Why publish an impact report?

A deep dive into reporting by impact investors in the U.S.

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Background

- Global Impact Investing Network (GIIN) estimated that the size of the impact investing assets worldwide to be US$715 billion in June 2020*.

- One of the key characteristics of the rapidly growing impact investing market is the intentional measurement and management of impact. Over the last few years, a variety of impact measurement and management (IMM) systems, and tools have evolved to measure, and manage impact. This includes United Nations Sustainable Development Goals (SDGs), GIIN's IRIS+ metrics, Impact Management Project's (IMP) five dimensions of impact, UN Principle for Responsible Investment (PRI), and B analytics, etc.

- While some investors use a blend of these frameworks, others have adapted these to create their proprietary tools.

- There is limited data on the proportion of asset managers publishing both private and public impact reports in the U.S. However, secondary research on well-known, emerging asset managers suggests that only a few of them publish impact reports currently.

* 2020 Annual Impact Investor Survey, GIIN

Key highlights

- This research study focused on understanding the reasons why asset managers in the U.S publish impact reports, challenges faced by them, elements of meaningful impact reports, and the future of impact reporting.
- A total of 18 asset managers, asset owners, investment advisors, and ecosystem players in the U.S were interviewed. Further, 50 impact reports spread across asset classes and sectors were reviewed and analyzed.
- Six reasons influence asset managers in the U.S to publish impact reports. This includes its use to support fundraising, enhance their reputation and demonstrate impact created.
- Challenges like financial and human resource constraints, burden of proof, issues in data collection, and concerns around data privacy limit some asset managers from publishing impact reports.
- A meaningful impact report covers nine elements including transparency around IMM methodology, categorization of impact, focus on long-term outcomes, investor contribution, and impact risks.

Inside the report

1. Research objectives
2. Reasons to publish
3. Key challenges
4. Elements of a meaningful impact report
5. The future of impact reporting
6. Differing views
7. Template of an impact report

1.

Research objectives

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The research delves into four objectives to understand

- Reasons why asset managers publish impact reports
- Challenges limiting asset managers to publish impact reports
- Elements of meaningful impact reports
- Future of impact reporting

2. Reasons to publish

"If you call yourself an impact investor, then you should be willing to publish the impact of your investments. You measure what matters, and the more you measure it, the more you can improve." – Asset manager

Photo courtesy – Unsplash.com

Asset managers have six compelling reasons to publish impact reports

01 Support fundraising efforts

02 Enhance reputation and differentiate from competitors

03 Highlight impact thesis and impact created

04 Share and provide transparency into IMM process

05 Inform and motivate stakeholders

06 Showcase achievements of portfolio companies

Asset managers have six compelling reasons to publish impact reports

01

Support fundraising efforts

- Some asset managers use their impact reports to influence their asset owners, especially potential ones, and to support their fundraising efforts for follow-on investments from existing asset owners.
- Asset managers, who have dedicated, in-house IMM teams and spend significant resources to publish impact reports, consider it an asset. For them, impact reports are essential to fundraising as it helps in answering – who they are, what they do, why they exist, and where the money is being invested.
- Some asset owners have specific impact mandates for the use of their capital. So, highlighting impact data makes the fundraising efforts a bit easier by showcasing the allocation of asset owners' capital towards specific impact mandates.
- Impact-focused asset managers use their reports to put impact at the forefront while raising follow-on capital. Lack of impact reports, however, can pose some challenges to raising capital from impact-oriented asset owners, especially for new asset managers.

> *"Our impact report is our key external facing document. We get a lot of requests from asset owners or investment advisors, who want more information on impact data." – Asset manager*

Asset managers have six compelling reasons to publish impact reports

02

Enhance reputation and differentiate from competitors

- Most asset managers use impact reports as a marketing tool to either build or enhance their reputation to be called impact investors.
- Impact reports help some asset managers to gain a competitive advantage by differentiating from peer managers.
- Impact reports provide an additional lens to asset managers to share their impact data and stories. It helps asset owners and other ecosystem players to learn more about the impact focus of the asset managers than just knowing them as return-only focused funds.
- Some asset managers consider impact reports integral to their business, as impact-oriented asset owners are inclined to understand the rigor and depth of IMM practice, as well as to inquire about the expected impact through their capital.

"The market is growing fast. As more funds come into the market, it's getting harder for impact investors to differentiate themselves. As a result, impact reports play a bigger role and are likely to continue to expand the role that they play." – Ecosystem player

Asset managers have six compelling reasons to publish impact reports

03

Highlight impact thesis and impact created

- Impact reports help asset managers to support and communicate their impact thesis and impact commitment to interested stakeholders, especially existing and future asset owners.
- Given different interests of asset owners, impact reports help asset managers to elaborate on their investment and impact thesis, highlight their focus sectors and sub-sectors, as well as provide more understanding to their impact orientation.
- Asset managers use impact reports to demonstrate the impact created by their investments on a quarterly (rare) or annual (common) basis.
- Impact reports are also used by some impact-oriented asset owners to highlight their impact commitment. They use it to inform their stakeholders, like board members, that their allocated capital is invested to support their intended purposes, impact mandate, and goals.

"An impact report gives a flavor of our investment and impact thesis." – Asset manager

Asset managers have six compelling reasons to publish impact reports

04

Share and provide transparency into IMM process

- High-quality impact reports help to convey rigor of the IMM practice as well as to provide transparency into the impact reporting process.
- Impact reports serve as a valuable resource to help the impact investing industry to scale positive impact by sharing impact strategy, pre-and post-investment impact, best practices, and IMM trends.
- Impact reports help in improving transparency in impact reporting by sharing and learning about assumptions, IMM methodology, and data collection process.

> *"Putting out impact reports can help in shaping the impact investing industry. We will continue to put out a standard-setting report to show what can be done and hope that others would take cues and see best practice in ours." – Asset manager*

Asset managers have six compelling reasons to publish impact reports

05

Inform and motivate stakeholders

- Impact report is a source of pride and motivation for employees of some asset managers. They consider their reports to be their North Star that best captures their reasons for existence. They revisit their impact reports annually to review their progress and impact strategy.

- Impact reports improve asset managers' reputation as an investor, thereby attracting mission-driven entrepreneurs looking for investments. Such entrepreneurs prefer to have impact-oriented asset managers on their capitalization table (cap table) to avoid misalignment of impact goals.

- Some institutional investors pull out required impact data and stories from asset managers' impact reports as well as demand the missing data in their proprietary templates annually.

- However, a few asset managers who publish detailed impact reports sometimes push back on such requests from their asset owners and instead share their impact reports. This is due to the limited bandwidth of asset managers to meet such requests as well as confidence in the comprehensiveness of their impact reports.

Asset managers have six compelling reasons to publish impact reports

06

Showcase achievements of portfolio companies

- Most asset managers use their impact reports to highlight the problems being solved by their portfolio companies as well as the achievements and positive impact of such companies. As a result, portfolio companies use relevant sections from impact reports to support their marketing campaign and subsequent fundraising efforts. Such section includes the magnitude of opportunities, aggregated and quantified impact, UN SDGs targeted as well as case studies.

- This is a significant value-add for the portfolio companies who do not have the resources and bandwidth to analyze their impact data and stories.

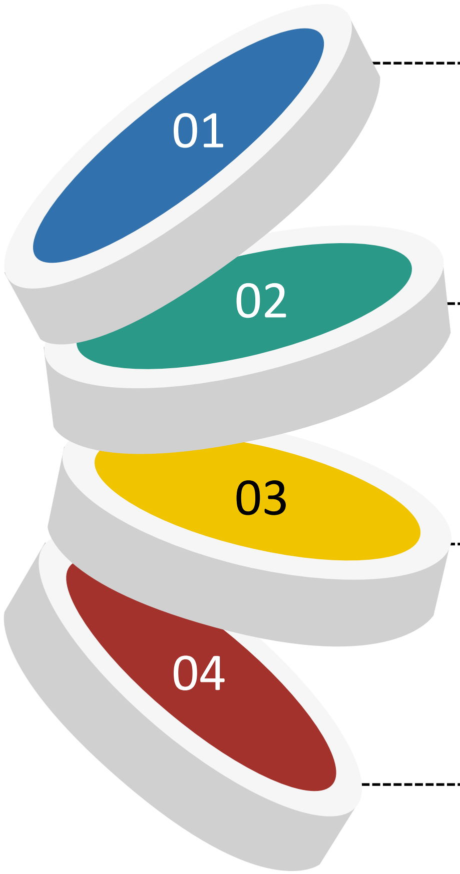
3.

Key challenges

"Impact reports require time, resources, and effort. So, if asset managers are not going to benefit from increased investment, they probably won't publish them." – Ecosystem player

Photo courtesy – Unsplash.com

Four challenges limit asset managers to create impact reports



- Resource constraint
- Burden of proof
- Issues in data collection
- Concerns around data privacy and confidentiality

Four challenges limit asset managers to create impact reports

01

Resource constraint

- Most asset managers cite staffing and financial constraints as major factors limiting them from publishing impact reports. They do not have dedicated and experienced in-house resources with sufficient bandwidth and IMM knowledge to create impact reports.
- Most small asset managers (managing AUM* of US$10-50 million) do not have the required financial resources to either outsource or create their impact reports. For them, the cost of impact reports does not justify its value.
- Established asset managers investing significant capital (say > US$500 million) have both financial and human resources to either build dedicated in-house IMM practice or outsource their impact reports to well-known consulting firms.
- This puts the smaller asset managers at a disadvantage as the usual 2-3% management fee is not enough for them to deploy existing resources to create impact reports.

* Assets under management - the total market value of the investments managed by the asset manager on behalf of their asset owners.

Four challenges limit asset managers to create impact reports

02

Burden of proof

- Some asset managers have limited capability, impact data, and case studies to publish comprehensive impact reports.

- Most managers suffer from the burden of proof and have limited confidence to publish impact data and stand behind their impact numbers. They continue to debate the contribution vs. attribution dilemma to figure out how much positive impact can be attributed to their invested capital and how much they contributed to moving the impact needle.

- Asset owners suggest that there are some asset managers for whom perfection may be the enemy of the good. While they may be investing with a focus on positive impact, they may not be measuring it. This can be due to different priorities, lack of accountability, or having limited meaningful content.

- The concerns around transparency and the burden of proof are likely to exist until third-party verification of impact reports becomes common among most asset managers.

> *"It's more of a data owning issue and less of an impact reporting issue. It is hard to prove the impact, so why would you elect to say you created some impact?" – Asset owner*

Four challenges limit asset managers to create impact reports

03

Issues in data collection

- Some asset managers find it challenging to source consistent and timely impact data from their portfolio companies. This is due to the varied understanding of impact metrics and heterogeneity of companies across sectors, growth stages, and geographies, etc. For instance, the definition of underserved customers varies by country and companies even for the same asset manager.
- For seed and early-stage companies, the impact is on a sliding scale as their business models often pivot with their growth. So, asset managers are hesitant to consume the bandwidth and resources of such companies to gather impact data until their businesses stabilize.
- Some asset managers embed data sharing requirements in their term sheets at the time of investing. But they recognize that the primary focus of their portfolio companies is to grow their businesses. Therefore, sourcing impact data from such companies can be challenging and can take months to gather, analyze, and aggregate their data.
- It is difficult to collect data from publicly-listed companies due to regulatory barriers and from companies where asset managers do not have any board seats.

"If you're a seed-stage investor, it's hard to collect data, as in many cases, portfolio companies don't even have any revenue, sometimes not even customers." – Asset manager

Four challenges limit asset managers to create impact reports

04

Concerns around data privacy and confidentiality

- Most asset managers cite concerns around data privacy and confidentiality for not creating impact reports. They are more comfortable in sharing sensitive information about the portfolio companies with their existing or potential asset owners internally only. Such asset managers, therefore, have private impact reports or web portals that can be accessed by their respective asset owners.
- Often asset managers are bound by confidentiality agreements with their portfolio companies. So, they only share data that is available publicly or is approved by their respective companies.
- A few asset managers avoid sharing data of individual companies and instead anonymize and aggregate impact data of their overall portfolio.
- Data privacy is a big concern for asset managers with portfolio exposure in the European Union region due to General Data Protection Regulation (GDPR).

> *"For those who don't want to publish an impact report, they just say it's a privacy issue. That's a lame reason. In the social impact game, we can make a profit and have an impact too." – Ecosystem player*

4.

Elements of a meaningful impact report

“The more you're able to report, the better it is. Most asset owners feel this way, and it benefits the overall space to have greater transparency.” – Ecosystem player

Photo courtesy – Unsplash.com

A meaningful impact report should include nine key elements

01 Transparency around IMM methodology

02 Comparison of ex-ante impact goals with vs. ex-post achievements

03 Categorization of impact

04 Alignment of impact with global IMM standards

05 Balance between quantitative data and descriptive stories

06 Focus on long-term outcomes

07 Investor contribution

08 Reflection and learnings

09 Impact risks and negative externalities

A meaningful impact report should include nine key elements

01 Transparency around IMM methodology

- A meaningful impact report includes a descriptive section on IMM methodology, impact thesis, theory of change, underlying assumptions, and ex-ante impact goals, etc. Such narratives help in providing transparency around the intent of asset managers.
- If asset managers use IMP's ABC classification* for their portfolio companies, then this section covers the rationale and factors used to classify companies into A, B, or C categories. Most asset owners are interested to learn about asset managers' rigor and thinking behind the ABC classification of their portfolio companies.

> *"We do want to see the thought process of our asset managers. We want to see what value are they adding to the IMM process." – Asset owner*

* Read more about IMP's ABC classification here.

A meaningful impact report should include nine key elements

02 Comparison of ex-ante impact goals with vs. ex-post achievements

- Incorporation of ex-ante (pre-investment, expected) vs. ex-post (post-investment, achieved) impact goals comparison helps asset managers to differentiate themselves as forward-looking investors. It conveys the magnitude of problems they are trying to solve and the impact they are intending to create through their investments. It also provides a benchmark to analyze their progress over time. The comparison helps in building accountability and verifying assumptions.

- A section on the ex-ante forecast of impact goals and metrics helps asset managers to support their intent and thesis around expected impact. The ex-post analysis covers the actual outputs and impact achieved, which has more meaning when presented in comparison with expected goals.

- An analysis of reasons for over-or under-achieving the expected goals supports the feedback loop, which is useful in refining investment strategies and conducting due diligence in the future.

> *"A good impact report should tell me what type of impact matters to an asset manager, what they thought they were going to achieve, and what actually happened. I think such managers would deserve a lot of credit for this." – Asset owner*

A meaningful impact report should include nine key elements

03 Categorization of impact

- Cumulative impact can be classified into the sector, market, investor, portfolio, company, or community impact among other categories. Both asset managers and asset owners suggest a preference for such a breakdown of overall impact to understand the nuances and make more sense of the impact data and stories. These layers of impact also help the asset managers to convey the thinking and rigor in impact reporting.

- Such categorization increases the usage of impact reports by various stakeholders. For instance, most asset owners find sector, portfolio, or company-level impact useful to create their impact reports or to share with their respective board members. On the other hand, portfolio companies like to use company or community-level impact reporting in their marketing and fundraising campaigns. Investment advisors, too, can use such categorization to customize impact reporting based on their target clients.

> *"Asset owners, too, publish their impact reports. So, oftentimes, they collect impact data from us in the same way that we collect from our portfolio companies, to then aggregate and show it to their boards. So, having a robust impact report with various layers of impact helps in meeting such requests." – Asset manager*

A meaningful impact report should include nine key elements

04 Alignment of impact with global IMM standards

- Impact reporting using global IMM standards, metrics and benchmarks is becoming a well-accepted and preferred best practice among asset managers. Usage of industry-accepted standards for impact reporting also helps in promoting transparency and addressing concerns around impact washing.

- Most managers continue to build in-house IMM expertise and proprietary IMM methodology by adapting global standards such as UN SDGs, UN PRI, GIIN's IRIS+, and IMP, etc. Many impact-oriented asset managers are either members or signatories of such organizations, initiatives, or consortiums. Often, such managers are required to publicly disclose their compliance and progress. A few asset managers undergo third-party verification to audit their IMM process and the extent of their alignment with global standards.

- Asset managers often use IMP's five dimensions of impact* to create their proprietary impact rating tool.

> *"We are pulling information from what we see as best practices across the industry and building our in-house expertise. Because greenwashing is a massive issue, we try to be incredibly transparent with the standards that we're relying upon for our impact reporting." – Asset manager*

* Read more about IMP's five dimensions of impact here.

A meaningful impact report should include nine key elements

05 Balance between quantitative data and descriptive stories

- Quality impact reports maintain a balance between quantitative impact data and descriptive impact stories and case stories. Most asset owners and asset managers suggest that such balance makes impact reporting more meaningful and legitimate than just having impact numbers or feel-good stories. Adding some narrative to link impact data of portfolio companies with some case studies and impact stories provides a context to the consumers of impact reports. All this makes it more intelligible for the readers to make sense out of the numbers and impact stories.

- Asset managers will use more creative and interactive data visualization tools to make their digital reports more readable and easier to navigate. Some asset managers benefit from abridged versions of their impact reports given a different level of understanding among their stakeholders.

"You need a story, but you also need data." – Asset owner

A meaningful impact report should include nine key elements

06 Focus on long-term outcomes

- Quality impact reports do not just focus on impact metrics or outputs, but also on long-term outcomes. Stakeholders, especially some asset owners, are interested in knowing the outcomes achieved or likely to be achieved through asset managers' investments. Next, asset managers should explain the importance of such outcomes and why it matters to them. This helps them in adding some context around their impact thesis.

- Knowing that level of interest and understanding varies across asset managers and asset owners, including both outputs and outcomes, helps the asset managers to customize their messaging. While some players may be interested in outputs, others may want to learn about the evidence, causality, and outcomes.

- A few asset managers extrapolate outputs into outcomes without overstating their data to bypass the difficulty in measuring outcomes. Others include case studies on portfolio companies to go beyond outputs and showcase outcomes.

> *"Most asset owners like to see outputs because it's easy for them to interpret. For example, if we gave X amount of capital, we impacted Y number of people or businesses. But a lot of them also are interested in knowing about outcomes. " – Asset manager*

A meaningful impact report should include nine key elements

07 Investor contribution

- Impact reports elaborate on the specific role played by asset managers in achieving the highlighted impact and outcomes. Many asset owners are interested to learn about the differentiated, additional role played by their capital in achieving targeted impact and outcomes.

- It is essential for asset managers to remain humble, descriptive, and mindful of their impact claims. They need to differentiate between the extent of impact which can be attributed to their capital, and their specific contribution and influence. Some asset owners and peers often do like claims indicating how asset managers moved the impact needle significantly on their own without elaborating on their assumptions or recognizing other factors that contributed to that.

- Good impact reports mention would mention the counterfactual and elaborate why some impact or outcome would have been different had the asset manager not invested in select sectors, markets, or companies.

> *"We're just one piece of the funding for the companies we are investing in. So, it's not fair for us to say, 'look at us, we moved the needle all over the world'; we're not going to make such statements, because it's just not true, but we hope we contributed to that, so I would say that." – Asset owner*

A meaningful impact report should include nine key elements

08 Reflection and learnings

- A meaningful impact report can contribute to growing the impact investing movement and ecosystem. Among other things, asset managers and asset owners can share their yearly reflections and answer their learning questions as well as compare their ex-ante goals and ex-post achievements.
- They can also cover elements like what they believed and assumed at the beginning of the year, what came out to be true, what worked and did not work well for them, what they learned and how they intend to incorporate such learning in the future decisions.
- Asset managers can highlight their engagement with ecosystem players and their role in furthering the impact investing movement.

> *"The ability to continuously learn and improve is a huge piece of why reporting is essential. So, it is not just about saying that we hit, or didn't hit, our KPIs* but digging into the underlying why - why did we, why not, and what can we do to improve. Framing it as a feedback loop is important." – Asset manager*

* Key performance indicators

A meaningful impact report should include nine key elements

09 Impact risks and negative externalities

- Most asset managers only include the positive impact of their investments in their impact reports. However, some asset owners have started to ask inclusion of impact risks* including evidence risk and negative externalities in impact reports.

- Though it might be difficult for asset managers to assess and report impact risks, there is no incentive for them to highlight those as of now. Reporting negative externalities which result from their investments may reflect poorly on them. But most stakeholders believe that most impact-oriented asset managers will start including elements of impact risks in their report.

- Some board members have been asking the asset managers and asset owners to disconfirm the impact data and are pushing them to pay attention to reliable evidence for their impact claims, to verify their assumptions, and to learn about negative externalities.

> *"You can tell an impact story that might sound exciting, but actually it's not true, because it doesn't say anything about the externalities." – Ecosystem player*

* IMP defines impact risks as the likelihood that impact will be different than expected. Read more about impact risks here.

5.

The future of impact reporting

"Currently, an impact report is not a must-have, but a nice-to-have. However, if asset managers have resources, it is a matter of time before they realize that it is a must-have." – Asset owner

Photo courtesy – Unsplash.com

Moving forward, seven trends will influence impact reporting

01 More asset owners will demand impact data and support asset managers on impact reporting

02 More asset managers will share impact reports publicly

03 Impact reporting will become evidence-driven and outcome-focused

04 More asset managers will track and report on DEI metrics

05 More players will demand third-party verification of IMM process and impact

06 Increased usage of standardized metrics will bring more consistency in impact reporting

07 Sophisticated impact reporting will advance the impact investing movement and ecosystem

Moving forward, seven trends will influence impact reporting

01 More asset owners will demand impact data and support asset managers on impact reporting

- Asset owners can play a significant role to influence and support impact reporting. They can be an informed consumer of impact reports. In the short run, asset owners can provide intellectual, research, and financial support to small asset managers for creating impact reports. They can work with their asset managers to select and prioritize meaningful impact metrics for collecting data from portfolio companies. They can publish joint impact reports to subsidize the cost and burden on their asset managers. In the long run, the cost of publishing an impact report will become a cost of doing business.

- Asset owners cannot only demand impact reports from their asset managers but also ensure that relevant metrics, outcomes, and learnings are captured and published. Asset owners need to be mindful of not creating additional work for their asset managers which requires significantly more resources and time.

- Asset owners who are part of any Limited Partner Advisory Committee (LPAC) can share their knowledge to influence asset managers' understanding of impact reporting. Asset owners can insist and provide some support to their asset managers, especially small ones, to audit their impact via third-party verifiers.

Moving forward, seven trends will influence impact reporting

02 More asset managers will share impact reports publicly

- More asset managers, appreciating the use-cases and advantages of impact reports, are likely to publish public impact reports. They can use their reports for establishing their brand, attracting new asset owners to invest, generating in-bound interests from companies, and showcasing their impact.
- Public impact reports will also help emerging asset managers to learn and build their IMM practice.

03 Impact reporting will become evidence-driven and outcome-focused

- With the advancement of the impact report field, more asset managers are going to move beyond impact outputs and focus on their linkages to long-term outcomes.
- Asset owners having sophisticated knowledge of IMM are likely to ask for reliable evidence to establish a connection between outputs and outcomes.

Moving forward, seven trends will influence impact reporting

04 More asset managers will track and report on DEI metrics

- More asset owners and asset managers have started to focus on racial and gender equity.
- Impact reports will include data on DEI metrics across portfolio companies and asset managers with YOY comparison. The metrics will focus on the demographics of leadership including board members, senior management, and key decision-makers by race, gender, or ethnicity.

05 More players will demand third-party verification of IMM process and impact

- The demand and market for third-party verifiers are growing among asset owners and asset managers. More asset managers will undergo third-party verification of their impact. This will help in differentiating from competitors.
- Organizations receiving funding from donors or government bodies, like Community Development Financial Institutions (CDFIs) will continue to verify their impact as part of their monitoring and evaluation program.

Moving forward, seven trends will influence impact reporting

06 Increased usage of standardized metrics will bring more consistency in impact reporting

- The diversity across sectors, geographies, stages of companies, IMM methodologies, and preferences of asset owners and asset managers make it difficult to have completely standardized impact metrics. However, some level of standardization will prevent asset managers and asset owners from reinventing the wheel and influence them to use similar IMM language to report their impact. This not only leaves scope for customizing other metrics but also helps in addressing the issue of impact washing.

- Asset managers and asset owners will be able to compare their performances against their peers. Some level of standardization also benefits the portfolio companies to save resources if they track and share similar data to their asset managers.

Moving forward, seven trends will influence impact reporting

07 Sophisticated impact reporting will advance the impact investing movement and ecosystem

- Impact reports having a balance between qualitative stories and quantitative data will influence more asset owners and asset managers to believe in impact investing. Impact reports including quantitative data and qualitative stories will play a significant role in inspiring more investors to channel their capital towards impact themes as well as learn from peers about impact reporting. This demonstration will help in advancing the impact investing movement and ecosystem.

- Based on a cost-benefit analysis, asset managers will start considering the cost of creating impact reports as the "cost of doing business". They will find ways to manage using their management fees and without getting significant support from their asset owners.

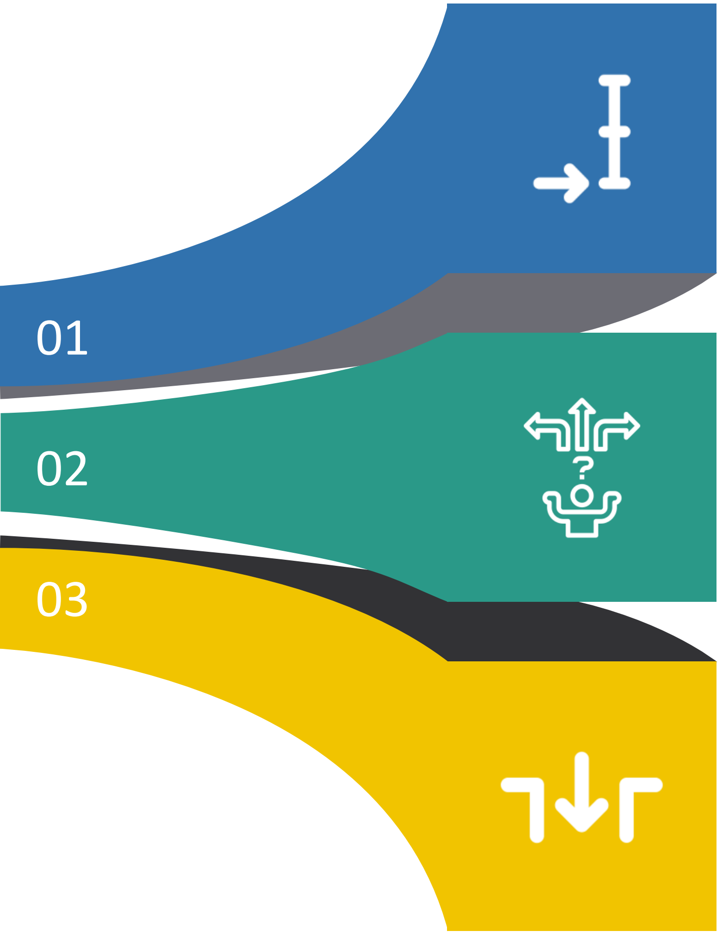
6.

Differing views

"Financial statements are audited. So, you cannot hide much. With impact reports, the company has the privilege to release the good news only, or dress-up bad news to make it look good." - Asset owner

Photo courtesy – Unsplash.com

Some asset managers have divergent viewpoints on impact reports



No compelling business case or limited demand

Minimal role in investment decisions

Limited accountability

Some asset managers have divergent viewpoints on impact reports

01

No compelling business case or limited demand

- Asset managers without impact reports do not consider it to be a priority as there is no compelling business case or financial incentives for them. They are yet to view the benefits of impact reports in comparison to the cost and resources required to create them. Additionally, they often do not have IMM expertise or human and financial resources to create impact reports.

- For most asset owners, impact reports have a few use-cases only. Therefore, they do not demand any impact report from their asset managers.

- In some cases, asset managers provide access to their web portals to their respective asset owners to view the impact data of their portfolio companies. If necessary, some asset owners request impact data for their investments via proprietary templates on an annual basis. So, asset managers find it unnecessary to publish impact reports.

“Until we see a business case for why we need an impact report, or there's demand from our asset owners, or there’s any other clear reason, we will not invest in it.” – Asset manager

Some asset managers have divergent viewpoints on impact reports

02

Minimal role in investment decisions

- For most asset owners, the intentions of asset managers to create a positive impact matters more than their impact reports. Asset owners gauge the intent of asset managers during the due diligence process.
- Though impact reports help in demonstrating the impact, it plays a minimal role for asset owners to make investment decisions.
- Impact-oriented asset owners, too, have invested in asset managers who did not have any impact reports. Among other things, such asset owners prioritized expected impact, additionality potential, and their understanding of asset managers' intentions while making investment decisions.

"We have never made an investment decision because an asset manager has an impact report." – Asset owner

Some asset managers have divergent viewpoints on impact reports

03

Limited accountability

- Both asset owners and asset managers highlight the lack of accountability as a key limitation of impact reports. Impact data are rarely audited, and impact reports are rarely verified by third-party independent firms.
- A few market players believe that such unaudited and unverified impact reports promote impact washing as the asset managers choose to disclose selective impact data and case studies.
- Lack of standardization in impact reporting also makes it difficult to differentiate between high-quality and less meaningful reports. Further, most asset managers make unrealistic claims on the impact generated through their capital. They do not explicitly mention their assumptions, methodology, and contribution, etc. They continue to use their impact reports as a marketing tool only.

> *"One of the challenges is that there isn't really a way to hold anyone accountable; nobody came back to us and said, 'prove it.'" – Asset manager*

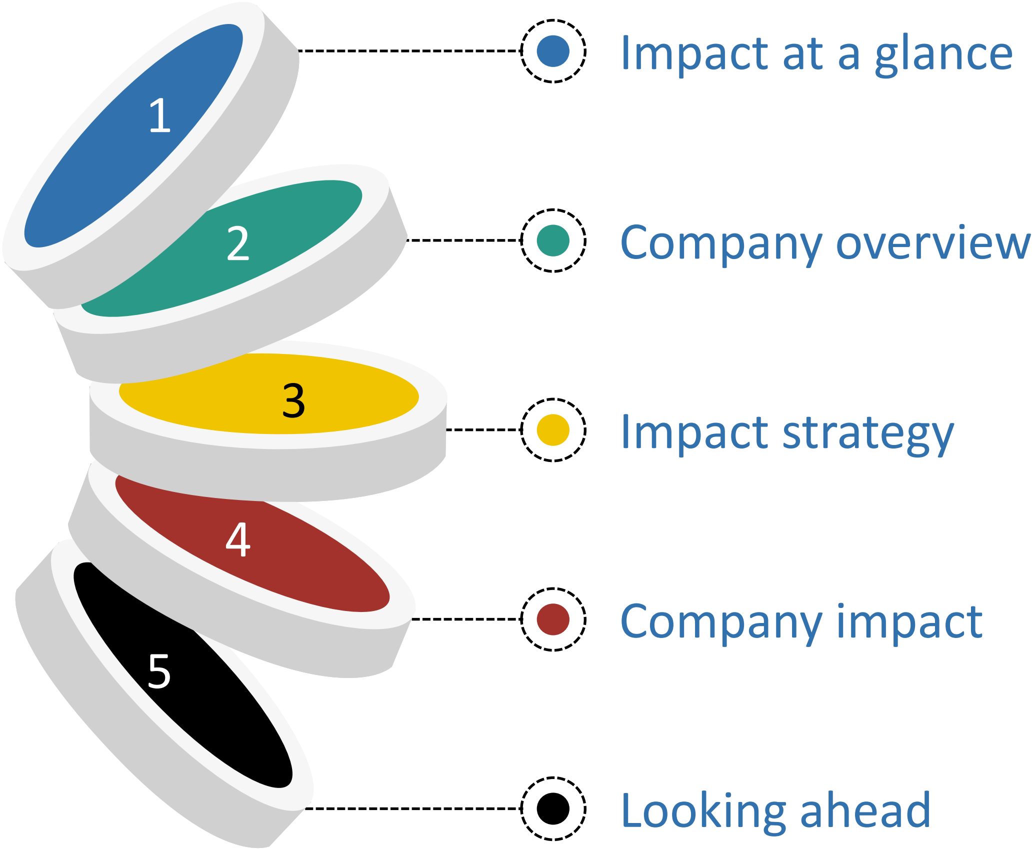
7.

Template of an impact report

Photo courtesy – Unsplash.com

The following template can be adapted to create a comprehensive impact report

The suggested template has been created after analyzing insights from 18 primary interviews with asset managers, asset owners, investment advisors, and ecosystem players in the U.S in addition to a thorough review of 50 impact reports created by asset managers investing across asset classes and sectors.



1. Impact at a glance

- Key impact metrics (YOY and industry benchmark comparison)
- Snapshot of financials (YOY comparison)

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2. Company overview

- DEI metrics (gender and race data across the organization with YOY and industry benchmark comparison)*
- Portfolio overview
  - Investments across asset classes, sectors, or markets
  - DEI metrics*
- Investment themes
- Emerging trends in focus sectors

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3. Impact strategy

- Impact thesis and goals
- Theory of change and logic model
- IMM methodology or framework
  - Alignment with global IMM standards
  - Data sources, definitions and calculations*
  - Impact rating tool*
  - Assumptions* and limitations
- Impact governance*
- Industry collaboration or partnerships

4. Company impact

- Ex-ante impact goals vs ex-post achievements (YOY and industry benchmark comparison)*
- Categories of impact
  - Across dimensions, theme, sector, portfolio, company, community, beneficiary, investor, market, or policy level
- Classification of the portfolio using IMP's ABC framework (YOY and industry benchmark comparison)
- Long-term outcomes with evidence*
- Case studies
  - Fund highlights
  - Spotlight on portfolio companies (include quantitative impact metrics and descriptive stories)
  - Voices from the field
- Contribution or additionality*
- Impact risks
  - Negative externalities and unintended impact*
  - Data collection and data quality challenges
- Third-party verification of IMM practice and impact*

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5. Looking ahead

- Reflections and lessons learned*
- Impact goals for next year*

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* Aspirational but directionally important

Annexure

Abbreviations

Abbreviation	Meaning
AUM	Assets Under Management
DEI	Diversity, Equity, and Inclusion
ESG	Environmental, Social, and Governance
GDPR	General Data Protection Regulation
GIIN	Global Impact Investing Network
GP	General Partner
IMM	Impact Measurement & Management
IMP	Impact Management Project
LP	Limited Partner
SDG	Sustainable Development Goals
YOY	Year-over-year

Glossary of key terms

Term	Meaning
Asset managers	Investment professionals responsible for investing asset owners'/LPs' capital
Asset owners	Investors whose capital is managed by asset managers/GPs
Ex-ante	Based on forecasts rather than actual results
Ex-post	Based on actual results rather than forecasts
IMM	Practices that enable investors to enhance their positive impact
Impact thesis	Explains how investors' investments are expected to contribute to intended impacts
Impact risks	The likelihood that impact will be different than expected
Impact washing	Practice of over-stating or falsely claiming the positive impact of an investment
Investor contribution	Impact achieved beyond what would have occurred without any investment
Negative externalities	Negative consequence of investments on people and the planet
Theory of change	Description of how and why a desired change is expected to happen

About the author

Mohit Saini is a 2021 Fletcher graduate with a specialization in impact investing and innovative finance. Currently, he leads the Research and Development practice and supports client verification services at BlueMark – an impact verification firm based in New York.

Before joining BlueMark, he was part of the investment team at the Tufts University Investment Office (TUIO) in Boston that managed the university's USD 3 Bn. endowment fund. Previously, Mohit worked as an international development consultant across India, Bangladesh, Malawi, and Uganda.

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