

A Guide to Classifying the Impact of an Investment

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Introduction

This guide, and the [associated excel template](#) have been designed to provide asset owners and managers with high-level step-by-step guidance to classify the impact of individual investment products.

More detailed guidance, and examples of this mapping process using different investor perspectives is to be released in early 2019.

To include your product in the IMP's public [catalogue of classified products](#), or to provide feedback on this process, please contact us: team@impactmanagementproject.com.

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Classifying the Impact of an Investment

A growing number of investors are motivated to manage the effects of their investment portfolios on people and the planet. These investors vary widely in their intentions and constraints. For example, a passive retail investor looking to mitigate risk by avoiding harmful activities is likely to construct a different investment portfolio to an institutional investor's portfolio seeking to anchor new investment products addressing social issues in its clients' communities.

To efficiently align their portfolios with their intentions, all investors need to be able to understand the impact of the variety of enterprises or investment products available to them.

In addition, the intermediary asset managers and the enterprises seeking investment want to identify aligned investors and avoid being compared inappropriately to opportunities that have a different kind of impact, or avoid being judged on just financial performance alone.

In response to this, the Impact Management Project (IMP) has collaborated with over 2,000 investors and enterprises to develop "impact classes", which group investments with similar impact characteristics based on their impact performance data (or, in the case of new investments, their impact goals). In short, an impact class combines the impact of an investment's underlying asset(s) with the contribution the investor makes to this impact.

This grouping does not mean that granular impact data isn't needed; in fact the 'A, B, C classification' relies on a globally accepted approach that compares the detailed impact of individual enterprises. Instead,

impact classes offer a complementary and immediate solution for differentiating the type of impact that investments have, even when very different measurement approaches are used.

Figure 1 illustrates the 13 impact classes currently found in the market, brought to life by illustrations of some types of investments found in each class. Much like financial asset classes, these impact classes – represented by each box on this matrix – are an equivalent shorthand for conveying whether the impact characteristics of an investment opportunity match an investor's impact intentions and constraints.

Several asset managers have already classified their investment products using these impact classes, and have published these classifications in the online [Impact Class Catalogue](#) of mapped investment products.

The Impact Asset Classes

The 13 impact asset classes have been designed to help investors describe the impact performance (or, if a new product, the impact goals) of an investment, or portfolio of investments (see Figure 1).

An investment's impact is a function of:

1. **The impact of the underlying asset(s)/ enterprise(s)** that the investment supports; (the x-axis), **plus**
2. **The contribution that the investor makes** to enable the enterprise(s) (or intermediary investment manager) to achieve that impact. (the y-axis)

The following pages of this guide will step through the process for each of these in turn.

Figure 1 | The Impact Classes available

IMPACT OF UNDERLYING ASSETS / ENTERPRISES

		A	B	C	
		Act to avoid harm	Benefit stakeholders	Contribute to solutions	
INVESTOR'S CONTRIBUTION	1	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Ethical bond fund	E.g. Positively-screened / best-in-class ESG fund	E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to understand people or renewable energy projects
	2	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Shareholder activist fund	E.g. Positively-screened / best-in-class ESG fund using deep shareholder engagement to improve performance	E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people
	3	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Anchor investment in a negatively-screened real estate fund in a frontier market	E.g. Positively-screened infrastructure fund in a frontier market	E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation
	4	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	<i>Investment archetypes not yet defined</i>	E.g. Positively-screened private equity fund making anchor investments in frontier markets	E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people
	5	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	<i>Investment archetypes not yet defined</i>	<i>Investment archetypes not yet defined</i>	E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people
	6	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	<i>Investment archetypes not yet defined</i>	<i>Investment archetypes not yet defined</i>	E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people

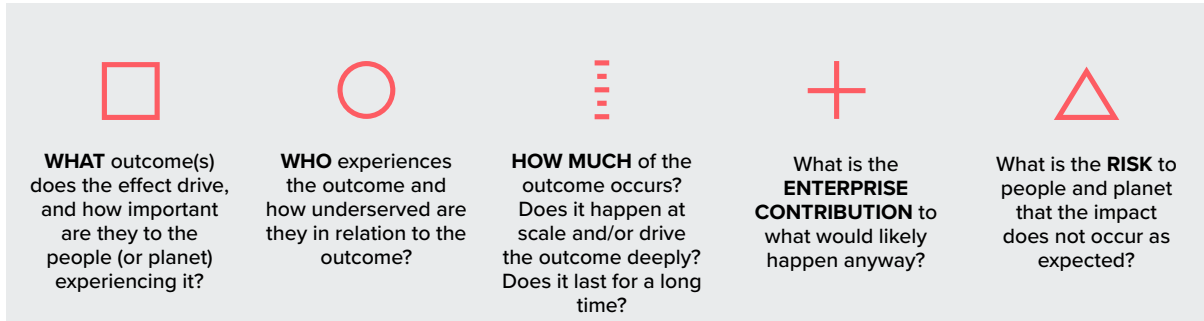
1. Impact of underlying assets

First, the impact of the underlying asset should be determined. There are five possible classifications:

- **May Cause Harm**
- **Does Cause Harm**
- **Act to Avoid Harm:** The enterprise prevents or reduces significant effects on important negative outcomes for people and planet.
- **Benefit Stakeholders:** The enterprise not only acts to avoid harm, but also generates various effects on positive outcomes for people and the planet
- **Contribute to Solutions:** The enterprise not only acts to avoid harm, but also generates one or more significant effect(s) on positive outcomes for otherwise underserved people and the planet.

To determine the impact of each underlying asset, first assess what data is available across the five dimensions of impact for each of its effects on people, or the planet, intended, or unintended. The impact of the asset is the combination of its effects on people and the planet.

Figure 2 | The five dimensions of impact



Within each of the five dimensions, there are a number of impact data categories (see figure 3). As far as possible, performance data should be collected against each of these categories. Where the product being assessed is new, the assessment should be made on the goals of the asset.

The [accompanying excel](#) includes a template designed to help organise data across the 15 categories, and guide the user through to a classification of the effect. The use of this template is optional, as it may well be that an assessment can be made directly from looking at data presented in existing proprietary frameworks/impact data management systems.

Although impact data may not be available for each dimension, an investor should start by looking at whatever impact performance data is available for each effect an enterprise has on people and/or planet. The data categories below can then be used as a checklist to figure out which dimension of impact the data relates to (see 'categories of impact data' below). This process enables clarity on where a performance assessment is possible, and where more data might be needed for one or more dimensions.

Figure 3 | The fifteen impact data categories

IMPACT		CATEGORIES OF	ASSESSMENT
□	WHAT	<p>Outcome: The outcome experienced by the stakeholder when engaging with the enterprise. The outcome can be positive or negative, intended or unintended.</p> <p>Outcome Threshold: The level of outcome that the stakeholder considers to be positive or 'good enough'. The threshold can be a nationally- or internationally-agreed standard.</p> <p>Importance of Outcome to Stakeholder: Stakeholders' view of whether the outcome they experience is important</p> <p>SDG: The Sustainable Development Goal(s) that the outcome relates to, along with the specific target(s)</p>	<p><input checked="" type="checkbox"/> Performance <input type="checkbox"/> Goal or threshold for success</p> <p>ASSESSMENT</p> <p>Negative outcome Positive outcome</p> <p><input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p> <p>Unimportant outcome Important outcome</p> <p><input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p>
		<p>Stakeholder: The type of stakeholder experiencing the outcome</p> <p>Geographical Boundary: The geographical location where the stakeholder experiences the social and/or environmental outcome. Other attributes other than the geographical location can be used to define the boundary.</p> <p>Baseline: The level of outcome experienced by the stakeholder prior to engaging with the enterprise</p> <p>Stakeholder Characteristics: Socio-demographics and behavioural characteristics of the stakeholder to enable segmentation during the intervention</p>	<p>Well-served Under-served</p> <p><input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p>
		<p>Scale: The number of individuals experiencing the outcome</p> <p>Depth: The degree of change experienced by the stakeholder</p> <p>Duration: The time period for which the stakeholder experiences the outcome</p>	<p>Small scale Large scale</p> <p><input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p> <p>Low degree High degree</p> <p><input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p> <p>Short-term Long-term</p> <p><input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p>
+	ENTERPRISE CONTRIBUTION	<p>Depth: The estimated degree of change that would occur anyway for the stakeholder</p> <p>Duration: The estimated time period for which the stakeholder would have experiences the outcome anyway</p>	<p>Much worse than what is likely to occur Much better than what is likely to occur</p> <p><input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p>
		<p>Risk Type: The probability that the evidence on which the strategy is based in not good evidence that the expected impact will occur</p> <p>Risk Level: The probability that external factors disrupt our ability to deliver the expected impact.</p>	<p>High risk Low risk</p> <p><input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p>

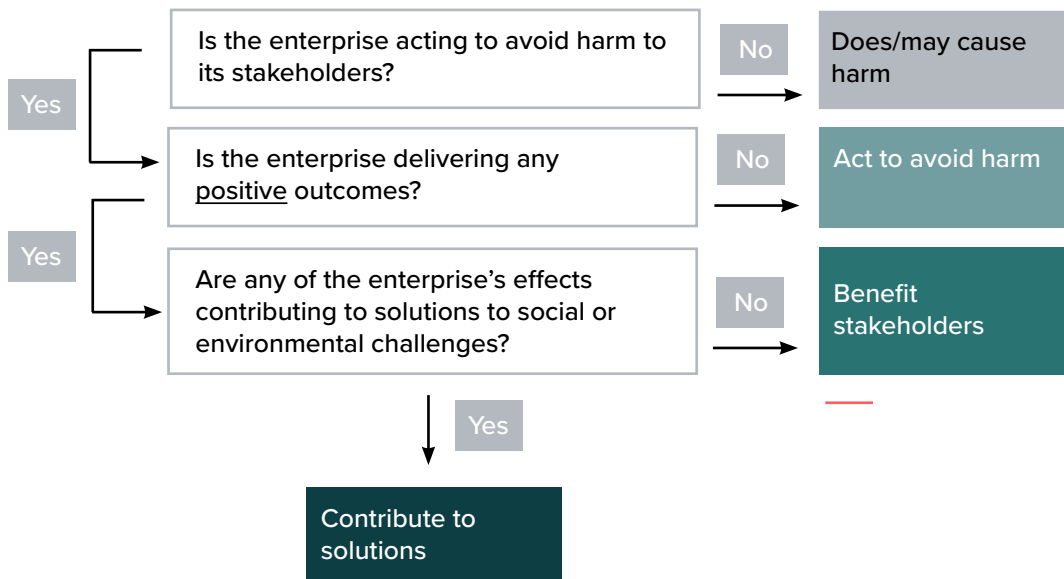
Once data has been collected against each of the impact categories for an effect, an assessment can be made on the impact of that effect. The impact is classified based on the guidelines shown in figure 4.

Figure 4 | Classifying the impact of an effect

		ASSESSMENT TO LOOK FOR...				
□ WHAT	Unknown	Important negative outcomes	Important negative outcome(s)	Important positive outcome(s)	Specific important positive outcome(s)	
○ WHO	Unknown	Various	Underserved	Various	Underserved	
☰ HOW MUCH	- DEPTH	Unknown	Various	High Degree of positive change	High Degree of positive change	
	- SCALE	Unknown	Various	Various	and/or for many	
	- DURATION	Unknown	Various	Various	and/or long-term	
+ CONTRIBUTION	Unknown	Various	Likely same or better	Likely same or better	Likely better	
△ RISK	Unknown	Various	Various	Various	Various	
CLASSIFICATION OF IMPACT	May cause harm	Does cause harm	Act to avoid harm	Benefit stakeholders	Contribute to solutions	









An enterprise’s impact is the combination of its effects on people and planet. Once a classification has been determined for each important effect, the impact of the overall enterprise can be assessed, based on the guidelines shown in figure 5.

Figure 5 | Classifying the impact of an enterprise



For example, this healthcare enterprise uses the five dimensions to assess data about each of its effects on people and the planet.

The analysis suggests the company is making a significant contribution to positive employment outcomes for underserved people. Alongside these positive effects on employment, this healthcare service enterprise has other important positive effects on its customers and is mitigating negative effects on the environment. Each of these effects can be classified across the A, B or C, as illustrated below:

DIMENSION		EFFECT #1	EFFECT #2	EFFECT #3
 WHAT <p>What outcome(s) does the effect relate to, and how important are they to the people (or planet) experiencing it?</p>	>	Important positive outcome: CO2 emissions	Important positive outcome: Access to healthcare services	Important positive outcome: Decent income
 HOW MUCH <p>How significant is the effect that occurs in the time period?</p>	>	Marginal depth	At scale; marginal change	Deep change, at scale, long-term
 WHO <p>Who experiences the effect and how underserved are they in relation to the outcome?</p>	>	The planet, underserved	Customers, not underserved	Employees, underserved
 CONTRIBUTION <p>How does the effect compare and contribute to what is likely to occur anyway?</p>	>	Likely the same	Likely better	Likely better
 RISK <p>Which risk factors are material and how likely is the effect different from the expectation?</p>	>	Low risk	Medium risk	Low risk
		 Act to avoid harm	 Benefit stakeholders	 Contribute to solutions

Because this enterprise not only seeks to avoid harm, and benefit its stakeholders, but also contributes to a solution to a societal challenge, its overall enterprise impact is: **Contribute to solutions.**

2. Contribution made by the investor

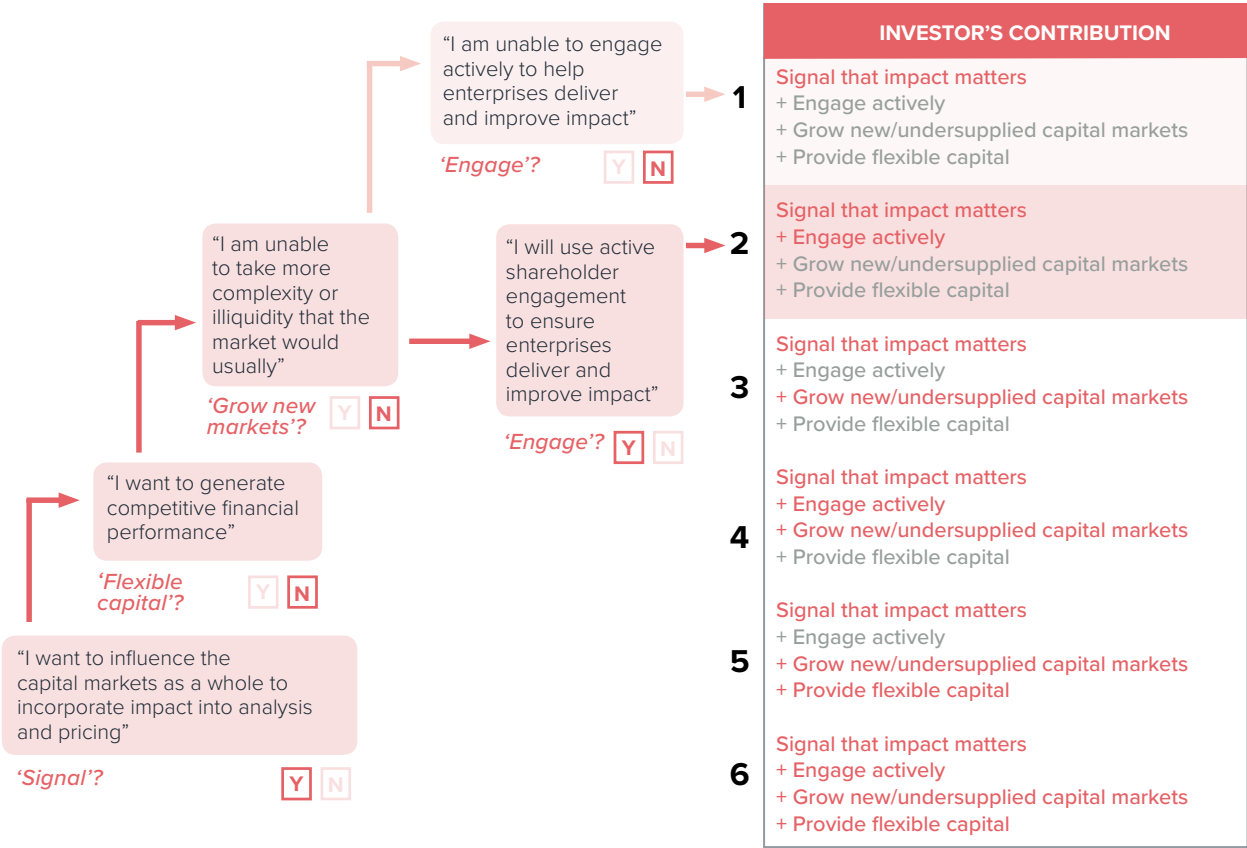
Next, the investor can consider which of [four investment strategies](#) is employed (or plans to be employed), to contribute to the impact made by the enterprise. These strategies are not mutually exclusive, and are often used in combination:

- **Signal that impact matters:** the investor chooses not to invest in or to favour certain investments - such that, if all investors did the same, it would ultimately lead to a 'pricing-in' of effects on people and planet by the capital markets
- **Engage actively:** the investor uses expertise and networks to improve the environmental/ societal performance of businesses. Engagement can include a wide spectrum of approaches - from dialogue with companies to investors taking board seats and using their own team or consultants to provide hands-on management support (as often seen in private equity). While a significant dialogue with companies, including about environmental, social and governance factors, is a normal part of the fund management process, the phrase 'engage actively' reflects a strategy that involves, at a minimum, significant proactive efforts to improve businesses' effects on people and the planet.
- **Grow new or undersupplied capital markets:** the investor anchors or participates in new or previously overlooked opportunities that offer an attractive impact and financial opportunity. This may involve taking on additional complexity, illiquidity or perceived higher risk. In public equities, bonds or infrastructure, an investor might move from holding mainly wellsubscribed issuances (which is just a signalling strategy) to participating in a higher proportion of undersubscribed issuances.
- **Provide flexible capital:** the investor recognises that certain types of enterprises will require acceptance of lower risk-adjusted return in order to generate certain kinds of impact. For example, creating a new market for previously marginalised populations can require very patient capital that cannot offer a commercial return

See the appendix for examples of different approaches that fall under each strategy.

The example below illustrates that *Investor A* does not expect to make any contribution other than to ‘Signal to the market that impact matters’, as her portfolio is too large for her to be able to ‘Engage actively’ with the underlying enterprises.

Alternatively, *Investor B* has a strategy to ‘Engage actively’ with the underlying enterprises to provide impact management support.



3. Classifying an Investment

Finally, by combining the impact of the underlying assets, with the contribution made by the investor, the investment can be classified against the 13 impact classes.

It's quite possible that there is a range of impact within a portfolio (e.g. some B and some C enterprises), or the investor contribution strategy varies per investment. In this case, the product can be split across impact classes.

For example, see below for an illustration of how a product, 'Health Fund I' has been plotted based on performance (in grey). If the product is new, and there is insufficient performance data, the goals of the product can be plotted instead (in pink).

		IMPACT OF UNDERLYING ASSETS / ENTERPRISES		
		A	B	C
		Act to avoid harm	Benefit stakeholders	Contribute to solutions
INVESTOR'S CONTRIBUTION	1	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		
	2	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		
	3	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	Health Fund I (10%)	
	4	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	Health Fund I (15%)	Health Fund I (75%) Health Fund I
	5	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		
	6	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		

Please note: Given that many portfolios will be mapped by their goals, until there is sufficient data available to map actual performance, it is possible that the placement of a product could shift over time compared to what was initially expected. In this way, the matrix can help inform asset owners decision-making on whether to re-allocate to a specific portfolio, or invest elsewhere.

Appendix

A template for assessing an enterprise's impact across the 5 dimensions:

RISK	ENTERPRISE CONTRIBUTION	HOW MUCH	WHO	WHAT	IMPACT DIMENSIONS		EFFECT 1		EFFECT 2		EFFECT 3 INDICATOR	EFFECT 4 INDICATOR	
					IMPACT CATEGORIES	INDICATOR	RAW DATA	ANALYSIS	ASSESSMENT	DATA SOURCE			RAW DATA
Risk Type	Duration	Depth	Scale	(8) Stakeholder Characteristics	(3) Importance of Outcome to stakeholder	Income per hour	Living wage per hour	Survey results (5 = very important)	Mean = 5	Positive	Company data	CO2 emissions per...	Customers buy and use products x and y
Risk Level	Duration	Depth	Scale	(8) Stakeholder Characteristics	(3) Importance of Outcome to stakeholder	Income per hour in prior period	Domiciliary care industry benchmark: average wage per hour	Survey results (5 = very important)	Mean = 5	Important	Annual survey	CO2 emissions per...	Customers buy and use products x and y
Risk Type	Duration	Depth	Scale	(8) Stakeholder Characteristics	(3) Importance of Outcome to stakeholder	Income per hour in prior period	Domiciliary care industry benchmark: average wage per hour	Survey results (5 = very important)	Mean = 5	Important	Annual survey	CO2 emissions per...	Customers buy and use products x and y
Risk Level	Duration	Depth	Scale	(8) Stakeholder Characteristics	(3) Importance of Outcome to stakeholder	Income per hour in prior period	Domiciliary care industry benchmark: average wage per hour	Survey results (5 = very important)	Mean = 5	Important	Annual survey	CO2 emissions per...	Customers buy and use products x and y
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Risk Level	Duration	Depth	Scale	(8) Stakeholder Characteristics	(3) Importance of Outcome to stakeholder	Income per hour in prior period	Domiciliary care industry benchmark: average wage per hour	Survey results (5 = very important)	Mean = 5	Important	Annual survey	CO2 emissions per...	Customers buy and use products x and y
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Risk Level	Duration	Depth	Scale	(8) Stakeholder Characteristics	(3) Importance of Outcome to stakeholder	Income per hour in prior period	Domiciliary care industry benchmark: average wage per hour	Survey results (5 = very important)	Mean = 5	Important	Annual survey	CO2 emissions per...	Customers buy and use products x and y
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Risk Level	Duration	Depth	Scale	(8) Stakeholder Characteristics	(3) Importance of Outcome to stakeholder	Income per hour in prior period	Domiciliary care industry benchmark: average wage per hour	Survey results (5 = very important)	Mean = 5	Important	Annual survey	CO2 emissions per...	Customers buy and use products x and y
CLASSIFICATION				CONTRIBUTE TO SOLUTIONS				ACT TO AVOID HARM		BENEFIT STAKEHOLDERS		BENEFIT STAKEHOLDERS	

Use of ESG policies and practices that are designed to protect employees from harm, such as discrimination, workplace injury and unstable contractors

Use of ESG policies and practices that are designed to protect customers from harms associated with the product

Appendix

Illustrative approaches within each investor contribution strategy.

Investor's strategy to make a contribution to the underlying enterprise (or intermediary manager) that would not otherwise occur:	
Signal that impact matters	<p>E.g. an investor might seek to ensure enterprises are at least trying to do no harm ('Avoid') by:</p> <ul style="list-style-type: none"> • putting policies in place for investment selection and management • requiring a company to share data on impact through diligence and the investment period
Engage actively	<p>E.g. an investor might:</p> <ul style="list-style-type: none"> • be able to provide specialist sector expertise to improve performance • help with impact data analysis to drive impact management decision-making • have networks of experts to help with management team capacity building or strategy • use their voting rights to influence decision-making on a particular social or environmental issue
Grow new / undersupplied capital markets	<p>E.g. in pursuit of a market-rate return (unless combined with 'Flexible Capital):</p> <ul style="list-style-type: none"> • make a cornerstone investment in a first-time fund manager • provide an equity investment or loan with terms or in amounts that the enterprise likely would not have received but for the investor • Facilitate or arrange additional financing from third parties with terms or in amounts that the enterprise likely otherwise would not have obtained • Establish a concentrated ownership position in a company sufficient that the investor's future buy/sell decisions and/or public statements would themselves be enough to influence the price of the stock • take on additional complexity in order to structure a new type of financial product, e.g. a social impact bond
Flexible capital	<p>E.g. in pursuit of more or better impact an investor might:</p> <ul style="list-style-type: none"> • provide capital where only a full or partial return of principal is expected • provide capital where a lower-than-market-rate return is expected • offer first-loss capital

IMPACT MANAGEMENT PROJECT



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The Impact Management Project, April 2018

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