

A flock of birds is flying in a V-formation across a sky that transitions from a clear blue at the top to a hazy orange at the bottom. The birds are small, dark silhouettes, and their collective path creates a dark, smoky trail that tapers as it moves towards the bottom right. The text is overlaid on this central image.

TRUTH
in
CLIMATE
IMPACT

A Tideline Guide to Best Impact
Management and Labeling Practices

EXECUTIVE SUMMARY

TIDELINE



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We are grateful to the Tideline and BlueMark clients featured as case studies—Brookfield Global Transition Fund and British International Investment—and to the dozens of other investors that have helped inform and refine Tideline's approach to climate impact management in recent years.

About Tideline

Tideline is a women-owned, specialist consultant for the impact investing industry. Since 2014, Tideline has provided expert, tailored, and actionable advice to institutional asset managers and allocators deploying over \$300 billion in impact investment strategies and solutions

To learn more, please visit www.tideline.com.

INTRODUCTION

Despite growing interest in addressing the climate crisis through capital markets, there remains widespread confusion about what it means to be a climate investor—that is, one whose investments result in the tangible avoidance or reduction of emissions, or support adaption. Yet the importance of understanding the real-world effects of climate impact investments cannot be overstated given the urgency of limiting global warming and its effects.

Industry groups, regulators, and investors alike are in search of the appropriate tools, frameworks, and legislation to bring more clarity to the frenzied growth of climate investment – especially as certain core, quantifiable metrics like company Scope 1 and 2 emissions have become table stakes for any investor making a climate investment (and increasingly for all investors). Recent debates around the validity of sustainable investment writ large bring to light some of the fundamental challenges at the forefront of the climate investment space: the broad scope of environmental “action” that can be taken, the heightened need for active management to reengineer entire economic systems, and the hyper-centricity and focus on select disclosures without evidence of the strategies in place to support them.

Three necessary elements of climate investment remain particularly unsettled: robust integration of climate objectives pre-investment; discipline in measuring real-world emissions; and the attribution of emissions reductions to a particular investment or action. This has had the effect of confusing industry debate and regulatory action focused on the precise labeling of climate strategies, which presumes that a single investor type or methodology might qualify as a climate investment. In reality, the efficacy of a climate investment strategy should be evaluated on the quality and consistency of the principles and practices that managers employ throughout the investment process.

Tideline's experience advising over 150 clients has shown us that investors differentiate their impact investing practices through varying levels of intentionality in their investment mandate, contribution to the impact of their portfolios, and active measurement and management to validate their results. In this paper, we reflect on the market's shift toward more rigorous expectations for all three of these distinguishing factors, and zero in on how climate impact investors should respond to the added responsibility of being at the leading edge of both innovation in impact management and market formalization.

CLASSIFYING CLIMATE INVESTMENT

To help distinguish and communicate the range of sustainable investment strategies in climate, Tideline has leveraged the work of our sister company, BlueMark, to create a consolidated mapping of climate investment strategies against a number of core frameworks, including Tideline’s Framework for Impact Labeling, the Impact Management Platform (IMP)’s impact classes, Europe’s Sustainable Finance Disclosure Regulation, and the new classification framework recently proposed by the US Securities and Exchange Commission.

In these generally accepted and reductionist terms, climate-related investment strategies can fall within broad and often overlapping categories. They may avoid causing harm through ESG-based screens; seek to benefit stakeholders through broad sustainability goals; or contribute to climate mitigating solutions through specific objectives tied to underlying business models.

FIG. A
CLASSIFICATION OF CLIMATE-BASED THEORIES
OF CHANGE BY REPORTING FRAMEWORK

IMP Impact Goals	AVOID HARM	BENEFIT STAKEHOLDERS	CONTRIBUTE TO SOLUTIONS
SEC (US) Investment Process	ESG Screened	ESG Integrated	ESG Focused
SFDR (EU) Reporting	Article 8		Article 9
Climate-based theory of change	Screen out companies engaged in harmful activities or responsible for negative externalities to encourage re-engineered business processes	Invest with an awareness of how companies affect the environment and accrue ancillary improvements or positive externalities through enhancements	Invest in businesses that sell a product or service that is directly addressing a climate challenge, typically reducing emissions/pollution outright or reducing the emissions intensity of a product or service

But this does not make them all climate impact investors. Even managers who today are eager to claim the IMP’s “Contribute to Solutions” label should think more critically about the primary objectives of their investments. In Europe, this reckoning has already begun as SFDR comes into effect. Even inside Europe – and certainly outside of it – additional guidance and consensus-building is likely to be needed to ensure accurate fund labeling, clear process disclosure, and credible results measurement.

FROM CLASSIFICATION TO STRATEGY: TIDELINE'S CLIMATE IMPACT X-RAY

Climate impact investors are distinguished from their responsible investing peers on the basis of their approach to intentionality, contribution, and measurement. While “responsible investors” may make broad sustainability commitments and seek to create positive, measurable impact alongside financial return, they stop short of meeting the heightened expectations set for climate impact investors. In our experience, climate impact strategies are segmented into “climate-integrated” and “climate-focused” approaches. Figure B adds “measurement” as a third dimension to Tideline’s Framework for Impact Labeling to illustrate the distinction between the two.

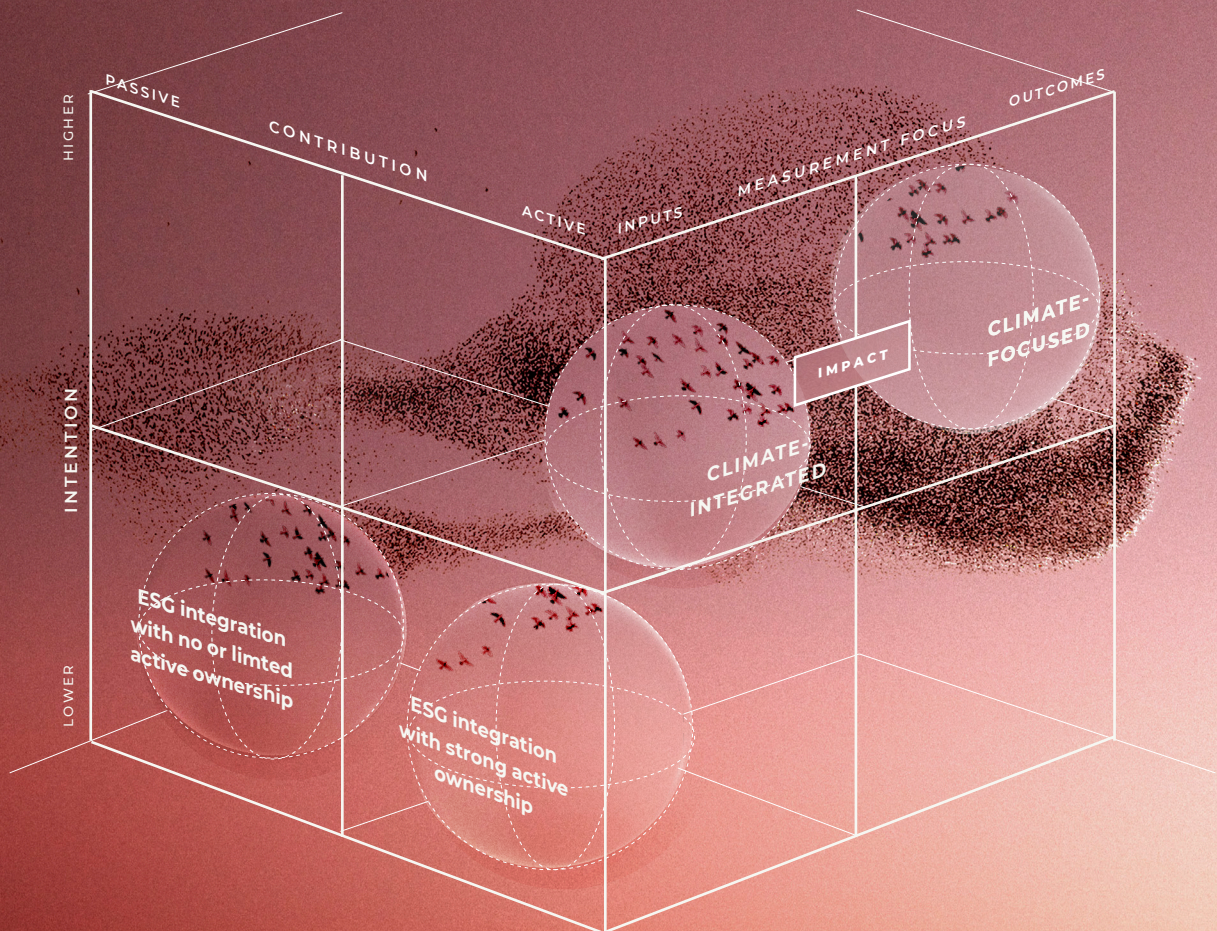


FIG. B

TIDELINE'S CLIMATE IMPACT X-RAY

While both climate-integrated and climate-focused investors demonstrate a high level of intentionality, contribution, and measurement in their strategies, there are subtle differences in the type of climate objectives they advance. Climate-integrated investors are likely to consider ESG inputs and outputs in their investment process and often have clearly articulated company- or portfolio-specific goals related to environmental action, but their investment universe is broad, emphasizing measurable operational benefits or avoidance of harmful activity. Their intentionality may not be as high as other climate impact investors, but they often try to make up ground through more active management approaches. Their use of outputs-based measurement approaches are helping to push the market toward greater and more consistent disclosure by companies and investors.

Climate-focused investors likely have a foundational ESG integration process in place too, but their primary concern is partnering with companies whose commercial success is fundamentally dependent on achieving improvements on climate-related targets, and vice versa. They are more likely to look beyond operational outputs to emphasize the intended outcomes of an investment and the ultimate beneficiaries. These investors excel at making the climate impact case through high intentionality and seek to be an active partner in portfolio management, but their innovation often comes through robust measurement. They push the envelope to consider real-world outcomes, often considering a mix of qualitative and quantitative data, and taking into account a broader stakeholder set as well as potential negative effects.

FROM STRATEGY TO OPERATIONALIZATION

Six key elements have emerged as best practice for climate impact investors based on Tideline's experience working with dozens of such funds. Using the X-Ray dimensions as a guide, these tactical elements include:

TO INCREASE INTENTIONALITY

1. *Strengthen the investment thesis*
2. *Ensure consistent and meaningful investment process integration*

TO ENHANCE CONTRIBUTION

3. *Build a curated, active network*
4. *Focus on differentiated, active management*

TO IMPROVE MEASUREMENT

5. *Design a purpose-fit measurement system*
6. *Evolve disclosure practices to meet changing market expectations*

Investors in the climate impact space will be subject to increased scrutiny in coming years, but also increased interest from new LPs. Tideline believes they will be better positioned to withstand the former and capitalize on the latter by taking seriously their responsibility to invest with intention, make authentic contributions to impact achievement, and manage and measure for climate action success.