned with the SDGs or other widely accepted goals

Implementation Insight

As an example of what defining "strategic impact objectives" may look like, consider an investor that wants to invest in line with a broad goal such as SDG 11 ("Sustainable Cities and Communities") with individual investments that align to specific SDG Targets like SDG 11.1: "By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums." A specific goal such as SDG 11.1 helps stakeholders understand an investor's intentions and points directly toward relevant metrics that, in this example, enable an investor to track not just the number of housing units created, but also the degree to which that housing is "adequate, safe, and affordable."

Best Practices

- Using the Sustainable Development Goals (SDGs) or other widely accepted goals, investors communicate their broad impact objectives to their stakeholders and the public. Investors with strong alignment to this Principle tend to complement broad goals with more specific impact targets, facilitating impact measurement and accountability.
- Borrowing from the world of grantmaking, many investors have adopted the practice of developing impact theses for the sectors in which they invest that can be simplified into clear logic models for the investments they target. Logic models inform Key Performance Indicators (KPIs) and make a credible case for how an investor's capital (and non-financial support) results in intended impact by showing how the inputs, activities, outputs, and outcomes related to the investment all connect. Investors that align strongly with this principle support the assertions they make in their logic models with evidence, including third-party research and impact data collected from their investments.
- Setting realistic impact objectives for a portfolio requires a deep understanding of the needs and the potential for impact in each sector and geography an investor operates in. Investors conduct research, consult with experts, learn from the experiences of peers and/or previous investments, and engage deeply with practitioners to understand the likely effects of their capital.

Areas for Improvement

- Some investors claim that their investments align broadly with one or more of the SDGs but are vague about the impacts they target or do not show clearly how the metrics they track relate to their stated objectives. Using IRIS+ or the SDG Targets can help investors articulate more specific impact objectives and select relevant impact metrics for each investment and across a portfolio.
- Even among investors using theories of change and logic models, we have seen wide variation in the depth and quality of the evidence base of academic research, surveys, and impact data that investors use to support the linkages between their investment strategy and the impacts they target. Investors should think about the assumptions that underlie their strategy and collect evidence to determine whether those assumptions are valid.
- Insufficient understanding of the social and environmental context surrounding their investments can result in investors overstating the scale or depth of impact their capital is likely to have. Impact investors should try to fill in the gaps in their understanding using market research to enable realistic impact target setting and mitigate both impact and financial risks.

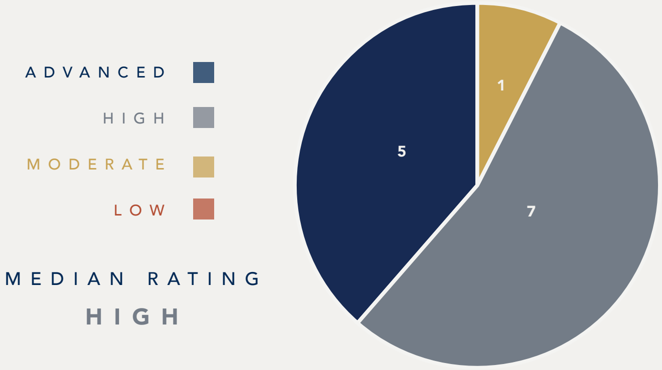
PRINCIPLE 2

Manage strategic impact on a portfolio basis.

Guidance

The OPIM guidance for Principle 2 stipulates that investors should:

1. Establish a **process** to manage impact achievement on a portfolio basis, with the objective of establishing and monitoring impact performance for the whole portfolio, recognizing impact may vary across individual investments.
2. Consider aligning **staff incentive systems** with the achievement of impact, as well as with financial performance.



46%

of the investors in our sample have considered or implemented staff incentive systems that align with the achievement of impact

Implementation Insight

Investors with strong alignment to Principle 2 integrate impact considerations in a standardized way throughout the investment process—from screening and due diligence to ongoing management and exit—for each of their investments. They also explicitly assign impact responsibilities to staff with real influence in the investment process, including members of the investment team and investment committees.

Best Practices

- In the investment screening process, investors must make choices about which investments would be appropriate for their portfolio. Investments differ in the type of impact they aim to create. Some present innovative concepts while others implement tested solutions. Some emphasize scale of impact while others prioritize depth. Investors with strong alignment to this Principle often have a framework that allows them to compare the expected impacts of their investments, determine minimum thresholds for impact in a portfolio, and decide on appropriate KPIs across investments.
- Documenting the attention paid to impact at every stage of an investment helps ensure that impact receives equal consideration as financial performance throughout the process. Having one or more staff members dedicated to impact management (full-time or part-time) is one way investors can be intentional about driving impact achievement.
- Incorporating achievement of impact into employee performance reviews and compensation decisions is another way to try to ensure staff is incentivized to be diligent about driving impact. Investors make these decisions by setting goals for their organization as a whole, and at the investment team and individual employee levels. These goals can relate to both impact performance of investments and the implementation of impact management practices by the investor.[17]

Areas for Improvement

- Investors that do not perform well on this Principle are often inconsistent in their processes for considering impact across investments and throughout the investment process. Investment screening checklists and discussions of impact in Investment Committee memos and meetings can help demonstrate a consistent and standardized approach across an investment portfolio.
- Though almost half of the investors in our sample have aligned (or considered aligning) staff incentives with social and environmental impact, the practice is less common in the broader impact investing market.[18] We expect more investors to incorporate impact into performance evaluation and compensation decisions as adoption of the Principles spreads and as the quality and consistency of impact data improves.

17. For examples of how impact investors have implemented staff incentive systems in practice, see the GIIN's 2011 report *Impact-Based Incentive Structures* and the 2016 brief *Tying Fund Manager Compensation to Impact Outcomes* by Transform Finance.
18. In the latest "*State of Impact Measurement and Management Practice*" survey published by the GIIN in January 2020, 21% of respondents said that achievement of impact is "one of the factors in employee performance evaluations" and 10% said "a proportion of compensation is tied to the achievement of impact goals for some staff."

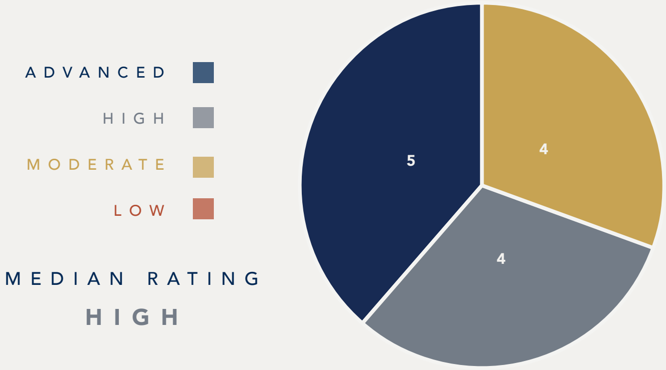
PRINCIPLE 3

Establish the Manager's contribution to the achievement of impact.

Guidance

The OPIM guidance for Principle 3 stipulates that investors should:

1. Seek to establish and document a **credible narrative on the manager's contribution(s)** (financial and/or non-financial) to the achievement of impact for each investment.
    a. The narrative should be stated in clear terms and supported, as much as possible, by **evidence.**



38%

of the investors in our sample compile robust supporting evidence to demonstrate their contributions to their investees' achievement of impact

Implementation Insight

Potential means of contribution will vary from investor to investor depending upon an investor's capabilities and constraints. Brainstorming early on what types of contribution draw on an investor's strengths—sector expertise or technical advisory capability, ESG engagement experience, or access to other experts or funders, for example—makes it easier to identify relevant opportunities to contribute for each individual future investment.

Best Practices

- The field has increasingly internalized the notion that simply investing in impactful companies is not impact investing if, regardless of motivations, the investor's actions are largely indistinguishable from those a commercial investor would take. Recent research and frameworks have helped investors in both public and private markets plan and articulate their contributions to the impact of their investments.[19]

- Investors that perform well on this Principle collect evidence and assess the effects of their contribution to the extent feasible. For investments that have already been made, this evidence may include documentation of an investor's contribution efforts and rationale, case studies, surveys of investees rating various elements of an investor's contribution, and internal or independent reviews. For investors that have not yet made investments, this evidence generally includes other third-party research or data to support the investor's claims of contribution.

Areas for Improvement

- Articulating a plausible contribution narrative is an important first step for an impact investor, but we have seen considerable variation in the degree to which investors use evidence to support their contribution claims.
- Investors who intend to "engage actively," for example, should prioritize the following: (1) make the case that the engagement they plan to undertake has the potential to improve impact, (2) document their engagement efforts, and (3) take steps to assess the results of their engagement.

- Investors who aim to contribute by "providing flexible capital" should take the time to research the capital gap their investment is meant to address and the additional impact such capital would help generate (beyond that which would be generated with capital on conventional market terms). Many of the markets that investors deploy below-market capital into are underdeveloped and unlikely to be distorted by modest amounts of subsidy, but a regular process helps avoid unintended negative impacts and ensure an investor's contribution is ultimately beneficial.

19. Neuberger Berman & the Impact Management Project (2019): *Having A Positive Impact Through Public Markets Investments.*

PRINCIPLE 4

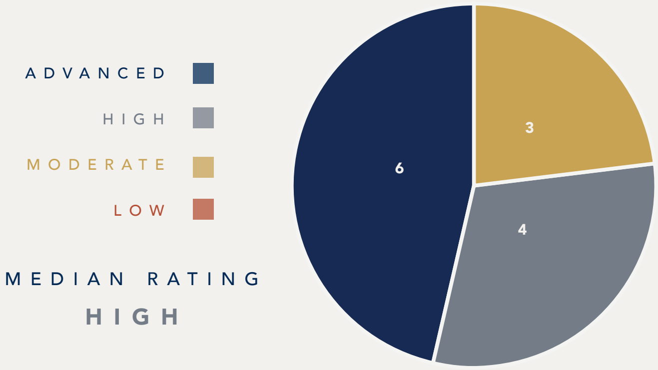
Assess the expected impact of each investment, based on a systematic approach.

Guidance

The OPIM guidance for Principle 4 stipulates that investors should:

1. Assess, in advance and, where possible, quantify concrete, positive impact potential of each investment.
    a. Assessment should use a suitable results measurement framework that answers fundamental questions: (1) **What** is the intended impact? (2) **Who** experiences the intended impact? (3) **How significant** is the intended impact?
    b. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

2. Assess **likelihood** of achieving investment's expected impact and identify significant **risk factors** to delivering expected impact.



85%

of the investors in our sample use impact metrics aligned with industry standards, such as the GIIN's IRIS+ or the Impact Management Project's five dimensions of impact

Implementation Insight

Each potential investee's impact is complex and may affect many different stakeholders. All of this makes impact difficult to quantify precisely, especially when relevant data is not readily available. Nonetheless, investors that perform well on this Principle make efforts to assess potential impact and impact risks holistically (in line with the Impact Management Project's five dimensions of impact), use standardized metrics, and seek out benchmarks or other data to contextualize expected impact. Applying these practices consistently across investment opportunities allows for comparison and facilitates the weighing of impact and financial implications in tandem.

Best Practices

- As Principle 4 makes clear, assessing impact is more complex than tracking a single output metric, such as "units sold" or "people served." Impact is complex and requires tracking multiple complementary metrics to gain confidence that a product or service is having its intended effects on people or the environment.
- The Impact Management Project's five dimensions of impact (What, Who, How Much, Contribution, and Risk) demonstrate for investors what a holistic assessment of impact looks like and provide a standardized framework that can be used consistently across asset classes for each and every investment.[20]
- Nearly all the investors in our sample use the five dimensions of impact to structure their assessment of impact and impact risks, and many also use the GIIN's IRIS+ to inform metric selection.
- Lack of quality data can make impact risks and the likelihood of achieving expected impact difficult to assess. Investors strongly aligned to this Principle tend to engage with investees or use third-party research to understand the many categories of potential impact risk involved in an investment. Investors that have made similar investments in the past can leverage lessons learned from their experience as well.[21]

Areas for Improvement

- Despite the presence of several impact measurement frameworks in the market, efficient and effective data collection is still a challenge for many investors. Some of the data required to provide evidence of the impact of an investment are not commonly collected, so even fundamental questions such as who benefits from a given product or service can be challenging to answer.
- Data availability also varies across asset classes. In public markets, ESG data is more readily available than impact data and investors typically have less leverage over publicly listed companies to promote collection of specific metrics.
- Despite these challenges, investors can achieve greater alignment with this Principle by developing (or working with investees to develop) creative ways to collect useful impact data and/or leverage third-party data and research to understand the impact being created.

20. Impact Management Project website: "Impact Management Norms."
21. Impact Management Project website: "What Types of Impact Risks Do Enterprises and Investors Face?"

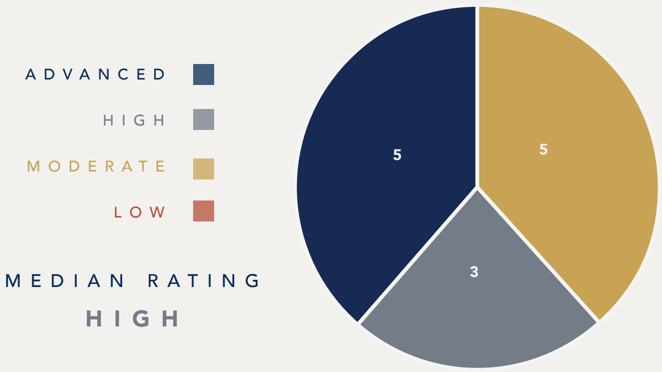
PRINCIPLE 5

Assess, address, monitor, and manage potential negative impacts of each investment.

Guidance

The OPIM guidance for Principle 5 stipulates that investors should:

1. Seek, as part of a systematic and documented process, to **identify and avoid**, and if avoidance is not possible, **mitigate and manage** Environmental, Social and Governance (ESG) risks.
2. Where appropriate, **engage with investee** to seek commitment to **take action to address potential gaps in current investee systems, processes, and standards**, using approach aligned with international industry practice.
3. **Monitor investees' ESG risk and performance**, and where appropriate, **engage with the investee to address gaps and unexpected events.**



69%

of the investors in our sample have implemented an ESG risk identification process that is aligned with industry standards

Implementation Insight

Investors that perform well on Principle 5 generally use an ESG checklist or scorecard to ensure consistency in assessment and monitoring across investments. These checklists and scorecards should be tailored to the impact risks relevant to a given sector, and investors can often leverage existing sector-specific research and tools. For example, for investments into microfinance institutions, an investor can benefit from established sector-wide standards like the Universal Standards for Social Performance Management (USSPM) to inform what a robust ESG risk management system should include in inclusive finance.[22]

22. Social Performance Task Force (2017): *The Universal Standards for Social Performance Management Implementation Guide*.

Best Practices

- Though some investors may not explicitly reference "ESG risks", guidance promoting more holistic assessment of impact from organizations like B Lab, the IMP, and the GIIN through IRIS+ has helped make investors aware of certain key ESG risk considerations they should monitor alongside the positive, intended impacts of an investment.

- Some mainstream asset managers benefit from their experience implementing ESG performance and risk management processes for other socially responsible investments, even if they only started deploying impact investments more recently. Other investors use well-established frameworks like the IFC's Performance Standards[23] or the United Nations Guiding Principles (UNGPs) on Business and Human Rights[24] as a starting point for creating a robust and efficient ESG monitoring system.

- Investors can help advise on and promote strong ESG practices for their investees as well, both before and after the investment is made. While some ESG risks may be unpredictable, others can be planned for, and investors strongly aligned to this Principle have ESG watchlists and step-by-step engagement processes to ensure prompt and consistent handling of investee ESG issues as they arise.

Areas for Improvement

- While they may assess intended impacts (Principle 4), some investors, including investors that have focused purely on impact investing for years, lack defined processes for assessing potential ESG performance and risks consistently across investments. Investments that generate positive impacts can still have negative, unintended consequences, such as solar farms that leach toxic materials or microloans to individuals already under heavy debt burdens. Some impact investors monitor selective ESG risks (e.g., gender equity), but could develop more comprehensive frameworks to align better with this Principle.

- Some ESG risks are material to the financial performance of an investee. These risks differ by sector and are the focus of the "Materiality Map" developed by the Sustainability Accounting Standards Board (SASB).[25] However, other ESG issues, such as diversity, equity, and inclusion (DEI), can have material social and environmental impacts even if they have uncertain financial impacts for an investee. There is room for investors to expand beyond financial materiality in their selection of ESG metrics to monitor.

23. IFC (2012): "Performance Standards."
24. UN Global Compact (2011): "Guiding Principles for Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework."
25. SASB website: "Materiality Map."

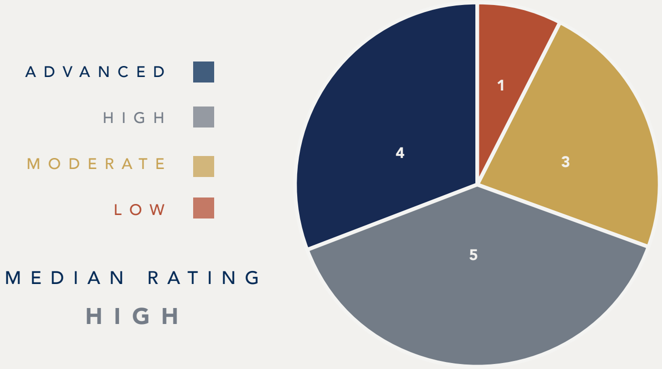
PRINCIPLE 6

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

Guidance

The OPIM guidance for Principle 6 stipulates that investors should:

1. Use a results framework (referenced in Principle 4) to **monitor progress toward achievement of positive impacts relative to expected impact** for each investment.
2. Progress shall be monitored using a **predetermined process for sharing performance data with investee**; process should outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported.
3. When monitoring indicates investment is no longer expected to achieve intended impacts, **pursue appropriate action** and use results framework to **capture investment outcomes.**



62%

of the investors in our sample have standardized processes in place to compare expected impact against actual impact achievement for each investment

Implementation Insight

Action plans developed in partnership with an investee that specify a timeline for achieving specific qualitative and quantitative KPIs are helpful tools for implementing Principle 6 in practice. Since KPIs will vary from investee to investee, investors often leverage technology to collect impact data and track performance efficiently. Many investors continue to use Microsoft Excel to collect impact data from investees, but we have seen investors make use of other tools to aggregate and monitor impact, such as Airtable, iLEVEL, Preqin, and proprietary systems.

Best Practices

- Setting impact projections for each investment (Principle 4) provides a baseline to refer to over the lifecycle of an investment. Committing to metrics and targets in the initial stages of an investment, especially during due diligence, prevents investors from cherry-picking impact metrics to present that are either biased towards the aspects of an investment that turned out well or lack the context of the impact that was originally anticipated.
- Many of the investors in our sample have developed tools and regular, predefined processes for collecting and monitoring impact data for their investments and have also implemented elements of best practices for reporting impact performance. Strong impact reporting practices entail specifying in advance what data will be collected, how data will be collected, who will be responsible for data collection, and who the data will be reported to.

Areas for Improvement

- This Principle requires investors to not just monitor impact performance, but to monitor impact performance relative to expected impact. Investors with less developed systems for setting impact targets generally have lower alignment with this Principle, though there is a field-wide need for more publicly available examples of investors doing this well.
- Not only should investees flag material issues with respect to their ability to achieve impact targets as they arise, but it is also important for investors to ensure timely collection and review of impact data relative to impact expectations so that issues can be addressed promptly rather than long after the fact.
- Having written procedures in place for handling various types of impact underperformance can maintain consistency, help an investor exercise best efforts in every case, facilitate learning, and give stakeholders greater confidence in an investor's processes.

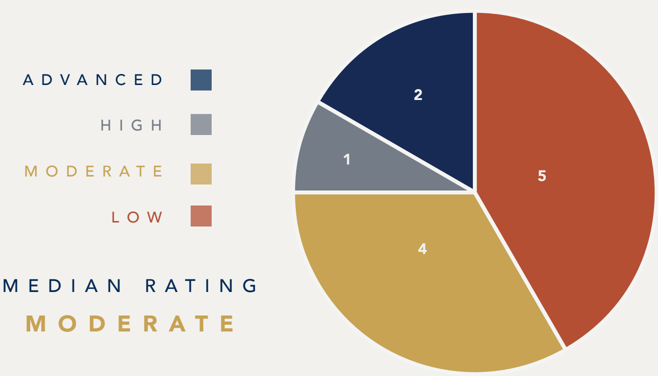
PRINCIPLE 7

Conduct exits considering the effect on sustained impact.

Guidance

The OPIM guidance for Principle 7 stipulates that investors should:

1. In good faith and consistent with its fiduciary concerns, **consider the effect which the timing, structure, and process** of its exit will have on **sustainability of the impact** when conducting an exit.



MEDIAN RATING
MODERATE

23%

of the investors in our sample document consideration of impact-at-exit consequences by the investment committee and team

Implementation Insight

Exits can be challenging for impact investors, especially for investors in low-volume, illiquid markets where there may be a more limited pool of buyers. Attempting to ensure sustained impact after exit can add another layer of complexity, especially for investors bound by fiduciary duty that may have less flexibility at the time of exit. Investors that perform well on this Principle integrate exit considerations into every stage of the investment process, starting in due diligence and ending in intentional decision-making and documentation at the time of exit.

Best Practices

- Though the text of this Principle is most clearly applicable to the potentially significant effects of exits in a private equity or real assets context, this Principle also applies to other asset classes in which an investor's exit may affect the sustainability of an investor's impact.
- Private equity and real assets investors that are intentional about responsible exits consider factors such as timing, impact orientation of potential acquirers, and governance mechanisms to "lock in" impact practices. For private debt investors, these considerations can include use of impact-related covenants or certification requirements, assessment of impact orientation of co-investors, and/or instances of flexibility in repayment requirements.[26]
- Underpinning the above practices, strong performance on this Principle entails consistent and codified consideration of impact at or near the time of exit for each investment. An investor should identify potential impact risks related to its exit and consider how those risks can be mitigated. Ideally, senior investment staff participate actively in these conversations.

Areas for Improvement

- Consistent with a lower emphasis on impact at exit among impact investors broadly, the median rating on this Principle among investors in our sample is the lowest of any of the Principles. Investors might feel they have little flexibility in exit options or are not able to have a significant influence on the ongoing sustainability of an investee's impact. However, the Principle accommodates these concerns. Our assessment focuses not on the effects of an investor's exits, but rather on the consideration an investor gives to those effects.
- Fiduciary concerns can limit the choices an investor faces when exiting an investment, but investors should consider exit options before they enter into an investment. If sustained impact at exit is unlikely, that should prompt discussion about whether the investment fits with their impact strategy. Sometimes concerns can be addressed through the way an investment is structured or managed. These considerations should be revisited closer to the time of exit to ensure an investor is thoughtful about the options available.[27]
- Public markets investors have found it difficult to align with this Principle for the majority of their investments. Most public markets transactions take place in the secondary markets, where sales have little effect on an investee and investors have little control over who buys the security they sell. For example, we have assigned one "Not Applicable" rating on this Principle for an investor in publicly traded fixed income securities whose approach to exits has no apparent potential effect on the sustainability of impact. Nonetheless, in low-volume, illiquid, or difficult-to-value public markets, it can make sense for investors to have a process for assessing whether transactions can affect an investee's cost of capital.

26. The European Venture Philanthropy Association (EVPA) published in 2017 a detailed guide on responsible exits for help venture philanthropists and impact investors: *A Practical Guide for Planning and Executing an Impactful Exit*.
27. See the GIIN's 2018 report *Lasting Impact: The Need for Responsible Exits* for other examples of how investors have incorporated responsible exit considerations into their investment process.

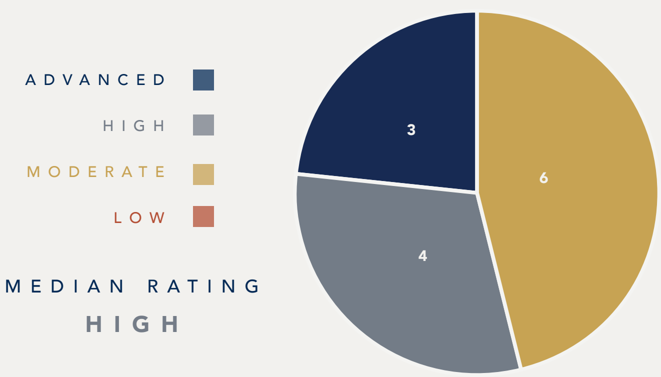
PRINCIPLE 8

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

Guidance

The OPIM guidance for Principle 8 stipulates that investors should:

1. **Review and document impact performance** of each investment, **compare the expected and actual impact**, and other positive and negative impacts.
2. **Use findings to improve operational and strategic investment decisions**, as well as management processes.



46%

of the investors in our sample have a protocol for using the findings of investment reviews to improve future decision-making and management

Implementation Insight

So much of what an investor learns over the course of an investment can be applicable to other investments. Investors with strong performance on this Principle have processes that formalize the review of each investment and institutionalize knowledge across an organization so that it does not simply accumulate in the minds of a handful of individuals. Going a step further and sharing that knowledge with other organizations in a sector by publishing reports and participating in field-building activities can demonstrate an authentic commitment to impact.

Best Practices

- Many impact investors have developed a results management framework (Principle 4) and use it to monitor impact achievement (Principle 6) and the potential negative impacts (Principle 5) of their investments. Strong alignment with these Principles and others is foundational for the commitment to learning required by Principle 8.
- Sharing lessons learned with stakeholders or the public through publications such as an annual report is one way investors can promote transparency and continue to learn by exposing their ideas and processes to external feedback. Best practices in impact management are constantly evolving; investors with strong alignment to this Principle continue to adapt their practices as they gain experience and as more tools and data become available.

Areas for Improvement

- All investors learn, to some extent, just by going about their daily activities. The key to high alignment with Principle 8 is having systemized processes for regular review of actual impact performance against expected impact and documenting in a consistent and timely way the learning that takes place.
- These reviews should then be used to decide whether there is room for improvement in strategy and decision-making processes. Investors should create these review processes before they are needed to ensure consistency from the very beginning.
- Many investors are proud to share accounts of their successful investments and the times when a process worked. Reflecting on failures as well as successes can help demonstrate strong alignment to this Principle. As difficult as sharing accounts of underperformance can be, this kind of information promotes discussions that can provide very valuable lessons, both for an individual investor and for the broader market.

SECTION 5

CONCLUSION

Philippe Le Houérou, CEO of the IFC, unveiled the Principles in April 2019 as an antidote to "impact-washing," arguing that a shared framework would help create a market standard and "bring greater transparency, credibility, and discipline to the impact investing market."[28]

The need for such a framework is more apparent than ever in a world upended by the COVID-19 pandemic. The current crisis has exposed and exacerbated many of the socioeconomic and environmental challenges that continue to plague our world, reinforcing the need to rethink how capital is allocated.

The impact investing field has been working towards this goal for decades and is now positioned to lead the way in building a more inclusive and sustainable society. However, the integrity and continued growth of the field depends on the implementation of a set of standards for authentic and disciplined impact investing. Without a clear understanding of what asset owners can and should expect from investors, and what processes are required to achieve positive social and environmental outcomes, the market will suffer from unmet expectations, substandard practices, and inconsistent labeling. The confusion and loss of trust that result can lead to accusations of impact-washing and greenwashing, undermining the credibility and growth of impact investing as a whole.

To overcome these challenges, a universal standard for impact management needs to be accessible to a wide range of investors and have a mechanism for establishing trust and confidence among all market participants. The Principles are consistent with these objectives and as a result are emerging as a north star for the industry. If the Principles are the roadmap for the impact investing journey, then the verification requirement provides the GPS that allows impact investors to see where they are on that map.

However, the impact investing field still needs additional standards and guidelines to ensure that actual impact results are validated and that investors can provide supporting evidence when they claim to be contributing to outcomes like the SDGs. For example, we are encouraged by the work of UNDP to develop SDG impact management standards and create the SDG Impact Seal and Certification program, which will verify an investor's contributions toward achieving the SDGs.[29] These and other

28. IFC website (2019): "60 Investors Commit to Manage over $350 Billion in Assets in Line with New Impact Principles."
29. IISD SDG Knowledge Hub website (2018): "UNDP Launches SDG Impact Platform for Investors and Businesses."

standards are being developed with the end goal of creating a holistic and efficient ecosystem for maintaining the integrity of the impact investing market.

We believe verification is and will continue to be a critical part of this ecosystem. Transparency on impact management practices will cast a light on the areas where impact investors excel, and where they still struggle. By holding impact investors accountable to a set of shared standards or principles and by making independent verification an expectation for all impact investors, we can build the necessary infrastructure for real, authentic, and scalable impact together.

A Call to Action

This report is intended as a first-in-a-series study for the field to collectively establish benchmark practices and track alignment with the Principles over time. Given this is Year 1 of the verification requirement, there are gaps and shortcomings in the data that leave important questions unanswered. By conducting these verifications and tracking the progress of a range of impact investors over time, the resulting data will help answer these questions and provide signals to the field about what additional market infrastructure are required to bridge market gaps and address shared challenges.

We encourage each stakeholder in this market to continue the work of building the impact investing field:

- ASSET OWNERS should encourage all asset managers to become signatories to the Principles and use the Principles to hold managers accountable to industry best practices.
- ASSET MANAGERS should align themselves with the Principles and make regular independent verification a core part of their value proposition alongside a commitment to continuously improving the quality of their practices.
- STANDARD SETTERS should continue to build robust guiding principles for each segment of the impact investing market while also supporting the development of the verification infrastructure necessary for upholding standards and vetting impact claims.
- ADVISORS & SERVICE PROVIDERS, including institutional consultants, placement agents, and wealth managers, should use the Principles to evaluate managers and better identify and differentiate best-in-class impact investors.

If these stakeholders can all work together towards the shared goal of building and scaling this field with integrity, the ambitious vision to mainstream the use of private capital to meet the social, environmental, and economic challenges of our time will one day be realized.

"The impact investing industry needs authenticity and accountability now more than ever."

- Dr. Andrew Kuper, Founder and CEO of LeapFrog Investments[30]

30. LeapFrog Investments (2019): "In Impact Investing First, LeapFrog Announces Audit on Impact Principles, Achieving Top Rating."

GLOSSARY

Impact Investment

For the purposes of this report we will use the definition presented alongside the Principles, which defines impact investments as "investments into companies or organizations with the intent to contribute to measurable positive social or environmental impact, alongside financial returns."[31]

Impact Management

Impact management (IM), or impact measurement & management (IMM), refer to a practice of "learning about—and improving—effects experienced by people and planet."[32] For this report, we will only use the term "impact management" (IM).

Impact Investors

In the context of this report, the term "impact investors" is used as an overarching term to describe both asset owners and asset managers who may be investing for impact.

Intentionality

Intentionality is one of the four Core Characteristics of Impact Investing developed by the Global Impact Investing Network (GIIN). According to the GIIN, "impact investing is marked by an intentional desire to contribute to measurable social or environmental benefit. Impact investors aim to solve problems and address opportunities. This is at the heart of what differentiates impact investing from other investment approaches which may incorporate impact considerations."[33]

Investor Contribution

The Impact Management Project (IMP) defines "investor contribution" as "the contribution that the investor makes to enable enterprises (or intermediary investment managers) to achieve impact." An investor's contribution(s) can be financial or non-financial. The IMP helped create consensus on four techniques that investors can use to contribute to impact: (1) Signal that impact matters, (2) Engage actively, (3) Grow new or undersupplied capital markets, and (4) Provide flexible capital.[34]

Operating Principles for Impact Management

The Principles (or OPIM) are "a framework for investors for the design and implementation of their impact management systems, ensuring that impact considerations are integrated throughout the investment lifecycle."[35]

Socially Responsible Investing (SRI)

Socially responsible investing, or SRI, is a generic term covering sustainable, responsible, socially responsible, ethical, environmental, social investments and any other investment process that incorporates environmental, social and governance issues. Impact investing is a small but vibrant segment of the broader sustainable and responsible investing universe.[36]

31. IFC (2019): Investing for Impact: Operating Principles for Impact Management.
32. Impact Management Project website: "Glossary - Impact Management."
33. GIIN website: "Core Characteristics of Impact Investing."
34. Impact Management Project (2019): Investor Contribution in Public and Private Markets*: Discussion Document.*
35. IFC (2019): Investing for Impact: Operating Principles for Impact Management.
36. Global Sustainable Investment Alliance (2019): Global Sustainable Investment Review 2018.

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