

# Impact Frontiers

Impact Frontiers, an initiative of the Impact Management Project, is a learning and innovation collaboration among asset managers, asset owners, and field-building associations and networks. We create pathways and communities of peers that support investors in building their capabilities for managing their impact and integrating impact with financial data, analysis, frameworks, and processes. We publish and share what we learn to advance our vision of a world where all investments are made and measured in consideration of their integrated financial, social, and environmental impacts.

## Engaging a Microcosm of Impact Capital Markets

- ▲ Peer cohorts of asset managers
  - ▲ Private debt
  - ▲ Venture capital
  - ▲ Public debt
  - ▲ Real assets
- ▲ Peer cohorts of asset owners
  - ▲ CDFIs
  - ▲ Public equity
  - ▲ Fund-of-funds
  - ▲ DFIs
- ▲ Peer cohorts of asset owners
  - ▲ Endowments
  - ▲ Family offices
  - ▲ Foundations
  - ▲ Pensions
- ▲ Ecosystem of supporting field-builders
  - ▲ Industry associations
  - ▲ Educational institutions
  - ▲ Advisory firms

## Collaboration Gives Rise to New Ideas

- ▲ Opportunity for deep exploration of challenges specific to individual asset classes or investor types
- ▲ Opportunity for cross-fertilization of ideas across asset classes, investor types, and geographies
- ▲ Intentional focus on improving the flow of impact information between enterprises, asset managers, and asset owners
- ▲ Dedicated working groups as desired on topics such as investing for gender and racial equity, and impact management for CDFIs in the US

## Benefits

- ▲ Exceptional impact management
- ▲ Integration of impact management into investment decision-making and portfolio construction to drive increased impact performance
- ▲ Increased clarity of communication about impact goals and performance of portfolios
- ▲ Recognition as part of a group of pioneers developing new approaches and learning from one another to advance the state of impact management

An independently funded, non-profit initiative of the Impact Management Project. We will request a small financial contribution from participating investors.

<sup>1</sup> The IMP is a time-bound initiative facilitating a [Structured Network](#) of standard-setting organizations that are coordinating efforts to provide complete standards for impact measurement, management and reporting. Impact Frontiers will complement that effort by supporting investors, and the ecosystem of organizations that support investors, to implement these standards in practical ways that achieve investors' goals.

# What Makes It Work



## Grounded in Investors' Actual Practices

- Effort originated within Root Capital (2015 – 2017)
- Thirteen funds in the Impact Frontiers Collaboration (2018 – 2020) translated and implemented the approach in diverse portfolios totaling \$15 billion
- From these funds' experiences, Impact Frontiers synthesized a set of generalizable steps relevant to a wide range of investors

## Support Provided

- Informal self-diagnostic of practice through which investors ask themselves: where are we now on impact management, and where do we want to go? Impact Frontiers then works with you to co-create a path forward
- Sequence of workshops with curricula designed to support investors' progress
- Regular opportunities for peer feedback

- By following these steps, you can use your own data to create your own model, customized to your organization's unique context, strategy, and goals
- You do your own work on your own timeframe. If greater support is desired, Impact Frontiers will collaborate with consultants of your choice

- Thought partnership as desired from Impact Frontiers and IMP
- Connection to a network of investors addressing similar challenges
- A way to align with and implement existing standards, including norms agreed to via IMP's facilitation
- Support in building buy-in and leading change within your organization

# A Tested, Flexible Process

## Year One

- 1 Impact fundamentals
- 2 Creating an expected impact rating (or other measure of transactions' expected impact)
- 3 Monitoring impact during the lifetime of the investment
- 4 Validating impact through ex-post impact measurement
- 5 Selecting a measure of risk-adjusted financial return
- 6 Plotting your portfolio: impact X risk-adjusted financial return

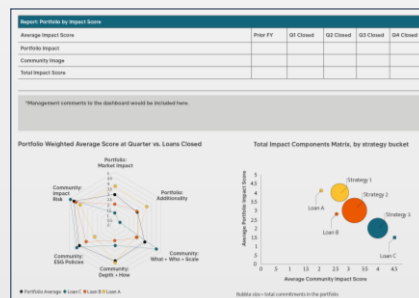
## Year Two (can be accelerated)

- 7 Determining implications for investment decision rules
  - ▀ Rules of thumb
  - ▀ Benchmarking tools
  - ▀ Hurdle rates
- 8 Constructing an integrated portfolio dashboard
- 9 Setting portfolio goals and reporting performance
- 10 Communicating your impact management approach internally and externally

Example Integrated Portfolio Chart



Example Integrated Portfolio Dashboard



### Cross-cutting themes:

- ▀ Stakeholder feedback
- ▀ Impact management for equity (gender, racial, other)
- ▀ Measuring and managing investor contribution
- ▀ Impact risk
- ▀ Navigating and implementing existing principles and standards
- ▀ Avoiding and mitigating negative impacts: ESG and screening-based approaches
- ▀ Other topics as requested by participants

## Building New Capabilities to Answer Questions Including:

### Asset Managers

- Which investments or loans create more or less impact – and how do we know?
- Which investments or loans make more or less money?
- Given the above, which types of impact in which contexts increase risk-adjusted financial returns; which require a financial concession; and which have no relationship with financial performance?
- How can we use insights about impact and profitability to inform decision-making on individual investments, and to improve the impact and/or the financial performance of the portfolio as a whole?
- How can we communicate the financial and impact performance of portfolios in a more integrated way?

### Asset Owners

- Which asset managers offer the greatest positive impact? How can we better understand asset managers' impact and support them in improving it?
- How can impact inform capital allocations within and across asset classes?
- How can we aggregate and communicate the impact performance of multi-asset class portfolios?

## Rules of Engagement for Investors

- Safe forum in which leading investors can experiment with new approaches, learn from peers, and advance shared goals
- 100% confidential – all workshops are held under Chatham House Rules and materials you share will be kept confidential under NDA
- While the initiative will last three years, individual investors' engagement may be shorter or may be intermittent over the three years
- Investors will have the opportunity, but not the obligation, to be featured in publications arising from the collaboration, and to be listed as a co-author of those publications
- Impact Frontiers will engage directly with each investor partner and will participate in the design and delivery of all group interactions
- Carefully selected field-building partners will also participate in the design and delivery of group interactions, and will be expected to honor these rules of engagement

# Background

## Partners in the Impact Frontiers Collaboration, 2018 - 2020



“We found a lot of value in the cohort model. The sequence of workshops consistently challenged me to think ahead to the next step as we built our new impact management approach. And I gained an amazing set of peers to go to on anything from technical questions on impact ratings to how to build consensus with our internal team and Board”

**Caitlin Rosser**  
Calvert Impact Capital

## Past Publications

	Origin at Root Capital 2010 - 2017	Impact Frontiers Collaboration 2018 - 2020
<b>Stanford Social Innovation Review</b>	<a href="#">Toward the Efficient Impact Frontier</a>	<a href="#">How Investors Can Integrate Social Impact With Financial Performance to Improve Both</a>
<b>Self-published investor guides</b>	<a href="#">Constructing a portfolio on the efficient impact-financial frontier within one asset class</a>	<a href="#">Impact-Financial Integration: A Handbook for Investors</a>

See also the [Harvard Business School Case Study](#) and [portfolio construction simulation](#) taught annually at business schools including Boston University, Duke, Harvard, Northwestern, NYU, and Yale.