BLUE/MARK

Making the Mark

The Benchmark for Impact Investing Practice

May 2021

About BlueMark

BlueMark is a leading provider of impact verification, with a mission to strengthen trust in impact investing and to increase accountability for impact. BlueMark is an independent subsidiary of Tideline, a certified women-owned advisory firm in impact investing.

BlueMark has office locations in London, UK; New York, NY; Portland, OR; and San Francisco, CA and is headquartered at 915 Battery St, San Francisco, CA 94111, USA.

For more information, please visit bluemarktideline.com.

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BlueMark's Practice Verification Clients[1]

- Bain Capital Double Impact, LP
- Big Society Capital Limited
- BlueOrchard Finance Ltd.
- Calvert Impact Capital
- CDC Group plc
- Community Investment Management LLC
- Closed Loop Partners
- DEG - Deutsche Investitions und Entwicklungsgesellschaft mbH
- EDFI Management Company (EDFI-MC)
- European Bank for Reconstruction and Development (EBRD)
- FinDev Canada
- Finnish Fund for Industrial Cooperation (Finnfund)
- Franklin Templeton Social Infrastructure Fund
- FullCycle Management, LLC
- Investment Fund for Developing Countries (IFU)
- Kohlberg Kravis Roberts & Co. L.P.
- LeapFrog Investments
- LGT Venture Philanthropy Foundation
- Nuveen, a TIAA company
- Partners Group AG
- PG Impact Investments AG
- Prudential Financial, Inc., Impact & Responsible Investing
- Quona Capital Management Ltd.
- The Osiris Group
- UBS Group AG
- Women's World Banking Asset Management

1 BlueMark has completed 31 practice verifications for 28 clients, including two unnamed clients, two verifications each for two clients that have multiple impact investing strategies, and one client that has completed two verifications to date. The sample used in this report is 30 verifications, as BlueMark has included only the most recent verification for each client in the analysis. Not all BlueMark clients are or intend to become signatories of the Operating Principles for Impact Management ("Impact Principles")

List of Figures

Case Studies

BlueMark's assessment is based on its analyses of publicly available information and information in reports and other material provided by clients. BlueMark has relied on the accuracy and completeness of any such information provided by clients. The assessment results represent BlueMark's professional judgment based on the procedures performed and information obtained.

This report may be cited as: BlueMark (2021): Making the Mark: The Benchmark for Impact Investing Practice. Available online at bluemarktideline.com/making-the-mark-2021/.

Acknowledgements

BlueMark is grateful to its clients for their transparency in sharing information about their impact management systems and their openness to learning while working with our team over the course of 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**, CEO & Co-Founder of BlueMark, **Sarah Gelfand**, Managing Director at BlueMark, and **Teo Lamiot**, Senior Associate at BlueMark. Feedback from BlueMark Co-Founders **Ben Thornley** and **Kim Wright-Violich**, as well as research contributions from Analysts **Shivam Desai** and **Chris Terwisscha van Scheltinga** and Senior Associate **Tristan Hackett**, were also instrumental in producing the report.

We would also like to extend our gratitude to **Dmitriy Ioselevich**, CEO & Founder of 17 Communications, and **Dustin O'Neal**, Founder & Creative Director of Great Jones Studio, for their partnership in the development of this report.

Foreword

When we launched our impact verification business in January 2020, we could not have imagined how much the world would change over the ensuing months. While the ongoing crises caused by COVID-19, racial injustice, wealth inequality, and climate change present serious challenges for everyone, one ray of hope is the increased awareness about the fragility and interconnectedness of our shared social, environmental, and economic systems.

The challenges we collectively face can't be solved with a "business as usual" approach to financial and investment decisions. A new system is needed for deploying and managing capital that takes into consideration the positive and negative societal impacts of those investment allocations, such as carbon emissions generated, quality jobs created or lost, and access to essential goods and services. If impact investing is how we define that investment strategy, then impact management is the system through which those investment decisions are made. Robust impact management systems and practices are critical to scaling the impact investing industry with integrity and to ensuring we put our shared resources on the path to a more sustainable future. Without impact management, our impact investing aspirations are chimeric, and those who promise impact should be viewed with skepticism.

With this vision as our "north star," we approached our second *Making the Mark* report with a focus on the following three goals:

1. **Establishing clear benchmarks for median and best practice impact management**
2. **Identifying those practices that reflect advanced approaches to impact management**
3. **Highlighting key potential areas for improvement for those with lagging practices**

We designed BlueMark's verification methodology to provide value to clients and the market that extends far beyond a 'check-the-box' exercise and are intentional in making each verification a learning experience, constantly raising the bar for impact management best practices. As of the publication of this report, we have completed more than 30 impact verifications across a range of asset classes and investor types.

In an impact management context this is a meaningful sample. We believe these verifications offer valuable insights on the practices of a diverse group of impact investors, allowing us to offer our findings to the market as a benchmark of prevailing and best practices in impact management. The BlueMark Practice Benchmark ("Practice Benchmark", or "Benchmark"), which defines the practices of leading, median, and learning impact investors, provides a dynamic understanding of what it means to rigorously manage for impact. By establishing the Benchmark, we can clearly segment between 'Practice Leaders' and 'Practice Learners,' which we define as the top and bottom quartiles, respectively, of our sample.

The Practice Benchmark is currently most closely aligned with the Operating Principles for Impact Management ("Impact Principles"),[2] introduced in April 2019 and now boasting more than 125 signatories from across the impact investing industry. However, as new impact management standards are introduced, such as SDG Impact[3] and the European Union's Sustainable Finance Disclosure Regulation (SFDR),[4] and as the bar for best practice continues to elevate, our methodology will evolve to incorporate new considerations. As we continue collecting data on impact investing best practices, the Practice Benchmark will help to guide investors and other practitioners on their impact management journeys.

The publication of this report marks a new milestone both for BlueMark and for the broader impact investing industry. For BlueMark, it's an opportunity to share our findings from the verifications we have completed thus far, create a community of investors committed to best practice, and strengthen trust in the *impact* of impact investing as it scales. And for the industry, this report offers a behind-the-scenes perspective into common approaches and shared challenges among a diverse group of impact investors.

We hope you will join us in this journey by reflecting on and sharing the findings in this report. Only by aligning on a benchmark for impact management practice can we make progress on institutionalizing our shared efforts to address the many crises and systemic risks that stand in the way of a sustainable future.

Christina Leijonhufvud

CEO & CO-FOUNDER, **BLUEMARK**
MANAGING PARTNER & CO-FOUNDER, **TIDELINE**

2 Operating Principles for Impact Management website: "Impact Principles."
3 UNDP website: "SDG Impact Standards."
4 EUR-Lex website: "Regulation (EU) 2019/2088 of the European Parliament and of the Council."

Executive Summary

Executive Summary

The common pursuit of impact investors—to generate positive, measurable social and environmental impact alongside a financial return[5]—is well-understood. However, to impact investing newcomers and veterans alike, it is not always clear what that pursuit looks like in practice. What is it that impact investors do, in crafting investment strategies and in their day-to-day work, to generate positive impact? How can asset allocators and other stakeholders know whether those claiming to be impact investors are practicing what they preach?

This report introduces the BlueMark Practice Benchmark ("Practice Benchmark", or "Benchmark"), a new tool that clarifies what best-in-class impact management[6] looks like throughout the investment process. In our inaugural *Making the Mark* report,[7] we explored the role that independent verification against standards like the Operating Principles for Impact Management ("Impact Principles" or the "Principles")[8] can play in bringing greater discipline, clarity, and accountability to the impact investing market. In this second installment, we draw on the results of BlueMark's first 30 independent verifications of investor alignment with the Impact Principles to provide a clear and impartial view into prevailing impact management practices, segmenting investors into Practice Leader, Median, and Learner categories.

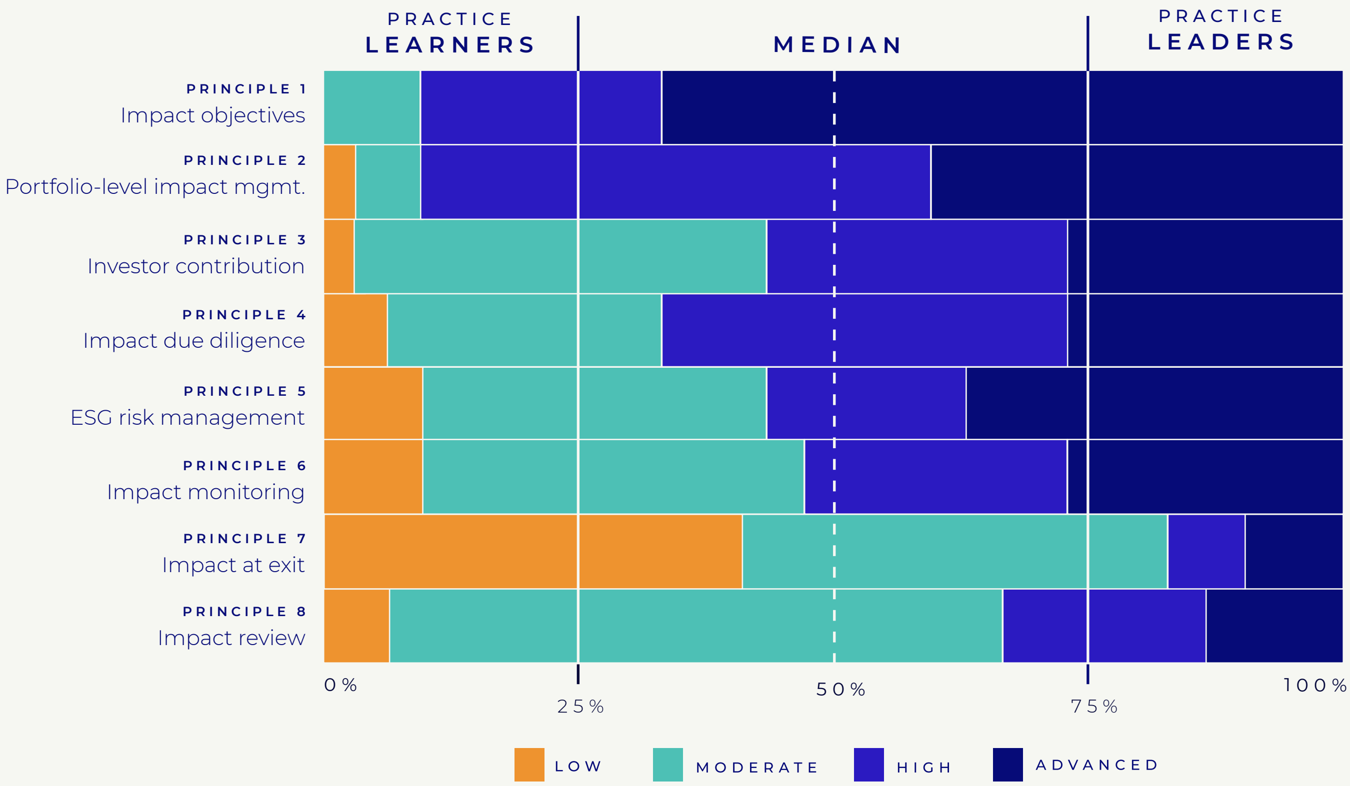
Figure A presents the aggregated results from BlueMark's first 30 verifications of investors with a combined $99 billion in impact assets under management (AUM). BlueMark's proprietary rating system evaluates the degree of investor alignment with the Impact Principles on a four-part scale (Low, Moderate, High, Advanced),[9] providing a shorthand for investors to assess where in the investment process they excel and where they have room for improvement. In this second installment of *Making the Mark* we have further categorized practice trends by quartile, providing a mechanism for investors to place themselves and learn from others in the market. Our hope is that the Benchmark motivates Practice Learners to improve and Practice Leaders to continue innovating and further raising the bar for best practice. What it takes to become a Practice Leader will change over time as new practices and standards emerge, promoting a race towards ever better management of impact performance.

5 GIIN website: "Core Characteristics of Impact Investing."
6 Impact management, also known as Impact Measurement and Management (IMM), consists of "identifying and considering the positive and negative effects one's business actions have on people and the planet, and then figuring out ways to mitigate the negative and maximize the positive in alignment with one's goals." GIIN (2020): *The State of Impact Measurement and Management Practice: Second Edition*.
7 Tideline (2020): *Making the Mark: Investor Alignment with the Operating Principles for Impact Management*.
8 IFC (2019): *Investing for Impact: Operating Principles for Impact Management*.
9 For more on BlueMark's verification methodology, please refer to the Appendix.

FIGURE A

The Benchmark for Impact Investing Practice

BlueMark ratings of investor alignment with the Impact Principles



PRACTICE LEADERS Practice Leaders are in the top quartile of our sample (75th percentile and above). These standard-bearers implement all of the core elements of impact management, as well as several leading-edge practices that may go above and beyond the requirements of the Impact Principles, though they often still have discrete areas for improvement.

PRACTICE MEDIAN The Practice Median reflects the impact management practices of the median impact investor in our sample (50th percentile). Investors at the Practice Median implement many of the core elements of impact management, but also have significant room for development.

PRACTICE LEARNERS Practice Learners are in the bottom quartile of our sample (25th percentile and below). These investors may have good intentions, but they lack many core impact management practices to generate positive impact. Many are early in their impact investing journeys, while others have yet to embed impact considerations at key stages of the investment process.

We reference these frameworks throughout the more detailed Verification Findings section, emphasizing what it means to be at the Practice Median and to be a Practice Leader at each stage of the investment process.

FIGURE B

The Practice Benchmark Dashboard

Key practice indicators associated with Practice Learners, the Practice Median, and Practice Leaders

STAGE OF THE INVESTMENT PROCESS	IMPACT PRACTICE	% OF VERIFIED INVESTORS[10]	PRACTICE LEARNERS	PRACTICE MEDIAN	PRACTICE LEADERS
PRINCIPLE 1 Impact objectives and the SDGs	Align with the Sustainable Development Goals (SDGs)	93%	✓	✓	✓
	Create a logic model or theory of change	73%		✓	✓
	Align with the 169 Targets underlying the SDGs	48%			✓
PRINCIPLE 2 Portfolio-level impact management and staff incentives	Have a consistent approach to compare and aggregate impact performance across investments	97%	✓	✓	✓
	Align staff incentive systems with impact performance	47%			✓
PRINCIPLE 3 Investor contribution to impact	Assess investor contributions to the impact of each investment	63%		✓	✓
	Collect and use systematic evidence to improve understanding of investor contributions to impact	33%			✓
PRINCIPLE 4 Impact screening and due diligence	Assess expected (ex ante) impact performance	93%	✓	✓	✓
	Assess each investment using all five dimensions of impact: Who, What, How Much, Contribution and Risk[11]	17%			
PRINCIPLE 5 ESG risk management	Have a standardized process to identify select Environmental, Social, and Governance (ESG) risks	90%	✓	✓	✓
	Systematically follow up with investees to address ESG gaps and risks	43%			✓
PRINCIPLE 6 Impact performance monitoring	Compare actual impact performance with expectations	57%		✓	✓
	Solicit input from stakeholders to assess impact performance	11%			
PRINCIPLE 7 Sustaining impact at and beyond exit	Have an approach to consider the sustainability of impact at and beyond exit	57%		✓	✓
	Identify potential actions to ensure impact is sustained at and beyond exit	17%			
PRINCIPLE 8 Impact review and learning	Consistently review each investment's impact performance	73%		✓	✓
	Monitor and review any unexpected positive or negative impacts	32%			✓

10 Here and throughout the report, most percentages reflect the prevalence of an impact management practice in BlueMark's first 30 verifications (i.e., 20% = 6 verifications). However, BlueMark began collecting data on some impact management practices at a later date, resulting in a sample size of between 25 and 29 verifications for some data points.

11 For more, see Impact Management Project website: "Impact management norms."

Key Learnings

1. Impact investors have work to do to deliver on their good intentions

In BlueMark's inaugural *Making the Mark* report, we highlighted that impact management practices are often less robust at later stages of the investment lifecycle.[12] BlueMark's first 30 verifications reaffirm this pattern. Impact investors in our sample typically excel at establishing credible strategic impact objectives aligned to the Sustainable Development Goals and at assessing impact at the portfolio level (Principles 1-2). However, while most evaluate potential (ex ante) impact performance and Environmental, Social, and Governance (ESG) risks in due diligence and subsequently monitor impact and ESG performance (Principles 3-6), the majority still have room to improve on assessing their contribution to investees' impact and on following up with investees on impact underperformance, among other areas. Verified investors struggle most to ensure impact endures at and beyond exit (Principle 7) and to consistently adapt their processes based on lessons learned (Principle 8).

2. Strengths and challenges vary by investor type

BlueMark's first 30 verifications have found no notable correlation between investor type and overall alignment to the Impact Principles.[13] However, our findings suggest that different investor categories have different strengths and areas for improvement. Development finance institutions (DFIs) tend to have more robust ESG risk and performance management systems (Principle 5), for example, while specialized asset managers that invest only in impact strategies often have stronger practices to ensure impact is sustained beyond exit and to apply lessons learned from reviewing impact performance (Principles 7-8). These "impact-only" managers are less consistent in comparing expected and actual impact performance (Principle 6), though, while "diversified" managers pursuing impact as one of multiple investment strategies are less likely to align staff incentive systems with impact performance (Principle 2). These differences suggest that impact investors have an opportunity to learn from one another in their impact management journeys.

12 Tideline (2020): *Making the Mark: Investor Alignment with the Operating Principles for Impact Management*.

13 BlueMark does not rate overall alignment to the Impact Principles for its clients, but rather rates alignment to each Impact Principle on a four-point scale (Low, Moderate, High, Advanced). However, for this analysis, BlueMark assigned a number value to each rating (1 to 4) and produced an overall score for each client, giving equal weight to each of the Impact Principles.

FIGURE C

Median Impact Principles Rating by Investor Type[14]

PRINCIPLE NO.	1	2	3	4	5	6	7	8
All Verified Investors	ADV.	HIGH	HIGH	HIGH	HIGH	HIGH	MOD.	MOD.
Development Finance Institutions (DFIs)	ADV.	ADV.	HIGH	HIGH	ADV.	HIGH	LOW	MOD.
"Diversified" Asset Managers[15]	ADV.	HIGH	HIGH	HIGH	HIGH	HIGH	LOW	MOD.
"Impact-Only" Asset Managers[16]	ADV.	ADV.	HIGH	HIGH	HIGH	MOD.	MOD.	HIGH

3. New and smaller managers can be leaders in impact management

Many practitioners wonder whether the Impact Principles and other industry standards are accessible to impact investing newcomers and to funds of smaller sizes. Across its first 30 verifications, BlueMark has not observed a correlation between investors' overall alignment with the Impact Principles[17] and their tenure making impact investments, the size of their impact investing portfolio, or the total AUM managed by the organization. In BlueMark's experience, neither being a veteran nor a large impact investor equates to having a more sophisticated impact management system.[18]

14 The investor categories consist of 7 DFIs, 9 "diversified" asset managers, and 10 "impact-only" asset managers

15 We define "diversified" asset managers as those making both impact and non-impact investments.

16 We define "impact-only" asset managers as those focused solely on impact investing.

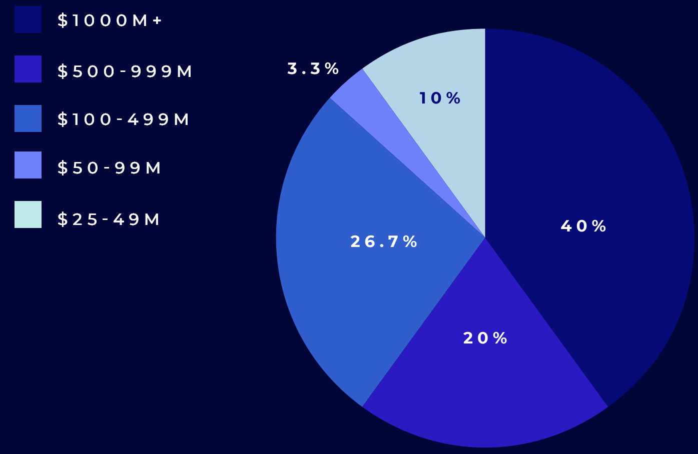
17 BlueMark does not rate overall alignment to the Impact Principles for its clients, but rather rates alignment to each Impact Principle on a four-point scale (Low, Moderate, High, Advanced). However, for this analysis, BlueMark assigned a number value to each rating (1 to 4) and produced an overall score for each client, giving equal weight to each of the Impact Principles.

18 Note that while BlueMark's sample includes investors with a wide range in assets under management (AUM), large investors are overrepresented in the sample relative to the broader impact investing market. For more, see the Sample Characteristics section.

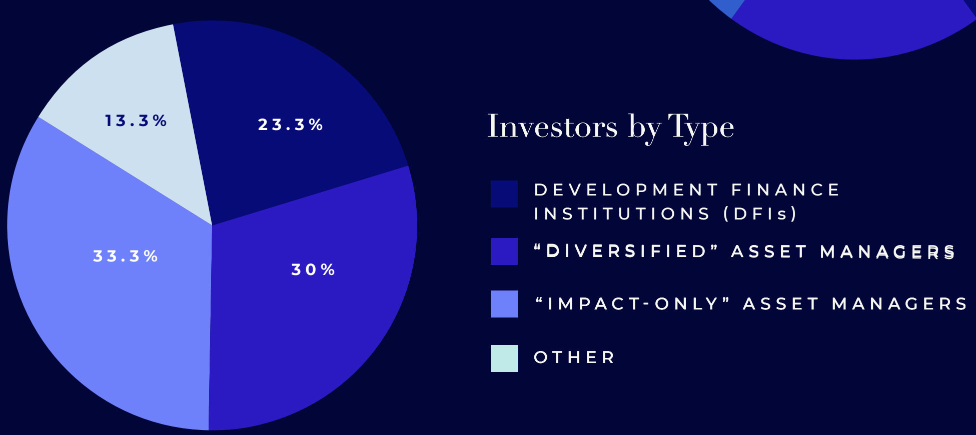
Sample Characteristics

BlueMark's first 30 verifications span a range of institutional asset managers and asset owners investing across diverse asset classes, geographies, and impact themes. Our sample is not random: large investors and development finance institutions (DFIs), for example, are overrepresented relative to the broader impact investing market.[19] However, BlueMark's clients more closely mirror the impact investing market with respect to asset class and target geography[20] and they are likely more representative of signatories of the Impact Principles, where DFIs and emerging markets-focused managers are overrepresented.[21] We believe our sample offers learnings applicable to the broader impact investing market, since many of BlueMark's clients are pioneers and early adopters in impact investing, and we expect to report on a larger sample in future reports, as more verifications are completed.

Investors by Impact Investing AUM



Investors by Type



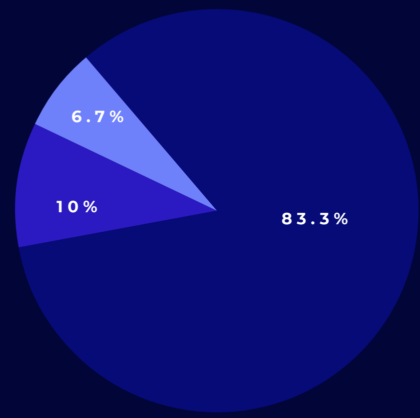
19 The median impact investor in our sample has over USD 900 million in impact assets under management (AUM), while 75% of respondents to the GIIN's 2020 survey of the impact investing market have less than USD 500 million in impact AUM. In addition, DFIs make up nearly 25% of our sample but only 5% of respondents to the GIIN survey. See GIIN (2020): *Annual Impact Investor Survey: The Tenth Edition*.

20 See GIIN (2020): *Annual Impact Investor Survey: The Tenth Edition*.

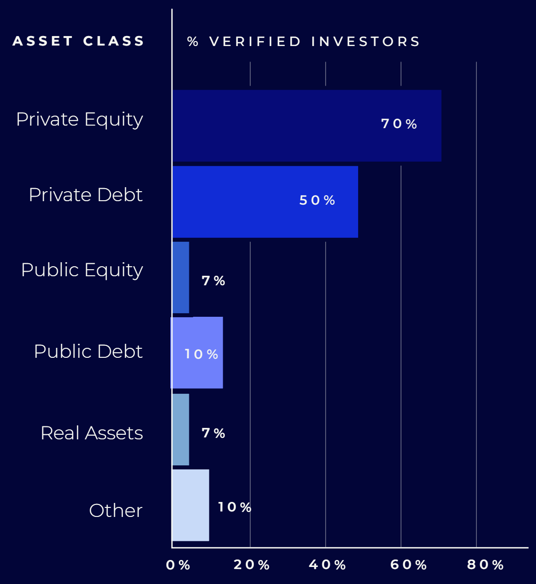
21 See IFC (2020): *Growing Impact: New Insights into the Practice of Impact Investing*.

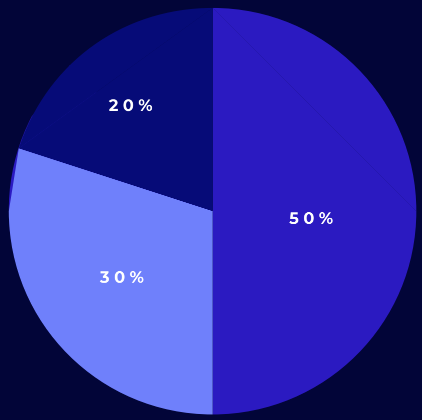
Investors by Target Financial Returns

MARKET-RATE OR ABOVE
NEAR-MARKET
CONCESSIONARY



Investors by Asset Class*





Investors by Target Geography

DEVELOPED MARKETS
EMERGING MARKETS
BOTH

*Many BlueMark clients invest in multiple asset classes, so the percentages here do not sum to 100%"

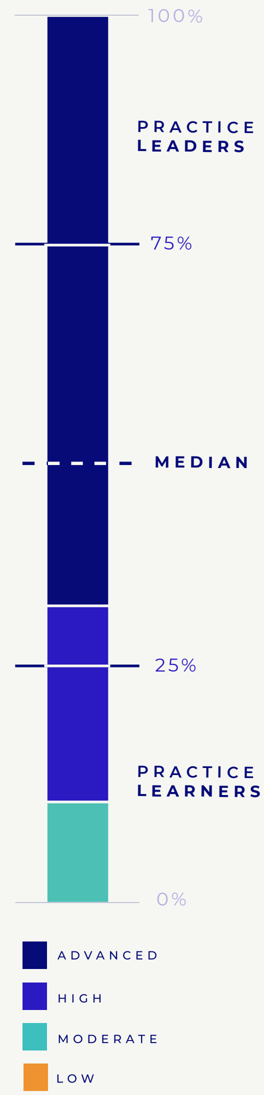
Verification Findings

Impact objectives and the Sustainable Development Goals

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

PRACTICE MEDIAN AND PRACTICE LEADERS: ADVANCED[22]

Impact investors at the Practice Median, as well as Practice Leaders, craft an investment strategy with clear impact objectives. They also align their impact objectives to the Sustainable Development Goals (SDGs) and create a logic model or theory of change, supported by credible evidence, that shows how they intend to achieve their impact objectives through their investment strategy. Practice Leaders go beyond the practices embedded in the Impact Principles with respect to the SDGs, including by identifying specific SDG Targets and by classifying their alignment to the SDGs using the Impact Management Project's "ABC" framework.[23]



Verification Results

100% SET CLEAR AND MEASURABLE IMPACT OBJECTIVES

All of the investors verified to date have established clear impact objectives, tied to positive and measurable impact goals. Managers who invest across multiple geographies and themes may define their impact objectives broadly, such as helping to achieve a subset of the SDGs,[24] while others pursue a narrower set of impact objectives. 59% of investors in the sample pursue broad impact objectives, while 41% pursue a narrower set.[25]

22 BlueMark has found that most verified investors excel in setting clear impact objectives and linking their investment strategy to those objectives. As such, both investors at the Practice Median and Practice Leaders score an "Advanced" rating here.

23 Impact Management Project (2018): A Guide to Classifying the Impact of an Investment; Clark, C., and Thornley, B. (2020): "The ABCs (and SDGs) of classification for impact investing strategies."

24 United Nations website: "Sustainable Development Goals Knowledge Platform."

25 For the purpose of this report, we have defined "broad" impact objectives as encompassing 4 or more impact themes and "narrow" impact objectives as encompassing between 1 and 3 impact themes.

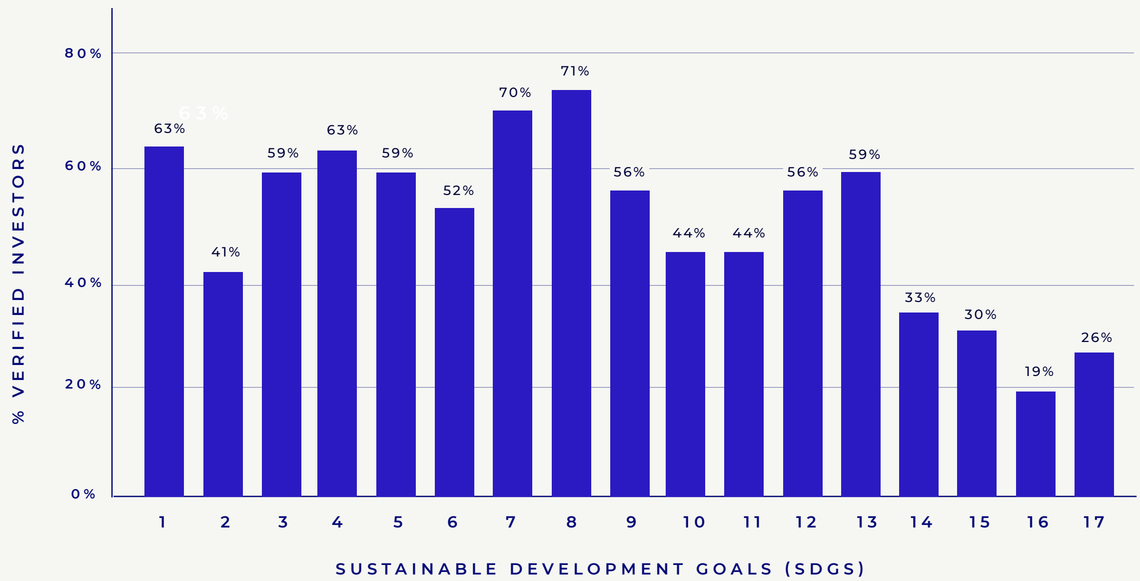
The managers in our sample invest in between 1 and 9 distinct impact themes (e.g., affordable housing, health and wellness), with an average of 4 impact themes per investor. Among BlueMark's verifications, there is not a strong correlation between the number of impact themes and overall alignment to the Impact Principles.

93% ALIGN WITH THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)

A strong majority of BlueMark clients explicitly align their impact objectives with the SDGs. Verified investors report alignment to 9 of the 17 SDGs on average, with investors in the sample reporting alignment to anywhere from 3 to 16 of the SDGs. SDGs 7 (Affordable and Clean Energy) and 8 (Decent Work and Economic Growth) were the most frequently cited, while 16 (Peace, Justice and Strong Institutions) and 17 (Partnership for the Goals) were the least frequently cited.

FIGURE D

Self-reported alignment with the SDGs



73% CREATE A LOGIC MODEL LINKING THE IMPACT GOALS AND INVESTMENT STRATEGY[26]

Most managers articulate the connection between their investment strategy and their impact objectives, using an impact thesis or theory of change at the portfolio, impact theme, and/or investment level. The elements of an impact thesis and definitions of key terms vary from investor to investor, but most managers identify the challenge(s) addressed, the investor's activities or inputs, investees' short-term outputs, and the associated long-term outcomes.

73% COLLECT EVIDENCE TO SUPPORT THEIR IMPACT THESIS OR THEORY OF CHANGE[27]

The majority of those verified collect evidence to support their impact thesis or theory of change. This evidence typically includes third-party research from a credible source that explains the social or environmental problem(s) addressed, affirms assumptions, and connects investee outputs (e.g., products and services) to impact outcomes (e.g., the effects on beneficiaries). It may also include evidence of actual impact performance collected through impact monitoring, review, and evaluation processes.[28] Though many impact investors collect evidence, fewer describe the full range of problems addressed via their investments, validate each assumption, and draw a clear path to each impact outcome.

48% ALIGN THEIR IMPACT OBJECTIVES WITH SDG TARGETS

Although most impact investors claim alignment to the SDGs at a high level, over half of investors in the sample do not link their impact objectives to any of the 169 SDG Targets underlying the Goals. Identifying specific SDG Targets can clarify the connection between the investment strategy and t he SDGs.

17% ASSESS WHETHER INTENDED IMPACT IS PROPORTIONATE TO PORTFOLIO SIZE

A small number of BlueMark clients assess whether their impact objectives are proportionate to the

26 A logic model is a common way to outline a theory of change, with its origins in the international development community. For more, see Capanyola, S., and So, Ivy (2016): "How Impact Investors Actually Measure Impact."

27 The terms "impact thesis" and "theory of change" are often used interchangeably in impact investing to describe how an investor connects its impact objectives to its inves ment strategy. For more, see GIIN IRIS+ website: "Simple Theory of Change Checklist."

28 The Impact Principles define an investment's outputs as "the products, capital goods, and services" an investee produces, while an investment's outcomes are the "short-term and medium-term effects" of those outputs. IFC (2019): *Investing for Impact: Operating Principles for Impact Management.*

size of their investment portfolio by conducting an "impact per dollar" analysis at the portfolio and/or investment level. These investors assess, for example, whether the ratio of intended impact to dollars invested is sufficient compared to alternate approaches (e.g., whether a targeted reduction in greenhouse gas emissions per dollar compares favorably to peer or alternative approaches to reducing emissions). Investors face several constraints in conducting such analysis, however, including a lack of impact performance data and benchmarks and challenges with comparing impact across a geographically and thematically diverse portfolio.

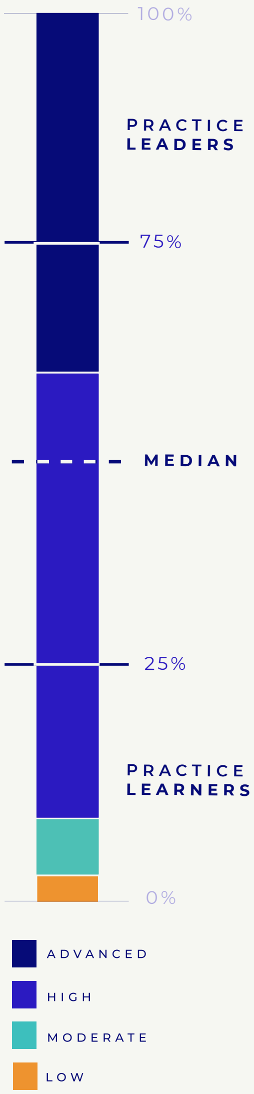
12% CLASSIFY THEIR ALIGNMENT TO THE SDGS USING THE IMP'S "ABC" FRAMEWORK[29]

A small number of verified investors use the "ABC" framework to classify their strategy as "Avoiding harm," "Benefiting stakeholders," or "Contributing to solutions" with respect to the SDGs, in line with emerging tools and standards including the Impact Classification System (ICS)[30] and UNDP's SDG Impact Standards.[31] This practice further clarifies the nature of the connection between the investment strategy and the SDGs.

29 Clark, C., and Thornley, B. (2020): The ABCs (and SDGs) of classification for impact investing strategies; Impact Management Project (2018): A Guide to Classifying the Impact of an Investment.
30 Impact Alliance website: "IMP+ACT Classification System (ICS)."
31 UNDP website: "SDG Impact Standards."

Portfolio-level impact management and staff incentives

Principle 2 Manage strategic impact on a portfolio basis.



PRACTICE MEDIAN **HIGH**

Investors at the Practice Median have a consistent approach to managing impact achievement on a portfolio basis in a way that allows them to compare and aggregate impact performance across investments. This includes considering expected impact performance in due diligence and as part of the investment decision-making process, as well as monitoring impact performance on a regular basis. These investors do not align staff incentive systems with impact performance.

PRACTICE LEADERS **ADVANCED**

Practice Leaders compare and aggregate impact performance across investments, consistently assess expected impact performance during due diligence and when making investment decisions, and monitor the actual impact performance of each investment. They also align their staff incentive systems, most commonly through annual performance reviews and/or bonus systems, with the impact performance of their portfolio.

Verification Results

97% HAVE A DOCUMENTED PROCESS TO MANAGE PORTFOLIO-LEVEL IMPACT PERFORMANCE

Nearly all BlueMark clients have a standardized process to manage impact at the portfolio level that allows for the consistent assessment of impact performance across investments, for purposes of comparison and aggregation. These processes include the use of standard impact metrics across investments or proprietary impact scores or ratings that are comparable across investments, among other approaches.[32]

97% CONSIDER EXPECTED IMPACT PERFORMANCE IN DUE DILIGENCE

In addition to the traditional areas assessed in due diligence, nearly all verified investors conduct due diligence on the potential impact of each investment. This often involves a standardized initial screening process considering a small number of impact criteria, followed by deeper due diligence using a consistent impact assessment framework.[33]

90% CONSIDER EXPECTED IMPACT PERFORMANCE WHEN MAKING INVESTMENT DECISIONS

The vast majority of verified investors incorporate findings from the impact screening and due diligence process into a memo to the Investment Committee, which ensures that each investment meets both financial and impact criteria. A subset of these investors, those with particularly robust impact assessment processes, will reject investments that offer attractive financial returns but fall short on potential impact performance.

32 For more, see "Impact screening and due diligence"
33 For more, see "Impact screening and due diligence"

75% REGULARLY MONITOR IMPACT PERFORMANCE AT THE PORTFOLIO LEVEL[34]

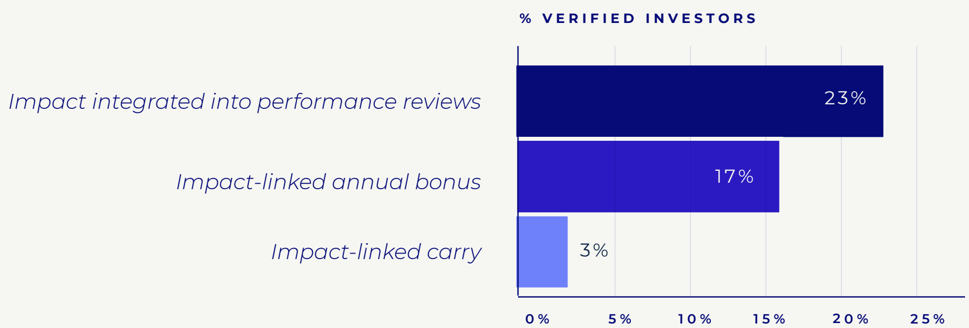
A majority of those verified monitor the actual impact performance of investments on an ongoing basis, often through a quarterly or annual process of collecting data on key impact metrics, and then evaluate aggregate impact across the portfolio. 64% of BlueMark clients also review achieved impact results against expected impact, often on an annual basis, to extract learnings.

47% ALIGN STAFF INCENTIVE SYSTEMS WITH IMPACT PERFORMANCE

Many BlueMark clients tie their staff incentive systems to the impact performance of investees, taking a variety of approaches. 23% set impact performance goals against which staff are evaluated in regular performance reviews, which in turn influence staff compensation. Although impact-linked annual bonus or carry structures feature prominently in existing research on manager incentive systems,[35] BlueMark has found they are relatively less common, with only 17% and 3% of verified investors tying annual bonuses or carry to impact, respectively. Clients have expressed that it can be challenging to link incentives to a narrow set of quantifiable impact metrics, given that impact is multi-dimensional, subjective, and assessed using both qualitative and quantitative methods. In addition, impact-linked bonus or carry structures often require investors or third-party funders to accept a lower financial return when impact targets are met, which can result in misaligned incentives.

FIGURE E

Approaches to impact-aligned staff incentives



34 For more, see "Impact monitoring" and "Impact review and learning"
35 Transform Finance Investor Network (2016): "Tying Fund Manager Compensation to Impact Outcomes."
GIIN (2011): Impact-Based Incentive Structures: Aligning Fund Manager Compensation with Social and Environmental Performance.

CASE STUDY

Verification as a due diligence tool at CDC Group

Verification Learnings

After engaging BlueMark to verify its own impact management system in 2020,[36] CDC Group decided to leverage BlueMark's verification service in its own manager due diligence process. BlueMark applies its AccessPoint verification[37] to select managers in CDC Group's pipeline to assess an investee's impact management practices against the Impact Principles, with the twin goals of achieving due diligence efficiencies for CDC Group and advancing capacity building and learning among managers that might not otherwise gain access to verification. BlueMark conducted the first of its AccessPoint verifications for CDC Group in February 2021, evaluating a sustainable forestry investment manager's impact management practices. The results of the verification process helped the firm identify targeted areas to improve and strengthen their existing impact practices, particularly around the ex-ante assessment of impact, ahead of the launch of a new impact fund. The verification process allowed CDC Group to have confidence in the manager's existing impact practices and commitment to further improvement and, simultaneously, provided the manager with a practical roadmap for expanding its already robust sustainability management system to incorporate consideration of its distinct contribution to achieving impact outcomes.

"Impact verification is not only important to understand how our own impact standards and practices align with the Principles and where we can improve, it also helps us in our selection and assessment of fund managers through which CDC invests indirectly."

- **ROBERT DAVIES**, DIRECTOR (DEVELOPMENT IMPACT–INVESTMENTS), CDC GROUP PLC

CDC
Investment works

ABOUT CDC GROUP

CDC Group is the United Kingdom's development finance institution. CDC helps solve the biggest global development challenges by investing patient, flexible capital to support private sector growth and innovation.

36 CDC Group (2020): "CDC publishes its approach to aligning with the Operating Principles for Impact Management."

37 For more, see the "Appendix: BlueMark Verification Methodology" section

CASE STUDY

Improving practice through verification at KKR

Verification Learnings

In 2019, KKR became a founding signatory to the Impact Principles and engaged BlueMark to independently verify the alignment of its Global Impact Fund. Since the external assessment occurred early in the life of KKR Global Impact's investment strategy, the Fund was able to use BlueMark's insights to inform the further development of its impact management system, particularly in the post-investment phases of the investment process. Two years later, in 2021, KKR engaged BlueMark for a second practice verification to assess its updated impact management system and identify further opportunities for improvement. BlueMark found that KKR Global Impact had enhanced its alignment with the Impact Principles, particularly in the areas of impact assessment, impact monitoring, and impact at exit. The follow-on verification allowed KKR to take stock of its efforts and communicate its progress to LPs and other stakeholders.

"Our engagement with BlueMark has been an important part of our ability to both benchmark and improve our impact management efforts over time. The team brings a unique perspective of what is common and best practice in the impact marketplace and we have benefited from this insight."

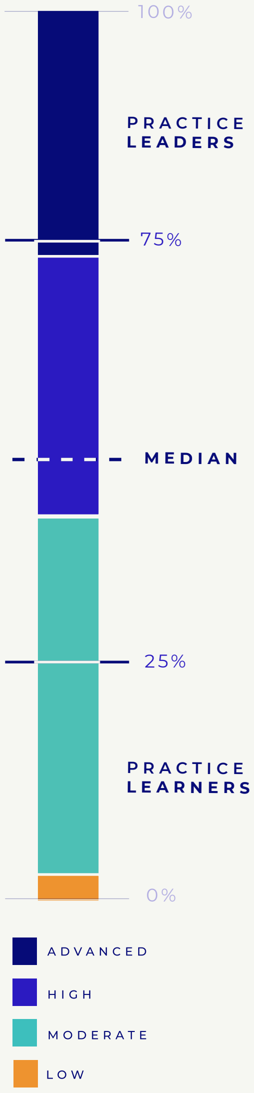
KKR

ABOUT KKR

KKR is a leading global investment firm that offers alternative asset management and capital markets and insurance solutions. KKR aims to generate attractive investment returns by following a patient and disciplined investment approach, employing world-class people and supporting growth in its portfolio companies and communities. In 2018, building on its track record of responsible investment, KKR launched its global impact business and first dedicated impact investment fund.

Investor contribution to impact

Principle 3 Establish the Manager's contribution to the achievement of impact



PRACTICE MEDIAN **HIGH**

Impact investors at the Practice Median for investor contribution clearly describe the strategies they employ to enhance the impact performance of their investments. They assess their expected (ex ante) contribution to impact for each investment and compile case studies that help to demonstrate their approach to contribution. They do not collect more robust evidence, beyond case studies, to improve understanding of their contributions to impact.

PRACTICE LEADERS **ADVANCED**

Practice Leaders have a clear and consistent approach to contributing to impact performance, assess their expected (ex ante) contributions to the impact of each investment in due diligence, and compile case studies detailing their approach. In addition, they systematically monitor their actual (ex post) contributions to the impact of each investment to improve understanding of the effectiveness of their approach.

Verification Results

97% DESCRIBE THE STRATEGIES THEY EMPLOY TO ENHANCE THE IMPACT OF THEIR INVESTMENTS

Impact investors focus not only on how their investments make an impact, but also on how they, as investors, contribute to the achievement of that impact. Nearly all verified investors describe their general approach to enhancing impact, through either financial means (e.g., making an investment with terms or in an amount that would not otherwise have been available) or non-financial means (e.g., using a board seat to advance improved social or environmental practices).[38]

38 For more, see Impact Management Project (2019): Investor contribution in private and public markets.

83% COMPILE CASE STUDIES TO SUPPORT THEIR INVESTOR CONTRIBUTION NARRATIVE

To credibly demonstrate their investor contributions, many BlueMark clients cite specific examples of ways they enhanced their investees' impact. This often takes the form of case studies, either in presentations for prospective investors or in regular impact reporting, that illustrate how the investor's unique investment strategy or approach to investee engagement enhanced impact beyond what would have been possible otherwise.

63% ASSESS INVESTOR CONTRIBUTION FOR EACH INVESTMENT

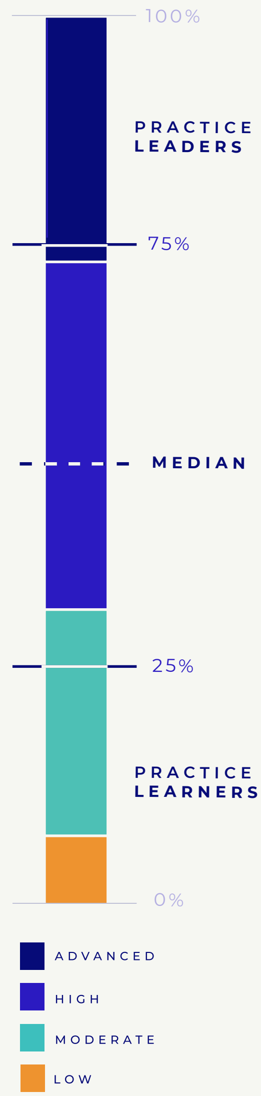
Although most verified investors describe their general approach to contributing to impact, fewer have a standardized process to assess areas of contribution for each investment. Such a process often includes the upfront analysis of areas for potential investor contribution (e.g., opportunities to enhance ESG risk management practices) and ongoing monitoring of the implementation and results of such initiatives (e.g., the extent to which technical assistance successfully enhances impact performance).

33% SYSTEMATICALLY COLLECT EVIDENCE TO SUPPORT THEIR INVESTOR CONTRIBUTION NARRATIVE

A minority of verified investors have compiled evidence above and beyond case studies that supports their investor contribution narrative. This often includes monitoring and evaluating the actual success (or failure) of their efforts to enhance investee impact on an ongoing basis, sometimes by soliciting feedback directly from investees on the manager's approach. Ongoing monitoring of non-financial contributions can help strengthen understanding of the effectiveness of these aspects of an investor's approach. Those that make contributions to impact through financial channels typically conduct an upfront assessment to determine whether investees would have access to capital on comparable terms or on a comparable scale.

Impact screening and due diligence

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



PRACTICE MEDIAN **HIGH**

Investors at the Practice Median evaluate the expected (ex ante) impact of each investment in a consistent manner. They also select impact metrics aligned with industry standards, most commonly IRIS+ [39] and HIPSO,[40] and often set impact targets based on expected performance for key impact metrics. They typically only assess a subset of the Impact Management Project's five dimensions of impact for each investment.[41]

PRACTICE LEADERS **ADVANCED**

Practice Leaders use a consistent approach to evaluate the expected (ex ante) impact performance of each investment, including using impact metrics aligned with industry standards, setting numeric impact performance targets, and taking into consideration each of the five IMP dimensions of impact: What, Who, How Much, Contribution, and Risk.[42]

Verification Results

93% HAVE A CONSISTENT MEANS OF ASSESSING EXPECTED (EX ANTE) IMPACT PERFORMANCE

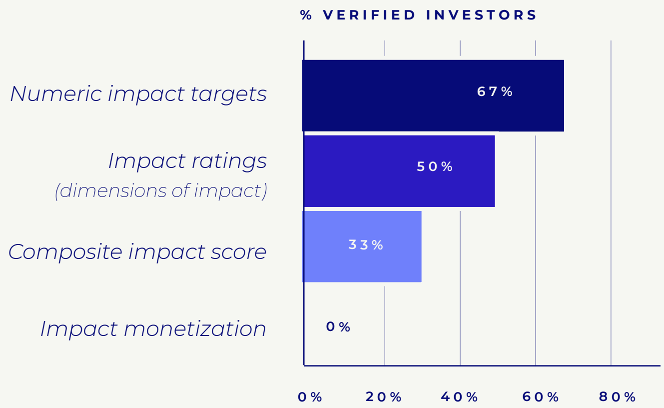
A strong majority of BlueMark clients use a standard approach to estimate the expected impact performance of each investment during due diligence, but approaches vary:[43]

39 GIIN website: "IRIS+."
40 HIPSO website: "HIPSO."
41 Impact Management Project website: "Impact management norms."
42 Impact Management Project website: "Impact management norms."
43 Our impact assessment approaches are adapted from the IFC's Creating Impact report, which identified Impact Targets, Impact Ratings, and Impact Monetization. We have added the "Composite impact score" category to capture investors that use impact ratings to generate a unified impact score for each investment. For more, see International Finance Corporation (2020): Creating Impact: The Promise of Impact Investing

- 67% of BlueMark clients set numeric impact targets, either in due diligence or soon after the transaction is executed, by specifying expected performance against impact metrics.
- 50% of verified investors rate each investment against two or more dimensions of impact when making their assessment, most commonly using a customized subset of the Impact Management Project's five dimensions: What, Who, How Much, Contribution, and Risk.[44]
- 33% of investors in the sample calculate a single composite impact score for each investment by rating and then assigning a relative weight to each dimension of impact.
- None of the investors verified to date use impact monetization, where expected impact is expressed in monetary terms.[45]

FIGURE F

Approaches to assess expected impact



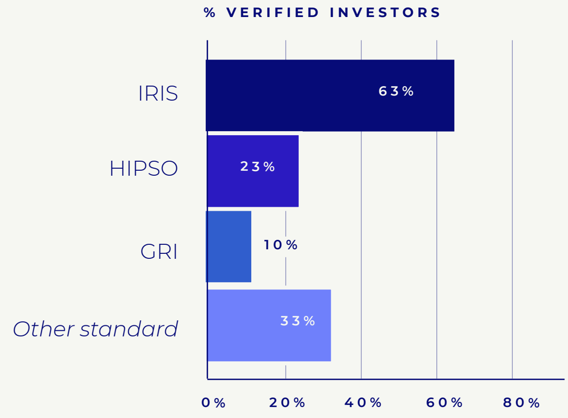
80% SELECT IMPACT METRICS ALIGNED WITH INDUSTRY STANDARDS

A strong majority of those verified use impact metrics that are aligned with industry standards, where possible,[46] to help drive the comparability of impact performance across investments. The GIIN's IRIS Catalog of Metrics[47] is by far the most common industry standard, followed by the Harmonized Indicators for Private Sector Operations (HIPSO).[48] In March 2021, these two standards launched the Joint Impact Indicators (JII),[49] a subset of indicators that are common across both catalogs.

44 Impact Management Project website: "Impact management norms."
45 For more, see Impact Management Project (2020): Impact monetisation: A summary of the discussions with the IMP's Practitioner Community.
46 Although most impact investors use impact metrics aligned to industry standards where possible, most investors also use bespoke metrics that capture important elements of impact performance but are not aligned with any particular industry standard.
47 GIIN website: "IRIS+."
48 HIPSO website: "HIPSO."
49 HIPSO and IRIS+ (2021): Joint Impact Indicators (JII).

FIGURE G

Use of impact metrics industry standards

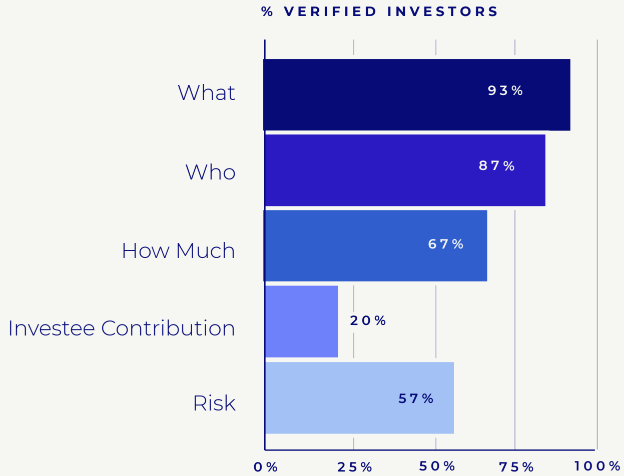


17% ASSESS ALL OF THE FIVE IMP DIMENSIONS OF IMPACT FOR EACH INVESTMENT[50]

A strong majority of verified investors assess the intended impact (What) and the main beneficiaries (Who) for each investment. However, fewer assess the significance of the intended impact for target beneficiaries (How Much), the degree to which the investee's impact is better than what would have occurred otherwise (Contribution)[51], and the risks to impact performance (Risk). Only a small minority assess all five dimensions.

FIGURE H

Use of the Impact Management Project's dimensions of impact



50 Impact Management Project website: "Impact management norms."

51 Contribution most often refers to how an investee contributes to impact relative to what would have happened otherwise ("investee contribution"). This is distinct from investor contribution, which refers to how an investor enhances the impact of an investee. We are talking about investee contribution here and investor contribution in the "Investor contribution to impact" section. For more, see Impact Management Project website: "Contribution" and Impact Management Project (2019): Investor contribution in private and public markets.

CASE STUDY

Impact mandate verification with Closed Loop Partners and Nestlé[52]

Verification Learnings

Closed Loop Partners' Leadership Fund, with support from one of the Fund's investors Nestlé, engaged BlueMark in 2020 to verify both the impact mandate and impact management practices of the Fund, a private equity strategy acquiring and scaling companies along the value chain to create circular supply chains. Closed Loop Partners leveraged BlueMark's practice verification as a diagnostic tool to enhance its impact management system, prior to becoming a Signatory of the Impact Principles, and drew on the mandate verification to update the Fund's reported classification of investments against both the SDGs and the Impact Management Project's "ABC" framework.[53] Alongside its USD 30 million investment in the Leadership Fund, Nestlé drew on the impact mandate and practice verifications to assess how the investment contributed to its global sustainability commitments.

"Closed Loop Partners believes in the integration of environmental and social value into markets. BlueMark represents critical accountability, given that impact outcomes have yet to be globally standardized. BlueMark brings transparency to impact processes and empowers market participants and stakeholders to confirm that impact outcomes are credibly derived."

- CLOSED LOOP PARTNERS

ABOUT CLOSED LOOP PARTNERS

Closed Loop Partners is an investment firm and innovation center building a circular economy, a new economic model focused on a profitable and sustainable future.

ABOUT NESTLÉ

Nestlé is the world's largest food and beverage company, committed to 100% recyclable or reusable packaging by 2025, sourcing 2 million metric tons of food-grade recycled plastic, developing sustainable packaging solutions, and boosting infrastructure and recycling rates.

52 For more detail, see IMP+ACT Alliance (2021): "How to accelerate confidence and transparency through Impact Classification and Impact Verification."

53 Impact Management Project (2018): A Guide to Classifying the Impact of an Investment.

CASE STUDY

Going beyond the Impact Principles with Big Society Capital

Verification Learnings

Big Society Capital ("BSC") engaged BlueMark to verify its impact management practice against the Impact Principles, with a key focus on generating learnings and insights that would challenge the organization to advance best practices above and beyond the Principles. BSC's unique mandate to drive systems change and grow the impact investing market in the United Kingdom, in addition to its thematic focus on early action, homes, and communities, are grounded in a multifaceted theory of change and supporting impact management system. The practice verification process allowed BSC to better understand where this system was leading the way, for example in its explicit focus on BSC's methods for contributing to the achievement of impact, and where the IM system requires further refinement, including in ESG risk management. BlueMark and BSC also worked to identify areas in which BSC could continue to promote and align to broadly accepted industry initiatives and standards, while catering to the unique nature of BSC's mandate. BSC's call to go beyond the Impact Principles and appetite to push the bar in impact management allowed BlueMark and BSC to explore ways to better establish and evaluate systems change impact and systemic impact risks. Demonstrating its deep commitment to learning, BSC engaged its full staff and leadership team to discuss the verification findings after the engagement concluded.

"The BlueMark team has been great in helping us make the verification process a real learning exercise, providing insights and drawing our attention to new resources that go beyond the requirements of the Principles."

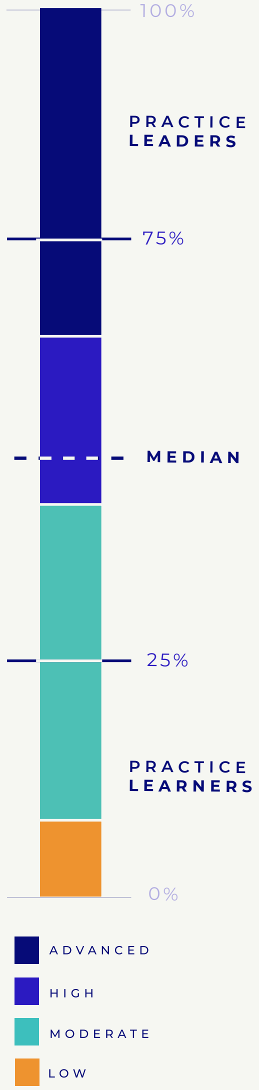
BIG SOCIETY CAPITAL

ABOUT BIG SOCIETY CAPITAL

Big Society Capital exists to improve the lives of people in the UK through social impact investing. It unites ideas, expertise and capital to create investment solutions for the UK's social challenges, supporting organisations that deliver both positive social impact and sustainable financial returns. So far it has helped channel over £2 billion into investments tackling a wide range of problems such as homelessness, mental ill health and childhood obesity.

Environmental, Social, and Governance (ESG) risk management

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



PRACTICE MEDIAN **HIGH**

Investors at the Practice Median follow a consistent process to identify potential Environmental, Social, and Governance (ESG) risks associated with their investments and establish risk mitigation plans. These investors draw on a variety of ESG industry standards to identify the risk areas most relevant to their investment strategy or to a particular investment. They do not consistently follow up with investees to address ESG risks or underperformance identified through routine monitoring activities.

PRACTICE LEADERS **ADVANCED**

Practice Leaders draw on industry standards to identify ESG risks in the due diligence process. They then continue to monitor and manage ESG risk after making an investment, including following up with investees when they underperform on ESG and when unexpected ESG risks arise. This process often includes establishing a timeframe to remedy any identified ESG issues, followed by regular monitoring of risk areas on a quarterly or annual basis.

Verification Results

90% HAVE A STANDARD, DOCUMENTED PROCESS TO IDENTIFY ESG RISKS

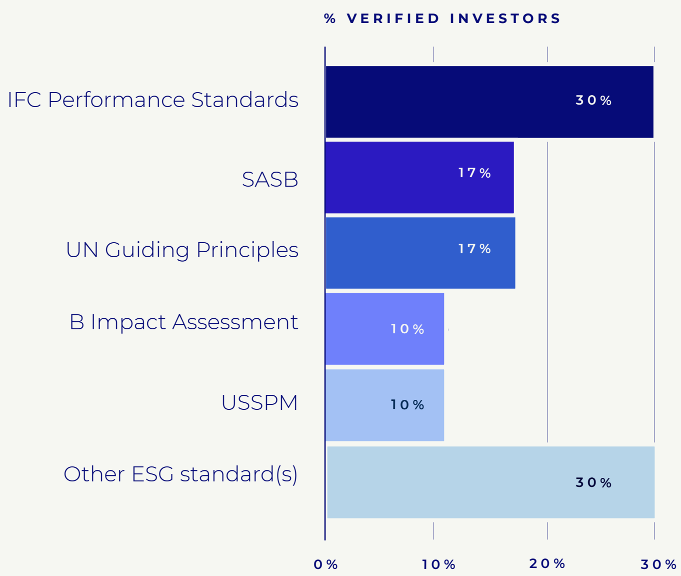
The vast majority of verified investors have a consistent approach to identifying potential ESG risks for each investment. This risk assessment often takes place in parallel with the positive impact assessment process, including screening for significant ESG risks that may warrant exclusion from the portfolio, due diligence to identify risks and gaps in ESG management on the part of the investee, and incorporation of an ESG risk assessment in investment memos and investment decisions.

73% USE INDUSTRY BEST PRACTICE TO IDENTIFY ESG RISKS

A majority of BlueMark clients have integrated at least one industry standard into their ESG risk management systems. The landscape of ESG standards is fragmented, however, with at most 30% of verified investors adopting a given standard. Development finance institutions (DFIs) in the sample are the most frequent users of the IFC's Performance Standards,[54] which emphasizes ESG risk management through engagement with local communities and other stakeholders, and the UN Guiding Principles on Business and Human Rights,[55] which offers high-level guidance on respecting human rights. Private equity investors, meanwhile, are the most frequent users of the Sustainability Accounting Standards Board (SASB),[56] which identifies the ESG risks most material to financial performance in a given industry.

FIGURE I

Use of ESG Industry Standards



54 IFC (2012): *Performance Standards on Social and Environmental Sustainability.*
55 United Nations (2011): Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework.
56 SASB website: "SASB."

60% MONITOR ESG RISK AND PERFORMANCE ON A REGULAR BASIS

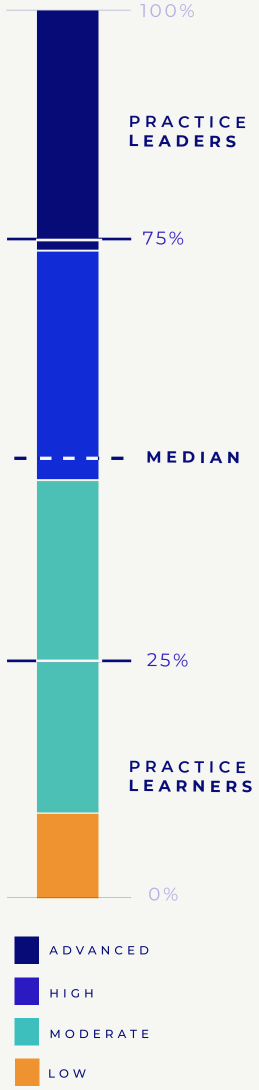
While most BlueMark clients identify potential ESG risks in screening and due diligence, a smaller majority regularly monitors ESG risks and performance post-investment. The monitoring process often includes a focused effort to address identified risks in the first months following the investment (e.g., 100-day plans, action plans), followed by investee reporting on ESG as part of broader impact reporting processes, typically on either a quarterly or an annual basis.

43% SYSTEMATICALLY ENGAGE INVESTEES TO ADDRESS ESG GAPS AND UNEXPECTED RISKS

In addition to the ongoing monitoring of ESG performance and risks, many verified clients have a standardized approach to following up with investees in the event they identify ESG underperformance or new risks. This may include specifying criteria that trigger engagement (e.g., underperformance relative to predefined ESG targets, emergence of particular risks) and establishing a regular process to review ESG performance and identify priorities for engagement. Engagements typically include aligning on an approach and timeline to address the identified ESG risks.

Impact performance monitoring

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



PRACTICE MEDIAN HIGH

Investors at the Practice Median have a standardized process to monitor the impact performance of each investment, including routinely collecting data for the impact metrics identified in due diligence and comparing the actual impact performance of their investments against expected performance. They measure their investees' products and services ("outputs") to understand their impacts, but they do not measure the short- and medium-term effects ("outcomes")[57] of those products and services or solicit input from stakeholders.

PRACTICE LEADERS ADVANCED

Practice Leaders monitor the impact performance of each investment, compare the actual impact performance of their investments against expectations, and then follow up with investees to address cases of impact underperformance. They also measure the short- and medium-term effects ("outcomes") of their investees' products and services ("outputs")[58] and solicit direct input from stakeholders to gain a more comprehensive understanding of their impacts.

57 "Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment."IFC (2019): Investing for Impact: Operating Principles for Impact Management.

58 "Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment."IFC (2019): Investing for Impact: Operating Principles for Impact Management.

Verification Results

90% MONITOR IMPACT PERFORMANCE FOR EACH INVESTMENT ON A REGULAR BASIS

A strong majority of verified investors have a standardized process to monitor each investment's impact performance over time. This typically includes quarterly or annual impact data collection from investees, with a focus on performance against key impact metrics and with impact data stored and aggregated in a centralized location. Most BlueMark clients have a well-defined impact monitoring process that specifies reporting frequency, data sources, and data collection responsibilities.

57% COMPARE ACTUAL IMPACT WITH EXPECTED IMPACT

A small majority of BlueMark clients explicitly compare actual impact performance with expected impact performance for each investment, most commonly using impact targets set during due diligence.

39% CAPTURE IMPACT "OUTCOMES" IN ADDITION TO "OUTPUTS"[59]

When monitoring impact performance, the majority of verified investors focus mainly on collecting "outputs," or data about investees' products and services (e.g., low-income customers served, tons of paper recycled). However, some BlueMark clients go further and measure "outcomes," or the short- and medium-term effects of investees' products and services (e.g., changes in customer health, greenhouse gas emissions avoided), to better understand the impact of each investment. As sourcing "outcomes" data directly from beneficiaries can be costly (e.g., customer surveys to understand a product's health benefits), many verified investors make evidence-based assumptions to extrapolate "outcomes" from "outputs" (e.g., estimating GHG emissions avoided from tons of paper recycled, drawing on third-party research on the environmental impact of paper).

59 "Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment." IFC (2019): Investing for Impact: Operating Principles for Impact Management.

20% SYSTEMATICALLY FOLLOW UP WITH INVESTEES TO ADDRESS IMPACT UNDERPERFORMANCE

A minority of verified investors have a consistent approach to follow up with investees in cases of impact underperformance. This may include establishing impact performance criteria that trigger engagement (e.g., significant deviation from impact targets), which often includes aligning with the investee on the factors contributing to underperformance and an action plan and timeline to address the underperformance.

11% SOLICIT INPUT FROM STAKEHOLDERS TO UNDERSTAND THEIR IMPACT PERFORMANCE

Engagement with communities, customers, workers and other stakeholders affected by investments is not an explicit practice requirement in the Impact Principles, but new standards like the United Nations Development Programme's SDG Impact Standards[60] and thought leadership from groups like Accountability Counsel[61] increasingly emphasize the importance of involving community and other affected stakeholders in impact management, including in setting impact objectives, selecting impact metrics, assessing impact performance, and remedying negative impact, among other areas. A handful of BlueMark clients, investing in either community development or international development, solicit direct and regular feedback from stakeholders as part of their impact monitoring processes. Input is collected through internal means (e.g., focus groups, interviews, or surveys) or with support from external partners (e.g., 60 Decibels).[62] While limited in scope, these practices represent early efforts to deepen the involvement of stakeholders in the impact management process.

60 UNDP website: "SDG Impact Standards."
61 Day, M. (2020): "What we learned about the state of impact accountability from 74 investors."
62 60 Decibels website: "60 Decibels."

CASE STUDY

Verification as a learning tool at Quona Capital

Verification Learnings

Verification Learnings

Quona Capital, a veteran impact investor and venture firm focused on fintech for inclusion in emerging markets, engaged BlueMark to verify the firm's impact management system, which it applies across its three funds, against the Impact Principles. As Quona's portfolio continues to expand, the team saw an opportunity to leverage BlueMark's verification to identify opportunities for strengthening its existing impact management processes and deepening its understanding of market best practices. BlueMark identified several strengths rooted in Quona's track record as an impact investing pioneer, including a portfolio-level theory of change grounded in evidence and a proprietary impact framework aligned with industry standards, as well as key opportunities for improvement, such as more systematic documentation of Quona's investor contribution to impact achievement and bringing additional structure to the ex-post impact assessment process. In the final week of the engagement, in keeping with the firm's commitment to transparency and learning, the Quona impact team engaged the broader Quona investment and platform teams to disseminate learnings and begin to outline strategies and solutions for addressing the opportunities for growth.

"Quona engaged BlueMark for our independent verification because of the team's impact investing experience and growing leadership in the space. A supportive partner throughout the process, BlueMark used their robust benchmarking to help us not only understand Quona's strengths in impact management, but to also provide actionable opportunities for improvement."

QUONA CAPITAL

ABOUT QUONA CAPITAL

Quona Capital is a venture firm dedicated to financial technology for inclusion in emerging markets. Quona invests in scale-up stage companies that are expanding access to quality financial services for underserved consumers and small businesses in South & Southeast Asia, Latin America and Africa & MENA.

CASE STUDY

Verifying FinDev Canada's newly minted impact management system

Verification Learnings

FinDev Canada, Canada's newly formed Development Finance Institution (DFI), engaged BlueMark to verify its impact management system's alignment with the Impact Principles. Incorporated in 2018, FinDev Canada developed its impact strategy in parallel to establishing its investment one, and, as a result, leveraged recent advancements in impact management standards, frameworks, and tools from inception, particularly related to its unique positioning as a Gender-lens investor. Given the institution's recent history, FinDev Canada approached verification as a logical and helpful next step to strengthen and test its system, drawing on BlueMark's insights into industry best practices. BlueMark identified several opportunities for further enhancement, primarily at the later stages of the investment process where the institution has less of a track record owing to its youth as an organization. As such, the engagement helped FinDev Canada crystallize how to build out its impact management system in areas where it has limited experience, such as mechanisms to sustain impact at (and beyond) exit and ex post impact review processes, while also offering feedback on the sophistication and completeness of its recently created impact management frameworks.

"BlueMark helped us do three things: corroborate our immediate development priorities, validate our approach to impact management, and identify areas for improvement to strengthen our approach as we mature as an organization. All three are important for us, especially as a young DFI committed to developing robust impact management practices."

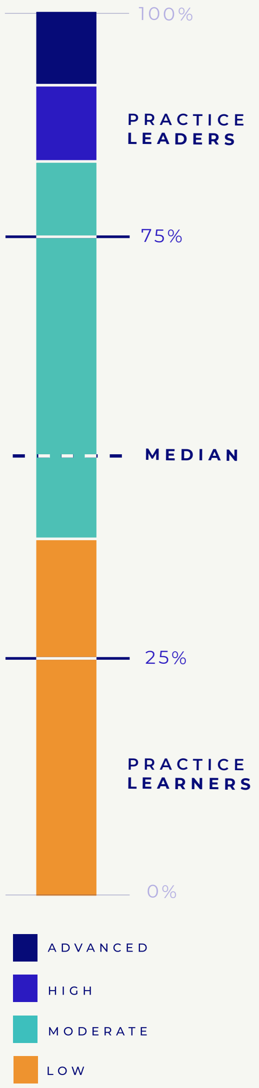
FinDev Canada

ABOUT FINDEV CANADA

FinDev Canada was launched in 2018 as Canada's bilateral DFI to help bridge the financing gap in emerging and frontier markets and to complete Canada's range of international assistance tools and programs. FinDev Canada provides financial solutions to private sector entities with the potential to create jobs, empower women and mitigate climate change across Sub-Saharan Africa, Latin America and the Caribbean.

Sustaining impact at and beyond exit

Principle 7 Conduct exits considering the effect on sustained impact



PRACTICE MEDIAN **MODERATE**

Sustaining impact at and beyond exit represents the most significant challenge for verified investors. Investors at the Practice Median have taken the first step and developed an approach to assess how likely impact is to endure beyond the term of their investment (i.e., the sustainability of impact at exit).[63] They do not have a consistent and documented approach, however, or identify potential actions they can take that may help to ensure impact is sustained beyond the investment term.

PRACTICE LEADERS **HIGH[64]**

Practice Leaders have developed a consistent and documented approach to consider the likelihood that impact endures beyond the investment term, often including a formal assessment that is reviewed by the investment committee and potential actions to ensure the sustainability of impact at and beyond exit. Approaches to sustaining impact at and beyond exit vary based on asset class and investment strategy, and can include assessing the potential effect of exit on the sustainability of impact or the likely success of steps taken to "lock in" impact earlier in the investment process, among others.[65]

63 BlueMark does not assess the degree of control an investor has at the time of exit, as that can vary based on asset class or investment strategy, but rather the degree of consideration an investor gives to the sustainability of impact at exit. BlueMark assesses investors' alignment across asset classes, based on best practice in the market and the possible levers available to an investor.

64 Practice Leaders demonstrate a range of alignment with Impact Principle 7, from Moderate to Advanced.

65 For more, see GIIN (2018): Lasting Impact: The Need for Responsible Investments.

Verification Results

57% HAVE AN APPROACH TO CONSIDER THE SUSTAINABILITY OF IMPACT AT EXIT

Impact investors aim not only to enhance the impact of their investments, but also to help ensure that impact endures beyond their investment term. Sustaining impact at and beyond exit remains among the most challenging parts of impact management, with just over half of BlueMark clients committed to considering the sustainability of impact at the end of the investment period, consistent with their fiduciary responsibilities. While there may be more obvious levers to incorporate sustainability of impact considerations into exit decisions in private equity or real assets strategies, debt and public markets investors can also take steps to consider the sustainability of impact.[66]

17% HAVE A STANDARD, DOCUMENTED PROCESS TO ASSESS THE SUSTAINABILITY OF IMPACT AT EXIT

Although many investors in the sample consider the sustainability of impact at exit, only a handful have designed and implemented a process to do so. These processes vary depending on the investment approach and asset class, but most include a standard "impact at exit" memo that is completed and reviewed by the investment committee.

Private equity and real assets investors may assess how timing, different exit pathways (e.g., IPO, strategic acquisition), and the track record of potential buyers may influence the sustainability of impact. Private debt investors, meanwhile, may assess the sustainability of impact near the time of loan maturation and consider the success of efforts to "lock-in" impact earlier in the investment process (e.g., covenants or side letters in loan agreements) and the mission alignment of remaining investors.

Public investors in high-volume, liquid markets have limited levers to influence the sustainability of impact at exit. However, in low-volume, illiquid, or difficult-to-value public markets, investors can assess whether transactions may have an effect on an investee's cost of capital.[67]

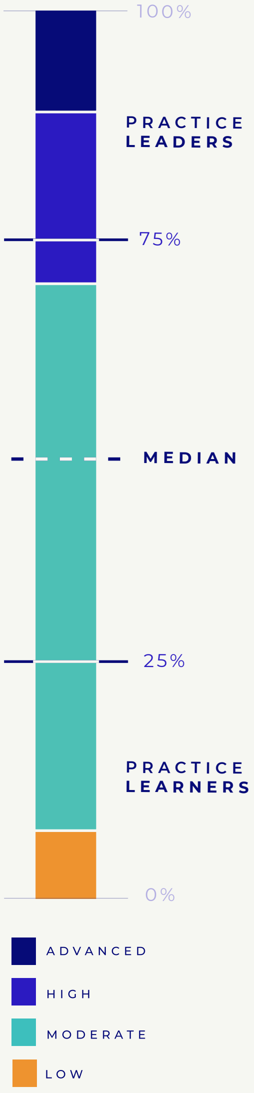
66 For more, see Tideline (2020): Making the Mark: Investor Alignment with the Operating Principles for Impact Management.
67 For more, see Tideline (2020): Making the Mark: Investor Alignment with the Operating Principles for Impact Management.

17% IDENTIFY POTENTIAL ACTIONS TO ENSURE THE SUSTAINABILITY OF IMPACT AT EXIT

A minority of investors in the sample have a sustainability of impact at exit approach that includes potential actions that may help to ensure impact endures beyond the investment term. For private equity and real assets strategies, these actions include requiring potential buyers to describe their approach to impact investing and how they intend to sustain impact, as well as embedding covenants in transaction documents that commit the buyer to practices that drive impact performance. Similarly, private debt investors may consider whether to exercise flexibility in repayment requirements to preserve impact or whether renewal is needed to sustain impact.

Impact review and learning

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



PRACTICE MEDIAN MODERATE

Investors at the Practice Median review the impact performance of each investment on a regular basis. However, they do not consistently monitor and review unexpected positive or negative impacts or routinely incorporate learnings from the review process to inform future investment decisions and portfolio management.

PRACTICE LEADERS HIGH[68]

Practice Leaders regularly review the impact performance of each investment, including both the comparison of actual and expected impact performance and the analysis of any unanticipated positive or negative impacts that arise. They also identify key learnings from these reviews to refine their investment strategy and impact management processes.

Verification Results

73% HAVE A STANDARDIZED PROCESS TO REVIEW EACH INVESTMENT'S IMPACT PERFORMANCE

The majority of those verified not only monitor actual impact performance, but also review and discuss the implications of impact performance data on a regular basis. This process often includes the comparison of actual and expected impact performance and the identification of next steps to follow up with investees, typically in the context of an annual or quarterly review process.

68 Practice Leaders demonstrate a range of alignment with Impact Principle 7, from Moderate to Advanced.

32% MONITOR AND REVIEW ANY UNEXPECTED POSITIVE OR NEGATIVE IMPACTS

In addition to consistently reviewing results for key impact metrics identified in due diligence, nearly a third of verified investors monitor and review any unexpected positive or negative impacts associated with their investments. In order to identify unanticipated results, investors may leave space in reporting templates for investees to describe such impacts or solicit input directly from diverse stakeholders, including customers and/or other target beneficiaries.[69]

30% USE LEARNINGS FROM IMPACT PERFORMANCE REVIEWS TO IMPROVE INVESTMENT DECISIONS AND PORTFOLIO MANAGEMENT

Fewer than one third of BlueMark clients systematically identify lessons learned from impact performance reviews to improve their investment decisions and portfolio management processes. Those who do incorporate lessons may, for example, decide to avoid future investments in areas where they've seen chronic impact underperformance, enhance their diligence processes to incorporate new dimensions of risk, and/or design a new engagement strategy to improve impact performance.

Some verified investors share their lessons learned, most commonly in impact reports or other thought leadership, with their own investors and the public. While these materials most often focus on successes, a handful of verified investors share failures and the lessons learned as a result, promoting transparency and candor in the market.

69 For more, see the "Impact performance monitoring" section

Conclusion

When we published our inaugural *Making the Mark* report, we argued that impact verification represents the “antidote to impact-washing.” By introducing the BlueMark Practice Benchmark, we believe we are giving impact investors the solution they need to adopt and further advance best practices in impact management.

While impact investing has gained enormous ground in recent years in terms of both capital flows and increased harmonization of standards, there is still a long way to go to fully institutionalize the market and draw in the trillions of dollars in capital needed to address urgent sustainability challenges. While the Impact Principles and the emerging SDG Impact Standards represent significant advancements in the market’s common understanding of standards for impact management, confusion remains about how impact investors should report their impact performance. Asset allocators and managers have a particular hunger for impact performance assurance and benchmarks, which BlueMark intends to contribute to even as common standards for performance reporting remain elusive.

Fortunately, many impact investors are undaunted by the challenges and are voluntarily looking beyond industry standards to continuously raise the bar for best practice impact management and performance. These pioneering impact investors--and the Practice Leaders in our research sample--are leading the way forward and setting a positive example for the countless impact investors who are sure to follow. We see third-party verification as a valuable tool for impact investors of all shapes and sizes, allowing them to compare themselves against their peers and chart a path for future impact management improvements and refinements.

As we complete more verifications, BlueMark’s Practice Benchmark will undoubtedly evolve as impact investors compete to differentiate themselves from their peers. Learners will become Leaders, while Leaders will set an ever higher bar. But more important than the ‘score’ an impact investor receives is that organization’s commitment to a journey of continuous learning. Together, we can strengthen trust and confidence in impact investing.

Appendix: BlueMark Verification Methodology

Realizing that verification requirements may present a substantial hurdle for both new and long-time impact investors, BlueMark's parent company Tideline began developing a methodology in early 2019 that sought to be both efficient and rigorous. Building on Tideline's experience working with a range of asset managers and asset owners as an impact investing consultant, BlueMark developed a customized approach that has been honed over two years and 30+ practice verifications spanning a wide range of impact investment strategies and investor types.

BlueMark provides verification clients with actionable guidance on each of the Impact Principles, through a proprietary approach designed to help impact investors understand and implement best practices'. Our practice verification methodology follows a three-step process: Learn, Assess, and Review.

FIGURE J

BlueMark's Approach to Practice Verification

LEARN	ASSESS	REVIEW
• 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 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	• 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

Our process involves collecting and analyzing a wide range of materials (e.g., investment memos, checklists, policy documents, etc.) as well as documents from a set of randomly selected transactions. We supplement this information with interviews with investment and impact team members. We then use our proprietary rubric to assess the degree to which an investor's practices align with each Principle and assign a rating.

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

BlueMark has also introduced AccessPoint, a new service for diverse and emerging managers—with under $100 million in assets under management for private equity firms and less than $250 million for private debt firms—seeking to attain alignment with the Impact Principles. The goal of this specialty service is to encourage and enable greater industry-wide adoption of best practices by making impact verification more affordable and accessible to a broader range of impact investors.

More information about our practice verification and our AccessPoint service can be found on BlueMark's website.[70]

70 BlueMark website: "Impact Practice Verification" and "FAQ."

Glossary

"ABC" Framework *The Impact Management Project (IMP) has developed a set of impact classes that group investments with similar impact characteristics based on their impact performance data or goals . Investments are classed into the categories of "Act To Avoid Harm", "Benefit Stakeholders, or "Contribute to Solutions."*[71]

Dimensions of Impact *The Impact Management Project (IMP) has convened a Practitioner Community of over 2,000 enterprises and investors to build global consensus on the five dimensions of impact: What, Who, How Much, Contribution, and Risk.*[72]

Impact Investment *For the purposes of this report we will use the definition presented alongside the Impact 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."*[73]

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.*

Impact Management *Impact management, also known as Impact Measurement and Management (IMM), consists of "identifying and considering the positive and negative effects one's business actions have on people and the planet, and then figuring out ways to mitigate the negative and maximize the positive in alignment with one's goals."*[74] *For this report, we will use the term "impact management."*

Impact Thesis *An impact thesis seeks to explain how activities and funding are expected to generate results that are likely to contribute to the intended impact. The term "impact thesis" is often used interchangeably with the term "theory of change," commonly used in philanthropy and international development, but in impact investing an "impact thesis" tends to be more linear and less detailed than a traditional "theory of change."*[75]

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.*[76]

Logic model *A logic model is a common way to outline a theory of change, with its origins in the international development community. A logic model typically articulates the sequence of how particular Inputs enable the ability to undertake Activities or Processes that lead to Outputs, and Outcomes (over the short-term and long-term).*[77]

71 The Impact Management Project website: "Impact Classes."
72 The Impact Management Project website: "Impact Management Norms."
73 IFC (2019): Investing for Impact: Operating Principles for Impact Management.
74 GIIN (2020): The State of Impact Measurement and Management Practice: Second Edition.
75 GIIN website: "IRIS+ Simple Theory of Change Checklist."
76 Impact Management Project (2019): Investor Contribution in Public and Private Markets.
77 For more, see Capanyola, S., and So, Ivy (2016): "How Impact Investors Actually Measure Impact."

Operating Principles for Impact Management *The Impact Principles (or the Principles) 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."*[78]

Outcomes *Outcomes are the short-term and medium-term effects of an investment's outputs.*[79]

Outputs *Outputs are the products, capital goods, and services resulting from the investment.*[80]

Sustainable Development Goals (SDGs) *The SDGs are a set of 17 interlinked global goals defined by 169 targets that build on the Millenium Development Goals, and are designed to be a "blueprint to achieve a better and more sustainable future for all."*[81]

Theory of Change *A theory of change is a comprehensive description of how a desired change or intended impact is expected to happen, with a particular focus on how the activities and interventions foreseen will lead to the desired change. Theories of change are often depicted using a logic model.*[82]

78 IFC (2019): Investing for Impact: Operating Principles for Impact Management.
79 IFC (2019): Investing for Impact: Operating Principles for Impact Management.
80 IFC (2019): Investing for Impact: Operating Principles for Impact Management.
81 United Nations website: "Take Action for the Sustainable Development Goals."
82 The Impact Management Project website: "Glossary: Theory of Change."

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