Sonen Capital, a dedicated impact investment management firm, specializes in mobilizing financial assets to help meet global social and environmental challenges. As part of its investment process, the firm has created proprietary “impact frameworks” that identify specific social and environmental outcomes for its investments. These publicly available frameworks articulate how a desired thematic social or environmental outcome – such as financial services, housing, healthcare, land and water resources, or environmental infrastructure – can be targeted. Sonen pursues the dual objective of achieving competitive financial returns and positive social or environmental impact by investing across multiple asset classes including private and public equity and debt, real estate, and real assets.
The challenge of impact data

Gathering performance data for certain asset classes can be challenging. For listed equities, for example, it can be difficult, if not impossible, to gather this data after exit. Sonen invests across asset classes and, because some investments face these performance data limitations, it believes that it is critical to include and integrate the rationale and evidence behind its decisions regarding particular investments. By integrating evidence, Sonen can have a high degree of confidence that it is best suited to deliver maximum expected social and environmental impact.

The challenge for Sonen’s team is to consider maximum impact carefully in its investment approach, analyzing not only what outcomes investors could expect from their investments, but also how an investment is relevant in addressing specific social and environmental challenges.

Sonen’s approach

Because Sonen reports to stakeholders on both what the expected impact of an investment is and why it is relevant in addressing large-scale challenges, the firm ensures that the rationale for a particular investment strategy and the predicted outcome are clearly articulated prior to any investment.

Pre-investment stages. As part of Sonen’s approach, the team leans on evidence at pre-investment stages to understand which approaches can best address the specific issue. Starting with a wide empirical research exercise, the impact team looks for: academic and field studies; data that identify the drivers of social and environmental change; and the contexts in which those drivers may work most effectively. With a strong understanding of context, the team then researches how investments can be most effective in addressing the challenge, painting a picture of what outcomes they might expect from a portfolio constructed with these ideas in mind. For example, when the team targeted water as a theme, it first analyzed the financial merits of an investment in the water sector, looking globally at increasing rates of urbanization, deficits in infrastructure, and effects of climate change. In doing so, the team determined that the availability and affordability of water would become an increasing issue over time. Narrowing the research scope, the team then looked for scientific studies to inform the kinds of investments that would most effectively achieve the firm’s water-related intended outcomes. In this case, these outcomes included increased rates of water efficiency and an expanded supply of water to underserved communities.

Impact frameworks. To effectively deploy capital to address a thematic issue, Sonen has created nine impact frameworks to help guide and inform the process. They cover both the financial and the impact case for investments, focusing on key impact metrics to track performance and provide investment examples (for further detail, see Sonen’s impact frameworks).

Investment strategies. Sonen’s investment strategies are broad by intention. The team intentionally minimizes
the complexity of the process and metrics so key stakeholders with varying levels of sophistication can effectively contribute to the development of a particular strategy. Simplicity means that investees can provide direct feedback on whether the metrics requested are feasible, and having a streamlined approach means the investment team can easily qualify potential investments based upon the agreed metrics. Further, for clients, the frameworks allow for the clear communication of impact intentions along with why those intentions are important and how they will be measured over the life of the investment.

Gaps in impact measurement

Sonnen has identified three main challenges to impact measurement.

- **Tension between reducing complexity and incorporating science-based information.** Sonnen’s impact frameworks are intended to avoid complexity because stakeholders appreciate the clear storyline and value propositions they present. Instead of 30 metrics per investment, for example, the frameworks measure key indicators for all investments within an investment theme, streamlining both data collection and portfolio-level aggregation. This approach has worked well for Sonnen to date, but the team notes that investors with very specific impact goals may be best served through developing more detailed and targeted science-based impact frameworks.

- **Lack of uniformity in impact data across asset classes.** Sonnen’s thematic investments span multiple asset classes, and there is considerable variation in how different asset classes can intrinsically communicate impact data. Because of this variation and the difficulty in aggregating similar but disparate data, Sonnen relies on different methodologies to evaluate impact depending on asset classes. (This approach is explained further in Sonnen’s “The Five Ways Sonnen Measures Impact” webinar from April 2016.)

- **Lack of transparent impact performance data.** Sonnen has found that investors – along with the philanthropic and social enterprise sectors – are becoming increasingly sophisticated in impact measurement. Yet, relatively few investors or philanthropists publicly share data illustrating the efficacy of their investments, particularly on how their investments relate to specific impact outcomes. As an example, Sonnen notes that many donors and investors still use a variety of international development models questioned by experts concerned with their fundamental efficacy. Sonnen believes that with greater transparency on both successful and failed investments, the field as a whole can more effectively target what works. Without better transparency and mechanisms to show investment approaches and outcomes, the field will continue to struggle to consistently deliver on effective impact and improve impact reporting models.

Looking forward

Sonnen’s evidence-based impact investment approach helps predict specific impacts and maximize the intended social and environmental outcomes of its investments. In some cases, the firm’s impact measurement process and frameworks are unlikely to change within the next few years. Its real assets investment strategy, for example, has a time frame of 10 to 12 years, and impact measurement will remain consistent for the duration. But in other cases, Sonnen expects to be able to gather and use stronger, more standardized public data, particularly for publicly traded assets. Sonnen notes that there is a considerable depth of environmental, social and governance (ESG) data available, but without much standardization. As organizations, such as the Sustainability Accounting Standards Board (SASB), move the available data toward stronger uniformity, Sonnen expects evidence to become increasingly accessible, streamlined, and useful for investment decision-making. Sonnen anticipates that more widely available and standardized data will increase the ability of investors to target and maximize specific social and environmental outcomes.

For more resources that help connect evidence to impact measurement and management, please visit navigatingimpact.thegiin.org

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