raising the bar 2

BLUEMARK'S FRAMEWORK *for* EVALUATING IMPACT REPORTING

table of contents

About BlueMark

BlueMark is the leading provider of independent impact verification and intelligence for the impact and sustainable investing market Founded in 2020, BlueMark's mission is to "strengthen trust in impact investing."

BlueMark's verification services are structured around the two key pillars of accountability for impact:

- Impact Management Practice—*the extent to which a client has implemented the policies, tools, and processes necessary to execute on their impact strategy; and*
- Impact Reporting—*the extent to which a client's reporting of its impact performance is complete and reliable*

BlueMark's verification methodologies draw on a range of industry standards, frameworks, and regulations, including the Impact Management Project (IMP), the Operating Principles for Impact Management (Impact Principles), the Principles for Responsible Investment (PRI), SDG Impact, and the Sustainable Finance Disclosure Regulation (SFDR).

At the time of the publication of this report, BlueMark has completed more than 100 verifications for impact investors managing a combined USD $192 billion in impact-oriented assets.

Learn more about BlueMark and impact verification at www.bluemarktideline.com.

Certified B Corporation

About Impact Frontiers

Impact Frontiers is a peer learning and market-building collaboration, developed with and for asset managers, asset owners, and industry associations. The initiative creates practical tools and peer-learning communities that support investors in building their capabilities for managing impact, and integrating impact with financial data, analysis, frameworks, and processes.

Impact Frontiers originated at Root Capital, migrated to the Impact Management Project in 2019 as a natural platform for industry collaboration, and is now continuing as an independent non-profit initiative of the Bridges Group.

Learn more at www.impactfrontiers.org.

Acknowledgements

The lead authors for this report from **BlueMark** are **Sarah Gelfand** (Managing Director), **Tristan Hackett** (Director) and **Mohit Saini** (Senior Associate). BlueMark CEO **Christina Leijonhufvud** and **Paige Nicol** (Director) provided critical input and advice throughout the report development.

We are grateful to **Mike McCreless**, Executive Director, and **Nao Sudo (Iwamoto)**, Director at Impact Frontiers for their input, review and feedback.

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

*We would also like to thank our pilot participants:**

Dimple Sahni, *Managing Director of Impact Funds*
ANTHOS FUND & ASSET MANAGEMENT

Phillip Essl, *Managing Director & Head of Impact*
BIG SOCIETY CAPITAL

Joe Shamash, *Investment Director*
BIG SOCIETY CAPITAL

Roger Liew, *Partner*
IMPACT ENGINE

Kelly Gauthier, *President*
RALLY ASSETS

Fumi Sugeno, *Head of Business Development*
JAPAN SOCIAL INNOVATION AND INVESTMENT FOUNDATION (SIIF)

Yuya Kato, *Impact Officer*
JAPAN SOCIAL INNOVATION AND INVESTMENT FOUNDATION (SIIF)

Ka-Hay Law, *Investment Director*
TELUS POLLINATOR FUND

Bruno Lam, *Senior Associate*
TELUS POLLINATOR FUND

*One pilot participant preferred to remain anonymous.

To reference this report, please use the following citation: BlueMark. "Raising the Bar 2.0: BlueMark's Framework for Evaluating Impact Reporting." (December 2022).

To download BlueMark's first *Raising the Bar* report, visit www.bluemarktideline.com/raising-the-bar.

Foreword

10,000 new jobs created. 1 million metric tons of CO_2 emissions reduced. 2,000 new units of affordable housing. 40% increase in graduation rate. 80% decrease in malnutrition.

Each of these metrics makes for a good headline, but fails to offer a complete picture of how impact results were pursued and achieved.

For example, job creation is universally recognized as an important driver of economic growth and social stability. Yet a report that discloses only the number of new jobs created falls short of providing the reader with insights about the quality of the jobs (i.e., do workers have benefits and labor protections?), the composition of the workforce (i.e., would these workers have been unemployed otherwise?), and other critical measures of the nature of the employment opportunities that were generated as a result of a business or investment decision.

Impact reporting that is focused only on headline indicators limits the ability of the report consumer to understand the context behind the impact being achieved and invites scrutiny. On the other hand, **high-quality and decision-useful impact reporting has the potential to build trust, deepen understanding, and stimulate the growth of the impact investing market.**

Consumers of impact performance information, particularly institutional allocators, are becoming more discerning. They want reports that cut through the noise, allow them to differentiate between credible and inflated claims, and offer insights into what's working (or not working) in an investor's impact approach. How can a consumer of an impact report have confidence in its quality? The market needs both clearer guidelines about reporting best practices as well as a mechanism for the independent verification of impact reports.

Our conviction in the important role of verification in improving the quality of impact reporting has been informed by our research efforts over the past 18 months. In our first *Raising the Bar* report, published in April of this year, we summarized the key elements of quality impact reporting that emerged from consultation with industry stakeholders. In our second *Raising the Bar* report, we build on this initial work by exploring what a verification framework for impact reporting should look like and how it can work in practice.

This second report was made possible by the invaluable partnership of Impact Frontiers and the courageous leadership of those managers who raised their hands to be early adopters of our impact reporting verification service. We are grateful for their support and look forward to refining and expanding the reach of our methodology—and impact reporting verification more broadly—with the wider impact investing community in the months to come.

I think we can all agree that greater alignment on what impact reporting should look like and, as a result, greater transparency about the results impact investors are achieving cannot come soon enough.

Christina Leijonhufvud

CEO & CO-FOUNDER, BLUEMARK

Background on Impact Reporting

Amidst new levels of market scrutiny, impact investors are facing increasing pressure to substantiate their impact bona fides. These calls for accountability require not only greater clarity about an investor's impact intentions, but also evidence as to how their impact management practices translate to real-world outcomes.

In response to these calls for accountability, impact reports have become a primary means by which impact-oriented asset managers communicate their activities and progress to investor stakeholders. Yet, **the lack of clear standards or guidance for quality impact reporting has limited the extent to which these reports can be used to meaningfully gauge impact performance.**

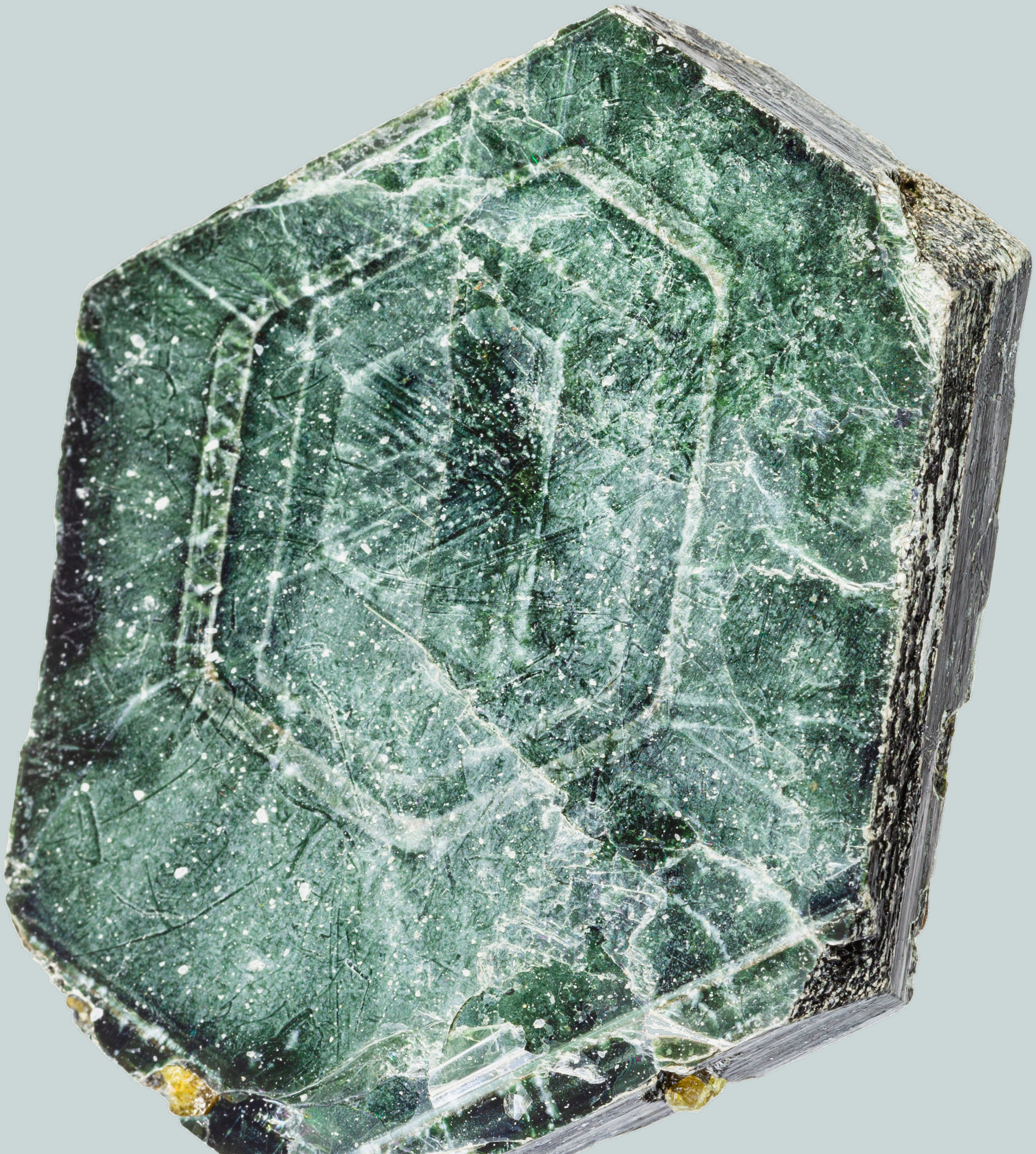
In early 2022, BlueMark published a report titled *Raising the Bar* that took a first pass at laying out the key elements of a quality impact report – summarizing the points of consensus that emerged from consultation with diverse industry stakeholders. This was an important first step for the impact investing industry, encouraging market actors to align on the key types of information that an investor should disclose when reporting on an impact portfolio.

However, strengthening confidence in, and improving the utility of, impact reporting will require additional steps, including: practical examples of what good reports look like, clarity into how to critically interpret results, and independent assessments to verify that reports include relevant and reliable impact information.

BlueMark has offered a reporting verification service since the company was founded in 2020. As of December 2022, BlueMark had completed 19 impact reporting verifications, including for seven institutions that sought out a third-party assessment of their reports prior to the publication of *Raising the Bar*, such as Kohlberg Kravis Roberts & Co. (KKR), LGT Capital Partners, and the Rockefeller Foundation's Zero Gap Fund, among others. However, third-party verification of impact reports—while an important and recognized tool to promote quality and integrity in reporting—is still early in its adoption curve among impact investors.

Building on the findings from *Raising the Bar*, we refined our reporting verification methodology. To test the feasibility and benefits of this updated methodology, we partnered with Impact Frontiers (a peer learning and market-building collaboration for asset managers and asset owners) in early 2022. The partnership was designed to facilitate testing and consensus-building around verification of the impact reports prepared by impact-oriented asset managers for their investor stakeholders. For Impact Frontiers, this provided an opportunity to support learning, develop capacity, and generate comparative insights among members. For BlueMark, the collaboration served to pilot and gather feedback on a new approach to verifying impact reports.

Seven impact investors, representing a diversity of strategies and asset classes, signed up to have their impact reports verified by BlueMark. This paper introduces both BlueMark's updated verification methodology and the results and learnings from the pilot. In sharing these insights, we aim to help move the field towards higher quality impact reporting and the consensus needed for investors to gauge impact results more efficiently and effectively.



BlueMark's Framework for Evaluating Impact Reporting

In this section, we lay out the scope and rationale for our approach to verifying impact reporting as well as describe the criteria that form the basis for our assessments.

BlueMark's approach to verifying impact reports

Impact verification in the impact investing market is typically defined as the review and assessment of an investor's appropriate and accurate use of industry standards and/or frameworks. In recent years, the industry has seen the emergence of guidelines and standards for impact management practices, including the requirement of independent verification (e.g., Operating Principles for Impact Management, SDG Impact). However, the market has not yet established widely-accepted guidelines for reporting on impact performance, nor has it aligned on what constitutes meaningful independent assessment of impact reporting.

Some reporting verification models have emerged—such as the Assurance Standard developed by Social Value International and the AA1000AS developed by AccountAbility. Additionally, the accounting and audit disciplines have developed guidelines for assuring 'non-financial' information (e.g., ISAE 3000), which have been applied to audits of sustainability reports prepared by companies and investors. **These accounting-oriented guidelines focus primarily on a process for providing assurance of the accuracy of the information in a report, but fall short of judging whether the reported information is balanced, contextualized, and inclusive of relevant quantitative and qualitative information.**

Recognizing this market gap, BlueMark's approach to verifying impact reports is focused on both the *Completeness* and the *Reliability* of the reported information. We developed this unique approach with the belief that evaluating the numerical accuracy of a set of data points without considering their relevance to the stated impact strategy could result in misleading or false conclusions, and so too would evaluating the pertinence of the qualitative information without ensuring the underlying data reliability.

BlueMark's methodology focuses on assessing the quality of impact reporting and does not go so far as to offer an opinion on whether a fund's impact results are better or worse than those of other funds. As the industry matures and access to impact data is more widely available, benchmarks for impact metrics will likely become more common - enabling relative comparisons of results within and across funds for specific indicators. Indeed, recent signs suggest the market is already moving in this direction with the recent development of the GIIN's IRIS+ and 60 Decibels' impact performance benchmarks. These groups have already published pilot sector-specific benchmarks for domains with established and widely adopted quantitative metrics, such as financial inclusion. While these are important developments for the maturity and interpretability of impact investing performance data, we believe the market will continue to need heuristics to evaluate a holistic set of reported information, inclusive of information about an investor's impact strategy, management and results.

We believe the criteria we've laid out in our verification framework provide such a heuristic—reflecting a north star for high-quality and decision-useful impact reporting by all investors, regardless of strategy. We've structured the outputs of our verification engagements—which include comparable ratings and accompanying narratives—to address the needs of both report consumers seeking an independent opinion about the merits of an impact report as well as report producers seeking to understand and adopt market best practice.

BlueMark's verification methodology and ratings scale

In April 2022, we published our first in a series of *Raising the Bar* reports on impact reporting. This first report presented our findings from 57 stakeholder interviews designed to increase market understanding of the current state of best practices for impact reporting. These conversations revealed that stakeholders (both impact-asset oriented managers and their investor stakeholders) broadly agree about what a good impact report looks like and what information it should cover. (see Figure 1)

Our impact reporting verification framework has been built on the insights from this initial *Raising the Bar* research as well as other leading market standards, guidelines, and regulations.

The inputs to our verification process include: (1) an investor's impact report and accompanying datasets, documents, and disclosures, (2) documents pertaining to the underlying impact management practices and processes, and data collection procedures, and (3) interviews with key staff members. These inputs are assessed using our proprietary rubric that gauges the *Completeness* and *Reliability* of an investor's impact reporting, as depicted in Figure 2.

FIGURE 1

The Key Elements of Quality Impact Reports

Defined objectives and expectations

Relevant metrics

Relative performance results

Integrated stakeholder perspectives

Transparency into risk and lessons learned

FIGURE 2

BlueMark's Impact Reporting Verification Framework

Completeness

IMPACT STRATEGY

- Portfolio-level objectives
- Investment-level impact theses

IMPACT RESULTS

- Metrics and performance analysis
- Qualitative context and narrative

THE COMPLETENESS PILLAR focuses on the scope and relevance of the information in the report related to the fund's Impact Strategy and Impact Results. The criteria for the Impact Strategy sub-pillar encompass the clarity of an investor's stated impact intentions and approach to contributing to impact at both the portfolio and investment levels. The criteria related to the Impact Results sub-pillar address the reporting coverage of investments in the portfolio, the relevance of reported indicators to the strategy, and the integration of necessary contextual and qualitative information to interpret results.

Reliability

DATA CLARITY

- Impact and ESG management approach
- Data sources, calculations and citations

DATA QUALITY

- Data collection and maintenance
- Data quality protocols

THE RELIABILITY PILLAR focuses on the clarity and quality of the data in the report, including the rigor of the underlying data management systems and protocols. The criteria for the Data Clarity sub-pillar relate to the disclosure of the investor's approach to impact and ESG management as well as their measurement methods, appropriate use of industry standards, and transparency of data sources and assumptions. The criteria for the Data Quality sub-pillar relate to the firm's data management and quality control mechanisms as well as an assessment of consistency between reported data and underlying sources.

Overview of the rating methodology

Based on our proprietary rubric, **BlueMark assigns ratings using a four-point scale of Low, Moderate, High, and Advanced.** (see Figure 3)

The ratings for a sub-pillar within the framework are determined using a points-based approach, with points awarded based on the presence and validation of key criteria within reporting documents, as further detailed below. The relative points awarded to different criteria reflect their importance based on our initial *Raising the Bar* research, relevant industry standards and BlueMark's market expertise, in addition to the quality and coverage of the investor's reporting against the criteria.

These four ratings allow for comparative insights and peer benchmarks based on a "north star" for quality reporting. They provide a means to assess the ability and willingness of an impact investor to report in a transparent, thorough, and accurate manner about the goals they are pursuing, the results they are achieving, and the learnings they are generating. A key output of the verification is a detailed final report that includes the ratings alongside a narrative rationale and tailored recommendations for improvement based on best practices in the given sector and asset class.

The graphics on pages 12-15 elaborate on the specific types of criteria used to assign these ratings for each of the four sub-pillars.

FIGURE 3

BlueMark Ratings Scale

ADVANCED
Limited need for enhancement at present

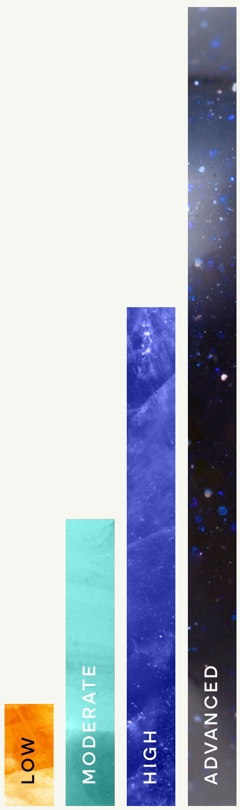
HIGH
A few opportunities for enhancement

MODERATE
Several opportunities for enhancement

LOW
Substantial enhancement required

BLUEMARK RATING METHODOLOGY

Impact Strategy



CRITERIA

- Description of all fundamental elements related to the impact theses (i.e., potential negative impacts)
- Clear identification of stakeholders targeted by the impact strategy
- Information about and/or references to the evidence base that supports the impact strategy

---

- Commentary about potential impact risks associated with the strategy
- Description of the investor's approach to contributing to impact
- Articulation of impact outcomes sought, typically categorized using industry frameworks (i.e., SDG-targets, IMP dimensions)

- Output or outcome metrics that connect to the impact theses
- Structured description of the impact thesis (i.e. challenge, solution, outcomes) for each investment
- Description of portfolio-level objectives/themes using an impact thesis structure

---

- General description of portfolio-level impact objectives/themes

ADVANCED

Reports receiving an **"Advanced"** rating present all the fundamental elements of an impact strategy and also incorporate leading practices, such as describing target stakeholders and citing evidence that supports the credibility of the strategy.

HIGH

Reports receiving a **"High"** rating incorporate all the fundamental elements of the investor's impact strategy, including describing clear impact objectives at the portfolio level and an impact thesis for each investment that addresses impact risks, investor contribution, and target outcomes.

MODERATE

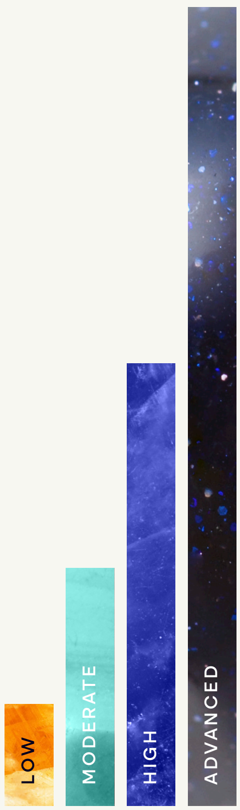
Reports receiving a **"Moderate"** rating include a structured description of the investor's impact strategy and incorporate both clear impact objectives at the portfolio-level and an impact thesis for each underlying investment. However, the description of the strategy may not address aspects such as investor contribution or potential impact risks..

LOW

Reports receiving a **"Low"** rating include a partial description of the investor's impact strategy and do not consistently provide investment-level impact theses.

BLUEMARK RATING METHODOLOGY

Impact Results



CRITERIA

- Leading practices, such as reporting against external bench-marks and/or measures of attribution
- Perspectives of key end-stakeholders, such as via aggregated survey results and/or primary quotes from evaluations
- Description and/or metrics on ESG performance and activities
- Description and/or metrics on investor contribution activities

---

- Description and context on impact lessons learned
- Impact performance data presented in relation to a target
- Impact performance data presented in relation to prior period results and/or relative to a baseline

---

- Output or outcome metrics that connect to the impact theses
- Impact results reported on for every investment in the portfolio in a standardized way

---

- Impact results reported in an inconsistent manner or only for select investments

ADVANCED

Reports receiving an **"Advanced"** rating incorporate all of the key features required to receive a "High" rating and also address results related to investor contribution activities, ESG performance, and stakeholder perspectives.

HIGH

Reports receiving a **"High"** rating address every investment in the portfolio using a consistent and comparable struc-ture. Reported information for each investment includes relevant metrics that are presented over time and/or relative to a target. Qualitative information, such as key lessons learned and case studies may also be included.

MODERATE

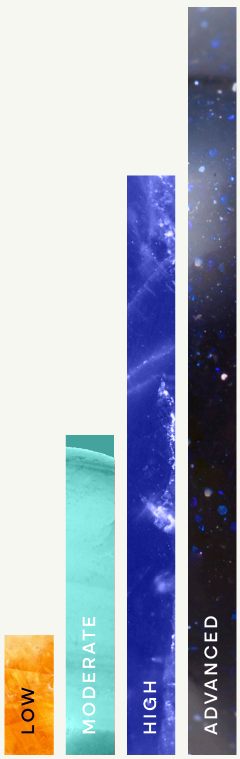
Reports receiving a **"Moderate"** rating address every invest-ment in the portfolio using a consistent and comparable structure. Metrics for each investment link to the impact strategy and are accompanied by qualitative context to support interpretation.

LOW

Reports receiving a **"Low"** rating only describe a cherry-picked selection of investments in the portfolio or include metrics with limited connectivity to the impact theses. Qualitative context is likely limited or anecdotal in nature.

BLUEMARK RATING METHODOLOGY

Data Clarity



CRITERIA

- Methodologies and assumptions for extrapolated data are clearly disclosed

- Clear and extensive use of industry standards
- Definitions for custom impact metrics are provided
- Source(s) of impact data in the report are clearly described
- Description of impact and ESG management approach, including data collection methodology

- Some citations and use of industry standards
- High-level description of impact management approach included

- Incomplete description of approach to impact management
- Sources of impact data in the report are unspecified

ADVANCED

Reports receiving an **"Advanced"** rating include all of the key features described in "High" and also disclose calculation methodologies, assumptions, and limitations associated with all derived indicators.

HIGH

Reports receiving a **"High"** rating detail their approach to managing and measuring impact and ESG. They also consistently incorporate impact data sources, cite metrics definitions, and accurately reference industry standards or frameworks.

MODERATE

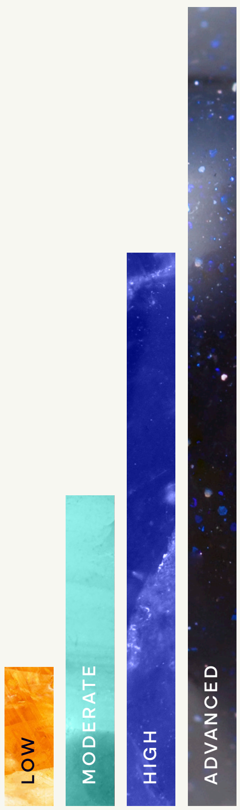
Reports receiving a **"Moderate"** rating describe their approach to managing and measuring impact at a high-level, including alignment or commitment to industry standards. The Report may also include some references to data sources and/or cite metrics definitions.

LOW

Reports receiving a **"Low"** rating do not disclose any of their underlying methods for managing and measuring impact nor their data sources.

BLUEMARK RATING METHODOLOGY

Data Quality



CRITERIA

- Verification process surfaced no inconsistencies between reported data and underlying internal systems and records
- External assurance of relevant indicators in the report, including in cases where the assurance was obtained directly by underlying holding(s)

- Verification process surfaced no inconsistencies between reported data and underlying internal systems and records
- Clear underlying documentation of processes followed and assumptions employed when aggregating raw data from investees
- Formalized data review and quality control processes in place

---

- Verification process surfaced some corroborating data/ supporting materials and/or minor inconsistencies in reported data
- Impact data is collected and managed in a standardized way with clear protocols

---

- Verification process surfaced limited corroborating information and/or potential errors in reported data
- Impact data is collected in an inconsistent or ad-hoc way

ADVANCED

Reports receiving an **"Advanced"** rating are indicative of systems with well-specified and consistently implemented protocols for impact data collection and management, with structured review protocols in place to check accuracy. Additionally, data for relevant indicators in the report have been assured by a third party.

HIGH

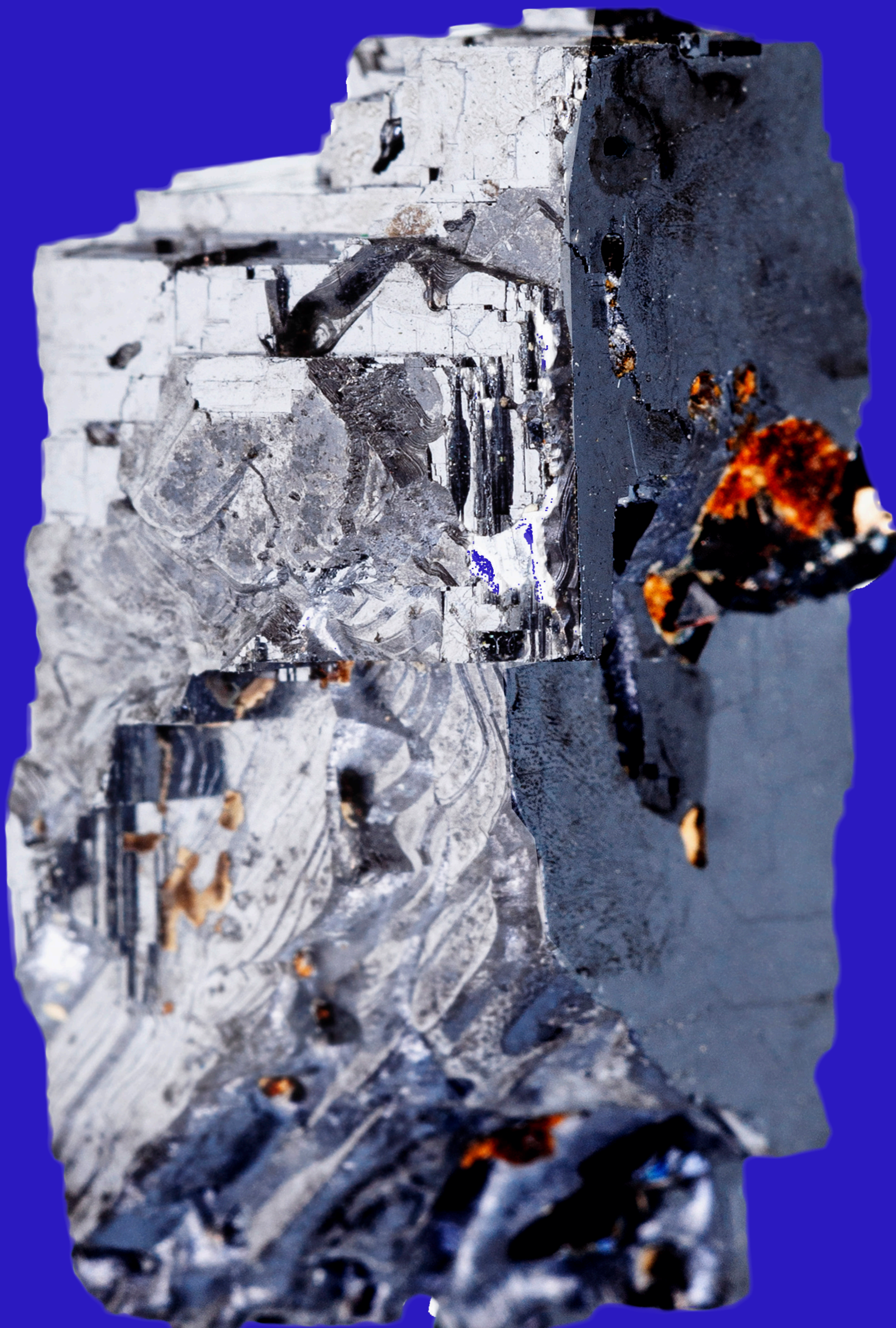
Reports receiving a **"High"** rating are indicative of systems with well-specified and consistently implemented protocols for impact data collection and management, with structured review protocols in place to check accuracy.

MODERATE

Reports receiving a **"Moderate"** rating are indicative of systems where impact data collection and monitoring is handled in a relatively systematic manner with formalized systems for storing and reporting on data and some informal review protocols to check accuracy.

LOW

Reports receiving a **"Low"** rating are indicative of systems where impact data collection and monitoring is conducted in an ad-hoc or informal way, presenting challenges in ascertaining the validity of the data in the report.



Insights from Testing the Framework

Pilot overview

To test the feasibility and clarity of our approach to verifying impact reports, we piloted our methodology with seven asset managers that participated in Impact Frontiers' cohorts. These asset managers volunteered to participate in the pilot and paid a discounted fee to BlueMark to receive the verification service. Pilot participants[1] included:

- Anthos Fund & Asset Management (The Netherlands)
- Schroder BSC Social Impact Trust (UK)
- Impact Engine (US)
- Rally Assets (Canada)
- Japan Social Innovation and Investment Foundation (Japan)
- TELUS Pollinator Fund (Canada)

Collectively, these asset managers invest USD 3.1 billion across a range of impact themes in emerging and developed markets. **The reports we verified included investment vehicles that spanned asset classes such as Venture Capital, Private Equity, Public Equity, Public Debt, Green Bonds, Fixed Income, and Real Estate. The pilot exercise covered an aggregated impact AUM of over USD 700 million (~22% of the total AUM managed by the participants).**

BlueMark conducted these verifications between April and August 2022 with each engagement spanning five to six weeks. Following the completion of the individual verifications, BlueMark and Impact Frontiers held a feedback session with all seven participants to share and discuss aggregated results and findings.

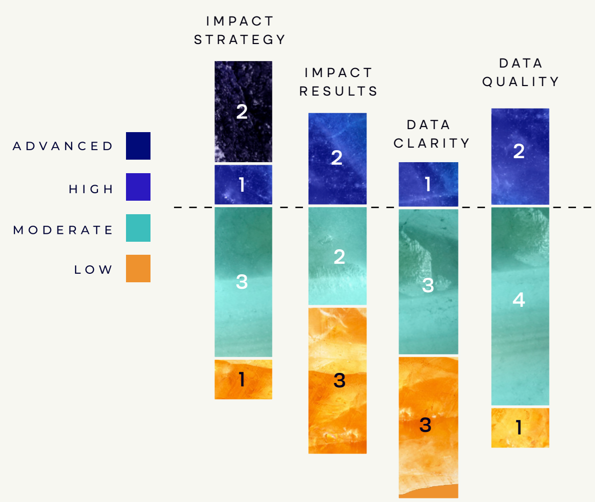
Aggregated ratings and findings

Figure 4 summarizes the aggregated ratings of the seven pilot participants across the four sub-pillars of our framework.

While there was a high degree of variability in the ratings across the seven reports, the median rating of 'Moderate' across all four sub-pillars reinforced the fact that our framework sets a high bar for many. We view this as a positive sign that our verification methodology is rigorous enough to identify key reporting challenges and shortcomings, while also flexible enough to accommodate different types of impact investors regardless of where they are in their journey.

All pilot members generally validated our framework and saw value from the verification process in receiving objective, independent feedback, and recommendations to improve future reports. Many also reported a desire for greater data and benchmarking about the reporting approaches of their peers, highlighting the utility of an assessment framework that generates comparative insights.

FIGURE 4
Aggregated Verification Ratings



1 One pilot participant preferred to remain anonymous.

Results & Reflections

1.

Completeness

IMPACT STRATEGY

Complete reporting of an Impact Strategy requires a clear and comprehensive description of an investor's intentions for generating impact at both the portfolio and individual investment levels.

Findings

The sub-pillar with the highest average ratings was Impact Strategy reflecting the ability of managers to effectively articulate their impact intentions. In fact, the only 'Advanced' ratings were in the Impact Strategy sub-pillar suggesting that reporting practices related to disclosing an impact strategy are more mature than for other content areas. On the other hand, the pilot reports varied significantly in the depth and consistency with which they disclosed their impact strategies at both the portfolio and investment levels.

Data from Pilot Participants

5 (71%) Described the fund's overarching impact strategy and included information on the alignment of impact objectives to the UN SDGs

3 (43%) Described the specific outcomes sought at a portfolio level (sometimes using IMP's five dimensions of impact)

6 (86%) Discussed the specific challenges or problems that each investment sought to address

2 (29%) Included narrative on potential impact risks, either at the portfolio or investment level

2 (29%) Included commentary on potential negative impacts at the portfolio level

0 Commented on potential negative impacts associated with individual investments

Reflections

The majority of pilot reports described the impact objectives for each investment using a general narrative. However, the best examples used a consistent logic model structure to describe how each investment would contribute to desired outcomes, thereby allowing readers to easily understand and compare impact intentions across investments and contextualize the performance data accordingly.

For funds with large and diverse portfolios (e.g., multi-asset), it is quite challenging to provide an impact thesis for each investment while also maintaining a reasonable report length. Some of the pilot reports navigated this effectively by showcasing a selection of impact theses by theme or strategy.

While our methodology is designed to address the information needs of investors with knowledge of impact management, the target audience for some of the pilot reports included retail investors or other stakeholders (i.e., general public) with less sophistication or appetite for certain details. In these cases, there was a disconnect between the scope of information we were seeking and the scope that the pilot firms considered prudent for their target audience. These learnings have encouraged us to adapt our criteria for assessing the level of detail required for both portfolio and investment-level theses in an impact report. For example, in cases where an impact thesis is well explained at the theme or sector level, the report may not need to include additional evidence for all underlying investments relating to that theme. Additionally, in cases where the audience for an impact report is the general public or another non-investor stakeholder, aspects of our verification findings may be less relevant.

2.

Completeness

IMPACT RESULTS

Complete reporting on Impact Results requires coverage of the full portfolio using indicators that link to the strategy and that are appropriately contextualized.

Findings

The Impact Results sub-pillar focuses on the completeness of the results data with higher ratings for the inclusion of relevant and contextualized impact results. Five out of seven (71%) reports received 'Low' or 'Moderate' ratings for this sub-pillar with a notable absence of data on negative or unexpected impacts, suggesting that the impact investing market is at an earlier stage of maturity in reporting results than reporting on strategies.

Data from Pilot Participants

4 (57%)	Included impact metrics for every investment
1 (14%)	Included end stakeholders' perspectives
0	Presented impact metrics relative to targets at an investment level
1 (14%)	Presented impact metrics over time (i.e., year-over-year)
0	Included ESG metrics at the investment level
1 (14%)	Included ESG metrics at the portfolio level
0	Discussed unintended or unexpected impacts at the portfolio level.

Reflections

The pilot exercise reinforced the importance of ensuring our verification methodology is sensitive to the stage of the fund in its lifecycle. The variability in data reported was often a reflection of its lack of availability given several of the funds had only recently begun to deploy capital. This insight has encouraged us to adapt our criteria for what constitutes complete reporting for new funds and/or new investments, such as outlining target KPIs even if the monitoring data is not yet available. Additionally, we observed variability in data collection methods and sources reported by asset class—with public equities relying significantly more on data from publicly available or third party sources.

Our ratings in this pillar also reflect some persistent challenges for impact investors related to impact management. For example, the lack of reporting against quantitative targets reflects the reality that target-setting is still a minority practice among impact investors.[2] Target-setting can be especially challenging for intermediated strategies (e.g., fund of funds) and/or in cases where there is limited precedent data. Additionally, given the dependency on underlying holdings to provide the relevant data, there may be limitations to an investor's ability to track progress relative to desired targets. However, as a best practice, investors should be clear and transparent in their reports about their impact expectations. This could provisionally include articulating targets that are more qualitative in nature (e.g., effectively launch new impact product to reach low-income consumers, transition to clean energy sources by x date) as well as setting provisional quantitative targets (e.g., # underserved customers reached, % decrease in CO_2 emissions intensity) which could be subject to revision over time. At a minimum, managers should disclose the baseline values for key impact KPIs (i.e., the measure at the time of investment) and expectations for change over time. And in cases where this isn't possible, managers should offer an explanation as to why.

We have increasingly seen that verification of impact management practices can help managers identify gaps in their processes and tools that may limit their ability to conduct quality reporting. For example, a manager that does not have clear processes for monitoring impact data against ex-ante targets will not be able to report its impact results over time or against expectations.

As part of our conversations with pilot participants, we also discussed the appropriate frequency of verification of impact reports. Most pilot participants provide their investors with some impact results on a quarterly basis but prepare more extensive impact reports on an annual basis. BlueMark's verification methodology is best suited as an assessment of a comprehensive annual report. Greater market alignment is needed regarding the appropriate cadence of reporting and subsequent verification (e.g., annually vs. quarterly vs. at the end of the fund's lifecycle).

2 See BlueMark's 2022 Making the Mark report for more information about the level of adoption of target-setting among impact investors. The report is available for download at https://bit.ly/MTM-22.

3.

Reliability

DATA CLARITY

The reliability of the information in a report is informed by the clarity of disclosures surrounding the investor's approach to impact and ESG management as well as its measurement methods, use of industry standards, and transparent citation of data sources and assumptions.

Findings

The Data Clarity sub-pillar focuses on disclosures of a fund's approach to impact and ESG management as well as its use of industry standards and citations of metrics. This sub-pillar received the most 'Low' and 'Moderate' ratings—reinforcing the current lack of transparent reporting in these areas and the resulting challenges faced by report consumers in knowing which indicators can be meaningfully compared and/or aggregated.

Data from Pilot Participants

1 (14%) Used and clearly cited alignment to industry standards (i.e., IRIS+, GRI, HIPSO, etc.) for relevant metrics in the impact report

3 (43%) Clearly identified or cited the sources of data reported on in the impact report

3 (43%) Cited the underlying methodology used to calculate or extrapolate output or outcomes data in internal documents or impact report

3 (43%) Mentioned the fund's approach to ESG management

5 (71%) Described the fund's impact management approach

Reflections

The tension between concise and complete reporting was evident in the evaluation of this sub-pillar. In the best examples, reports included an Annex with "data sources" or "methodology" sections that included KPI definitions, data sources, and limitations. However, most often, reports did not share any underlying impact KPI definitions or assumptions, including alignment to taxonomies such as GRI or IRIS metric codes.

While this level of detail may not be necessary for every target audience, we believe quality reporting involves providing indicator definitions and describing methodological assumptions. At the same time, the pilot reinforced the market need for additional guidance on how to provide this level of transparency without compromising the readability of a report.

The need for conciseness also impacted the amount of narrative funds included about their underlying ESG and Impact Management approaches. In this regard, our methodology takes into consideration the role of supplemental documents, which may be shared alongside a report, to provide critical information to a report consumer about the impact-oriented processes and systems used by a manager to make investment decisions, establish impact KPIs, and monitor performance – all of which is critical context to assess the validity of the data presented in a report.

4. Reliability

DATA QUALITY

The quality of the data in a report is informed by the firm's data management and quality control mechanisms. They are further evidenced by a lack of inconsistency between reported data and underlying data sources.

Findings

The Data Quality sub-pillar addresses the manager's underlying data collection and management systems as well as its quality control protocols. Despite a high level of variability with respect to both data availability and data management processes across the pilot firms, our reviews of a sample of data points for each report revealed consistency with associated internal data management systems and records. However, a deeper level of verification, including engagement with underlying investees, is likely needed to have a higher degree of confidence in the accuracy of reported data.

Data from Pilot Participants

5 (71%)	Documented internal guidelines for their data collection and management processes
3 (43%)	Have formalized systems or tools to collect and manage impact performance data
5 (71%)	Have internal manuals on data collection and management processes

Reflections

Our experiences—both reviewing the various pilot participants' data systems and reflecting on feed-back from some cohort members for more robust data assurance—led us to redesign this sub-pillar with more modularity.

Assessing the presence and quality of processes and tools to systematically collect, review, and maintain reported data is core to verifying the reliability of such reported information.

However, assessing reliability also involves vali-dating the accuracy of the information presented in a report. In undertaking our reviews to corroborate a sample of metrics in each report, we observed significant heterogeneity in demand and readiness for impact data assurance. At a minimum, we will continue to look for substantive evidence to validate a sample of data points in a report, and, based on client interest and demand, we may also validate a larger sample of data points and/or engage with portfolio companies directly for greater visibility into the quality and accuracy of their underlying data.

Final Reflections

As we've noted in the previous sections, the pilot experience surfaced many opportunities to refine our methodology. That said, on the whole, **participants reported they found the verification framework to be appropriate and the process to be valuable.** BlueMark received a median net promoter score (NPS) of 8 out of 10 from the pilot clients. Further, participants gave a median score of 8 out of 10 for the quality of BlueMark's verification analysis and actionable recommendations.

With regards to the outputs of the assessment, all cohort members reported they benefited from receiving objective, independent feedback, and recommendations to improve future reports. Most also reported a desire for greater data and benchmarking regarding peer practices—insights that are also likely to drive improved reporting practices. Over time, as we have a larger base of precedents to draw from, we will be able to provide these types of insights to clients as well as more practical guidance on how to implement better reporting practices.

When asked about the value of verification for their investors and/or other report consumers, almost all said they saw value in being able to provide stakeholders with a verifier's commentary about the extent to which their reports omitted key and/or material information and statements about the reliability of the reported data. A limited number of cohort members felt that verification should also seek to include commentary about the strength of the results (i.e., in relation to peers).

Although this pilot was conducted with a small sample of impact investors, we believe the experiences of these participants are relevant for the broader market that is considering how to strengthen the quality and usefulness of its impact reports. As impact reporting and verification practices scale, we look forward to sharing the learnings and results of verifications from a larger sample of clients over time.

Looking Ahead

As our industry navigates skepticism about the ability of investors to contribute to a more just society and planet, **it is imperative that sustainable and impact investors can credibly demonstrate the social and environmental results of their investment activities.**

As we wrote in our first *Raising the Bar* publication, impact reports are a key mechanism for investors to communicate and demonstrate their impact results. Further, independent verification of those reports plays a critical role in driving accountability and strengthening confidence in what's reported.

While we are not yet at the tipping point of normalized high quality impact reporting, we are encouraged by the commitment and engagement of many diverse actors to propel us closer.

Of note, starting in late 2022, Impact Frontiers plans to kick off a broader market engagement and consensus-building effort to gather industry feedback about best practices for the verification of impact reports. Impact Frontiers will begin by reviewing and synthesizing a draft set of consensus elements for external feedback based on BlueMark's beta methodology alongside other industry standards.

The consultation process will include verifiers, asset managers, asset owners, civil society organizations, and standard setters, and the results will clearly link to and leverage existing disclosure standards, principles of practice, and regulation.

In the meantime—and by publishing this framework—we hope to make it easier for report producers to know if they're reporting on the right things and for report consumers to gauge the completeness of the reports they receive.

We will continue to refine our methodology, contribute to market-building efforts, and share what we're learning in order to play our part in helping the industry realize the level of transparency and rigor in impact reporting that it needs and should expect of itself.


BLUE/MARK ©