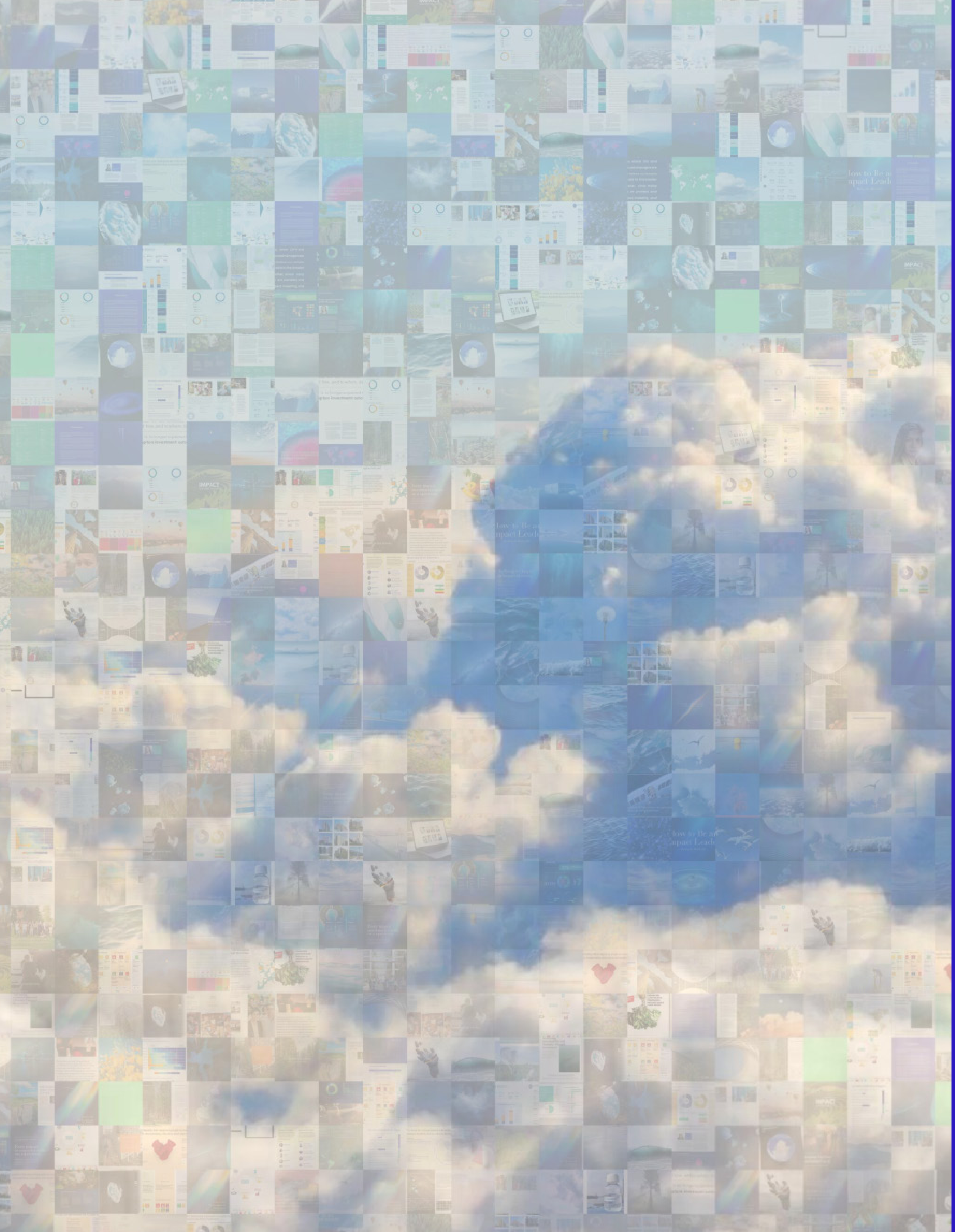
BLUE MARK

raising the bar

Aligning on the Key Elements of Impact Performance Reporting

APRIL 2022



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About BlueMark

BlueMark is a leading provider of impact verification services for investors and companies. Founded in 2020, BlueMark's mission is to "strengthen trust in impact investing."

BlueMark's verification services are structured around the two key pillars of accountability for impact:

- **Impact Management Practice** *(the extent to which an investor or company has the systems, processes, and capabilities to contribute to achieving the intended impact); and*
- **Impact Performance** *(the extent to which an investor or company has achieved the intended impact results).*

BlueMark's verification methodologies draw on a range of industry standards, frameworks and regulations, including the Impact Management Project (IMP), the Operating Principles for Impact Management (Impact Principles), the Principles for Responsible Investment (PRI), SDG Impact, and the Sustainable Finance Disclosure Regulation (SFDR).

At the time of the publication of this report, BlueMark has completed more than 65 verifications for impact investors managing a combined $156+ billion in impact-oriented assets.

Learn more about BlueMark and impact verification at *www.bluemarktideline.com.*

Acknowledgements

This research was made possible with the support of grant funding from The Rockefeller Foundation and the Tipping Point Fund on Impact Investing.

The lead authors for this report from BlueMark are Sarah Gelfand, Managing Director and Tristan Hackett, Director at BlueMark. Laura Budzyna, an independent consultant to BlueMark, facilitated stakeholder consultations throughout the research process and contributed significantly to the authoring of this report. BlueMark CEO Christina Leijonhufvud provided critical input and advice throughout the research and report development. Research contributions from Senior Associate Mohit Saini, Associate Shivam Desai, Senior Analyst Chris Terwisscha van Scheltinga and Analyst Mya Stanislas were also instrumental in producing the report.

We would also like to extend our gratitude to the team at 17 Communications (Dmitriy Ioselevich and Sule Dedekarginoglu), and Dustin O'Neal, Founder & Creative Director of Great Jones Studio, for their partnership in the development of this report.

To reference this report in future research, please use the following citation: **BlueMark. "Raising the Bar: Aligning on the Key Elements of Impact Performance Reporting." (April 2022)**

Allocator Working Group

We would also like to thank the members of BlueMark's Allocator Working Group, an informal group of leading institutional allocators with a shared commitment to advancing best practices in impact management. Members of the group include the below individuals who provided invaluable input and feedback throughout this research process:

Bank of America	Anna Snider, *Head of Due Diligence, Global Wealth and Investment Management CIO Office*
Big Society Capital	Phillip Essl, *Head of Impact*
Brightlight	Tim Macready, *Chief Investment Officer*
Brightlight	Mark Ingram, *Chief Impact Officer*
British International Investment	Liz Lloyd, *Chief Impact Officer*
CapRock	Mark Berryman, *Managing Director, Impact and Sustainable Investing*
Ford Foundation	Margot Brandenburg, *Senior Program Officer*
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Morgan Stanley	Jamie Martin, *Managing Director, Global Sustainable Finance*
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The Rockefeller Foundation	Mike Muldoon, *Managing Director Innovative Finance*
The Rockefeller Foundation	Carli Roth, *Associate Principal*
UBS Global Wealth Management	Andrew Lee, *Managing Director, Global Head of Sustainable and Impact Investing*

Foreword

A popular trope in the impact investing community is that what gets measured gets managed. Indeed, there has been tremendous progress in recent years towards standardizing best practices for both impact measurement and impact management, thanks to the important field-building efforts of the Global Impact Investing Network (GIIN), Impact Management Project (IMP), Operating Principles for Impact Management (Impact Principles), and many others.

But for the impact investing industry to scale—and to scale with integrity—we need to also align on best practices for impact performance reporting.

Performance reporting has always been an important part of how investors, businesses and other stakeholders evaluate progress and make decisions. In the same way that financial reports are essential to the analysis and management of financial performance, impact reports are a critical input to understanding impact performance.

But the path to decision-useful reporting isn't just about aligning on a common set of metrics. Comparing the EBITDA of two companies is just one data point–it doesn't provide the full story of what's needed to gauge which company will be more financially successful in the long run. The impact investing market faces a similar challenge. Even if we could all agree on the value of a metric ton of carbon, 100 new jobs, or 10 new schools, reporting these social and environmental outputs isn't the same as reporting on impact performance. We need a more context-dependent set of tools and techniques to fully understand how a business or investor is meeting its impact objectives and any significant risks or unintended consequences along the way.

Today, the impact investing market is severely limited in its ability to interpret and draw conclusions from impact reports, largely due to the significant variability in the content and quality of these reports. This variability stems directly from the lack of widely-accepted guidelines for what quality impact reporting looks like.

The imperative to improve the quality and decision usefulness of impact reports was the driving motivation for BlueMark's research to understand the current state of reporting, align on the key elements of quality reporting, and propose pathways to improve the usefulness of impact reports going forward. This "Raising the Bar" report is the first in a series that will continue to explore how we, as a field, can progress towards a higher standard for reporting on impact performance.

While the market has a long way to go to reach this north star, we can take comfort in the fact that many LPs and GPs agree on what the common elements of impact performance reporting should be. These elements are the main subject of this research paper and serve as a foundation for the impact investing market's continued growth and evolution.

Recent regulatory and market-driven developments aimed at standardizing the measurement and disclosure of key sustainability issues, in particular climate change, should help accelerate this evolution. From rules proposed by financial regulators like the SEC, FCA and ESMA to standards introduced by the International Sustainability Standards Board (ISSB), there is strong momentum behind improving the quality and consistency of disclosures and creating more harmonization between different approaches.

The better impact investors can measure impact, the better they can manage it and ultimately report on how they are making a positive (or negative) contribution. This is not just our vision, but the vision of many of the pioneers of the impact investing movement who foresaw a future where reports about social and environmental impacts are treated with the same level of attention as financial reports.

For the impact investing market to reach the influence and scale needed to address our most urgent sustainability challenges, we need a shared language and set of tools for how to evaluate impact performance. The key elements of impact reporting represent that language, a way for impact investors and their stakeholders to communicate about objectives and successes, as well as risks and failures. And to facilitate interpretation of this information, we will need benchmarks, ratings, and verifications provided by trusted, third-parties.

BlueMark has an important role to play in this evolution of the impact investing industry. Just as shareholders depend on audited financial statements to understand how their investments are performing, institutional allocators rely on verified impact reports to understand how impact investors are performing. Together, let's raise the bar for impact performance reporting.

Christina Leijonhufvud

CEO & CO-FOUNDER, BLUEMARK

Research Approach & Methodology

"Raising the Bar" is the first in a series of BlueMark research papers about impact performance reporting. The focus and goal of this first report is to clarify emerging impact performance reporting best practices and identify viable pathways for driving uptake of those practices. Future reports will explore approaches to third party verification of impact reports and include aggregated findings and insights from such verifications.

Through our work verifying the impact management systems of diverse impact investors, both GPs and LPs, we have witnessed the disconnects and frustrations surrounding the use of impact reports and see the necessity for a shift in current practice. While we believe the market ultimately needs both reporting standards and external assurance in order to improve the usefulness of impact reports, we initiated this research uncertain about the market's current level of alignment around best practices and appetite for change. As such, our research focused specifically on reporting by private markets impact investors and explored three overarching questions:

1. **What is the current state of impact performance reporting?**
2. **What are the market's views on best practices for impact reporting?**
3. **What are promising pathways for improving the quality and usability of impact reports?**

Our research approach included both interviews with industry stakeholders and an analysis of current impact reports.

Report review: We analyzed a sample of 31 recent impact reports to identify trends, including common practices and key challenges *(see Appendix page 36 for our data analysis based on this sample).* We reviewed each report and checked for the presence of certain elements to gauge: (1) *completeness*, or the degree to which the report included the information needed to understand impact results and risks, and (2) *clarity*, or the degree to which the information in the report was clearly defined and easily interpretable.

Interviews and focus groups: We spoke with 57 industry stakeholders to gain insights into needs and challenges related to preparing and consuming existing impact reports. Our conversations included 26 one-on-one interviews and six focus group discussions. These stakeholders included report producers (GPs), report consumers (LPs), and report framers (standard setters and experts in impact measurement and management). *(A list of the research we reviewed is included in the Appendix on page 32.)*

In preparing for this research, the BlueMark team also reviewed existing publications about impact performance reporting. These pieces provided an important foundation for understanding varied views related to impact reporting and prior attempts at bringing more clarity to the market.

While we designed our research process to be inclusive and reflective of the voices and perspectives of a wide range of industry stakeholders, we acknowledge that our approach had certain limitations that may affect the relevance and usefulness of the findings and that further research is still needed. These limitations, which also represent potential areas of future research, include:

- Small sample size for report analysis, which may not necessarily be representative of the broader impact investment market
- Exclusive focus on private markets, which means some findings and recommendations may not be applicable to other segments of the financial markets (i.e., public markets)
- Bias towards established GPs, since typically only those GPs with substantial experience in impact investing will have gone through the effort of publishing an impact report
- Bias towards industry stakeholders based in Europe and the United States, who may have a different perspective on reporting challenges and potential pathways than those based in developing markets

Key terms

Some of the key terms used in this research paper and their definitions are included here:

Impact management: The Global Impact Investing Network (GIIN) defines impact management as "identifying and considering the positive and negative effects one's business actions have on people and the planet, and then figuring out ways to mitigate the negative and maximize the positive in alignment with one's goals." Impact management is inclusive of impact measurement–which is specifically about measuring positive and negative impacts–and is sometimes collectively referred to as impact management and measurement (IMM).

Impact report: Within the context of this research paper, impact reports (or impact performance reports) are defined as a tool for communicating impact-related progress and results across a portfolio of investments and investment activities. This type of reporting is similar to but distinct from organization-level impact reporting because of its additional focus on investor-level goals, contributions, and results. It is also distinct from financial reporting, which focuses on information that is material to understanding financial performance. Impact reports can be prepared for specific stakeholders (e.g. investors) and/or made publicly available. This paper primarily focuses on reports prepared for investor stakeholders.

Report producers: Investors that prepare impact reports, also referred to as General Partners (GPs) or fund/asset managers. This can include both investors in companies and investors in other funds (i.e., fund of funds).

Report consumers: Investors that request impact reports, also referred to as Limited Partners (LPs) or asset allocators.

Report framers: Organizations and individual experts that develop insights and guidance related to industry best practices and their implementation, including standard-setters, regulators, industry consultants, network leaders, and research/data providers.

Introduction to Impact Performance Reporting

Impact reporting has the potential to play a critical role in holding fund managers accountable to their impact claims and practices, enabling capital allocation decisions based on a manager's successful impact performance, and deepening understanding of the ways impact investments contribute to solving social and environmental challenges.

Investors in impact funds (or LPs) benefit from quality impact reporting in several ways:

- **Due diligence:** When evaluating the credibility of a GP's impact strategy, impact reports provide a basis for gauging whether the GP's approach has been effective in driving change in the past. This information is an important complement to data about an investor's impact management practices and policies, which provide insight as to how they have operationalized their impact-focused activities but do not address the effects of those activities.
- **Ongoing engagement:** Impact reports provide a mechanism for assessing a GP's progress relative to goals and deepening understanding of both opportunities and risks. Even though the time horizons for understanding what impact has been achieved are typically quite long, regularly reviewing and discussing impact data and learnings can help with proactively identifying interventions to improve results and ensure alignment in expectations.
- **External reporting:** Timely and quality impact reporting ensures LPs have the information they need to communicate with their own clients about the impact in their portfolios. Providing clients with these data is key to ensuring their sustained confidence in deploying capital for impact.
- **Learning and improvement:** Regular review and synthesis of impact performance results provides LPs with insights and learnings that can be used to refine an impact strategy or approach.

Fund managers (or GPs) also stand to benefit from quality impact reporting:

- **Investor relations:** A GP that can provide its investors with regular impact information that is useful and insightful is better positioned to establish trust and attract future investors than one who is unable to offer this information.
- **Portfolio company engagement:** Impact reports provide a mechanism for GPs to engage with their portfolio companies and promote transparency and alignment with respect to the GP's impact narrative, contributions, and expectations for a given portfolio company.
- **Learning and improvement:** Regularly documenting impact performance and learnings provides a mechanism for reflecting on which strategies are working and which are not, ensuring continuous learning and improvements for both individual practitioners and for the field at large, contributing to the credibility of the industry as a whole.

Despite the numerous benefits of quality impact performance reporting, market actors are broadly unsatisfied with the current state of impact reporting. This is due in large part to the lack of widely-accepted guidelines for reporting on impact performance, which has led to inefficiencies in producing and consuming reports. While this report does not go so far as to recommend a set of guidelines, it lays out a set of key elements that most market actors we spoke to identified as critical to a good report. It is our hope that outlining these elements and pathways to promote their adoption will provide a useful first step toward establishing a higher bar for impact performance reporting.

Impact Performance Reporting: Market Landscape

The impact investing industry has made tremendous strides establishing common expectations and norms for many aspects of what it means to be an impact investor. In particular, impact management practice standards[1] have clarified and driven consensus as to best practices for integrating impact considerations throughout the investment lifecycle. In addition, the field has coalesced around the key dimensions for understanding impact as outlined in the work of the Impact Management Project (IMP). The field has also largely aligned on standardized definitions and common sets of measurable indicators for specific impact themes.[2]

Relatedly, advances in corporate sustainability reporting and ESG-related disclosures continue to gain momentum with the help of emerging regulations[3] and the consolidation of several frameworks within the International Sustainability Standards Board (ISSB). Moreover, investors are increasingly being held to reporting scrutiny with the launch of the EU's Sustainable Finance Disclosure Regulation (SFDR) and accountability to environmental claims through various climate-focused standards.[4] These and other related market developments have been discussed in greater detail in several recent landscape reports.[5]

Despite this broad industry progress, market actors remain broadly unsatisfied with the prevailing state of impact performance reporting *(see the following section for a deeper analysis).* Indeed, most impact investors still approach impact reporting in a bespoke way, drawing selectively on various impact measurement and management frameworks.

Methodologies to create normalized and comparable impact performance data are beginning to emerge, with the GIIN's COMPASS Methodology[6] offering a promising roadmap for impact investors—including serving as the analytic backbone for the GIIN's IRIS+ impact performance benchmarks.[7]

1 Standards for impact management include the Operating Principles for Impact Management (OPIM), SDG Impact, and OECD-UNDP Impact Standards for Financing Sustainable Development.

2 Standards for impact measurement include the Impact Reporting and Investment Standards (IRIS+), Harmonized Indicators for Private Sector Operations (HIPSO), and Joint Impact Indicators (JII)

3 Regulations for sustainability reporting include the Corporate Sustainability Reporting Directive (CSRD), Non-Financial Reporting Directive (NFRD)

4 Standards and frameworks for climate reporting include the Task Force on Climate-Related Financial Disclosures (TCFD), Partnership for Carbon Accounting Financials (PCAF), Science Based Targets Initiative (SBTi)

5 To learn more about recent industry trends and the intersection between industry standards and financial regulations, consider reading BlueMark's recent report with Morgan Lewis on "Making Sense of Sustainable Investing: How Asset Managers Can Comply with Financial Regulations and Align with Industry Standards" as well as the series of reports produced by the Impact Taskforce on "Mobilising private capital at scale for people and planet."

6 In May 2021, the GIIN published "COMPASS: The Methodology for Comparing and Assessing Impact" as a proposed framework for how impact investors can assess and compare impact results.

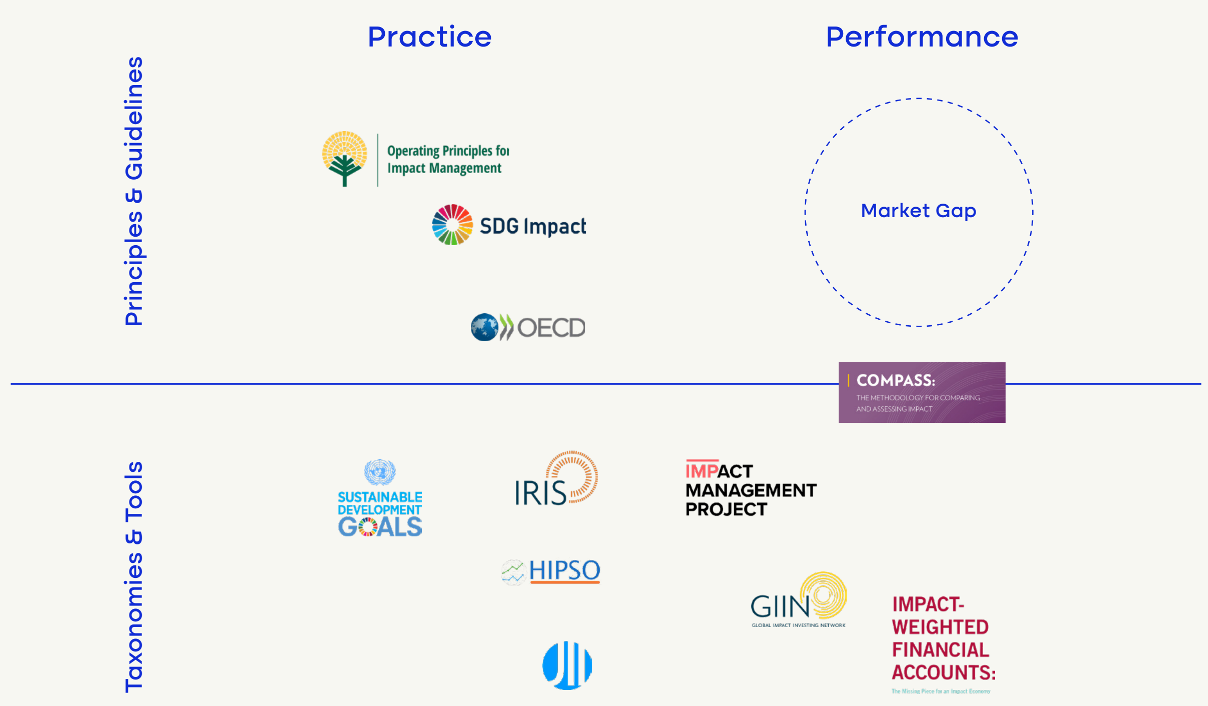
7 In March 2022, the GIIN published its first impact performance benchmark as a tool that enables investors to analyze the impact performance of investments within a sector, with an initial focus on financial inclusion. More information about the IRIS+ Impact Performance Benchmarks is available at https://thegiin.org/research/publication/iris-impact-performance-benchmarks-overview.

Additionally, Impact Weighted Accounts (IWA)[8] is leading the way on how to integrate impact into traditional accounting. However, these ambitious efforts will take time and continued refinement to earn market-wide adoption. Further, even with increasingly sophisticated methodologies for comparing and aggregating data, investors still require practical guidance as to the key content elements that should be present in impact reports.

Figure A illustrates this gap by highlighting a sample of (1) leading impact management principles and guidelines for impact investors and (2) taxonomies and tools to facilitate their implementation. The figure shows the presence of guidance related to impact management practice. However, despite an emerging set of methodologies for conveying impact (IMP), measuring impact (IRIS+), and comparing impact performance data (e.g., COMPASS), the market still lacks any unifying standards outlining what constitutes complete and quality ***impact performance reporting.*** This research paper is focused on laying the groundwork to address that gap.

FIGURE A

Impact Accountability Framework for Investors



8 The Impact-Weighted Accounts Initiative (IWAI) is a research-led joint effort by the Global Steering Group (GSG) and the IMP–originally incubated at Harvard Business School–to drive the creation of financial accounts that reflect a company's financial, social and environmental performance. Learn more at https://www.hbs.edu/impact-weighted-accounts/Documents/Impact-Weighted-Accounts-Report-2019.pdf

Current State of Impact Performance Reporting

Our research reinforced many previous findings[9] about the limitations of impact performance reports and further surfaced some of the underlying reasons for these issues. While we hypothesized that the lack of impact performance reporting standards was one of the primary barriers to improving reporting, our conversations surfaced a more nuanced set of dynamics that the market will need to contend with as it works to raise the bar.

Scan of Impact Reports

As a starting point, our team analyzed a sample of 31 recent impact reports, 21 of which are in the public domain, prepared by impact GPs. We sought reports created after 2019 and prepared by managers of different sizes investing across a variety of geographies and sectors. *(More details on the characteristics of the fund reports included in the sample can be found in the Appendix on page 36.)*

We found that the reports in the sample were highly variable in structure, length, and content, and that they broadly lacked comparable or contextualized information. **Figure B** describes some of the key attributes we evaluated and their relative prevalence in our sample.

To deepen our understanding of what drives these patterns, we conducted 26 interviews and six focus groups with report producers (GPs), report consumers (LPs), and report framers (standard setters and impact management experts). From these conversations, four key dynamics emerged:

9 See the Appendix for a detailed list of market research and insights about impact performance reporting, including the GIIN's"The State of Impact Measurement and Management Practice" and Wharton Social Impact Initiative's research on "The Challenge of Measuring Impact Performance"

FIGURE B

Key Attributes and Findings Based on BlueMark Analysis of Impact Reports

Attribute	Finding
Description of objectives	• Most reports **(87%)** describe the fund's overarching impact objectives • The majority of reports **(76%)** align their objectives to standardized frameworks (e.g. the SDGs). • Most reports **(87%)** discuss the impact rationale for those investments spotlighted in the report
Coverage of all portfolio companies	• Only a third of reports **(35%)** included information about all of the investments in the portfolio, suggesting that "cherry picking" of results is common
Information about risks + underperformance	• Reports focused primarily on successes, omitting negative results. Just **39%** of reports included commentary about impact risks, only **25%** included commentary about impact underperformance, and 0% included quantified negative impacts.
Incorporation of stakeholder perspectives	• Less than half of reports **(45%)** included data or case studies that represented the perspective of stakeholders directly affected by the GP's decisions, such as portfolio company workers and community members.
Portfolio-level results	• A majority of reports **(71%)** included one or more aggregated portfolio-level metrics. However, these metrics were rarely presented in relation to targets.
Investment-level results	• **74%** of reports included investment-level metrics that addressed two or more of the IMP's five impact dimensions, but only **10%** reported on all five dimensions for all investments in their report
Use of standardized indicators	• Fewer than half of the reports **(38%)** presented expected targets alongside actual results at the investment-level. LP-facing reports were much more likely to report on expectations against results than public reports **(60%** in LP reports vs. **25%** in public reports), revealing the potential for greater transparency when sharing reports with investors • Fewer than half of the reports used standardized indicators **(44%)** or cited the sources/definitions for the metrics included, limiting the comparability of the reported data

1. Given the variety of impact measurement frameworks and inconsistent LP demands, GPs are hard-pressed to find a common approach to reporting.

As we saw in our report scan, fund-level impact reports are highly inconsistent, both in content and format. Several underlying reasons contribute to this variability.

First, the last decade has seen a proliferation of impact measurement standards and methodologies, often in competition with one another. Some of this heterogeneity is necessary, as measurement frameworks naturally differ by sector and impact strategy, while some is a result of a lack of consensus between competing methods or schools of thought. While several harmonization efforts are underway, investors still feel overwhelmed by the number of approaches and the lack of consistent guidance.

Second, GPs are responding to custom reporting requests from their LPs, whose impact priorities and reporting preferences often differ substantively from one another. We heard multiple stories from GPs about their need to report on different metrics for each of their LPs, even recalculating the same measures using different formulas. The LPs we spoke to recognized the potential value of harmonizing their reporting requests, but noted the challenges to align with other LPs' timelines, priorities, and requirements.

"The approach of our field has been to let a thousand flowers bloom around metrics and methodologies...And those thousand flowers blooming has led to market and investor confusion."

FRAN SEEGULL
President, U.S. Impact Investing Alliance

Finally, GPs often find that standard frameworks do not meet their needs. For instance, certain standardized metrics may not be specific enough to the impact strategy of a portfolio company or fund. This leads GPs to report in a customized way, positioning their bespoke impact frameworks as a differentiator.

The result is that GPs are overwhelmed by inconsistent and contradictory information requests, while LPs are struggling to compare information from one fund report to another or to aggregate impact data across multiple reports. Effectively, these bespoke efforts increase the cost of preparing reports while reducing their value.

Key Question for Market Actors: *How can we harmonize what information is included in impact performance reports to reduce inefficiency and boost their usefulness?*

2. Impact performance reports are primarily used to support fundraising and marketing efforts, rather than for decision making.

Our report analysis showed an overemphasis on aggregate output metrics, cherry picking of portfolio companies, and a notable absence of information on underperformance or negative impacts. All of these are symptoms of a dynamic widely cited by our interviewees: that impact reports are often more performative than strategic, serving primarily to support marketing or fundraising efforts.

"In the well-intentioned race to produce a slick and accessible report...there can be a focus on counting the wrong things, or attributing perhaps too much weight, importance or credibility to certain types of metrics."

MARIEKE SPENCE
Executive Director, Impact Capital Managers

Interviewees were frustrated that aggregate output metrics, sometimes referred to as "vanity metrics," form the centerpiece of many reports. These metrics are generally presented out of context, making it difficult to interpret relative performance.

While many GPs find this type of reporting superficial, they perceive that this is what LPs and their end clients are looking for.

"With impact investing becoming more competitive, there's increasing pressure on investors to showcase or demonstrate impact with big, sexy numbers - but this approach runs counter to the industry's movement towards contextual, rigorous, and outcome-focused impact measurement."

KRISTIN SADLER
Manager - Platform & Impact, Quona Capital

The LPs we interviewed expressed frustration over the prevalence of cherry picking, where impact reports highlight success stories and omit cases of impact risk or underperformance. Indeed, only 35% of the reports we analyzed included information on all the portfolio companies in the fund, suggesting that certain companies were excluded so as not to reflect negatively on a GP's impact efforts. While LPs found that this significantly limits the usefulness of reports, GPs are hesitant to reveal cases of underperformance when their competitors are not doing the same.

The result of this emphasis on reporting for marketing purposes is a missed opportunity on both sides for richer performance analysis and deeper engagement as to how to improve impact.

Key Question for Market Actors: *How can impact reports serve strategic decision making rather than only marketing?*

3. Many impact investing frameworks emphasize standardized metrics over qualitative information, despite both being central to understanding impact performance.

"Impact is not something we can fully and objectively measure with scientific precision, just because of its multi-faceted and context-specific nature. We need to take this complexity into account when measuring and interpreting impact data."

STEFAN LÜGSTENMANN,
Impact and ESG Specialist, LGT Capital Partners

While the impact invsting market has made significant progress standardizing definitions for common impact metrics in recent years, many stakeholders we spoke to feel that the field has overemphasized standardized metrics and quantitative precision at the expense of important context information.

Many expressed concern that impact reporting might go the way of ESG disclosures, focusing on a limited number of quantifiable data points. Instead, most market actors agree that conveying impact performance requires a combination of both quantitative and qualitative information. Interviewees underscored the importance of qualitative data, not only to connect with readers on a human level, but also to clarify how an investment led – or did not lead – to the fund's objective.

"I think that stories more effectively identify successes and failures in the theory of change than metrics. Stories more readily point to the role that has been played by the capital: I got this loan, therefore, I bought this sewing machine, therefore, my income improved."

TIM MACREADY
Chief Investment Officer, Brightlight

Interviewees linked this challenge to the absence of stakeholder voice in most reports. While many pointed to the high financial costs of engaging directly with stakeholders, several also pointed to the fact that impact reports reflect funds' accountability to asset owners, and not to the stakeholders most affected by the investments in question.

Interviewees noted the tension between the advantages of simple, quantified reporting and the need for more complex, nuanced reporting that focuses on strategy, context, and learning.

Key Question for Market Actors: *How can context, nuance, and stakeholder voice be integrated effectively into impact reports?*

4. GPs currently have little incentive to be a 'first-mover' in producing more balanced, decision-useful reporting.

Across the board, our interviews revealed a general dissatisfaction with the current state of impact performance reporting. While the market has a clear appetite for more useful and higher quality impact reporting, the lack of aligned incentives inhibits progress and keeps the field in a negative equilibrium. In other words, the costs of high quality reporting—both financial and reputational—outweigh the potential benefits for any individual GP or report producer.

First, LPs aren't consistently signaling a desire for better reporting. Although the LPs we spoke to aspire to use impact reports more effectively and to gauge impact opportunities and risks, they are reluctant to define a higher bar for their reporting requirements. Many LPs are not sure what requirements to set or whether their requests would be realistic for their GPs. Further, LPs are not homogenous with respect to their needs and uses for impact data.

"It's like we've settled into a negative equilibrium, where everybody agrees that the status quo is suboptimal. But nobody wants to be punished for being the first to move too early to a better practice. Because why would you be the foolish first mover towards transparency?"

MIKE MCRELESS
Executive Director, Impact Frontiers

"It's been challenging to universally apply the impact reporting frameworks developed thus far to a large wealth management platform, where our clients have a very broad range of impact goals and impact sophistication across their public, private and donor advised fund allocations. We can certainly signal our interest for GPs to adopt and align to existing impact frameworks and infrastructure. But at the same time, we think it's still too early to be overly prescriptive."

JAMIE MARTIN
Managing Director, Morgan Stanley

GPs experience this inconsistency, and while many believe there are benefits of providing robust impact reports to their LPs, they are frustrated by the heterogeneity in requests. They also express doubts about the extent to which the data they share is actually being used by LPs.

The latter concern limits GPs' willingness to expand the scope and depth of their reporting - especially when it comes to being more transparent about risks. For instance, it is difficult for any one individual GP to take on the first mover role in sharing underperformance or negative impacts while their peers choose to report only positive results, because the benefits are unclear and the risks are more certain. All of this is exacerbated by the reality that the cost of quality impact measurement and reporting remains a challenge for many GPs.

"From a reporting perspective we have one group of investors who only review the numbers at a high-level, asking no additional questions, whereas other investors really interrogate what we produce."

HANNES SOLL
Impact, ESG, and Value Add Specialist, Summit Africa

The final dynamic at play is that the field has lacked an independent, authoritative voice setting out expectations for the market as to what good reporting should look like. This absence has made it challenging for individual actors to know the basis against which to "step up" their reporting. Several stakeholders raised serious concerns about an industry that is effectively regulating itself and therefore not holding itself to account. Interviewees perceived this as, at best, a mark of the immaturity of the field, and at worst, an alarm bell for high levels of unmanaged and unchecked impact risk.

Key Question for Market Actors: *How can we minimize the risks and increase the rewards for GPs to change how they report on their impact performance?*

The role of verification in driving higher-quality reporting

Verification may drive better quality reporting, but alignment on good reporting practices is a prerequisite.

Interviewees agreed that third-party verification is a natural and inevitable outgrowth of a maturing field and a necessity to prevent impact washing. Some also see it as a potential solution to several existing challenges: a way to accelerate uptake of standards and comparability of data, to improve data quality all along the value chain, to validate outcomes experienced by stakeholders, and to integrate decision-useful interpretations and recommendations.

LPs were broadly united in their desire for a way to hold fund managers accountable for their impact performance reporting, with external verification seen as the most likely accountability mechanism in the absence of regulation. However, interviewees broadly agreed that, at this moment, verification of impact performance reporting is a pioneering practice pursued primarily by market leaders. For verification or any other accountability mechanism to gain broader market acceptance, both LPs and GPs need to see the value and utility of a third-party perspective. To enhance and illustrate this value, verifiers can offer thoughtful assessments that go beyond a box-ticking exercise, LPs and networks can encourage and support GPs to engage in verification, and GPs can share their experiences with peers. To help ease the way for more GPs and LPs to adopt verification, multi-stakeholder collaborations and commitments by leading allocators will be a critical next step to demonstrating the value and mainstreaming this practice in the near-term.

"In the long run, I don't think the system holds together without assurance and verification of performance."

MIKE MCCRELESS
Executive Director, Impact Frontiers

Ultimately, the critical foundational step to expand the practice of verification will be a common authoritative reporting standard or set of principles to verify against.

Key elements of quality impact reports

Amidst the complex dynamics surrounding impact reporting, our research surfaced a very encouraging finding – report producers, consumers, and framers widely agree about what a good report looks like.

When asked what information a good impact report should include, the stakeholders we interviewed aligned around a core set of common elements that they consider to be a "north star" for quality reporting. This suggests that, as a field, we are closer than we think to establishing shared guidelines to "step up" the quality of reporting.

We have organized these points of consensus into overarching and specific elements for impact performance reporting. The **overarching elements** describe fundamental characteristics of quality impact reporting (**Clarity** and **Completeness**), while the **specific elements** describe the types or categories of information that should be included within a quality impact report.

See **Figure C** below for an overview of these elements and the table on the next page for a more detailed breakdown.

FIGURE C

The Key Elements of Quality Impact Reports

Clarity

Defined objectives and expectations	Articulated objectives Investor contribution Transparent expectations
Relevant metrics	Clear link to objectives Standardized indicators Breadth and depth
Relative performance results	Performance relative to targets Performance over time Performance relative to external benchmarks
Integrated stake-holder perspectives	Description of stakeholders Stakeholder relevance Stakeholder feedback and outcomes
Transparency into risk and lessons learned	Impact risk Lessons learned

Completeness

OVERARCHING ELEMENTS

Clarity

A quality report presents impact information in a manner that is digestible and that facilitates interpretation.

- Reports should present information in a format that is accessible and intuitive.
- Reports should clearly cite definitions, how data was collected, and the underlying calculations/assumptions for derived indicators

Completeness

A quality report provides the full balance of relevant information needed to understand impact results and risks, avoiding 'cherry picking' of selected successes.

- Reports should include results from all portfolio companies.
- Reports should address performance at both the portfolio level and the investment level.
- Reports should include both positive results and underperformance.

SPECIFIC ELEMENTS OF QUALITY IMPACT REPORTS

Defined objectives and expectations

A quality impact report is explicit about the fund's intent and impact objectives.

Articulated objectives: The report should identify the investor's impact objectives at the portfolio level. This can be done in narrative form, or by using an impact logic model or theory of change. For each underlying investment, the report should describe the fit with the fund's objectives.

Investor contribution: Articulated objectives should also address the investor's intended strategies to drive impact via its capital and/or value creation activities.

Transparent expectations: The report should be clear and precise about the expected results within each impact objective. This can include linking to quantitative output targets and, where possible, outcome targets (e.g., % reduction in emissions).

Relevant metrics

A quality impact report includes quantitative metrics that help illustrate the impact performance of each investment and, where appropriate, the aggregated impact performance of parts or all of the portfolio.

Clear link to objectives: The metrics included in the report should explicitly link to the articulated impact objectives.

Standardized indicators: Where possible, funds should report in line with standardized metric sets (e.g., IRIS+) and definitions. Custom metrics may be appropriate where standards do not exist or do not adequately capture the investment's impact thesis.

Breadth and depth: Metrics should seek to quantify both the reach/breadth of the impact (e.g. how many people are experiencing the outcome) as well as the depth/degree of change experienced by affected stakeholders (e.g. the difference in outcome compared to a baseline).

Relative performance results

A quality impact report provides information that allows the reader to effectively interpret measures of progress and performance.

Performance relative to targets: The report should present performance results alongside the investment's targets or expectations over time, providing visibility into areas where performance has met, exceeded or fallen below expectations.

Performance over time: The report should present year-over-year performance results to provide an internal reference point and illustrate trends over time.

Performance relative to external benchmarks: Where possible, the report should present performance results relative to relevant external benchmarks (e.g., Paris Alignment) or targets (e.g., SDG targets).

Integrated stakeholder perspectives

A quality impact report identifies affected stakeholders and incorporates their experiences and voices.

Description of stakeholders: The report should clearly define the stakeholder group(s) experiencing the intended outcomes of an investment(s)

Stakeholder relevance: The report should provide evidence or rationale as to why the fund or investment's intended outcomes are material to these stakeholder groups.

Stakeholder feedback and outcomes: The report should include information that reflects stakeholders' direct experiences with the related intervention (e.g., narrative stories or case studies alongside quantitative metrics).

Transparency into risk and lessons learned

A quality impact report is forthcoming about potential impact risks and past lessons learned.

Impact risk: Reports should acknowledge both potential and observed areas of impact risk for individual investments, and where relevant for the portfolio.

Lessons learned: Reports should include commentary about trade-offs, failures, and lessons learned over the duration of the fund's experience implementing its impact strategy.

The elements described above reflect and are predicated on many impact management best practices, including core concepts outlined in the Operating Principles for Impact Management such as establishing clear strategic impact objectives and monitoring impact risk. The elements also reflect the market's recognition of the multi-dimensional nature of impact performance as described in the work of the Impact Management Project.

Further, these concepts are closely aligned with many tenets in the IFRS Foundation's Conceptual Framework for Financial Reporting, which sets out the fundamental concepts for financial reporting that guide the International Accounting Standards Board (IASB) in developing IFRS Standards . In addition to clarifying the objectives and elements of financial statements, the Conceptual Framework describes the qualitative characteristics of information that is useful for decision making by investors. These characteristics are further broken out into "fundamental" and "enhancing" characteristics. The fundamental characteristics include relevance and faithful representation which are core to the elements surfaced through this research. The "enhancing" characteristics include comparability, verifiability, timeliness, and understandability - which are also represented in the concepts described above.[10]

Given the broad consensus on these elements among the diverse market actors we interviewed, along with their corollaries in both impact management and financial reporting, they form a promising foundation for a formalized set of guidelines for impact performance reports. These could be the first step toward an improved impact reporting equilibrium – one that drives value for LPs, GPs, and their stakeholders.

10 More information about the Conceptual Framework for Financial Reporting is available at https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/

Reflections on the key elements

"I think it's very important that the reasoning behind each investment is crystal clear, and that investors are able to demonstrate how the objectives of the selected investees are aligned with their own objectives."

ARNAU PICÓN
Research Associate, EVPA

"I think the ability to contextualize quantitative metrics is really important...'we improved the quality of 1,200 jobs' - was that a lot? Was that a little? What else could have been done? There's often no context, benchmark or reference point...I see it when I speak with people about impact using just absolute numbers - their eyes kind of glaze over just because they don't know what to do with those numbers in a vacuum."

MARGOT BRANDENBURG
Senior Program Officer, Ford Foundation

"We want financial health, not financial inclusion. In terms of financial health, we want to understand how financial resilience improves security and wellbeing of a household, and you only can get that through survey data."

MARK INGRAM
Chief Investment Officer, Brightlight

"A good impact report should acknowledge cases where a course correction was made and how impact data both revealed the need for that course correction and helped the investors navigate that change"

MAOZ (MICHAEL) BROWN
Head of Research, Wharton Social Impact Initiative

Pathways to Improve the Quality of Impact Reports

If the market agrees on the core elements of a high-quality impact report, there is reason to hope that the field can break out of its “negative equilibrium” and shift toward a more optimal one. However, aligning on these elements is only the first step. Next, the field will need an authoritative voice to carry the mantle to formalize a set of principles around quality reporting and drive their adoption. In parallel, asset allocators can create an enabling environment for better reporting, so that fund managers can feel free to experiment with more transparent reporting.

We asked interviewees how the field can move toward better reporting. After gathering input on several promising strategies, we pressure tested these pathways with industry stakeholders to identify the ones that the market seems most ready to implement.

In the end, all actors have a role to play to move the field forward. On the following pages. we have summarized what each type of actor can do, whether they are a **report framer** (e.g. standard setter or research/data provider), a **report consumer** (e.g. LP), or a **report producer** (e.g. GP). These actions are divided into three tiers – **Prepare** (lay the groundwork), **Promote** (implement), and **Pioneer** (optimize) – depending on an organization’s starting point.

Report Framers: *Consult, then codify*

- *Prepare:* Develop and harmonize guidance and best practices for impact reporting, in close consultation with investors
- *Promote:* Drive adoption by creating practical resources and tools, developing evidence of the value, and advocating with stakeholders
- *Pioneer:* Develop reporting templates to drive greater consistency and assurance standards to improve reporting rigor and quality

"The best starting point, in my opinion, would be to align on and establish industry-wide best practices for impact reporting. We want to build that foundational layer of a recognized standard so that impact investors can improve their reporting in an informed way."

KRISTIN SADLER
Manager - Platform & Impact, Quona Capital

Our research consistently underscored the need and value for more consistency in impact performance reports, both to support comparison and to provide greater confidence that the information disclosed is complete and balanced. As a foundational step, interviewees agreed that the market should align around a set of core elements that every impact report should include.

FIGURE D

Pathways to Improving the Quality of Impact Reports

	Prepare	Promote	Pioneer
Report Framers Consult, then codify	Develop and harmonize guidance and best practices for impact reporting, in close consultation with investors	Drive adoption of best practices by creating practical resources and tools, developing evidence of the value, and advocating with stakeholders	Develop reporting templates to drive greater consistency and develop assurance standards to improve reporting rigor and quality
Report Consumers Align, signal demand, and contribute to solutions	Coordinate with peer LPs to align on priority reporting needs and increase consistency in reporting requests	Request reporting that adheres to best practices and that is aligned with other LPs	Participate in industry efforts to build shared infrastructure that supports high quality reporting, analysis, benchmarking, and assurance
Report Producers Build capacity and experiment together	Adopt and implement impact management best practices to lay the foundation for producing quality impact reports	Develop impact reports that align with best practices, ideally in communities of practice	Obtain assurance of impact reports to validate performance and increase investor confidence

"Even if a standard setter leads it, I think that there needs to be a level of participation and buy-in that you create through the process...And I think it's through the right process that you create legitimacy."

PHILIPP ESSL
Head of Impact, Big Society Capital

Standards setters are well positioned as neutral, objective bodies that can lend an authoritative voice and an influential platform to a set of impact performance reporting guidelines. However, the legitimacy of any set of guidelines will depend on the engagement of a variety of stakeholders in their development. In particular, consultation with GPs and LPs is key to ensuring the guidelines meet the needs and constraints of those who produce the reports and those who consume the reports. Standard setters could play the role as conveners for these conversations, hosts for the set of guidelines, and advocates for their uptake.

Once these guidelines are solidified, standard setters can go on to translate them into practical tools for the sector, including case examples, reporting templates, and eventually assurance standards.

Report Consumers: *Align, signal demand, and contribute to solutions*

- *Prepare*: Coordinate with peer asset allocators to align on priority reporting needs and increase consistency in reporting requests
- *Promote:* Request reporting that adheres to best practices and that is aligned with other LPs
- *Pioneer:* Participate in industry efforts to build shared infrastructure that supports high quality reporting, analysis, benchmarking, and assurance

"I think that the investors to whom fund managers report—the LPs—need to indicate that they have an appetite for information on impact underperformance, that they care about it, want to see it, and won't penalize it."

MAOZ (MICHAEL) BROWN
Head of Research, Wharton Social Impact Initiative

Our interviews underscored the critical influence that LPs wield in driving better and more consistent reporting, while also noting that driving better reporting will require more than encouragement by any single LP. Greater alignment and coordination of requests among LPs is key to driving quality and also to reducing inefficiencies for report producers and consumers alike. LPs can coordinate not just on the level of specific co-investments, but also as a broader community of practitioners. As LPs vary in their timelines and uses of impact information, the work of aligning reporting requirements will not be straightforward. Still, many of the LPs we spoke with in the course of conducting this research signaled a willingness to collaborate in this way.

"If LPs request anything, it will be delivered swiftly."

OLENA VELYCHKO
Senior Impact Analyst, Nordea Asset Management

These coordination efforts go hand-in-hand with efforts to champion higher quality impact reporting across the impact investing industry. LPs have the potential to leverage their collective influence beyond their work with GPs and can move the field forward by contributing to thought leadership that signals that quality reporting matters as well as by engaging with standard setters and industry tool providers to shape and build the supporting ecosystem for quality impact reporting.

These efforts will lay the foundation for the creation of shared tools and platforms – like databases, rankings, ratings, and assurance services – that will facilitate efficient interpretation, assurance of quality, and benchmarking of impact data. As the market matures, report consumers will ultimately benefit from the existence of these tools for their own decision making. In the near-term, LPs can contribute to their creation and adoption by partnering with analytics, software, and assurance providers to contribute to the design and use of these solutions, which, in turn, will drive better reporting practices by promoting demand and highlighting gaps.

Report Producers: *Build capacity and experiment together*

- *Prepare:* Adopt and implement impact management best practices to lay the foundation for producing quality impact reports
- *Promote:* Develop impact reports that align with best practices, ideally in communities of practice
- *Pioneer:* Obtain assurance of impact reports to validate performance and increase investor confidence

Our interviewees emphasized that quality impact reports are predicated on strong impact management practices throughout the investment lifecycle. These practices are the basis for identifying which impact data to collect, understanding how to collect and analyze that data, and making sure the data is accurate and reliable. GPs can continue to focus on strengthening their own impact management practices, as well as those of their portfolio companies, to build a strong foundation for higher quality reporting. While GPs can take the lead on strengthening these practices internally, allocators and industry membership groups can encourage this by setting expectations for alignment with the Operating Principles for Impact Management, the SDG Impact Standards, or similar standards that define best practices for impact management.

Pathways: A pilot for producers

Announcing a BlueMark partnership with Impact Frontiers to pilot verification of impact performance reports

In the next phase of this research initiative, BlueMark will be collaborating with Impact Frontiers, a learning and innovation collaboration affiliated with the Impact Management Project and developed with and for asset managers, asset owners, and industry associations.

BlueMark will pilot an approach to verifying impact reports with a select group of “Report Producers” from the Impact Frontiers’ community. The verification methodology will build on the research findings in this report and will be used to (1) assess the quality of the participating firms’ impact reports and (2) gather feedback on the Key Elements as well as the verification approach. This pilot project will take place during the spring and summer of 2022. BlueMark and Impact Frontiers are committed to sharing the results of this pilot and the proposed verification approach as part of the next “Raising the Bar” publication - expected in late 2022.

"You need a community of practice somewhere along the line, who can then go along and say, look, it is doable...I remember Kate Ruff saying that standards are a community of practice, not a document. And that's right, they are a bunch of people doing something and agreeing to do it in a shared way. That's what a standard is really."

JEREMY NICHOLLS
Assurance Framework Lead, UN SDG Impact

GPs can also leverage communities of practice to experiment with and adopt better impact performance reporting. When GPs perceive high risks and low rewards when reporting with greater transparency, acting collectively is one way to overcome this risk. Simultaneously, these collaborative efforts can demonstrate for standard setters and other stakeholders which reporting approaches are most feasible and valuable for GPs. Industry membership groups can also offer facilitated spaces for GPs to learn, experiment, prototype and advocate collectively for better reporting. Pioneering practitioners and communities of practice can ultimately pursue external assurance of their impact reports, signaling their commitment to impact accountability and transparency and a commitment to identifying ways to improve.

"Part of our value proposition as an association is that we can help [fund managers] meet our expectations - while also making sense of existing standards and emerging best practices...coaching our members to get from A to B to C. We're not looking to show them a high bar and then leave them to twist in the wind. We want them to succeed."

MARIEKE SPENCE
Executive Director, Impact Capital Managers

Conclusion

The impact investing industry has a reputation for being innovative and nimble. Few market prognosticators could have predicted that the field would reach the size and shape it is today, with many of the world's largest financial institutions and investment firms embracing an impact-oriented approach. However, for the field to continue to scale and make a significant impact on the world's social and environmental challenges, it needs to reach agreement on a commonsense approach to impact performance reporting.

The good news from our research is that report producers and report consumers are generally aligned as to what decision-useful reporting looks like. This alignment is in large part thanks to the significant field-building work of the past decade that has brought impact investors together to develop standards and best practices for impact classification, impact measurement and impact management.

The challenge is that there is no single best path forward to build on this consensus. It's unrealistic to expect that the road to progress will be a smooth one. Each stakeholder will have a different role to play in pushing the field out of its "negative equilibrium," and close collaboration across stakeholders will be critical. Perfect harmonization of impact reports may be a pipe dream, but that shouldn't stop the field from trying to improve on the status quo and find commonalities that will increase the value of reporting for all.

This research is intended to help set the stage for the hard work that must follow. We at BlueMark are motivated to lead in using verification to accelerate this work, but we know we can't do it alone. To that end, we welcome any and all feedback on this first in a series of research reports about impact performance reporting. We will compile and share this feedback in a second "Raising the Bar" report planned for publication in late 2022, which will include a proposed methodology for verifying the inclusion of certain key elements in impact reports produced by GPs.

We encourage the impact investing field to hold us to the same high standard of transparency and accountability that we hold impact investors to during each verification assignment.

Appendix

Literature Review

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List of Interviewees & Focus Group Participants

We sought to interview a diverse set of actors in the impact investing ecosystem prioritizing those based on their relative levels of influence and interest in impact performance reporting. We developed structured interview guides to support consistent collection of data and insights from interviews and tailored them to explore the needs, challenges, and aspirations for by stakeholder type.

60 Decibels	Tom Adams, Co-Founder & Chief Strategy Officer
Accountability Counsel	Margaux Day, Policy Director
Amp Impact / Vera Solutions	Zak Kaufman, Co-Founder & CEO
Astanor	Leslie Kapin, Impact & Finance Principal
B Lab	Bart Houlahan, Co-Founder
Bain Capital	Cecilia Chao, Managing Director
Bank of America	Anna Snider, Head of Due Diligence, Global Wealth & Investment
Big Society Capital	Jeremy Rogers, CIO
Big Society Capital	Philipp Essl, Head of Impact
BlueOrchard	Anne Jackermeier, Associate Impact Manager
BlueOrchard	Maria Teresa Zappia, Deputy CEO
BlueOrchard	Nadina Stodiek, Senior Impact Manager
Brightlight	Mark Ingram, Chief Impact Officer
Brightlight	Tim Macready, Chief Investment Officer
British International Investment (BII)	Liz Lloyd, Chief Impact Officer
Calvert Capital	Caitlin Rosser, Director, Impact Management
Caprock	Mark Berryman, Managing Director, Impact and Sustainable Investing
Closed Loop Partners	Luba Shabal, Director of Impact
Development Partners International (DPI)	Vincent Lecat, ESG and Impact Specialist
Dream Unlimited	Pino Di Mascio, Head of Impact Strategy & Delivery
European Venture Philanthropy Association (EVPA)	Arnau Picón, Research Associate
European Venture Philanthropy Association (EVPA)	Gianluca Gaggiotti, Research Manager
Ford Foundation	Margot Brandenburg, Senior Program Officer
Generation IM	Lila Preston, Head of Growth Equity

Global Impact Investing NetworK (GIIN), IRIS+	Kelly McCarthy, Chief Impact Officer
Hall Capital	Mohammad Barkeshli, Vice President
Hall Capital	Elizabeth Fisher Marshall, Managing Director
Impact Investment Exchange (IIX)	Durreen Shahnaz, Founder & CEO
Impact Management Project (IMP)	Olivia Prentice, Head of Content & COO
Impact Capital Managers	Marieke Spence, Executive Director
Impact Frontiers	Mike McCreless, Executive Director
iPAR	Todd Johnson, Founder & CEO
Jordan Park	Emily Schiller, Senior Associate
LeapFrog Investments	Annelise Sauter, Manager, Impact Labs
Liechtenstein Global Trust (LGT) Capital Partners	Stefan Lügstenmann, Impact and ESG Specialist
Morgan Stanley	Courtney Thompson, Executive Director, Global Sustainable Finance
Morgan Stanley	Jamie Martin, Managing Director
Morgan Stanley	Lily Trager, Managing Director, Head of Investing with Impact
Nordea Asset Management	Olena Velychko, Senior Impact Analyst
Oxford University/London School of Economics	Aunnie Patton Power, Associate Fellow
Quona Capital	Kristin Sadler, Manager - Platform & Impact
Quona Capital	Monica Brand Engel, Co-founder & Partner
Resilience Capital Ventures	Dr. Gillian Marcelle, CEO & Founder
Salesforce	Andrew Means, Senior Director Global Impact Data Strategy
StepStone Group	Suzanne Tavill, Partner, Head of Responsible Investing
Summit Africa	Hannes Soll, Impact, ESG, and Value Add Specialist
Temasek International	Eliza Foo, Director
The Rockefeller Foundation	Carli Roth, Associate Principal
The Rockefeller Foundation	Mike Muldoon , Managing Director, Innovative Finance
Tufts University	Alnoor Ebrahim, Professor of Management
UBS Global Wealth Management	Andrew Lee, Managing Director, Global Head of Sustainable and Impact Investing
United Nations Sustainable Development Goals Impact (UN SDG Impact)	Jeremy Nicholls, Assurance Framework Lead
Upaya Social Ventures	Kate Cochran, CEO
U.S. Impact Investing Alliance	Fran Seegull, President
Value Reporting Foundation	Jeff Cohen, Director of Capital Markets Integration, Head of Private Investments Initiatives
Vital Capital	Tamar Pashtan, Head of ESG & Impact
Wharton Social Impact Initiative	Maoz (Michael) Brown, Head of Research

Characteristics of Reports Analyzed

Based on a sample size of 31 impact reports produced by private market GPs.