MEASURING IMPACT – PART ONE:
TOOLS AND TECHNIQUES THAT DRIVE REAL IMPACT IN YOUR PORTFOLIO

The Impact Investing Committee

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If you are among the many NEPC clients with a strong interest in investing for impact, you may already know you have many investment options. But how do you know if your investments are really having an impact? It's a frustrating question, because there is no single standard and plenty of skeptics who will say that measuring impact is not possible.

We disagree with those skeptics. While "impact" is a hard term to pin down, and there are no "perfect" impact companies, there are a lot of tools that provide valuable information about impact measurement and management (IMM). As the industry evolves, we think these tools are only going to improve.

In this piece, the first in our series on impact measurement and management, our goal is to answer your questions around how impact can be measured and provide information on the common impact frameworks available on the market. In our second piece, we will look at improvements in measurement data and investment trends that are resulting from those changes. In the third and final installment, we will provide actionable advice for how clients and NEPC can use IMM tools to drive impact.

THE IMPACT QUESTIONS

Impact measurement and management are critical components of any impact investing plan. Technically, impact measurement refers to the measurement of effects a business has on society, while impact management refers to the process taken to identify impact goals and manage operations to achieve them. But for NEPC clients, the true purpose of IMM is to provide a realistic assessment of their investment program.

WHEN IT COMES TO IMM, MOST CLIENTS ASK THE SAME QUESTIONS:

- How do I make sure a given investment suits my goals?
- How do I establish practical, measurable targets for my impact investing program?
- How do I know what progress my investments are making toward those targets?
- How can I evaluate impact at the portfolio level vs. the individual manager level?
- How do I learn from the data and improve my program?

There is no single, established system for answering these questions, but that does not mean that they cannot be answered. In recent years, several IMM tools have evolved that together provide investors with very effective insight into the impact of their investments.

THE TOOLS

Last year the Global Impact Investors Network (GIIN) released its second edition of the State of Impact Measurement and Management Practice. GIIN surveyed 257 impact investors and found that the top six most used IMM frameworks were:

- The United Nations Sustainable Development Goals (UN SDGs, at 72%)
- The IRIS Catalog of Metrics (48%) and the IRIS Core Metrics (38%)
- The Impact Management Project's (IMP) Five Dimensions (33%)
- The United Nations Principles for Responsible Investment (UNPRI, 30%)
- The International Finance Corporation's (IFC) Operating Principles for Impact Management (26%)

Each of these tools provides a slightly different lens to impact, which is why it helps to know a little bit about each one.

THE UN SDGS

The UN SDGs contain 17 distinct Sustainable Development Goals envisioned to serve as a call to end poverty, protect the planet, and promote peace and prosperity for all people by 2030. For example, goal 3 focuses on good health and wellbeing, goal 5 on promoting gender equality, and goal 8 on decent work and economic growth. The SDGs are often viewed as the most comprehensive take on the standards businesses should be upholding.

It should be noted that the SDGs were designed more for policy makers and international finance leads than they were for institutional investors. But they are still useful, because each goal has specific targets that investors can draw inspiration from when defining their impact goals. These targets can also help clients understand whether an investment is achieving the spirit of the goals.

THE IRIS TOOLS

The IRIS Catalog of Metrics was designed by GIIN to provide impact investors with a set of common performance metrics that would grow the sector's credibility and make it possible to compare investments within and across portfolios. The metrics broadly highlight social, environmental and financial success.

The Core Metrics are simply a shortlist of key metrics from the catalog. These metrics can be organized by theme or SDGs. As such, some investors may choose to measure their impact against the SDGs or focus specifically on an SDG target or IRIS metric for a specific goal.

THE IMP FIVE DIMENSIONS

The Impact Management Project brought together 2,000 organizations to coalesce behind five dimensions for IMM. At a high level, these dimensions ask investors to outline the "what, who, how much impact, the level of risk, and the contribution that can legitimately be credited to the investor."

The IMP also created Impact Asset Classes, or the ABC Framework, to help investors classify the intention of their investment. The asset classes are: A – Acts to Avoid Harm, B – Benefits Stakeholders, and C – Contributes to solutions. Some of our managers provide one-pagers for each of their portfolio companies outlining their impact asset class and use the five dimensions to provide structure for their impact thesis.

THE UN PRI

The UN's Principles for Responsible Investment are a set of six voluntary and aspirational principles for incorporating ESG into investment practice. The first principle calls for incorporating ESG into investment analysis and decision-making, while the third calls for appropriate disclosure from portfolio companies. Signing onto the principles signifies a manager's intention around impact but doesn't do a lot to define their ability to actually deliver.

THE IFC IMPACT PRINCIPLES

The final framework is the International Finance Corporation's Operating Principles for Impact Management. These are commonly referred to as the Impact Principles. The nine principles are intended to help investors center impact considerations within their management system throughout the duration of the investment lifecycle. To date, the principles have been signed by 136 investment firms, covering over $400 billion in assets under management.

What is unique about the IFC's principles, and admittedly a gamechanger for the industry, is the ninth principle calling for public disclosure for how a firm adheres to the Impact Principles and an independent verification of its impact. Disclosures must be made a year after signing onto the principles and can be viewed here, allowing us to evaluate firms on a common benchmark.

NEXT STEPS: USING THE TOOLS WISELY

In our next two installments, we will look at improvements in measurement data and investment trends that are resulting from those changes. We will take a deep dive into the ways that these tools are being applied by investment managers. We've been closely following trends throughout the industry, and we see both strengths and weaknesses in the way they are used. We'll share our thinking with the goal of providing a better context for how we approach decisions in client portfolios.

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