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VOX
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LEARNINGS FROM BRAZIL

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CONTEXT

These sessions gathered insights from practitioners in Brazil.

As the range of people working to achieve impact continues to grow, so does the need to understand each other's expectations and agree on how best to measure and manage performance.

This document summarises emerging insights from two sessions hosted by Vox Capital on June 9th and 20th, 2017 with fund managers, entrepreneurs, asset owners and intermediaries from the impact investing field in Brazil.

Anonymised insights from all discussions are being published under a Creative Commons license and have fed into a shared convention for impact management.

Grey boxes indicate ways in which the Brazilian perspective has truly shaped this global convention – and we are grateful to every practitioner for their time and input.

DEFINING IMPACT

We rely on good data, analysis and assessment to manage our material effects.

Brazilian practitioners agreed that defining impact "as material positive or negative effect experienced by people or planet" is broad and accurate enough to encompass different impact goals and strategies.

'Material' effects:

- relate to either important positive or negative outcomes;
- are deep and/or occur for many people and/or last for a long time; and
- occur for people (or planet) who are not well-served in relation to those outcomes

This definition reinforces the importance of good data and measurement, so that these effects can be managed and accounted for.

Thinking about who is affected

Effects on people and planet are generated through delivery models, which have different ownership structures, products/services and supply chains. Enterprises affect **employees** (e.g. a cooperative that has a more equal distribution of income), **customers** (e.g. this same cooperative chooses to sell tobacco products to generate its income) and the **planet** (e.g. this cooperative supports community recycling campaigns), in positive and negative ways.

This has shaped global consensus that all investors and enterprises can measure their impact on people and planet, both positive and negative – and try to improve it.

We focus measurement on understanding effects on all stakeholders (including the environment). We manage all material effects, focused on avoiding material negative effects and increasing material positive effects.

Information we have on these effects helps us understand what delivery models or strategies will best address them.

Read more here.

IMPACT RISK MANAGEMENT

A shared understand-ing of common impact risk factors will make them easier to manage.

Brazilian practitioners believe that a shared definition of impact risk - and consensus on a range of impact risk factors to manage – will make it easier to embed impact within regular enterprise risk management processes.

This would represent not only understanding the likelihood of impact being different to the initial expectation due to material impact risk factors, but also understanding how operational, market, liquidity and other enterprise risks can affect the ability of a company to deliver material positive effects for people and planet.

They noted that a consequence of not managing impact risks could affect **reputation and image** – as unexpected positive or negative effects may occur in a way that harms the company. This can act as an incentive to incorporate impact risk management into regular enterprise risk management.

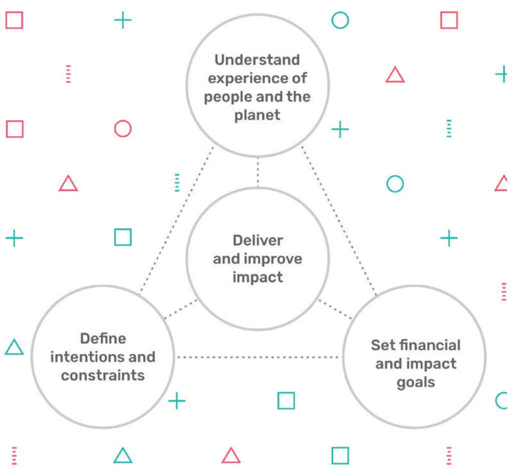
Brazilian practitioners also spotlighted a variation of **Stakeholder Participation Risk**, which is the risk that a stakeholder does not acknowledge or recognize the value of an intervention, despite evidence gathered.

This makes Evidence Risk even more important to manage, so we can ensure there is not an information asymmetry. We can explore why (based on the information they do have) people do not value an outcome, or set of outcomes.

The risk that experienced effects do not endure is captured in Drop-Off Risk. This may be a consequence of high Execution Risk driven by mission drift, lack of intention or change in enterprise strategy that doesn't account for positive or negative outcomes being pursued by the company. The combination of these risk factors emerged as an important focus for Brazilian practitioners.

You can explore all the impact risk factors here.

INTENTIONS AND CONSTRAINTS



Depending on who we are and our experience, we may start managing impact at different parts of the process. Stating intentions and constraints upfront can be helpful – and even critical – to ensure alignment and commitment in the Brazilian market.

Our intentions express a commitment to act in a certain way. They are derived from our values and motivations and inform our impact and financial goals. Intentions can range from broad commitments - "I want to avoid harm" or "I want to mitigate risk" - to more detailed objectives - "I want to support a specific group of people, place, outcome" or "I want to address a specific social or environmental challenge". Many investors start by describing any combination of the following:

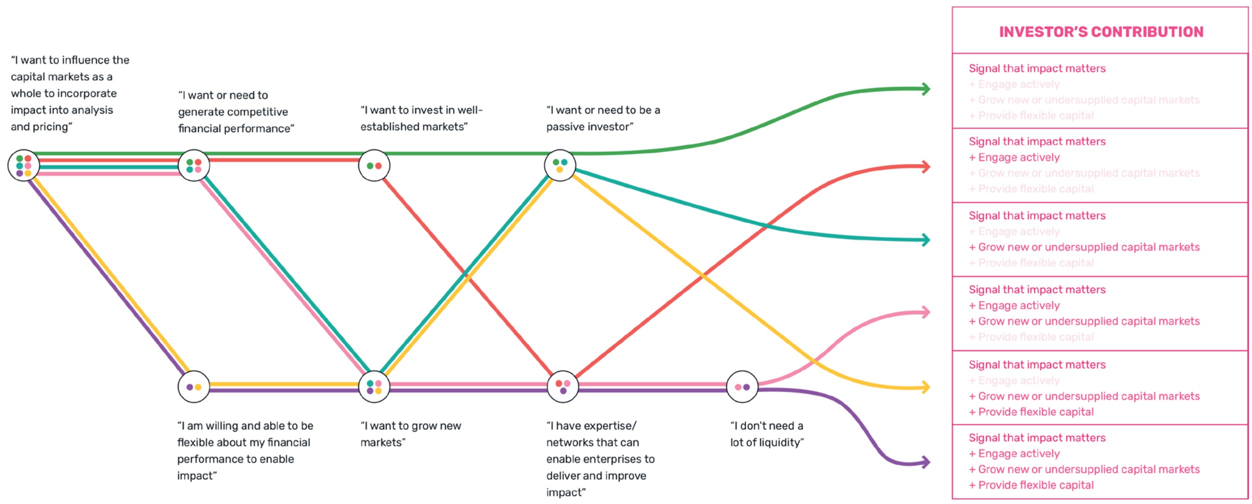
- Values: One's judgement of what is important; principles or standards of behaviour;
- Motivation for impact: A motivating force, stimulus or influence;
- Impact intention: A determination to act in a certain way;
- Impact goals: The end towards which effort is directed.

For enterprises, there are a range of intentions for managing impact, which can be loosely grouped into four broad types. Each type relates to a different performance across the five dimensions.

INTENTIONS AND CONSTRAINTS cont'd

GOALS ACROSS DIMENSIONS	Don't care	Avoid harm	Have a positive effect on people and the planet	Help tackle specific pressing challenges
WHAT	Important negative outcomes	Important negative outcomes	Important positive outcomes	Specific important positive outcomes *AND*
HOW MUCH	Various	Marginal and/or For few	Various	Deep, and/or for many and/or long-term *AND*
WHO	Underserved	Underserved	May or may not be underserved	Underserved
CONTRIBUTION	Likely same or worse	Likely same or better	Likely same or better	Likely better
RISK	Various	Various	Various	Various

Investors' intentions and constraints don't just affect their choice of underlying businesses to invest in, they also guide how investors themselves can contribute to a business's ability to be impactful.



Read more here.

INVESTOR'S CONTRIBUTION

We optimize impact in our portfolios through whatever contributions we can provide as an investor.

Interplay of Financial and Impact Goals

When describing financial goals, we know that this includes, but is not limited to, returns, diversification and decorrelation goals, liquidity expectations and asset class preferences.

Providing flexible capital is one way to contribute, but it is not the only way. **Providing flexible capital does not necessarily mean that it is a more impactful contribution,** as every form of investor's contribution has the potential to enable more impact within underlying businesses, including:

- **Signal that impact matters**, by choosing not to invest or to favour certain investors that, if all investors did the same, would ultimately lead to a 'pricing in' of effects on people and planet by the capital markets more broadly. This may also be described as 'values alignment'.
- **Engage actively**, by providing expertise and networks to improve the performance of underlying businesses
- **Grow new or undersupplied capital markets**, by anchoring or participating in new or previously overlooked opportunities that offer an attractive impact and financial opportunity. This may involve taking on additional complexity, illiquidity or perception of disproportionate risk.
- **Provide flexible capital**, by recognising that certain types of businesses will require acceptance of disproportionate risk-adjusted returns in order to generate impact.

More evidence on the influence of these strategies would be helpful.

This insight has made it possible to distinguish between the full universe of investment options, and the universe of options for a purely fiduciary investor. The objective is to optimize impact within a portfolio through whatever contribution you can provide, guided by intentions, constraints, impact goals, financial goals and delivery models.

Read more here.

INVESTOR'S CONTRIBUTION cont'd

Impact investments drive important positive outcomes for underserved people - deeply, enduringly and at scale.

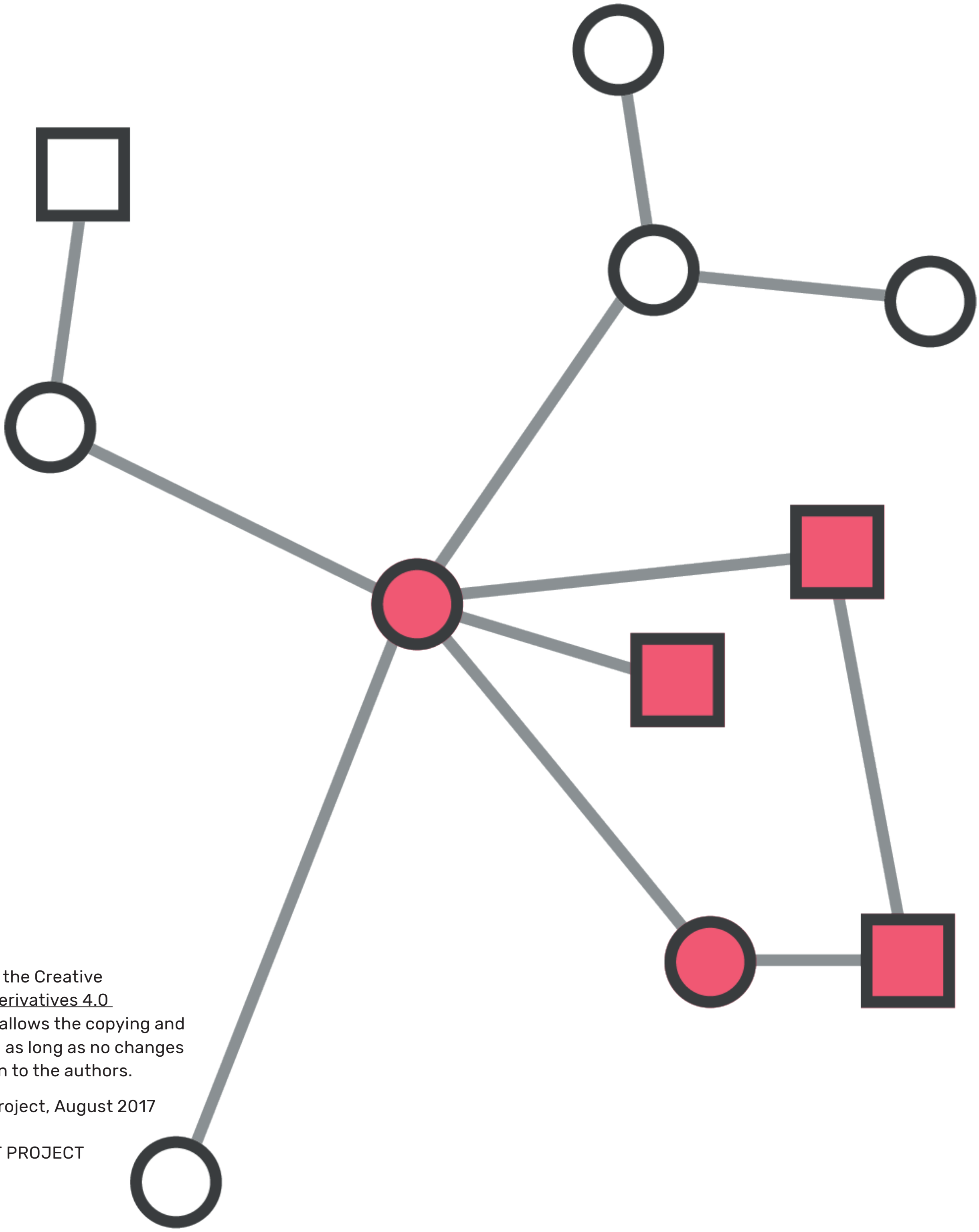
Establishing the scope of impact investments

Anyone who wants to shift from causing material negative effects, or being wilfully unaware of whether they are, manage impact in some way. **Establishing impact management practices alone is not enough to define an "impact investment" in Brazil**.

We can use the convention to understand what investment products create what effects for people and planet along the five dimensions. Asset owners can better plan and allocate their portfolios to minimize negative effects and increase the positive, optimizing against financial and impact goals.

Over time, Brazilian practitioners can collectively establish a threshold for what qualifies as an impact investment in their context. Through this project, global practitioners expect that the way to distinguish impact investing from "other" investing will be demonstrating that they drive 1) important positive outcomes, 2) deeply, enduringly and at-scale, 3) for underserved people.

In other words, impact investments are helping tackle our most pressing social and environmental challenges.



The Impact Management Project, August 2017

THE IMPACT MANAGEMENT PROJECT