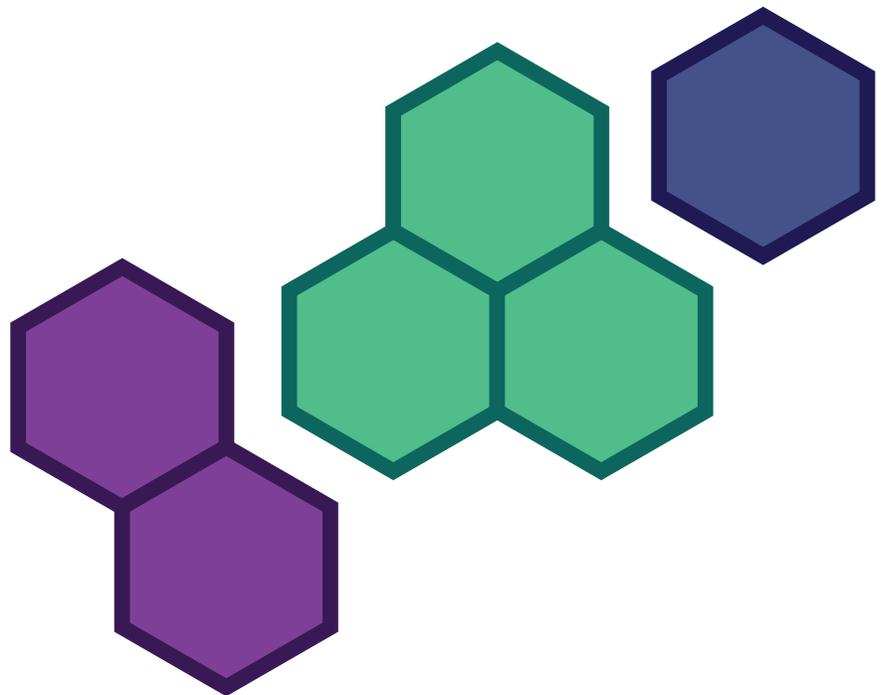


Impact Investing Handbook

An Implementation Guide for Practitioners

Practitioner Exercises



Steven Godeke & Patrick Briaud

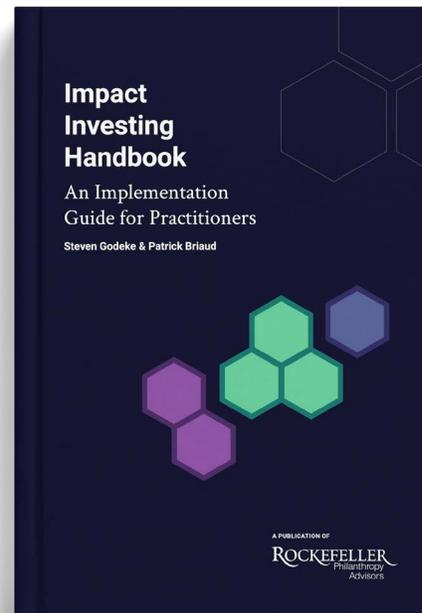
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Impact Investing Handbook

The Impact Investing Handbook is a practical guide for impact investors with the tools to develop and execute a tailored impact investing strategy. The goal of the handbook is to provide an objective, agenda-free resource that will inspire readers while also being realistic about the limitations and possibilities of this increasingly popular investment strategy. It proposes new approaches while keeping the principles of traditional investing in mind.

To learn more about the Impact Investing Handbook, visit www.rockpa.org/services/impact-investing



Practitioner Exercises

Each chapter of the Impact Investing Handbook presents key field-level concepts, practices, and case studies. At the end of each chapter, we help you apply these concepts to your own context and experience through a series of framing questions and Practitioner Exercises. We also follow Sophia, a hypothetical impact investor, as she and her family follow these exercises to develop and implement an impact investing strategy. The Practitioner Exercises and Sophia Examples build throughout the handbook using the following framework: (1) What Resources—financial, human, and social—do you have; (2) What Activities do you hope to engage in; and (3) What Impact do you hope to see. Chapter by chapter, you can also see how Sophia uses the Practitioner Exercises to create important tools such as a Resource Inventory, Stakeholder Map and Power Analysis, her own Theory of Change, a customized Investment Policy Statement and Impact Measurement and Management Plan, and finally an Implementation Plan. The framework maps out how the Practitioner Exercises relate to each other.

While the design of this impact investing roadmap is linear, you can move directly to areas of specific interest. Whether you are an individual, a family, or an institution, we want to help you find the right entry point to first begin and then continue your impact investing strategy. Some investors may undertake elements of the roadmap simultaneously or go deeper into specific sections. We have included best practice case studies that highlight elements of the guide along with additional resources. Where numerous primer guides cover trends, definitions, and products, the bulk of this publication will focus on the Why and the How. Our goal is for readers to finish the guide not only with essential current knowledge from the field but also with the resources and customized tools needed for them to take action with their investments.

We invite you to begin your own impact investing journey.

Resources What Resources (financial, human, and social) do you have?	Activities What Activities do you hope to engage in?	Impact What Impact do you hope to see?

WHAT
Resource Inventory

R	A	I

WHO
Stakeholder Map and Power Analysis

R	A	I

WHY
Initial Theory of Change

R	A	I

HOW
Investment Policy Statement

R	A	I

SO WHAT
Impact Measurement and Management Plan

R	A	I

NOW WHAT
Implementation Plan

R	A	I

What: Resource Inventory

Exercise Overview

The first step in preparing for your impact investing journey is to understand what resources you can activate. While most practitioners will use this handbook with a focus on financial assets, we suggest getting a full picture of all resources you might use and then focusing attention from there. The practitioner's exercise for this chapter is a resource inventory to get a sense of your starting place: your assets, your human or organizational capital, and your relationships. Once you have completed the inventory, make an initial estimate of which assets could be activated toward implementing your impact investing goals. We encourage you to consider how these distinct resources can work together to compound progress toward your goals. A detailed understanding of your networks and relationships will inform the next chapter's exercise: your stakeholder map.

Sophia's Resource Inventory

Considering all of her resources, Sophia developed the following list to include her assets, expertise, passion, and networks. She then reflected on which categories she would like to prioritize to implement her impact investing goals. At this point, she has chosen to focus on the priorities in the column on the right. In later chapters, we will focus on the financial assets: the couple's entire investment portfolio (\$500 million), including Sophia's foundation's endowment (\$40 million), its annual payout (\$2 million), and the annual spend of her donor advised fund (\$1 million).

Resource Category	Sophia's Priorities	
Assets	<ul style="list-style-type: none"> • Investment Assets • Charitable Assets • Retirement Assets • Property 	<ul style="list-style-type: none"> • \$500M investment portfolio • \$40M foundation endowment with \$2M annual payout • \$5M donor advised fund with \$1M annual spend
Human (Organizational) Capital	<ul style="list-style-type: none"> • Professional: Skills, Knowledge, Experience • Personal Background • Values and Passions • Time and Energy 	<ul style="list-style-type: none"> • Business acumen • Fashion industry experience • Passion for water-related impact • Devoting 50% of time/energy
Relational Capital	<ul style="list-style-type: none"> • Relational Capital • Networks and Affiliations • Professional Relationships • Personal Relationships • Political Influence 	<ul style="list-style-type: none"> • Business relationships • Water-related charity relationships • Relationship with trusted family attorney

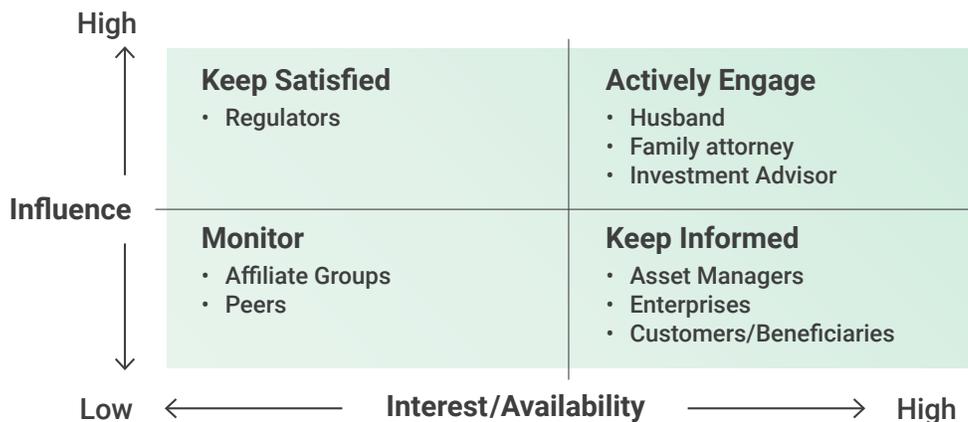
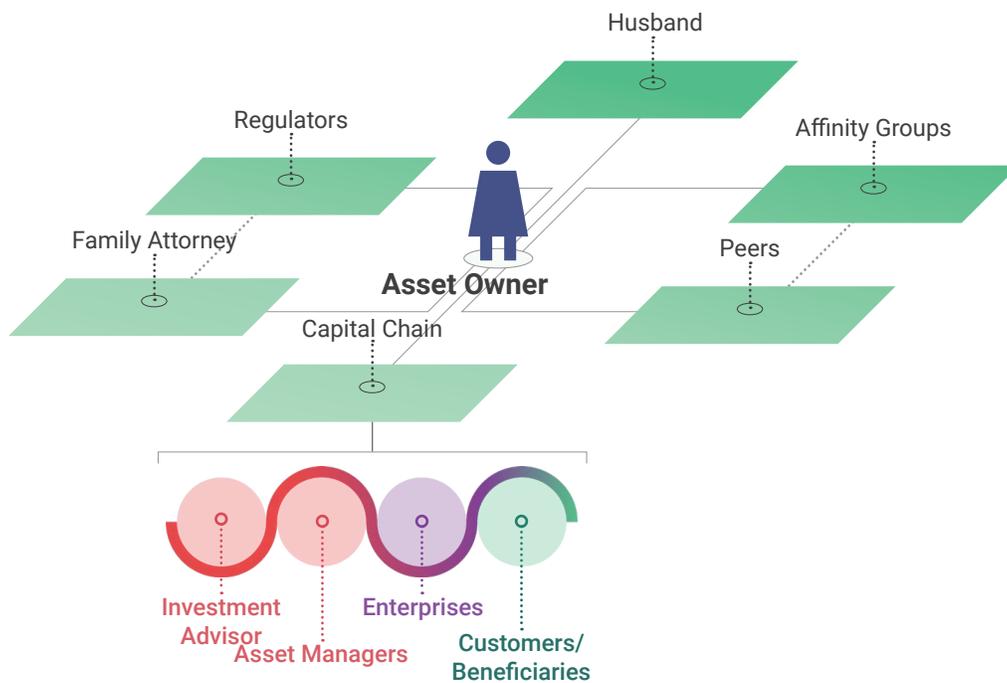
Resource Category	Your Priorities
<p>Assets</p> <p>E.g.</p> <ul style="list-style-type: none"> • Investment Assets • Charitable Assets • Retirement Assets • Property 	
<p>Human (Organizational) Capital</p> <p>E.g.</p> <ul style="list-style-type: none"> • Professional: Skills, Knowledge, Experience • Personal Background • Values and Passions • Time and Energy 	
<p>Relational Capital</p> <p>E.g.</p> <ul style="list-style-type: none"> • Relational Capital • Networks and Affiliations • Professional Relationships • Personal Relationships • Political Influence 	

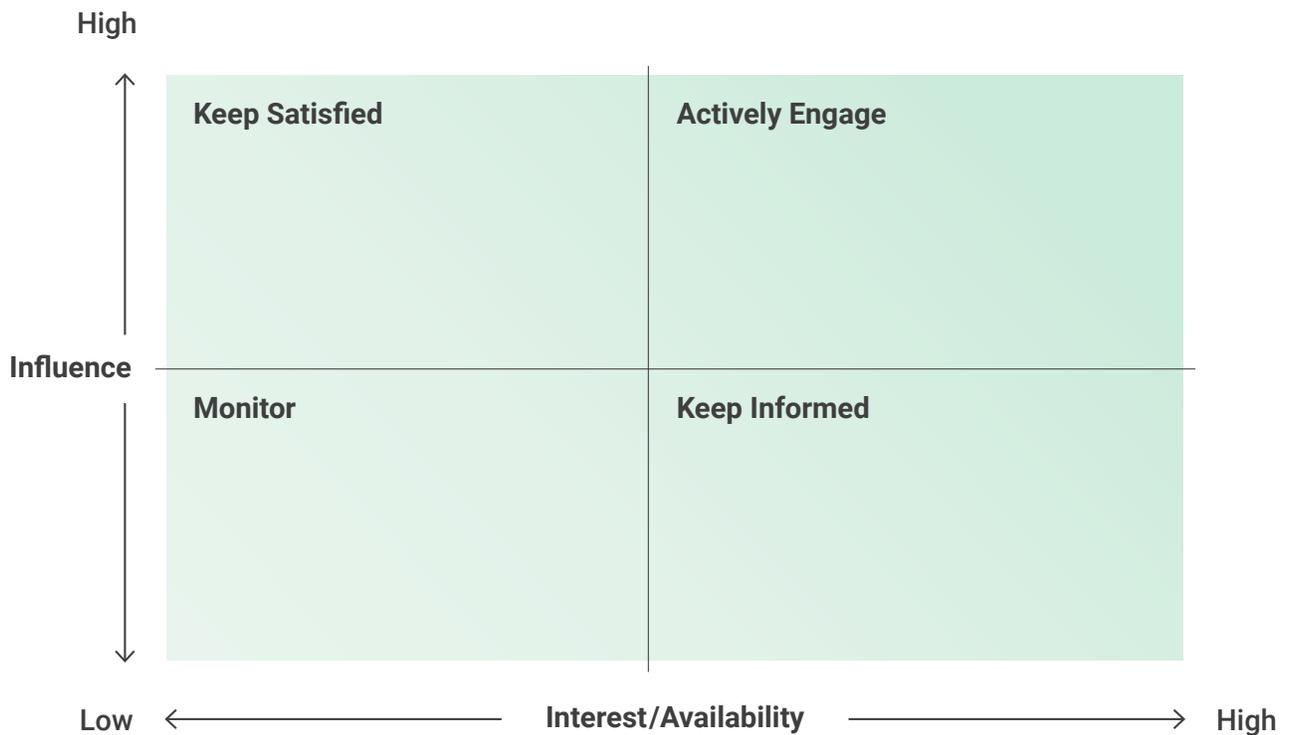
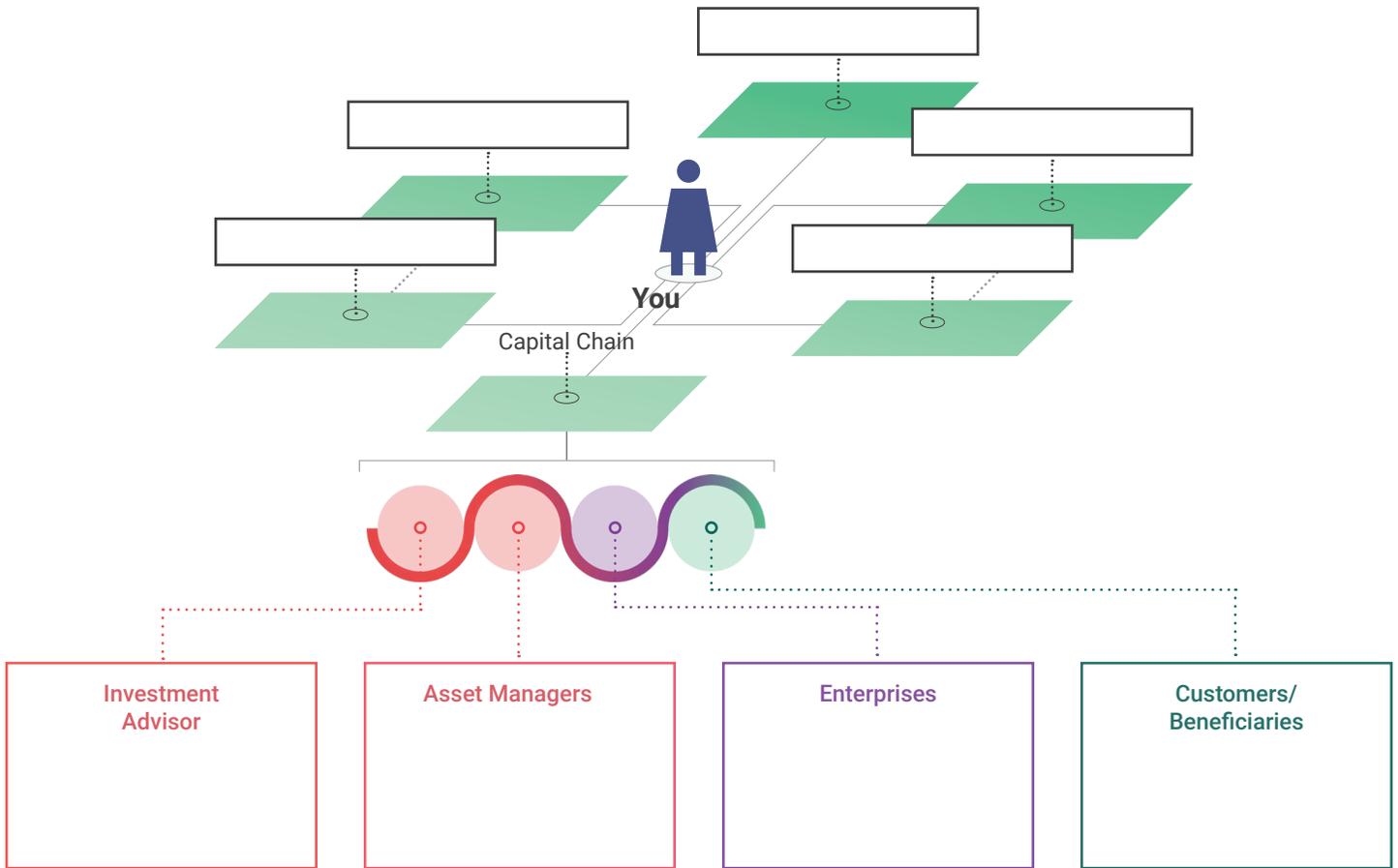
Who: Stakeholder Map and Power Analysis

Exercise Overview

We now suggest taking a deeper look into your relationships and networks by completing a stakeholder map, laying out the key players who may influence your impact investing strategy. Similar to your resource inventory, begin with the broadest set of stakeholders, then focus on those you deem most relevant. The stakeholder map shows the relationship between you, as the asset owner, and other key actors—including peers, board members, legal counsel, regulators, affinity groups, and all relevant actors in the capital chain. Once you have completed the stakeholder map, consider how power and influence is distributed among these stakeholders by completing the power analysis grid introduced above.

Sophia's Stakeholder Map





Why: Initial Theory of Change

Exercise Overview

As you explore your impact investing goals, prioritize those that resonate with you. You will likely not be able to achieve all your goals, especially not in the shorter term. The good news is that the Why will be iterative as you look at possible impact tools and structures. Learning goals—not just impact and investment goals—are also critical. So, don't feel locked into your choices at this point. We begin with a simple theory of change and will build from there.

Steps to Creating Your Theory of Change

1. Revisit your resource inventory and add each element as an input along the logic model.
2. For each row, fill out the desired activities for each of the inputs. You can include both what you are providing today and what you hope to provide or leverage over time.
3. For each row, fill out a first attempt at the overall impact you hope to achieve for each activity. Keep this at a relatively high level and focus on the big picture markers of progress for individuals, organizations, or issue areas. If you're feeling ambitious, you can divide the work into outputs, outcomes, and impact.

Additional Steps to Adding Detail to Your Theory of Change

4. Narrow your focus to financial assets, and segment your assets into priority categories.
5. For each category, add specific impact goals and investment goals discussed in this chapter.

Sophia's Theory of Change

Sophia's primary impact goal is to align as much of her portfolio with her values as possible. Realizing that all investments have impact, she has an overarching goal of knowing what she currently owns, shifting it toward positive net impact, and doing as little harm as possible. She wants to be accountable for the impact of her assets. She continues to talk with her husband, while looking at the enterprises they own as a first step to seeing what might be out of alignment with both of their values.

Specifically, Sophia would like to prioritize the following impact themes: Water, Climate, and the Arts, in that order. Where possible, she would also like to overlay a gender lens. Sophia has followed the guidance above and filled out the following table to create her initial theory of change. Sophia has set the overall investment goal of her foundation at a risk-adjusted rate of return of a 5% payout plus inflation. She is seeking a diversified portfolio with an allocation to less liquid, impact-aligned opportunities.

Sophia decides to take her theory of change to one more layer of distinction, focusing on specific financial assets and integrating specific impact goals and investment goals. This will serve as the foundation to build her portfolio.

Sophia's Overall Theory of Change

Resource	Activity	Impact
Financial Assets	<ul style="list-style-type: none"> • Commit the entire endowment toward impact with a primary goal to do no harm and integrate values where possible • Explore high-impact investments with foundation payout • Focus donor-advised fund on water grantmaking 	<ul style="list-style-type: none"> • To not contribute to negative corporate impacts • Prove new models toward water access • Empower women through gender lens • Learn about overlap with fashion industry
Human (Organizational) Capital	<ul style="list-style-type: none"> • Play a significant role in private investments given business experience and interest, considering art/fashion investments • Leverage passion for water-related causes • Devoting 50% of time/energy to align portfolio, considering consultant as needed 	<ul style="list-style-type: none"> • Become better versed in impact investing best practice • Expand water interest to use business models and capital markets for impact • Explore how fashion can be leveraged for good
Relational Capital	<ul style="list-style-type: none"> • Focus relationship building on learning from one peer asset owner for inspiration and guidance • Consider a consultant to support strategy development • Stay close with family attorney to review portfolio shifts and influence on broader family 	<ul style="list-style-type: none"> • Be guided/inspired by experts • Begin to shift family's perspective in impact investing

Sophia's Financial Assets Theory of Change

Resource	Impact Goal: Impact Theme	Impact Goal: Impact Intensity	Impact Goal: Lens	Investment Goal: Risk/Return Target
Entire Portfolio (\$500M)	Do no harm	Low	N/A	Maximized financial risk/return
Foundation Endowment (\$40M)	<ol style="list-style-type: none"> 1. Water, where possible 2. Climate, where possible 	Low to medium	Gender	Payout plus inflation
Foundation Payout for PRIs (\$2M)	<ol style="list-style-type: none"> 1. Water 2. Arts, where possible 	High	Gender	80% return of capital

Your Overall Theory of Change

Resource	Activity	Impact
Financial Assets		
Human (Organizational) Capital		
Relational Capital		

Your Financial Assets Theory of Change

Resource	Impact Goal: Impact Theme	Impact Goal: Impact Intensity	Impact Goal: Lens	Investment Goal: Risk/Return Target

How: Investment Policy Statement

Exercise Overview

In order to arrive at your investment policy statement (IPS) and impact investment statement (IIS), we propose that you start by expanding the detail of your theory of change from the “Why” chapter, adding impact tools and impact structures from this chapter, as mapped onto the goals you laid out in your theory of change. This added level of detail will inform your approach to portfolio construction.

Sophia’s Investment Policy Statement

Sophia has an existing IPS, which guides the family’s overall investment portfolio. She now wants to integrate impact considerations. Starting from her theory of change at the end of the “Why” chapter, Sophia now adds specific impact tools and impact structures aligned to her goals and applied uniquely to her three categories of financial assets. She then reviews the tool matrix and identifies products that might express these tools and structures.

Using these inputs, Sophia and her advisors decide to keep her existing IPS and add an IIS to codify her priorities, objectives, and goals for aligning her investments with her mission. To arrive at this IIS, Sophia has reviewed the core components and approaches to governing documents and chooses the following components to prioritize.

Resource	Impact Goal: Impact Theme	Impact Goal: Impact Intensity	Impact Goal: Lens	Investment Goal: Risk/Return Target	Tools and Structures	Products
Entire Portfolio (\$500M)	Do no harm	Low	N/A	Maximized financial risk/return	Possible screening and ESG integration	TBD working with husband and advisor on product options
Foundation Endowment (\$40M)	1. Water, where possible 2. Climate, where possible	Low to medium	Gender	Payout (5%) plus inflation	Filter diversified portfolio through ESG screens while prioritizing water and climate considerations With cash, increase loan capital to underserved populations	Corporate infrastructure bonds ESG tilted public equities Water-technology venture capital Water rights as commodities Cash in community bank deposits
Foundation Payout for PRIs (\$2M)	1. Water 2. Arts, where possible	High	Gender	80% return of capital	Provide equity and debt capital to promising water and arts social enterprises	Loans to water charities Equity to creative economy startups

Resource	Impact Goal: Impact Theme	Impact Goal: Impact Intensity	Impact Goal: Lens	Investment Goal: Risk/Return Target	Tools and Structures	Products

So What: Impact Measurement and Management Plan

Exercise Overview

The good news is that you've started your IMM framework with your theory of change from previous chapters. Using the content of this chapter, we invite you to follow the three-part process to build your approach to IMM: Why are you measuring?; What are you measuring?; and How are you measuring? First, we suggest deciding on which parts of the portfolio you plan to evaluate, and create a row for each segment. Then, answer the three questions for each segment.

Sophia's IMM Plan

Resources	Why Are You Measuring? <i>Prove, Improve, Learn</i>	What Are You Measuring? <i>Principles, Frameworks, Standards</i>	How Are You Measuring? <i>Plan, Do, Assess, Review</i>
Entire Portfolio (\$500M)	Prove: Feel confident in "doing no harm" while assessing her investment advisor's ability to provide support.	Percent of assets screened using negative and positive ESG criteria Categorize investments according to the IMP's ABC Framework Describe alignment with IFC's Operating Principles	Initially, work with advisor to assess baseline for each area of measurement (ESG Criteria, IMP Framework and IFC Principles), and identify strength and weakness to prioritize Conduct annual review to improve each area, to arrive at holistic "do no harm" judgment by end of Year 3
Foundation Endowment (\$40M)	Learn: Explore the various ways to apply a gender lens across the portfolio, including investment processes, data collection and reporting.	Portfolio alignment with SDG 5, and how investments can report against relevant targets The extent to which metrics can be disaggregated by gender, drawing on IRIS+ and 2X Criteria Benchmarking and progress on worker health and safety, pay equity, and board diversity	With advisor's or external support, review leading gender-lens research, in order integrate across all asset classes and investment processes Review gender disaggregated data annually with asset managers Create scorecard with custom metrics to track progress over time, and work with peers for collective action and learning
Foundation Payout [PRIs] (\$2M)	Improve: Seek to scale water-related enterprises and community-level outcomes through deployment of catalytic capital.	Establish initial combination of capital and non-capital supports required for various scaling strategies Portfolio alignment with SDG 6 (Clean Water and Sanitation) and related IRIS+ criteria Assess qualitatively how investees target underserved populations, and how access to water enables household and community-level outcomes	Seek out peers who focus on water issues to learn and refine approach to selecting and supporting investees, while testing ideal characteristics for scale Support investees to apply the Lean Data methodology, use baseline and follow up surveys to gather longitudinal qualitative and quantitative data

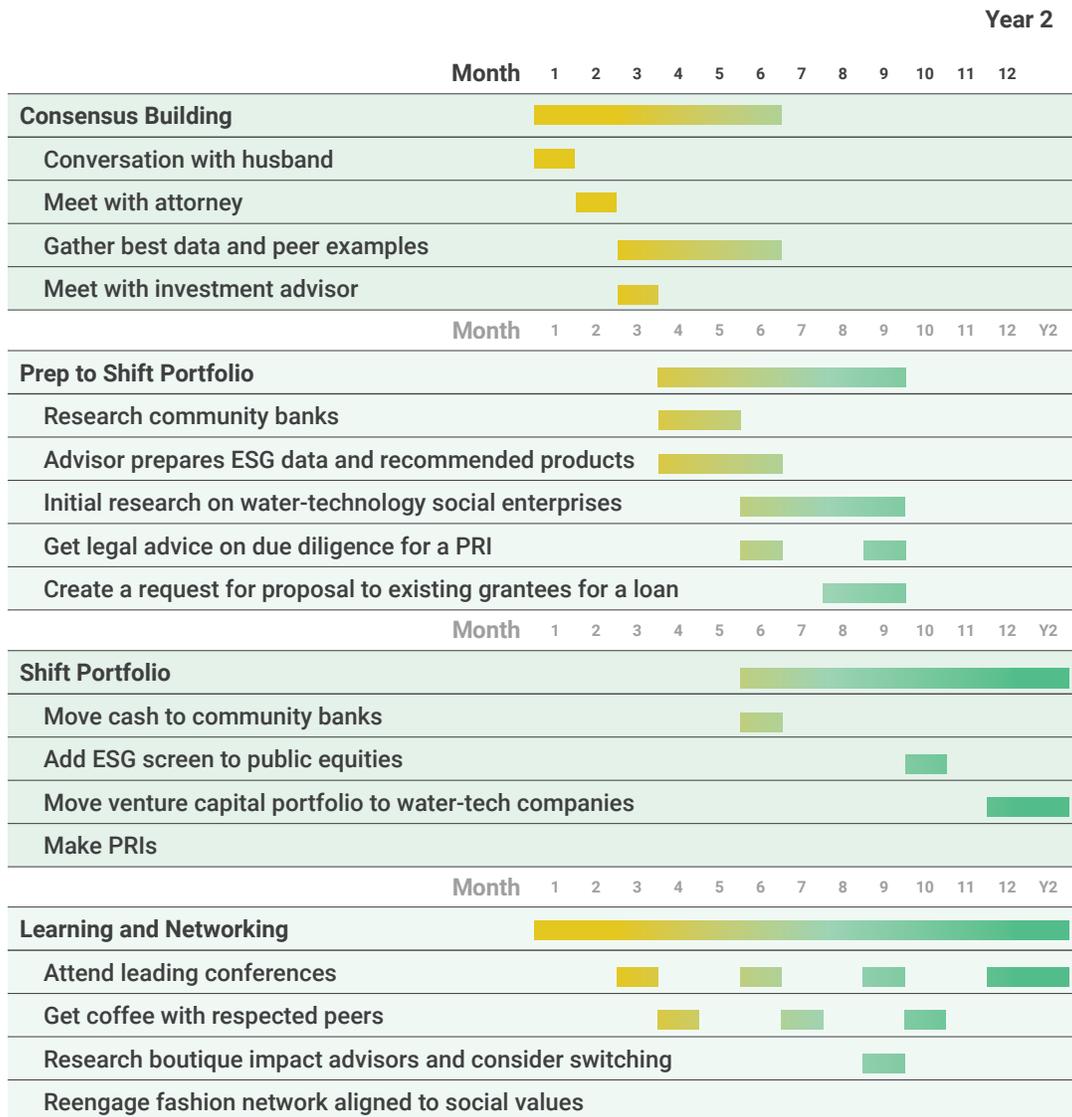
Resources	Why Are You Measuring? <i>Prove, Improve, Learn</i>	What Are You Measuring? <i>Principles, Frameworks, Standards</i>	How Are You Measuring? <i>Plan, Do, Assess, Review</i>

Now What: Implementation Plan

Exercise Overview

Your implementation plan will be customized for your circumstances, since key elements such as implementation goals, corporate structure, key stakeholders, and the state of your existing portfolio are quite distinct from other investors.

Sophia's Implementation Plan



Year 2

Month 1 2 3 4 5 6 7 8 9 10 11 12

Month 1 2 3 4 5 6 7 8 9 10 11 12 Y2

Month 1 2 3 4 5 6 7 8 9 10 11 12 Y2

Month 1 2 3 4 5 6 7 8 9 10 11 12 Y2

Month 1 2 3 4 5 6 7 8 9 10 11 12 Y2

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