WHAT AN IMPACT-FOCUSED INVESTMENT APPROACH LOOKS LIKE

Investors have many reasons to consider the impact their investee companies have on the environment and society — whether it's complying with regulations, catering to client preferences, responding to stakeholders, or aligning their actions to their values. Regardless of their motivations, investors can follow the five key steps outlined below to design and implement impact-focused investment approaches.[1]

The Five Key Steps for Impact-Focused Investors

1 Set Investment Intentions

- **Intentionality** is the foundation of a holistic responsible investment process. By setting meaningful and transparent impact objectives for investment design, investors demonstrate their level of commitment to achieving specific impact goals. The strategic objectives should be consistent with the investment strategy leveraged and will inform the scope of all subsequent steps.
- For **transparency** and **credibility**, impact objectives must be anchored to a recognized framework, such as the United Nations' Sustainable Development Goals (SDGs) or Sustainalytics' Impact Framework.

2 Build Impact-Focused Products and Portfolios

- Investors need to define clear **eligibility criteria** and **key performance indicators** (KPIs) for the companies they will include in their impact-focused products and portfolios. KPIs must be based on evidence and impact data to avoid bias and enhance credibility.
- With these indicators in place, investors can select **companies** or **external mandates** with social or environmental impacts in line with their impact objective(s).

3 Measure and Monitor Impact Performance

- Like with financial performance, investors must **measure** and **monitor** their holdings' impact performance against the defined company and portfolio-level KPIs to ensure they are aligned with the set objectives and to reduce the risk of greenwashing.
- To **enhance transparency**, investors should use a range of datasets and metrics to measure impact performance.

4 Engage Investee Companies to Influence Change

- **Engagement** (also known as stewardship) is a crucial aspect of impact-focused investing. Effective stewardship with investees allows investors to **influence portfolio companies** in meeting KPIs, support them in managing ESG risk, and generally promote and protect long-term shareholder value. It also enables investors to identify possible future candidates for investment purposes.
- Investors may **engage proactively** or as needed with investee companies or external managers on their impact performance.

5 Report on Impact Performance

- No matter your intentions with respect to impact, **reporting** is crucial to demonstrate the **alignment and performance** of investee companies relative to your impact objective(s) in order to meet regulatory requirements, enhance transparency, and respond to stakeholders.
- Investors should establish the practice of **routinely reporting** the impact performance of portfolio companies to stakeholders, investors and the broader public.

[1] These steps are inspired by and draw lessons from the principles defined by the Global Impact Investing Network and the International Finance Corporation.

For more information on impact and what it means for asset owners, asset managers, and wealth managers, download our ebook, **Why Impact Matters: Seven Essential Considerations for Investors**.

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