A Guide to Classifying the Impact of an Investment
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.
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**

<table>
<thead>
<tr>
<th>INVESTOR’S CONTRIBUTION</th>
<th>IMPACT OF UNDERLYING ASSETS / ENTERPRISES</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
</table>
| 1 | Signal that impact matters  
+ Engage actively  
+ Grow new/undersupplied capital markets  
+ Provide flexible capital | Act to avoid harm | 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 | Benefit stakeholders | 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 | Contribute to solutions | 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 | Investment archetypes not yet defined | Investment archetypes not yet defined | 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 | Investment archetypes not yet defined | Investment archetypes not yet defined | 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 | Investment archetypes not yet defined | Investment archetypes not yet defined | 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](image)

| WHAT outcome(s) does the effect drive, and how important are they to the people (or planet) experiencing it? |
| WHO experiences the outcome and how underserved are they in relation to the outcome? |
| HOW MUCH of the outcome occurs? Does it happen at scale and/or drive the outcome deeply? Does it last for a long time? |
| What is the ENTERPRISE CONTRIBUTION to what would likely happen anyway? |
| What is the RISK to people and planet that the impact does not occur as expected? |

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**

**WHAT**

**Outcome**: The outcome experienced by the stakeholder when engaging with the enterprise. The outcome can be positive or negative, intended or unintended.

**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.

**Importance of Outcome to Stakeholder**: Stakeholders’ view of whether the outcome they experience is important

**SDG**: The Sustainable Development Goal(s) that the outcome relates to, along with the specific target(s)

**WHO**

**Stakeholder**: The type of stakeholder experiencing the outcome

**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.

**Baseline**: The level of outcome experienced by the stakeholder prior to engaging with the enterprise

**Stakeholder Characteristics**: Socio-demographics and behavioural characteristics of the stakeholder to enable segmentation during the intervention

**WHY**

**Scale**: The number of individuals experiencing the outcome

**Depth**: The degree of change experienced by the stakeholder

**Duration**: The time period for which the stakeholder experiences the outcome

**HOW**

**Depth**: The estimated degree of change that would occur anyway for the stakeholder

**Duration**: The estimated time period for which the stakeholder would have experiences the outcome anyway

**MUCH**

**Risk Type**: The probability that the evidence on which the strategy is based in not good evidence that the expected impact will occur

**Risk Level**: The probability that external factors disrupt our ability to deliver the expected impact.
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**

<table>
<thead>
<tr>
<th>WHAT</th>
<th>Unknown</th>
<th>Important negative outcomes</th>
<th>Important negative outcome(s)</th>
<th>Important positive outcome(s)</th>
<th>Specific important positive outcome(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHO</td>
<td>Unknown</td>
<td>Various</td>
<td>Underserved</td>
<td>Various</td>
<td>Underserved</td>
</tr>
<tr>
<td>HOW MUCH - DEPTH</td>
<td>Unknown</td>
<td>Various</td>
<td>High Degree of positive change</td>
<td>Various</td>
<td>High Degree of positive change and/or for many</td>
</tr>
<tr>
<td>- SCALE</td>
<td>Unknown</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td>and/or long-term</td>
</tr>
<tr>
<td>- DURATION</td>
<td>Unknown</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
</tr>
<tr>
<td>CONTRIBUTION</td>
<td>Unknown</td>
<td>Various</td>
<td>Likely same or better</td>
<td>Likely same or better</td>
<td>Likely better</td>
</tr>
<tr>
<td>RISK</td>
<td>Unknown</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
</tr>
</tbody>
</table>

**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**

- Is the enterprise acting to avoid harm to its stakeholders?
  - Yes
  - Yes
    - Are any of the enterprise’s effects contributing to solutions to social or environmental challenges?
      - Yes
        - Contribute to solutions
      - No
        - Benefit stakeholders
    - No
      - Act to avoid harm
  - No
    - Does/may cause harm
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:

<table>
<thead>
<tr>
<th>DIMENSION</th>
<th>EFFECT #1</th>
<th>EFFECT #2</th>
<th>EFFECT #3</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHAT</td>
<td>Important positive outcome: CO2 emissions</td>
<td>Important positive outcome: Access to healthcare services</td>
<td>Important positive outcome: Decent income</td>
</tr>
<tr>
<td>HOW MUCH</td>
<td>Marginal depth</td>
<td>At scale, marginal change</td>
<td>Deep change, at scale, long-term</td>
</tr>
<tr>
<td>WHO</td>
<td>The planet, underserved</td>
<td>Customers, not underserved</td>
<td>Employees, underserved</td>
</tr>
<tr>
<td>CONTRIBUTION</td>
<td>Likely the same</td>
<td>Likely better</td>
<td>Likely better</td>
</tr>
<tr>
<td>RISK</td>
<td>Low risk</td>
<td>Medium risk</td>
<td>Low risk</td>
</tr>
</tbody>
</table>

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 the 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.

<table>
<thead>
<tr>
<th>INVESTOR’S CONTRIBUTION</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Signal that impact matters</strong></td>
<td>+ Engage actively</td>
<td>+ Engage actively</td>
<td>+ Engage actively</td>
<td>+ Engage actively</td>
<td>+ Engage actively</td>
<td>+ Engage actively</td>
</tr>
<tr>
<td><strong>Grow new/undersupplied capital markets</strong></td>
<td>+ Provide flexible capital</td>
<td>+ Provide flexible capital</td>
<td>+ Provide flexible capital</td>
<td>+ Provide flexible capital</td>
<td>+ Provide flexible capital</td>
<td>+ Provide flexible capital</td>
</tr>
<tr>
<td><strong>Provide flexible capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**‘Signal’?**

- Y: Signal that impact matters
- N: Not signal that impact matters

**‘Engage’?**

- Y: Engage actively
- N: Not engage actively

**‘Grow new markets’?**

- Y: Grow new markets
- N: Not grow new markets

**‘Flexible capital’?**

- Y: Provide flexible capital
- N: Not provide flexible capital

**‘I want to influence the capital markets as a whole to incorporate impact into analysis and pricing’**

- Y: Influence capital markets
- N: Not influence capital markets

**‘I want to generate competitive financial performance’**

- Y: Generate competitive financial performance
- N: Not generate competitive financial performance

**‘I am unable to engage actively to help enterprises deliver and improve impact’**

- Y: Unable to engage actively
- N: Able to engage actively

**‘I will use active shareholder engagement to ensure enterprises deliver and improve impact’**

- Y: Use active shareholder engagement
- N: Not use active shareholder engagement
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).

<table>
<thead>
<tr>
<th></th>
<th>IMPACT OF UNDERLYING ASSETS / ENTERPRISES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Act to avoid harm</td>
<td>Benefit stakeholders</td>
</tr>
<tr>
<td>1</td>
<td>Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital</td>
<td>Health Fund I (10%)</td>
</tr>
<tr>
<td>4</td>
<td>Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital</td>
<td>Health Fund I (15%)</td>
</tr>
<tr>
<td>5</td>
<td>Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital</td>
<td>Health Fund I</td>
</tr>
<tr>
<td>6</td>
<td>Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital</td>
<td></td>
</tr>
</tbody>
</table>

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 Enterprise Impact Across 5 Dimensions

**Impact Dimensions**

<table>
<thead>
<tr>
<th>Impact Categories</th>
<th>Impact Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPACT</td>
<td>Outcome</td>
</tr>
<tr>
<td></td>
<td>Outcome Threshold</td>
</tr>
<tr>
<td></td>
<td>SDG</td>
</tr>
<tr>
<td></td>
<td>Importance of Outcome to Stakeholder</td>
</tr>
<tr>
<td></td>
<td>Boundary</td>
</tr>
<tr>
<td></td>
<td>Baseline</td>
</tr>
</tbody>
</table>

**WHAT**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicators</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**WHO**

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**CONTRIBUTE TO SOLUTIONS**

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**RISK**

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Risk Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td></td>
</tr>
</tbody>
</table>

**ENDURANCE RISK**

<table>
<thead>
<tr>
<th>Scale</th>
<th>Duration</th>
<th>Depth</th>
<th>Duration</th>
<th>Depth</th>
</tr>
</thead>
</table>

**DATA SOURCE**

<table>
<thead>
<tr>
<th>RAW DATA</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ANALYSIS**

<table>
<thead>
<tr>
<th>Impact Categories</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**CLASSIFICATION**

- **Impact Categories**
  - Benefit
  - Contribute to Solutions
  - Risk

### End of Template

A template for assessing an enterprise's impact across the 5 dimensions.
### Appendix

Illustrative approaches within each investor contribution strategy.

<table>
<thead>
<tr>
<th>Investor’s strategy to make a contribution to the underlying enterprise (or intermediary manager) that would not otherwise occur:</th>
</tr>
</thead>
</table>
| **Signal that impact matters** | E.g. an investor might seek to ensure enterprises are at least trying to do no harm (‘Avoid’) by:  
- 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** | E.g. an investor might:  
- 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** | E.g. in pursuit of a market-rate return (unless combined with ‘Flexible Capital’):  
- 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** | E.g. in pursuit of more or better impact an investor might:  
- 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 |