

# IMPACT INVESTING IN LISTED EQUITIES

STRATEGIES FOR PURSUING IMPACT

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# ACKNOWLEDGMENTS

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## Supporters

The GIIN would like to recognize the contributions of members of the GIIN's Listed Equities Working Group and its advisory committee, whose perspectives have shaped this resource. The contents of this resource are the sole responsibility of the GIIN.

## About the Listed Equities Working Group

Since December of 2019, the GIIN's Listed Equities Working Group seeks to explore and examine strategies for pursuing impact in listed equities. The Listed Equities Working Group convenes asset owners and asset managers from the GIIN membership to assess how the Core Characteristics can be applied in the context of listed equities. The work will evolve in coordination with other industry efforts and aims to deliver on two main objectives:

1. To understand how strategies delivering impact in listed equities can align with the expectations of the Core Characteristics.
2. To provide reference points for best practice in order to support investors in structuring and deploying effective impact strategies in listed markets.

For more information about the GIIN Listed Equities Working Group, please contact the Membership Team at [networkmembership@thegiin.org](mailto:networkmembership@thegiin.org).

## About the Global Impact Investing Network (GIIN)

The Global Impact Investing Network (GIIN) is the global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see [www.thegiin.org](http://www.thegiin.org).

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# LETTER FROM THE DIRECTOR

Over the last year, we have seen a surge of interest in sustainable investing around the world, and a significant advance in the mainstreaming of environmental and social considerations into investing. This surge has been a convergence of the near-term impact of the COVID-19 pandemic, which has laid bare tremendous inequalities, and the culmination of a multi-decade shift in capital markets. In particular, investors increasingly seek access to strategies across asset classes that are designed to deliver positive impacts for people and the planet.

Impact investing, with now more than a decade of experience, has largely been executed in private markets. Recently, we have seen a growing number of asset managers introducing funds that seek to bring impact investing to listed equities. Given that the investments needed to achieve the SDGs and Paris Agreement run in the trillions (USD), this represents a tremendous opportunity to leverage the volume of assets invested through secondary public markets and the size of the retained earnings of listed companies. However, it is also critical that these efforts introduce a step change that strongly links investment with intentional, positive impacts in the real economy that live up to expectations. Otherwise, the opportunity to harness capital towards scaled societal change will be lost and the credibility of the industry will suffer.

Asset owners integrating impact thinking into their listed equity portfolio immediately face the challenge of how to differentiate amongst strategies. Sustainable investing has been available in listed equities asset management for decades and the range of fund offerings has steadily increased over time. These funds also demonstrate considerable variation in their stated purpose, their investment process, and the role that they can serve in helping asset owners achieve a given set of objectives related to environmental and social factors. Investors are increasingly in need of the tools that can help them better categorize and differentiate the many funds offered in the market. All sustainable investing funds have “impacts,” but investors need the means to differentiate those which are designed to generate intentional, positive impacts in the real economy alongside a financial return from other types of sustainable investing strategies.

In 2020, the GIIN convened a Listed Equities Working Group to pool the global experience of its membership to tackle this question of how to differentiate sustainable investing strategies within listed equities. The group specifically explored how the practices that best define impact investing could be applied in the context of listed equities investing. Since 2010, the GIIN has been a leader in working with industry participants to define the concepts, impact measurement tools, and practices needed to scale the size and effectiveness of impact investing. The GIIN’s diverse membership includes 350 members from over 50 countries that collectively pursue impact investing across asset classes and geographies.

This paper was developed as a summary of the activity of the GIIN’s Working Group and represents a snapshot of how investors and fund managers are approaching impact in listed equities. Over the course of 2021, the Listed Equities Working Group will continue developing a guidance document on impact investing in listed equities. That document will help asset owners identify what practices and characteristics to seek in funds and help fund managers consider ways to evolve their offerings to pursue positive, intentional impacts.

We are publishing this current paper to share some of the observations of the group with a wider audience and to support industry dialogue on pursuing impact investing in listed equities. We look forward to working with our members and welcome collaboration with other investors and partners as we enter into the next phase of our work in translating observations and insights into actionable guidance.

Sean Gilbert  
Member Engagement Director, Global Impact Investing Network

 @theGIIN

*In 2020, the GIIN convened a Listed Equities Working Group to pool the global experience of its membership to tackle this question of how to differentiate sustainable investing strategies within listed equities.*

# Executive Summary

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*Market participants currently use a wide range of terms to describe their strategies, including responsible investing, ESG investing, sustainable investing, socially responsible investing, and more. These various strategies all share the common trait of providing investors with a means of incorporating consideration of environmental, social, and governance factors into their investment decisions, but there is not a universal understanding or definition of these terms in many cases. The GIIN has defined impact investing as investments made with the intention to generate a positive, measurable social and environmental impact alongside a financial return. This paper is focused on helping investors understand how to differentiate impact strategies from other ways of addressing environmental and social factors in investing. For purposes of simplicity, the paper will use the term “sustainable investing” to refer to the combination of other approaches that also address ESG considerations, but do not explicitly seek an intentional, positive impact.*

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In late 2019, the GIIN launched a Listed Equities Working Group to develop guidance on pursuing impact through listed equities investing. As a first input, the GIIN undertook a review of how asset managers are currently approaching integrating impact thinking into their investment strategies. The focus of the review was to identify examples of evolutions that would differentiate an impact fund from sustainable investing funds designed to address other objectives related to environmental, social, and governance factors (e.g., risk management). The research was intended as an inventory of observed practices and did not seek to evaluate the efficacy or implementation of the practices. The review surfaced four primary observations about the state of market.

First, many of the listed equity funds that present themselves as having a focus on impact do include some innovations that differentiate them from previous sustainable investing strategies in listed equities. These changes were generally reflected in some aspect of: strategy definition, portfolio selection processes, performance measurement, and engagement strategies. While many funds offered individual examples of specific innovations, it is worth noting that the GIIN team did not find any funds that encompassed fundamental changes across all of these four areas. Thus, many offerings in the market represent an adaptation of sustainable investing strategies but vary in how deep of an evolution they represent.

Second, there is no single, easily identified indicator that immediately qualifies a listed equities strategy as impact rather than as a sustainable strategy. This paper presents a number of innovations that were identified within funds, but based on the decade of impact investing experience, none of these individual innovations on their own will unlock positive change in the real economy. The transition from a sustainable investing strategy to one that intentionally generates positive impacts through its investment strategy depends on a number of coordinated changes across the investment process – from developing the fund objectives and integrated through the subsequent steps of the investment process (as noted above). For example, investment strategy statements that articulate an impact objective are limited unless the investment process itself incorporates related impact metrics into investment selection. Introducing impact objectives into investment selection will not lead to different choices unless the fund’s investment objective is in alignment. Therefore, maximizing impact in listed equities requires a re-focusing of the entire investment process in order to arrive at a materially different portfolio than a standard ESG fund, and asset owners seeking to differentiate offerings will need to assess a range of practices.

Third, there appear to be two areas of innovation that are the starting points for designing an impact investment process in listed equities: 1) incorporating impact objectives into the investment strategy; and 2) incorporate related KPIs and data into the investment process. Impact objectives may be tied to a financial thesis (e.g., companies delivering solutions for a sustainable and inclusive economy stand to outperform over time) or it may be driven by other investor priorities (e.g., trustee mandate to align with certain SDGs). In either case, the defining feature is that the investment strategy pursues intentional, positive, measurable impacts in conjunction with the chosen financial target.

Finally, the options and means by which investors seek to contribute positive outcomes differ substantially between listed equities and other asset classes. In asset classes such as private equity or real estate, individual investors can very visibly contribute to the acceleration or amplification of positive impacts through means such as providing new capital injections, their engagement with property managers, and expertise that they provide. Some of these same levers exist in the realm of listed equities, but the comparative influence of a single investor is much more limited. In many situations, impact depends on collective action and attributing specific portions to individual investors is difficult. However, it is possible to pursue impacts in the real economy and the opportunity lies in finding new ways to structure listed equity funds that can deliver impacts in a more systematic and targeted way and at greater speed than has been possible over the last decade.

## Introduction

Since the coining of the term “impact investing” in 2007, the market has seen a tremendous growth in both investor interest and assets under management.<sup>1</sup> Funds and strategies with an impact mandate have been built and executed in a range of asset classes, and significant progress has been made in the development of tools and methodologies for measuring social and environmental impact.<sup>2</sup> While in its early iterations impact investing was primarily a private market strategy, recent years have seen a rapid expansion in investors interested in delivering impact through their investments in the public markets.<sup>3</sup> This interest has spurred a range of new listed equity investment products that associate themselves with “impact,” particularly in connection with the Sustainable Development Goals (SDGs).<sup>4</sup>

Given the scale of the global challenges laid out by the SDGs, and the estimated \$2.5 trillion in private capital that is required, annually, to achieve those goals, the needs are clear.<sup>5</sup> While listed equities are unlikely to be able to address each one of the targets that underly the SDGs, investments into listed equities (and public markets more broadly) comprise the largest portion of institutional investment portfolios. If these listed equity strategies can be harnessed to intentionally drive positive impacts through their investments, then they can potentially deliver a substantial boost to progress on the SDGs. Such strategies could also create opportunities for retail investors to participate in the impact investing market, which potentially brings a broader base of investors to impact beyond those who can already invest into private markets.

While sustainable investing strategies have long contributed to positive change, many of strategies in listed equities have focused on managing environmental, social, and governance (ESG) risks and opportunities within a portfolio of listed stocks rather than selecting a portfolio of stocks geared towards achieving positive impact. Over the last two years, asset managers have launched a broad array of new funds that identify as impact funds with a stated intent to deliver positive impact or contributions. In the context of private markets, the industry has gradually moved towards a more consistent understanding of and communication about impact funds as distinct from other types of sustainable investing. In the listed equities asset class, however, there is substantial diversity of investment approaches and results amongst the range of funds that identify as being “impact.” Therefore, for an investor, the question emerges as to how to best differentiate the relative ability of funds to effectively deliver impact.

1 Dean Hand, Hannah Dithrich, Sophia Sunderji, and Noshin Nova, [2020 Annual Impact Investor Survey](#), 10th ed. (New York: The Global Impact Investing Network, June 2020).

2 Rachel Bass, Hannah Dithrich, Sophia Sunderji, and Noshin Nova, [The State of Impact Measurement and Management Practice, 2nd ed.](#) (New York: The Global Impact Investing Network, January 2020).

3 Robert G. Eccles and Svetlana Klimenko, “The investor revolution,” *Harvard Business Review*, May–June (2019), <https://hbr.org/2019/05/the-investor-revolution>; Andrea Riquier, “Sustainable-investing flows have smashed records in 2020. What’s going on?” *Market Watch*, July 16, 2020, <https://www.marketwatch.com/story/sustainable-investing-flows-have-smashed-all-records-in-2020-whats-going-on-2020-07-07>; Janet Brown, “4 Reasons to take another look at sustainable investing in 2020,” *Forbes*, July 28, 2020, <https://www.forbes.com/sites/investor/2020/07/28/4-reasons-to-take-another-look-at-sustainable-investing-in-2020/#3fd9f178549a>.

4 World Economic Forum. [Measuring Stakeholder Capitalism](#) (September 2020).

5 UNCTAD. [World Investment Report](#) (June 2014); Djeneba Doumbia and Morten Lykke Lauridsen, “Closing the SDG Financing Gap—Trends and Data,” [IFC Encompass](#), Thought leadership note 73, October 2019.

## About This Summary Paper

In 2019, the GIIN launched a set of [Core Characteristics of Impact Investing](#) to articulate a set of baseline expectations as to what it means to practice impact investing. These Characteristics were developed to help investors understand what constitutes a credible impact investing practice and to serve as a reference point to identify practical actions they can take to scale their practice with integrity and efficacy. Given the growing interest from the broader market and within its network, the GIIN launched the Listed Equities Working Group to explore the potential for creating strategies for pursuing impact in listed equities with the Characteristics as a key reference.

The first phase of the work aimed to categorize the ways in which investors are pursuing impact in listed equities. The experiences and insights of members of the GIIN Working Group and an Advisory Committee of GIIN members were captured through a series of focus group meetings and 25 bilateral calls to better understand GIIN members' listed equities strategies and how they aim to deliver impact.<sup>6</sup> The Working Group members comprised a range of different types of financial actors (see appendix). The participants came from across the finance ecosystem - including asset owners of various types, private banks, asset managers, and others - and included investors that managed portfolios across multiple asset classes as well as those specialized in listed equities.

What follows reflects the range of views expressed by Working Group members on how, and to what extent, impact can be achieved in listed equities, and examples of how funds seeking to pursue impact have made adjustments to their processes.<sup>7</sup> This information is not intended as a systematic survey across the market, nor does it attempt to assess how widespread these views and practices are in the market. This paper seeks to summarize initial observations as to what members of the Working Group have identified as practices that differentiate impact investment strategies from other sustainable investment strategies. The paper is a snapshot of activity in the market as an input into the next phase of the Working Group process where the group will focus on developing asset class guidance.

## Incorporation of Impact Investing Practices into the Investment Process

In differentiating impact strategies in listed equities, Working Group members highlighted various changes to fund management processes. These changes were distributed across four aspects of the investment process and members demonstrated a spectrum of approaches in practice. None of the investors identified one single aspect as the sole factor that differentiated their strategy as being an impact strategy (as opposed to sustainable or ESG investing) nor did any asset manager implement all the practices discussed here. However, these practices all tie back to the idea of instilling an impact "intent" into the fund strategy and ensuring its execution in the subsequent investment decisions around the management of the portfolio.

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The remainder of the paper is organized around four aspects of fund design:

- 1** Defining the fund or portfolio strategy to include a social or environmental problem statement and/or theory of change;
- 2** Selecting investee companies that provide social or environmental solutions and/or generate positive impacts;
- 3** Engaging with portfolio companies on impact performance; and
- 4** Measuring and managing for social and/or environmental outcomes.

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<sup>6</sup> The Listed Equities Working Group is a community of 110 individuals representing 63 GIIN member organizations that is supported by an Advisory Committee. See Appendix for list of Working Group and Advisory Committee members.

<sup>7</sup> Throughout the paper, Working Group members are referred to as "members" and "investors" more generally.

## Defining Fund or Portfolio Strategy

Members noted that there are a range of tools and methods for incorporating social and environmental issues or information in listed equities that lead to different kinds of results (e.g., managing risks, accelerating a change, achieving a social and/or environmental outcome). Amongst listed equity funds addressing sustainability in some form, stated strategies ranged from funds with a broad vision of seeking to invest in companies generally promoting an equitable and sustainable world, to funds with a more targeted vision of contributing to a specific impact problem or SDG target. Funds that identified as impact specifically showed their differentiation through a stated focus on addressing problems and/or focusing investments on companies delivering solutions to sets of problems.

While some funds had defined impact objectives for their fund strategy, the degree to which fund managers clearly articulated a problem statement and theory of change at the fund level or the level of individual investments varied substantially. For example, one member identified a set of investable SDG themes to guide their fund strategy. The fund then developed a theory of change for each theme based on the underlying SDG targets, which they used to assess the potential for an investment to contribute to positive impacts. For another member, a theory of change is developed for each company in their fund to address how the company is delivering change through its products and services, measured by contribution to the SDGs (e.g., how their investment in a telemedicine company results in customer savings per medical visit and contributes to SDG #3: Good Health and Well-Being). However, each company was assessed independently, and the fund did not have a single guiding theory of change or specific scope to which all investments were expected to contribute.

For those members who expressed a problem statement, they noted different sources as the inspiration for their statements, including:

- A specific client mandate (e.g., a foundation with a strong interest in education may work with a fund manager to design an investment strategy to address lack of access to education in a particular market),
- The fund manager's own research (which has independently identified a compelling investment strategy combined with an impact goal), or
- A global reference point that is relevant to a broad range of clients (e.g., the SDG or IRIS+ themes,<sup>8</sup> which include detailed information about common impact strategies and the problems they address).

Some investors accompany the identified problem statement with a theory of change as to how the fund or strategy can address the problem identified. In describing how they approach defining a theory of change, investors spoke about different combinations of steps that typically include some mixture of the following actions:

- Identifying a global goal (SDG or other) or theme to which the investments would align and articulating how the portfolio will align to that goal;
- Using data and evidence to understand the social or environmental problem at play;
- Determining the scale of the problem (possibly on a geographic basis);
- Defining a problem statement, including a clearly defined target stakeholder;
- Developing a logic model to express how the fund and/or individual investments contribute to the impact goal or theme; and/or
- Projecting the scale of impact the fund is seeking to achieve (e.g., how much of the problem can the fund reasonably hope to address).

Very few funds demonstrated a process that applied all these steps, but, collectively, their approaches applied a similar thought process and tended to vary on the degree of rigor and analytics that they applied. Some investors described their approaches as “alignment” to the SDGs or other impact goals and others described their approaches as “contribution” to the targets that underly the SDGs or other broad impact goals. Alignment strategies tended to focus primarily on the first step of matching a correlation between the business focus of individual investments and an SDG (or other) goal. Contribution strategies tended to have the ambition of addressing more of the analysis listed above, yet many investors recognized that they have not yet realized that ambition and are still working on how to develop the capacity and processes to implement these in a comprehensive manner.

<sup>8</sup> [IRIS+](#) is the generally accepted system for impact investors to measure, manage, and optimize their impact. One of the key features of IRIS+ is the thematic taxonomy, which offers generally accepted definitions of Impact Categories and Impact Themes and identifies common goals and Core Metrics Sets by theme, thereby providing a shared language for describing, assessing, communicating, and ultimately comparing impact performance.

In particular, the pathway between the defined problem statement and the downstream potential impacts generated by the investment was not consistently defined by investors.

While there were varying views on which approaches (alignment vs. contribution) should be considered impact strategies, members did generally agree that starting with a well-defined problem statement and using research and data to understand how best to address that problem. This allowed them to clearly articulate their intent and to embed that intent into the terms, mandate, and positioning of the fund in ways that differ from other sustainable investing. Members further noted that having that mandate explicitly defined at this stage meant that the intent was clear to all stakeholders from the beginning and allowed them to achieve alignment between investor, manager (where relevant), and investee.

The development of a problem statement and theory of change informed other choices in the fund or strategy design. For example, all Working Group members were pursuing actively managed strategies because of a belief that active management of the social and environmental performance of portfolio companies was core to any impact strategy. Some investors also determined the concentration of the fund at this stage. For instance, one manager noted that given the relatively small global pool of listed companies that produced products and services that could address their target challenge (lack of access to education), they made the decision to run a concentrated portfolio from an early stage.

## Investment Selection

Beyond stated strategy, funds positioned as impact demonstrated differences from other sustainable investing strategies with regards to 1) portfolio composition and 2) their eligible investment universe.

### PORTFOLIO COMPOSITION

Investors pursuing impact strategies indicated that they screen and select relevant portfolio companies in alignment with an impact thesis. The level of specificity of the impact thesis varied substantially in terms of the rigor of evidence-based problem statements and theories of change used. This approach to investment selection stood in contrast to the approach taken by members for other sustainable investing strategies, often focused on diversified pools of companies chosen primarily on the basis of balanced performance across a range of ESG criteria relative to industry peers.

Among the range of impact strategies reviewed, three general profiles were observed: 1) diversified funds with a broad thematic focus (e.g., 100+ stocks across the entire set of SDGs), 2) diversified funds with a narrow thematic focus (e.g., 100+ stocks clustered around a specific set of SDGs), and 3) concentrated, high conviction funds (e.g., ~50 stocks). These different profiles were partially a consequence of how investors choose to consider larger companies in the context of their strategy. Large companies tend to have more complex businesses that cross multiple product segments. As such, one part of their business may have a strong alignment with the impact strategy of the fund even as another part of the business has little relevance or even a negative contribution. Some investors chose to include large, diversified companies offering a range of products and services that they viewed as net positive or best-in-sector in their impact strategies, which tended to be structured with 100+ stocks. Other investors only invest into smaller companies whose products and services are dedicated impact solutions and were more inclined toward high conviction portfolios.

Given that many listed equity funds rely on engagement as a central part of their strategy for delivering impact, some fund managers also took company size into consideration. For instance, a large-cap company transitioning to more sustainable supply chain practices may have a greater impact on reducing carbon emissions than a small-cap company who produces only green products. A large cap company, however, may be less open to engagement from an individual investor (who typically will only hold a small percentage of outstanding shares) than a micro-cap company (where the investor can potentially hold a more significant percentage of shares). As such, some investors consider the size of the company relative to their investment as a way of determining whether they will have sufficient leverage to deliver impact through engagements. This challenge exists as well for fund managers creating sustainable investing funds, but, for impact, the ability to drive positive outcomes through engagement arguably has a more central role in delivering on the strategy and commitment of the fund.

## INVESTMENT UNIVERSE

As a starting universe, most members reported using ESG screens (typically provided by a third-party provider) to identify a pool of securities that perform well across a range of ESG criteria relative to peers in their industry. The goal, as these investors articulated, was to ensure that any positive impact achieved through the products and services or through operational performance improvements was not offset by negative ESG performance. At this stage, some investors also choose to screen out companies whose products and services are not in alignment with their values (i.e., sin stocks).

As distinct from sustainable strategies which narrow the investment choices through a focus on assessing the quality of management, investors pursuing impact strategies often narrow to identify companies that align to their specific fund impact strategy and theory of change. More specifically, many investors focus on companies with products and services that they determine align to their specific SDG(s) or broad impact goal(s), contribute to a specific positive impact(s)/solution and/or offer an improvement over an existing solution. Defining an investment universe based on companies contributing to solutions, however, requires developing a method to assess whether the products and services or activities of a company can be reasonably seen as a meaningful contribution to the SDGs (or other chosen impact objective of the fund). Examples of approaches noted, included:

- Using third-party data to assess how and to what extent a company's product/service is contributing to a specific outcome or "solution" (i.e., a positive benefit to a defined population); and
- Determining whether a product/service is a "market alternative" (i.e., better than an existing solution). To do so, investors cited using the targets that underly the SDGs as a starting point, relying on the investor problem statement, and/or assessing the presence and scale of competitors (i.e., low-cost vaccines to populations previously without access). One investor also analyzed whether and to what extent the target stakeholders would be negatively affected if the company did not exist.

In deciding whether or not to include a company within the investment universe, some investors also indicated that they strongly consider the impact intent and thesis of companies. This approach differed from sustainable investing strategies that focus on choosing companies on the basis of a broad composite score. Fund managers expressed a view that companies with an intent to generate impact explicitly integrated into their culture and internal processes are more likely to deliver on those impacts than companies that do not seek to optimize the broad environmental and social benefits of their products/services. When evaluating a companies' intent and thesis, investors considered several factors and invested time in meeting and building relationships with company management to determine intentionality. These factors include:

- Articulation and demonstration of (ambitious) impact intention(s) in mission/vision statements, business model, and company goals, as well as alignment of company culture, communications, and policies
- The quality of impact reporting and disclosure
- Evidence of long-term commitment to impact
- Product portfolio and revenue spread in relation to the fund's targeted impact areas

In designing investment strategies, some investors noted that they also consider the length of time it takes for the targeted impact to be delivered. These investors sought companies that have a long-term growth trajectory and commitment to impact and stated that they hold companies for the longer term to demonstrate their commitment to impact. For example, some investors made commitments to hold companies for a minimum of five years to support companies in achieving their long-term impact goals.

## Engagement and Voting

Investors use different mechanisms to engage with portfolio companies using different mechanisms (i.e., proxy voting, meetings, etc.) to seek to improve the impact of their operational performance and/or influence the strategic direction of their products and services. Shareholder engagement has been a practice within sustainable investing for decades and has generated important positive impacts in the past through addressing a range of company activities. However, a new class of "impact engagements" has emerged as part of evolving fund design to pursue impact that are, in the eyes of many of the Working Group members, markedly different from previous engagements in two ways.

First, the nature and orientation of engagements has shifted. Historically, investors have focused their engagement approach on policies (e.g., urging companies to report on and improve the gender diversity of their Boards and C-suite) and risk management practices of companies (e.g., conducting a climate risk assessment). In funds launched to pursue impact, members pursue an engagement approach that is more closely tied to the specific fund impact strategy, problem statement, and theory of change. This shifts from engagements related to governance strategies and transparency towards a focus on mobilizing companies towards

business changes that address impact outcomes. Examples of such engagements from members include: 1) working with an investee company to make its product or service more sustainable or more accessible to underserved populations; 2) enhancing the quality of a product to make it healthier to consume (i.e., reducing the sugar content); and 3) encouraging a company to allocate capital and expertise (e.g., R&D) to positive impact solutions. In addition, investors also increasingly engage with companies to encourage transparency of impact, including the release of social and environmental performance data that might inform how effective the company is (or could be) at achieving impacts related to the theory of change.

In conjunction with the shifting focus of engagements, the basis for monitoring and measuring the success of an engagement has evolved. Investors are continuing to issue reports on proxy voting records and results, but they are also tracking Key Performance Indicators (KPIs) relative to the impact goals of the fund to measure company performance and determine the effectiveness of their impact engagement strategy. For example, one member whose fund aims to contribute to a set of specific SDGs has focused their engagement strategy on encouraging companies to allocate capital towards impactful products and services, and they track the increase in percentage of revenue derived from contributing to the SDGs as one indicator to measure progress. Investors use baseline company performance as a starting point to set goals, determine the engagement approach, and measure progress towards outcomes (e.g., number of lives saved, CO<sub>2</sub> emissions reduced, low-income women with access to financial services). Still, many members noted continued challenges in understanding the efficacy of their engagements. As with other types of sustainable investing, investors struggle, when successful in their engagement, to determine the degree to which their engagements created an impact and to quantify their own contribution to the impact delta since many engagements are collaborative efforts.

Finally, the process of choosing how and when to engage has also shifted. Increasingly, though possibly independently, as engagement becomes a pillar of impact strategies in listed equities, members noted a trend of portfolio managers (PMs) becoming more involved in engagements, rather than delegating efforts to a centralized engagement team or outsourcing efforts to a third-party service provider. These shifts can be seen in the decision-making framework that PMs use to govern their decision whether to engage, or not. Whereas historically PMs have engaged where their insourced or outsourced engagement team have indicated they should, some members noted that PMs for impact strategies often actively monitor votes and proactively plan engagements in line with their funds impact goals.

Members also noted various factors to successful engagements, including:

- Holding a larger share of a company's stock, typically, makes companies more open to conversations about improving impact. This has led several members to manage concentrated portfolios, and to work with other investors to co-sign shareholder proposals to collectively advocate for change. Members noted that, particularly for less concentrated or portfolios with smaller AUM, collaboration with peer investors (either bilaterally or via concerted efforts by engagement firms or NGOs) is essential to achieving targeted engagement results.
- Engaging with companies who share an impact intent with the investor. Members noted that a portfolio company's management will more likely engage and collaborate with investors when there is a perceived alignment of interest between the strategy of the fund and the strategy of the company.
- Engagement directly with portfolio companies on an ongoing basis, rather than just via proxy votes. Many members also noted that progress takes time and requires patience. Often, management's openness and responsiveness to engagement requests increased over time as fund managers slowly established the trust of the company management and demonstrated the benefits of improving performance on the topic. To this end, longer holding periods allow investors to develop their relationships with portfolio companies and have more opportunities to influence companies through engagement as a result.

## Impact Measurement and Management

All members of the Working Group recognize impact measurement and management as a hallmark of impact investing and central to any strategy that seeks to pursue impact in listed equities. Investors seek to understand the impact of their investments in listed equities across a variety of dimensions, many of which are aligned, implicitly or explicitly, to the Impact Management Project's Five Dimensions of Impact and to IRIS+ impact themes. However, there is still variation in the ways in which investors use data, and there are significant challenges to assessing social and environmental impact results in listed equities.

Members typically cited one of four use cases for collecting and analyzing social and environmental performance information in ways that differed from other sustainable investing offerings:

### **1. To understand the potential impact of portfolio companies in relation to a theory of change, based on the outputs of the company.**

Though generally the impact objectives identified by the manager at the outset of a fund or portfolio will aid in identifying target impacts, members frequently indicated that they select metrics at a company-level rather than at the fund-level. Such investors used data about the connection between a company's products or services and downstream impacts, or between a company's operational improvements and downstream impacts. For instance, one member used academic research on the impact of access to sanitation on health outcomes as a means of determining the appropriate indicators to use in order to understand the performance of a company that manufactured toilets. That data filled in the gaps between the output metrics (the number of toilets sold), the impact metrics (individuals with access to toilets who did not previously have access), and the downstream health impact outcomes associated with access to better sanitation.

### **2. To assess the baseline performance of portfolio companies and to set targets for those companies.**

Generally, members shared examples of seeking to understand the baseline performance of a company against company-level targets both as a way of assessing that company's relevance to their investment strategy, as well as the potential impact achievable during the lifetime of their investment. It was cited by some members use this information to set targets in relation to their fund strategy and impact goal(s). One member, managing a sustainable water fund, sets targets across the portfolio for the amount of clean water distributed and the number of people supplied with clean drinking water, among other metrics. Other members noted that they also set qualitative targets to achieve as a means of measuring progress toward their impact goals.

### **3. To track an investee's impact performance over the life of an investment.**

All members sought to measure and report on the social and environmental performance of their investees against their targets on a quarterly to annual basis (at a minimum). For investors managing third-party capital, client demand for impact performance data is an additional driver for assessing impact performance. Investors typically relied on the measurement of inputs and outputs (and some outcomes) as proxies for the impact being achieved and used logic models and academic research as a means of extrapolating the impact achieved. This is the method commonly used in the Navigating Impact project and IRIS+.

Typically, members work with third-party data providers (Sustainalytics and MSCI were commonly mentioned) to access data, but will also use sustainability reports from companies as well as other public sources in order to gain a full picture of the impact of the company. Often, because no single data provider has access to all the data that impact investors are looking for, some indicated using multiple sources or databases to piece together the data needed to establish a fuller picture of a company's impact. Some investors, particularly those with larger ownership stakes in their portfolio companies, collect impact performance data directly from the companies by way of engagements or conversations with their investor relations teams. Members also use data to assess, account for, and minimize negative impacts.

### **4. To understand the effectiveness of engagement strategies toward determined goals.**

Members who sought to deliver impact via engagement with portfolio companies often, though not always, sought to measure the "engagement delta" (i.e., the difference in social and environmental performance that resulted from that engagement). Typically, this included a baseline assessment of the performance of a company, pre-engagement, and a comparison to performance results post-engagement. Most members, however, cited challenges in assessing the effectiveness of an engagement and in understanding their own contribution to a shift in a portfolio company's operations or product strategy.

Despite an interest in measuring portfolios in relation to impacts, many members struggled to access the social and environmental performance data they needed from their portfolio companies. Because of the nature of the relationship between investor and investee in listed equities (and the relative size of holdings), investors typically do not have the leverage to require companies to provide the information they seek. Third-party data providers have mostly not yet expanded their offerings to address some needs, meaning that most quality data about the social and environmental performance of a company is related to their operational performance and outputs, and has less depth on the performance of their goods and services or the impacts associated with company performance and outputs. Some investors also noted that measuring and reporting on social impacts is significantly more challenging than measuring environmental impacts like carbon reduction. This is largely because there are fewer science-based targets underlying social impact and fewer generally accepted means of assessing progress toward those impacts. As such, data providers were perceived to be stronger on the environmental data they can provide than on data related to social problems.

## Conclusion

### Areas for Further Collaboration

While strategies for pursuing impact in listed equities have evolved over time to further incorporate impact throughout the investment process and result in positive, real-world outcomes, opportunities for industry collaboration remain to address ongoing market challenges.

- **IMM, Data Availability and Reporting:** Impact measurement and management was cited as one of the greatest challenges in pursuing impact in listed equities, and therefore, an area where guidance is needed. Investors specifically cited challenges in analyzing company data to measure impact outcomes as well as challenges in aggregating and comparing impact performance across portfolios. Data availability, particularly in measuring social outputs/outcomes, also plays a role in this challenge. Gaps exist in companies' products/services and customer data (often undisclosed for confidentiality, legal, and ethical reasons, and/or to maintain competitive market advantage), which investors use to understand environmental and social impact. Some investors advocated for collective action to influence companies to report more data and to work together to develop standardized impact measurement practices. New and existing methodologies for translating output data to impact insights, including the IRIS+ system, as well as comparative impact performance intelligence tools, are key in addressing these challenges.
- **Measuring Contribution to the SDGs:** With the SDGs as a common framework for pursuing impact in listed equities strategies, investors continue to struggle with measuring the contribution of investments to the SDGs and contextualizing performance against country-level goals. Some investors have developed proprietary tools and frameworks, but collaboration at the industry level is needed. In particular, investors are unsure as to how to connect a listed company's performance (e.g., the outputs and outcomes of individual companies) with the targets of the SDGs, which are country-level targets. Additional support is needed to help listed equity investors consider their investments' social and environmental performance in the context of the problems they are trying to solve. The GIIN has launched additional work on this topic that will have an application for Listed Equities.
- **Attribution/Investor Contribution:** Listed equity impact strategies have the potential to help close the SDG funding gap and direct more capital toward solving social and environmental problems. Investors in listed equities seek to contribute by: 1) influencing the use of companies' retained earnings; 2) lowering the cost of capital to enable company growth; and/or 3) engaging with portfolio companies to improve their performance. Investors typically employ one or more approaches in their impact strategies. Views varied widely on the degree to which investors contribute to driving impact in listed companies, given that the ownership stake of the investor is through the purchase of securities on a secondary market. Further clarity, guidance, and measurement of investor contribution is needed within the market.
- **Designing and Measuring Impact Engagements:** Engagement processes can address a range of investor priorities and needs around sustainability and ESG. Given the prominence of engagement as a means for pursuing impact in listed equities, there is opportunity for more learning and coordination on how to use impact measures to define goals and guide the design of engagements.

## Next Steps

Over the course of 2021, the Working Group will focus its efforts on guidance on pursuing impact in the context of the listed equities asset class. The GIIN anticipates releasing a draft guidance document late in 2021 to invite feedback and support industry discussion on how to define a more consistent understanding of the practices that investors should seek in funds pursuing impact in listed equities. Following solicitation of wider feedback, the GIIN will release a final version of its Listed Equities Asset Class Guidance. We hope to then further work with other industry partners to work towards a convergence in the marketplace around concepts and practices and to equip asset owners and asset managers to communicate together more effectively around investment strategies that pursue impact.

The GIIN welcomes inquiries and opportunities to collaborate in relation to this work, whether it is investors seeking to learn and contribute to the thinking or from other associations and networks who share an interest in established common practices and standards. Please contact [networkmembership@thegiin.org](mailto:networkmembership@thegiin.org).

# Appendix

## Listed Equities Working Group Members

ABN AMRO Social Impact Fund  
Aegon  
Allianz Global Investors  
Anthos Fund and Asset Management and Skopos Direct Impact Group  
Arabella Advisors  
ASN Beleggingsfondsen  
AXA Investment Managers  
Baillie Gifford  
BlackRock  
Blue Haven Initiative  
BrightLight Impact Advisory  
BTG Pactual  
Calvert Impact Capital  
Cambridge Associates  
China Social Enterprise and Impact Investment Forum (CSEIF)  
Chiratae Ventures  
ClearBridge Investments  
Consilium Capital  
Credit Suisse  
Domini Impact Investments  
Eighteen East Capital Ltd  
European Bank for Reconstruction and Development (EBRD)  
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Impress Capital Limited  
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WHEB Asset Management

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## Contact the GIIN

To learn more about GIIN Membership and working groups, please contact [NetworkMembership@thegiin.org](mailto:NetworkMembership@thegiin.org).

## Disclosures

The Global Impact Investing Network (“GIIN”) is a nonprofit 501c(3) organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.

Readers should be aware that the GIIN has had and will continue to have relationships with many of the organizations identified in this report, through some of which the GIIN has received and will continue to receive financial and other support.

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