## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>ABOUT THE GIIN'S LISTED EQUITIES WORKING GROUP</td>
<td>1</td>
</tr>
<tr>
<td>ABOUT THIS GUIDANCE</td>
<td>2</td>
</tr>
<tr>
<td>LISTED EQUITIES AS AN ASSET CLASS</td>
<td>3</td>
</tr>
<tr>
<td>KEY CONCEPTS</td>
<td>4</td>
</tr>
<tr>
<td>STRUCTURE OF THIS GUIDANCE</td>
<td>7</td>
</tr>
<tr>
<td>GUIDANCE</td>
<td>7</td>
</tr>
<tr>
<td>CONCLUSION</td>
<td>12</td>
</tr>
<tr>
<td>APPENDIX</td>
<td>13</td>
</tr>
<tr>
<td>ACKNOWLEDGMENTS:</td>
<td>15</td>
</tr>
</tbody>
</table>
INTRODUCTION

Impact investing has long been defined as investments that are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. For many years, impact investing has been strongly associated with private markets and, as a result, an established set of practices and characteristics has gradually emerged. However, a financial ecosystem that only includes private markets is incomplete, and public markets are an important part of the life cycle of companies that aspire to reach a certain scale.

Consequently, investors have increasingly begun to seek investment strategies that deliver positive, intentional real-world outcomes across the full range of asset classes, including in public markets and, specifically, in listed equities. These new strategies describe themselves in diverse ways, and this guidance is intended to clarify what constitutes an “impact strategy” and to steer expectations involving the wider inclusion of listed equity asset classes in impact investing.

ABOUT THE GLOBAL IMPACT INVESTING NETWORK (GIIN)

The Global Impact Investing Network (GIIN) is the global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

ABOUT THE GIIN’S LISTED EQUITIES WORKING GROUP

The Global Impact Investing Network’s work on listed equities began with the formation of the GIIN’s Listed Equities Working Group with a cohort of its members at the end of 2019. The purpose of the working group was to assess how funds targeting the listed equities asset class could approach delivering “impact” as an objective. The project centered around the GIIN’s Core Characteristics of Impact Investing, which summarizes a decade of industry learning on the attributes and practices that underpin impact investing. A key assertion of the working group has been that funds introduced into the market with “impact” as an objective should be distinguishable from other types of funds incorporating environmental and social factors in visible ways as part of the underlying investment processes. Further, there should be definitive commonalities across impact investing asset classes.

Over the course of 2020, the GIIN and the working group conducted an initial phase of research to assess the trends in the market and to liaise with fund managers offering investments identified as “impact funds” in order to understand the approaches being applied. This research culminated in a discussion document released by the GIIN summarizing the areas where funds appeared to be distinguishable from past sustainable investing strategies as a determinant of setting an “impact” orientation.

In 2021, the working group shifted its focus to future practices, resulting in the draft version of this guidance for public comment. During the public comment period, the GIIN reached out to relevant industry organizations to share its thinking and invite feedback. At the end of the public comment period, the GIIN consolidated the feedback and worked together with the Working Group to determine any further amendments needed to the document before final publication.
The following guidance is designed to assist asset owners in better distinguishing the differences between fund offerings in relation to their potential for pursuing positive, intentional impacts. Environmental and social information can be incorporated into investment processes in pursuit of a range of different objectives, such as values alignment, risk avoidance, integration into share valuation methodologies, generating positive impacts, and more. It is important to be able to distinguish between the different purposes and to recognize the adjustments needed to investment processes to achieve these objectives. It will support asset managers in understanding the expectations for consideration in the course of fund or portfolio design.

The below guidance will also describe:

1. A limited number of practices or characteristics that an investor might reasonably expect to find as part of any equity fund or portfolio asserting to pursue positive impact; and
2. Examples of ways in which asset managers may choose to implement these expectations.

As with any investment, the pursuit of impact occurs in conjunction with the pursuit of the financial objectives articulated for the fund. This guidance does not offer specific commentary on financial performance, but it is assumed that investment managers will seek to deliver both a defined financial return and an impact return to their investors. For individual decisions, a fund manager may choose to prioritize impact considerations over financial considerations or vice versa. The choices on trade-offs should be based on policies and systems that can be explained to the asset owners. Regardless of individual choices, the fund manager will need to make choices that collectively deliver the desired combination of financial and impact results that its investors seek over time.

This document also seeks to indicate the basis for pursuing investor contribution and provide the starting point for trying to assess whether or not claims by a fund have a credible foundation. However, further work is needed to develop methodologies for how to consistently assess the presence and quality of investor contribution.

Lastly, this guidance focuses on the decision-making processes related to the impact that would reasonably be expected to be present in such a fund and which would function in an integrated manner with financial considerations to drive the investment process. Fund managers implementing the concepts outlined in this document may also choose processes that are applied in strategies involving environmental and social factors to pursue other goals (e.g., integration into financial analysis).
LISTED EQUITIES AS AN ASSET CLASS

It is important to note that impact investing in listed equities is not differentiated from other types of sustainable investing by a single action or indicator, but instead from a combination of changes that starts with a defined impact mandate the investment strategy is intended to deliver upon. The subsequent investment and fund or portfolio management processes then need to be adapted to allow the fund or portfolio manager to assess progress against that impact mandate and take action accordingly.

However, as an asset class, listed equities are idiosyncratic by nature, such that it is not possible to exactly replicate many of the impact practices used in other asset classes. As a primer for this guidance, some of the differences to note are:

1. **Investor-investee relationship:** Share ownership in listed companies and in listed equity funds tends to be spread among a larger and more diverse number of investors than is the case in private markets. Individual investors in listed equities tend to have less concentrated ownership in a single investee, instead focusing on portfolio diversity, which can limit their ability to engage with and influence companies. Share price also plays a significant material role in capital raising operations (debt and equity) that listed companies undertake, as well as other aspects of their business success. However, capital invested in a listed company via secondary market trading does not directly contribute to the company’s balance sheet. As such, evaluating assertions about the extent of investor contribution to outcomes and impacts requires a close review of the actual portfolio constructed by the manager, the associated investment processes, and evidence of their effectiveness.

2. **Diversification within individual portfolios:** Unlike other asset classes, investors in listed equities have instantaneous access to thousands of investment options on a daily basis. As a result, the level of diversification typically expected, in terms of attributes such as geography, sectors and subsectors, themes, and market capitalization, is substantially higher than for other asset classes. This can lead to investment mandates that are broader than those found in other asset classes, which adds a degree of complexity when seeking to target, contribute to, and manage specific environmental or social impacts.

3. **Liquidity and fluidity of the market:** Holdings in listed equity portfolios constantly change value and investment holding positions can be entered and exited with minimal barriers. Listed equity portfolios seek to maintain alignment with various target allocations through regular re-balancing and therefore demonstrate comparatively higher turnover and activity compared to other asset classes. Investors seeking to contribute to outcomes through sustained engagement or support of the share price must develop policies to align their portfolio management with their impact objectives.

4. **Complexity of investees:** Listed companies are more likely to have diversified business models and geographic footprints. Further, the footprint of listed companies may be comparatively complex, with material positive and negative impacts present within the same company and in the same area of business. For example, a company may be an important contributor to advancing renewable energy, yet the majority of its assets could still be carbon-intensive, and its renewable energy supply chain may have significant negative impacts on other sustainability dimensions. This makes it difficult to reach a definitive conclusion about the impact of a company and its relationship to an impact strategy.

5. **Access to data:** Voluntary and mandatory disclosure requirements have resulted in a higher volume and standard of data disclosure by listed companies about their strategies, policies, practices, and outputs, compared to other asset classes. However, these disclosures tend not to include measurements of impact outcomes, so many investors approach gauging impact by means of models and projections. Yet, because listed companies tend to be larger and more complex, it is more difficult to rely on a simple set of indicators and metrics for such analyses. Further, detailed data on products, services, and other outputs suited to such projections tend to be limited in routine disclosures and are complex to obtain.

6. **The role of traditional equity indices or benchmarks:** A market index or benchmark typically provides a starting point for fund managers of conventional investments to construct a portfolio and direct how that portfolio should be managed on an ongoing basis from the perspectives of both risks and returns. In listed equities, a fund manager is generally expected to match performance against a passive index, such as a benchmark (e.g., the S&P 500). In standard indices, neither the selection of the index constituents nor their respective weighting is based on the specific company impact profile of the companies. Managers in the listed equities asset class often face implicit, significant market pressure to match the attributes of a given benchmark as they design their portfolios, which can constrain the perceived scope for innovation.

These differences all have implications for the manner in which investment managers can pursue positive, intentional impacts, leading to questions about how “impact” can best be delivered through public markets and how to distinguish the relative ability of funds to generate positive impacts through their investment strategy. Recognizing these questions in the marketplace, the GIIN has been leading a working group process amongst its members since 2020 to explore how impact can be approached in the listed equity asset class.
A theory of change describes a sequence of cause-and-effect actions, or occurrences that the investor believes will accelerate as a result of their actions, which will contribute to a set of targeted social and environmental results. It provides the conceptual framework for how an organization expects its approach to designing and managing a portfolio will lead to an intended set of impacts and is often displayed diagrammatically. A theory of change can often be expressed as one or more “if-then” statements. This framework is usually expressed in the form of a logic model that shows how a series of activities and inputs will lead to outputs, outcomes, and impacts.

A theory of change involves two levels of thinking:

- **First**, it articulates a problem and the series of changes that will solve that problem (and the beneficiary or beneficiaries of that change). For example, achieving a low carbon transition to mitigate climate change requires shifts in a specific set of economic sectors that can be identified in terms of technologies, their deployment, and even enabling factors such as policy changes.

- **Second**, it describes the specific ways in which investors want to focus their investments on contributing to those shifts, as well as the steps involved in making that change happen.

Theories of change also depict the assumptions that lie behind the investor’s reasoning, backed up where possible by evidence. For example, an investor interested in addressing extreme poverty may have identified evidence pointing to the importance of access to financial services to support entrepreneurship, improve the accumulation of household savings, and other similar outcomes. This connection might become the basis for identifying investments that meet financial criteria and are associated with the chain of causation.

---

**inputs**

**activities**

**outputs**

**outcomes**

**impacts**

---

**WHAT IS INCLUDED IN A THEORY OF CHANGE?**

Investors use a theory of change in a number of ways, but its primary purpose is to clearly articulate -- within the internal documentation -- the fund’s or portfolio’s impact goals and how the selection and management of investments will contribute towards progress on those goals. The theory of change helps guide the investor as to which companies are aligned to the investment strategy, how they can engage with these companies, and what indicators they need to assess whether the intended changes are occurring.

Given the unique attributes of impact investing in listed equities and the factors outlined above, at minimum, a theory of change should identify the following components:

- **Component A**: The specific problem(s) that the investment strategy will target, preferably citing targets, thresholds or other reference points to describe the change the investor hopes to generate or support.

- **Component B**: The beneficiaries (e.g., communities, places, groups) that would benefit.

- **Component C**: The changes or contributions that will come from investee companies, specifying, in particular, the changes that the fund manager is seeking to achieve and/or the significance of the companies’ products or services to the theory of change.

- **Component D**: How the investor will contribute to that change (e.g., engagement, patient holding periods, etc.) and how the intended impact will affect portfolio construction and management.

- **Component E**: The non-financial targets that will play a material role in the selection of equities and ongoing evaluation of performance.

To see an illustrative example of a theory of change for a listed equities portfolio, please see “Appendix: Example of a Theory of Change”.

---

1. A helpful resource in articulating this change is the [five dimensions of impact](#).
2. For further details on theories of change as well as a checklist to create one, see [IRIS+ Simple Theory of Change Checklist](#).
DEVELOPING THEORIES OF CHANGE FOR IMPACT INVESTING IN LISTED EQUITIES

Developing theories of change for listed equities portfolios has implications for investment strategy, most notably involving five characteristics unique to this asset class. In articulating a clear theory of change, the investor creates a direction or a set of parameters that will influence the fund’s holdings in these ways:

1. **Size (i.e., market capitalization).** In describing the fund’s theory of change, investors should consider that the impact focus and objectives of a listed equity investor will have a direct influence on the size tilt being used. Fund managers may find that the nature of the impact objective will influence the size of companies most relevant for the fund. For example, a strategy to support organic agriculture will likely involve a portfolio of companies with comparatively greater exposure to small- or mid-cap investments, given the current nature of the industry. A description of how the intended market capitalization allocation in the fund contributes to the impact of target achievement should therefore be included in the theory of change. Small, mid-, and large-cap all bring differing resources and market skills, and bigger companies are not necessarily going to play a greater role in solving a given sustainability challenge.

2. **Diversification.** Listed equities portfolios tend to be highly liquid and evaluated against benchmark indices that include a broad range of sectors (with the exception of thematic funds, which are more focused according to parameters set by the investor). Investment strategies that target a defined set of challenges or needs guided by a theory of change are likely to have sector weighting differences compared to a neutral market index. A theory of change should be specific enough to lead the fund toward a portfolio that prioritizes sectors and geographies in which the intended impact can be made. In contrast, other types of sustainable investing may seek to hold hundreds of positions tracking a general equity market index may seek to incorporate some sustainability considerations without applying a theory of change to guide portfolio construction and management.

3. **Objectives and returns.** Impact funds across asset classes can reasonably be expected to identify the key indicators or data points within their theory of change that would help investors assess the relevance of a particular holding to the overall fund strategy, and to track those data points to monitor that impact is being achieved as intended. As a more liquid asset class, investors typically expect listed equities fund managers to deliver returns comparable to a benchmark and to dynamically manage a portfolio to achieve those returns. A theory of change in listed equities would need to give guidance on how the fund expects to manage typical liquidity with its strategy for delivering investor contribution. Further, it would have to explain how trading activities would be managed to ensure compatibility with the aspects of investor contribution outlined in the theory of change.

4. **Specificity of beneficiaries.** Given the breadth of markets and the size of companies covered by a typical listed equities strategy in comparison to other asset classes, it is more difficult to provide specificity on populations or stakeholders served. Where broad categories are used (e.g., “underserved populations”), it is important to explain in the theory of change how this is addressed across the geographies in which the portfolio is invested.

5. **Shareholder rights (voting and engagement).** Impact investors using shareholder engagement as one of the primary tools for pursuing the impact objectives of their fund should include in their theory of change an explanation of their engagement strategies and the contribution that they seek to make.

While funds could be expected to have detailed annual engagement strategies, its theory of change should explain the framework within which engagement strategies and proxy voting will be developed. All companies in a portfolio should have relevance to the impact thesis of the fund, either due to the nature of their products and services or due to opportunities to catalyze specific changes that would directly contribute to the impact goals of the fund. The theory of change should provide context on how the investor intends to use shareholder rights, including:

- An overview of the changes sought across companies;
- The process for how the fund manager will define goals for individual companies and decide targeted time frames for their achievement; and
- Policies to guide investors’ assessment of when to escalate engagements and to exit companies due to either their non-response to engagement or due to their impact objectives having been achieved.

The application of this framework will vary by company as part of specific annual engagement strategies. For example, engagement with a company selected for the portfolio due to the positive impact of its products and services may focus on scaling impact by ramping up production. In contrast, goals for a company selected with the intention of changing aspects of its operations to support an impact objective (e.g., a low carbon fund seeking to inspire a logistics operator to adopt electric vehicles) would focus instead on specific actions to implement within a given time period. Either of these illustrative approaches and any other, should be linked to a theory of change that guides a unified approach to the use of shareholder rights to leverage the impact goals of the fund. The theory of change should be documented and reflected in the fund’s investment policies and processes.
CONCEPT: INVESTOR CONTRIBUTION

Impact investment processes can share similar attributes across asset classes (e.g., use of a theory of change) and target companies for similar motivations, but the nature of investor contribution does vary across asset classes. Secondary trading cannot directly replicate investor contribution as it manifests in primary offerings. In addition, within any given asset class, differences will exist amongst investors as to the depth and effectiveness of investor contribution. In developing this guidance, the GIIN seeks to describe how processes associated with impact in certain asset classes could be applied in listed equities while recognizing that the nature of investor contribution will vary.

Within the practice of impact investing across asset classes, the GIIN recognizes two types of contributions that derive from the investment process.

First, the activities of investees will directly contribute to certain outcomes and form a necessary part of the basis for their inclusion in an investment portfolio.

Second, there are the actions that investors take to support, accelerate, or enhance the ability of the company to deliver these impacts. These may include providing capital (debt, equity, or other), engaging with management, and providing technical assistance and other support.

The second type of contribution is related to but is separate from the investee contribution. For example, within public markets, it is common for investors to review the business activities of portfolio companies and assess their alignment with the SDGs. However, such an approach takes into account the contribution of investees to sustainable development and not the contribution of investors. Therefore, investor contributions should focus on solving a definable problem, closing gaps, or addressing underserved needs. As an example, food and healthcare are both necessary for quality of life and basic needs, but that does not mean that all food companies and all healthcare providers are automatically considered impact investments.

In the case of listed equities, there are generally two ways in which investors may deliver contributions.

First, as a minimum, investors in listed equities should pursue contributions through engagement with their portfolio holdings to influence business strategy or operations in a manner that is directly tied to their theory of change. Listed equity investors have a meaningful role in the governance and oversight of a company’s strategy and capital allocations, including supporting management decisions to reinvest retained profits in impactful activities rather than pay this capital out to shareholders or management. This is discussed in more detail in a later part of this document.

Second, beyond engagement, there may be additional circumstances where an investor can deliver positive market efforts to support their investees. The most direct examples are investing in IPOs or participating in new rounds of capital raising. Investors can engage in the IPO process or provide anchor-style commitments to help the company build its IPO book and enhance market access. In addition, investments in secondary markets typically do not directly provide new capital to companies but may have an influence on share value, which is important for companies’ ability to execute other financial strategies. In certain situations, investors can have the potential to contribute to supporting the share price.

While these approaches have the potential to result in investor contribution, asset owners and allocators still need to conduct a critical assessment as to whether or not the actions of a particular strategy are executed and whether its claimed results are credible. For an impact fund, it is important to have a developed theory of change tied to the impact objective and documented and integrated into fund policies and processes in order to create “investor contribution” through either of the two means discussed above. The actions associated with engagement are discussed in more detail later in this document, focusing on the alignment of engagement with a theory of change.

In both examples (i.e., engagement and supporting market value), there are situations where a claim of investor contribution is either stronger or weaker to make. For example, holding shares with patience in highly illiquid or inefficient markets arguably has more influence than shorter-term holdings in large-cap companies trading in the world’s most liquid markets. Compared to private market situations where investors may be contributing completely new capital to allow for the expansion of operations, investor contribution in listed equities through secondary trading is harder to measure, and attribution is more complex.

In the case of supporting market effects, actions may relate to holding periods; being a patient investor will sometimes contribute to sustaining a price level. Companies benefit from a strong share price through the ability to implement other capital market operations linked to share price, the ability to retain talent through share-based remuneration, and through sustained capital accumulation that reinforces these two benefits. Other actions can relate to helping companies be more visible in the market and/or better understood, particularly when portfolios include companies that generally have less analyst coverage or where other investors do not explicitly value the impact aspects of their business.
GUIDANCE

CONCEPT #1: SETTING FUND OR PORTFOLIO STRATEGY

Aligns to the 1st Core Characteristic of Impact Investing: Intentionality

The fund or portfolio strategy seeks to intentionally contribute to positive social or environmental impact through its investments, alongside achieving a financial return. This includes setting transparent financial and impact goals, as well as articulating an investment thesis that is explicit about these goals and the strategies that the fund or portfolio will use to realize them.

Basic Expectations for Listed Equities

1 The fund’s or portfolio’s prospectus (or similar, required document per jurisdiction) states the intended real-world impact of the investment strategy. This is supported by a problem statement and a theory of change, articulated in internal documentation, that includes a description of how the fund or portfolio will contribute to accelerating the targeted impacts of its portfolio companies.

Explanation

Sustainable fund or portfolio strategies will typically refer to investing in companies that meet financial objectives and demonstrate sustainable business practices across a broad range of areas and/or align with sustainability norms and principles. In some cases, sustainable fund or portfolio strategies will include an explicit risk management objective in relation to environmental and social trends.

Impact strategies will go further by explaining the specific, intentional positive impacts they seek to achieve. This will include a theory of change (see Appendix 1) detailing the challenge(s) that the fund addresses, relevant stakeholders, and how the fund will contribute to the positive impacts of the investee. The impact goals and priorities of funds or portfolios will vary and may derive from a range of references, including a) specific client mandates; b) the fund or portfolio manager’s own research; or c) a global reference point that is relevant to a broad range of clients (e.g., the SDGs). The degree of detail about the theory of change presented in statutory disclosures will vary based on what is appropriate to local regulations. However, at a minimum, the theory of change should be formalized in internal documentation and policies governing the investment processes of the fund in sufficient detail for purposes of guiding the investment process. In addition, other public documents, separate from legal and organizational documentation, such as impact reports, would be expected to provide insight into the primary elements of the theory of change in the course of explaining the fund’s investment processes and results.
The specific means for accelerating impact in the real world will vary by fund and will often involve some combination of sustaining the share price and engagement with portfolio companies. Between the fund prospectus, the theory of change, and additional supporting information provided by the fund, the investor should have sufficient information to enable assessment of the potential for the fund’s approach to accelerating impacts. A fund focused on supporting market value as its investor contribution must provide information such as the size of the companies held in the fund, the market conditions under which they trade, how the fund manager contributes to supporting share value, and how the company benefits. Similarly, funds focused on engagement strategies should provide sufficient detail to allow an investor to form a conclusion about the potential for contribution.

In addition to signaling or any other means identified by the fund manager, all listed equity strategies should, at minimum, participate in proxy voting and other engagements that target the fund’s impact objectives and theory of change.

**Examples** of how this might manifest:

- A fund or portfolio specifies a set of SDG themes to guide their strategy, and develops impact objectives, a theory of change for each theme based on the underlying SDG targets to define their investment priorities, and associated Key Performance Indicators (KPIs). These are included in the fund prospectus, along with information on how the design of the engagement strategy will focus on advancing specific requests related to the fund’s theory of change.

- A fund or portfolio manager builds a strategy focused on companies that provide solutions to a specific group of sustainability challenges, such as the SDGs, through their products and services. The manager develops a theory of change that explains the pathways for addressing the sustainability challenges as a basis for evaluating the relative importance of different company solutions and for guiding the investment process.

**CONCEPT #2: PORTFOLIO DESIGN & SELECTION**

Based on their strategy, asset managers implement a process of selecting individual equities that are suited to the portfolio objectives. Most sustainable investing funds or portfolios include screens and comparisons of various types that evaluate corporate performance against a range of ESG factors. The methodologies may vary, but they generally seek to take a holistic view of a company vis a vis the material ESG factors for its industry and sector. Impact investing strategies may also apply some of these techniques but are designed with a more explicit set of positive, intentional investment objectives that influence the parameters of the investment strategies. A fund with an articulated strategy, a set of impact objectives, and an underlying theory of change that is documented and incorporated into fund policies and processes will need to select a portfolio of companies that can contribute to the goals targeted by the fund. The relative scale and breadth of potential impact will likely vary amongst holdings, but all holdings should have a measurable relevance to the strategy and be managed against the impact goals that apply across the fund.

**Aligns to the 2nd Core Characteristic of Impact Investing: Use Evidence and Impact Data in Investment Design**

*The fund or portfolio manager selects a portfolio of companies that are aligned to the impact strategy of the fund or portfolio. The individual portfolio constituents are selected based on their potential contribution to the achievement of the impact objectives set by the fund or portfolio and are systematically monitored and managed in that regard during the holding period.*

**Basic Expectations for Listed Equities**

1. The fund or portfolio defines an investment universe, an approach to diversification, and a number of holdings that are aligned to the specific, real-world impacts targeted by the strategy.

**Explanation**

The fund or portfolio strategy will state priorities and intended impact results. These criteria will allow for a determination of which sectors and companies are relevant to the objectives of the fund or portfolio and should therefore be considered part of the investment universe. This will likely require placing a greater emphasis on specific market segments or sectors as compared to a more general fund that seeks to diversify across all sectors of the market or invest in the “best-in-class” across the market. In combination, this should lead to a portfolio with distinct, explainable differences from a fund that considers ESG in broad parameters and design. Funds that rely on engagement as part of their approach to accelerating the impacts associated with their investee companies should also assess the potential for success in company engagement in the course of the investment selection process.
Basic Expectations for Listed Equities

2 The business models and core activities of each company held in the portfolio should be directly relevant to the fund’s impact strategy and investment thesis and should represent a material part of the company’s business, particularly for companies that are large or diversified in their scope of business. In addition, the fund manager should define how a holding is expected to contribute to the changes targeted by their impact strategy.

Explanation

Listed companies typically demonstrate greater diversity in their geographies, supply chains, customers, clients and stakeholders, and their product portfolios compared to asset classes such as real estate or private equity. As such, funds or portfolios should have a replicable, consistent, and quantifiable method in place to determine whether or not a prospective investment has sufficient alignment with objectives. Funds should be able to share and explain the basis of these methods with investors. This basis fund will be influenced by the theory of change and may focus either on the products and services of the company or on operating practices that make important contributions to impact objectives. Examples of different approaches for defining thresholds might include (but are not limited to) an assessment of:

- Corporate mission, vision, and stated objectives;
- Revenues derived from activities related to the impact;
- The product and service portfolio of the company; and
- Whether the company offers a unique contribution to solving a problem that is the focus of the impact strategy of the fund/portfolio.

Basic Expectations for Listed Equities

3 The fund actively manages average holding periods of equities within the portfolio in a manner that contributes to the fund’s ability to achieve its stated impact goals.

Explanation:

Listed equity funds achieve their impact contribution through engagement and their support of the share price. In order for such strategies to be effective, the investor needs to hold the equity for the time required to achieve the impact goals identified by the fund manager.

For example, investors seeking to achieve changes in listed equities through engagement may need to hold their positions for longer periods of time and may demonstrate lower portfolio turnover than other types of investors. Fund managers will need to make decisions at specific points in time to rotate individual holdings in order to manage liquidity, realize financial objectives, and respond to other financial drivers. However, in managing the portfolio, the fund should be able to demonstrate how it executes overall holding periods in a manner that supports the delivery of the fund’s stated impact objectives and reflects its theory of change.

On average, investors can expect impact funds that opt to drive impact through engagement will have a longer holding period than non-impact funds. Similarly, investors focused on their contribution through supporting share price stability or growth will have to consider the implications for their contribution as the fund exits positions, particularly in small-cap or illiquid stocks.

Examples of how this might appear, some funds or portfolios might:

- Design the fund or portfolio around the expectation of longer holding periods that are linked to the duration required to achieve progress on an impact target, or set a minimum holding period for investments.
- Formalize procedures for assessing impact performance, together with other dimensions of performance, in making decisions about portfolio turnover or holding periods.
CONCEPT #3: ENGAGEMENT

Over the past three decades, most forms of sustainable investments have employed stewardship or active ownership strategies as part of motivating improvements in corporate performance. However, these vary significantly in terms of their engagement focus (including the objectives) and how the engagement relates to the portfolio.

Aligns to the 3rd Core Characteristic of Impact Investing: Manage Impact Performance

Impact investment funds or portfolios use performance data in decision-making to manage investments toward the achievement of social and environmental objectives. This includes, as feasible, embedding feedback and engagement loops throughout the life of the investment.

Basic Expectations for Listed Equities

1. The engagement priorities are developed based on the fund’s or portfolio’s theory of change, and focus on actions that can accelerate the company’s contributions to the impact objectives of the fund.

Explanation:

Engagement strategies in many sustainable investing funds can cover a very broad range of topics related to ESG considerations, and the choices of topics are often inspired by a range of reference points, from risk assessments to international norms and principles (e.g., universal human rights, U.N. Global Compact, etc.). For impact funds or portfolios that utilize engagement as part of their investor contribution, the choice of topics and the substance of the proposals or requests to investee companies are directly linked to the impact objectives embedded in the strategy. In selecting an investment for an impact portfolio, investors will typically have identified a specific connection between the business and the theory of change, which would likely also be the core focus of the majority of engagement processes. As a supplemental activity, fund managers may also choose to engage beyond the topics highlighted in the fund strategy, but impact funds that rely on engagement as a core vehicle for their investor contribution should be able to demonstrate a clear connection between their impact priorities and the core of their engagement program.

Examples of engagements that focus more on actions to accelerate corporate impact and less on general policies, risk frameworks, and improving disclosure might include:

• Amplifying positive impacts by, for example, ramping up the production capacity of impactful products and services and working with an investee company to mitigate any product-related negative impacts;
• Working with management to make its product(s) more accessible to underserved populations through pricing, distribution mechanisms, or other changes to business strategy;
• Requesting a food company to make a product line healthier for consumers (i.e., reducing the sugar content).
• Encouraging a company to allocate capital and R&D resources towards positive impact solutions (e.g., defining a carbon intensity target for a product portfolio); and
• Asking a company to commit to paying wages to a specific standard.

Basic Expectations for Listed Equities

2. The effectiveness of engagement is measured in relation to progress towards changes or improvements that contribute to the outcomes that the fund or portfolio investment strategy seeks to deliver.

Explanation:

Many sustainable investing funds or portfolios measure engagement programs in relation to progress in motivating companies to adopt proposed positions or actions. In combination with these types of measures, impact funds or portfolios will also seek to monitor progress in
The progress towards achieving the goals of engagement processes is an important consideration in choosing the timing of exits. The fund or portfolio should be guided by an internal policy framework defining milestones and criteria for escalation and for exiting.

Explanation:
For many sustainability funds, engagement plays an important role in both risk mitigation and helping to improve companies. In the context of impact funds, the engagement process may also have an added purpose: helping the fund deliver on a set of stated objectives that comprise part of the investment proposition. As such, impact fund managers would reasonably approach their engagement processes and strategies with preferred timelines and milestones for achieving outcomes, based on their theory of change. These would include a recognition of the time required to achieve the desired changes as well as the circumstances under which escalation is required and or an engagement would end. In conjunction with financial and other analyses, these would also systematically contribute to the ongoing evaluation of whether or not a company remained a suitable match to the fund’s or portfolio’s investment objectives.

CONCEPT #4: USE OF PERFORMANCE DATA

Aligns to the 2nd and 3rd Core Characteristics of Impact Investing

Impact performance data is used in decision-making to manage investments toward the achievement of environmental and social objectives. Funds or portfolios apply the best quantitative or qualitative impact data and evidence to increase the contribution to positive impact.

Basic Expectations for Listed Equities

The fund or portfolio applies techniques to evaluate impact performance beyond relative measures of peer performance, and considers whether activities and outputs of companies are contributing to real-world changes consistent with the fund’s goals and theory of change.

Explanation:
Impact funds are distinctive in part because of their focus on, and demonstration of, measurable, positive change in the real world rather than solely performance relative to peers or on a normalized basis. This involves measuring performance in ways that can be related to specific needs bounded to times and places or to absolute targets and how that performance changes over the course of an investment. For instance, this focus may include the use of science-based targets (as currently applied in many Net Zero strategies), location-based reference points (e.g., absolute needs in a specific geography), or population-based references (e.g., needs of a demographic).

In impact investing, investors typically use data from company reports or engagements, third-party data providers, and or other public sources to understand and estimate a company’s impact performance. In many cases, available data primarily describes the practices, activities, and outputs of companies rather than directly measuring the associated outcomes or effects on stakeholders or the environment, which would be preferable. And many sustainable investment strategies focus their analysis and investment process on corporate performance relative to peers (e.g., best-in-class investing strategies), performance relative to corporate goals, or exposure to ESG-related risks, whereas impact strategies would instead focus on interpreting available data in relation to the impacts targeted by the investment strategy and the associated theory of change (“measured impacts”).

Given the breadth and complexity of the business domains of some listed companies compared to earlier-stage companies, obtaining measured impact data may not always be feasible. Currently, the majority of data reported by companies focus on outputs (e.g., emissions,
employee health and safety, customers served, etc.). Any techniques used to extrapolate impacts from output data should, firstly, base their methodologies on established evidence bases (e.g., academic literature, field research) that show a link between the outputs in question and the specific outcomes being pursued, and, secondly, apply models that utilize multiple standardized data points (vs. single output measures) to assess impacts relevant to the fund’s strategy and theory of change.

For example, instead of looking only at the number of savings accounts opened, the investor should combine those data with other important data points that help provide context and measure the real effect in place, such as whether savings accounts opened are active, whether those who opened the accounts were previously underserved, and whether account balances are increasing over time.

Examples of how this could be approached:

- A fund manager seeking to support health looks for research related to identifying the output data associated with companies or sectors that lead to outcomes targeted by the fund and its associated theory of change. One avenue of investigation, for example, might be the review of academic research as to which types of products, services or interventions have been demonstrated to positively enhance health outcomes. The research indicates that increased access to latrines has a direct correlation with health outcomes. This evidence provides a means to estimate the connection between the output metrics (the number sold), the impact metrics (individuals with access to sanitation who did not previously have access), and the downstream health outcomes associated with access to sanitation.

CONCLUSION

The GIIN is extremely grateful for the advisory committee members who helped to draft, review and edit this guidance. In total, more than 100 investors, including the advisory committee members, provided feedback throughout this multi-year project. It is through pan-industry collaboration that the GIIN can provide such comprehensive guidance.

Ultimately, this guidance is designed to help asset owners better distinguish the differences between fund offerings in relation to their specific impact goals. It also aims to help asset managers understand the expectations that should be considered in fund and portfolio design.
APPENDIX: EXAMPLE OF A THEORY OF CHANGE

As an illustrative example, a theory of change for a listed equities portfolio could state:

Our impact fund targets investments that provide competitive returns while also contributing to the advancement of a sustainable food system and to building healthy communities. We believe that these themes contain substantial opportunities for companies to create value by addressing unmet systemic needs and offer opportunities to build a diversified portfolio with exposure to a wide range of industry verticals and geographic regions. All the companies in our portfolio will contribute to those goals as assessed by our internal methodologies and will meet our financial requirements and parameters for investing.

See the section titled “What is included in a theory of change?” on page 4 for the definition of each component mentioned below.

IMPACT CONTEXT [COMPONENT A FROM “WHAT IS INCLUDED IN A THEORY OF CHANGE?” SECTION]

In the next decade, we see changing food systems and the enhancement of the physical and economic health of local economies as macro trends that will lead to a wide range of investible opportunities for attractive returns, as well as offering opportunities to address critical environmental and social needs.

With regard to food systems, the market value of the global food system is an estimated USD 10 trillion, with hidden, often externalized costs at an estimated USD 12 trillion. Of these massive numbers, more than half—USD 6.6 trillion—tie into health considerations; although the industrialized food system has increased the calorie content of many foodstuffs, this has not necessarily translated to increased nutritional values. Many negative health outcomes result from agricultural practices and food systems, including cancer, fertility, and digestive diseases.

The use of chemicals in agriculture has extrapolated over the last twenty years, with synthetic chemicals comprising the majority of inputs. These have contributed significantly to the green revolution of the last 50 years, but they are not without risks. Studies link the use – and particularly the overuse – of agricultural chemicals to a range of negative externalities, including loss of ecosystem productivity, health risks associated with the accumulation of chemicals in the food chain, and accelerated climate impacts.

[Note: The theory of change would include a similar narrative tied to the other trends around health and local economies, but we have not included sample content in this illustrative version.]

OUR STRATEGY [COMPONENTS B & E FROM “WHAT IS INCLUDED IN A THEORY OF CHANGE?” SECTION]

Our fund strategy seeks to support three transitions: reducing chemical use in agriculture by 25% by 2030; supporting health solutions that expand the reach of health care by at least 20%, particularly in underserved communities as defined by a national statistical measure of health care; and the availability of quality jobs in regions where the median income is below the national average.

Based on our analysis, the most important drivers to address each of these problems are listed below. Our fund will focus on investing in companies that make a direct contribution to addressing these drivers:

• **Chemical use**: The need for agricultural chemicals is underpinned primarily by farmers’ demand for crop productivity. Chemical usage can be reduced by investing in companies driving innovations in seeds and other yield improvement inputs, by supporting organizations that provide educational and other services to farmers, and by increasing the breadth and depth of organic product usage in the identified region. Key beneficiaries of this transition include farmers, farmworkers, and people who consume agricultural products (particularly low-income, historically marginalized, and underserved individuals); broadly, the entire ecosystem affected by agricultural projects will benefit.

• **Health care**: Affordability and lack of physical access are the most common global barriers to effective health care. We prioritize solutions that improve remote services, enhance R&D for common diseases, and create new service models for healthcare providers. Healthcare providers will benefit from this transition, but the main beneficiaries will be individuals (who need healthcare services, particularly low-income, underserved, and historically marginalized people).

• **Healthy communities**: Our fund seeks to contribute to the economic health and vibrancy of communities, including resources that develop the small business sector, as this comprises the largest portion of the economy in most countries. Therefore, the fund also considers investments into companies that provide decent work (as per the International Labor Organization) or services for the small-
medium-sized enterprises (SME) segment, or are involved in real estate and local development projects, or offer educational services. Key beneficiaries of this transition include SME business owners, workers, and individuals (particularly low-income, historically marginalized, and underserved people) in the communities in which the businesses operate.

PORTFOLIO STRUCTURE [COMPONENT B FROM “WHAT IS INCLUDED IN A THEORY OF CHANGE?” SECTION]

Based on the drivers above, our fund will consider investment opportunities in a mixture of cyclical and non-cyclical sectors with particular emphasis on food, chemicals, consumer goods, technology, financial services, and industrials.

Our fund will likely weigh toward small- and mid-cap companies since these often bring disruptive potential through innovative solutions with attractive risk/return profiles. We will consider large-cap companies if they meet our financial criteria and thresholds for having a sufficient focus on our fund’s impact objectives.

Our framework was designed to measure the investee’s direct contribution to addressing the drivers and thresholds noted above. Our investments will be assessed using our fund’s impact KPI framework in the selection and subsequent management of all holdings in our portfolio.

INVESTOR CONTRIBUTION [COMPONENT B FOR “WHAT IS INCLUDED IN A THEORY OF CHANGE?” SECTION]

Given that we use a bottom-up stock selection approach, which can combine multiple equity styles in addition to impact characteristics, we manage the portfolio and all individual holdings on a multiyear time frame. Our investor contribution will be guided by two approaches. First, for small- and mid-cap companies, we aim to contribute to their impact by being long-term investors, providing greater stability for their share price, in turn, enabling better leverage in pursuing other capital market operations. Our intention is to maintain positions for the duration the company remains compatible with the overall return objectives of our portfolio over an average 3-year horizon.

In addition, we will engage with all portfolio companies on questions of their business strategy and evolution in relation to the drivers above. We will maintain engagements across at least 75% of our portfolio and collaborate with investors on elevating proposals that will encourage capital expenditures and strategy development aligned with the impact objectives defined in our KPI framework.
Acknowledgments: Working Group Participant’s List

The GIIN would like to recognize the contributions of the GIIN’s Listed Equities Working Group and its advisory committee, whose perspectives have shaped this resource. The contents of this resource are the sole responsibility of the GIIN.

ABN AMRO Bank N.V.
Aegon
Allianz Global Investors
Anthos Fund & Asset Management
Anthos Fund and Asset Management and Skopos Direct Impact Group
Arabella Advisors
Arisaig Partners
ASN Beleggingsfondsen
Aviva Investors

**AXA Investment Managers***
Baillie Gifford
Bank Julius Baer
BlackRock
Blue Haven Initiative
BlueOrchard Finance Ltd
BMO GAM
BMO Global Asset Management
BNP Paribas
BNY Mellon
Brightlight Impact Advisory
BTG Pactual

**Calvert Impact Capital***
Cambridge Associates
Capital + SAFI S.A.
China Social Enterprise and Impact Investment Forum (CSEIF)
Chiratae Ventures

**ClearBridge Investments***
Commenda
Consilium Capital
Corbin Capital
Crédit Mutuel Asset Management
Credit Suisse
de Pury Pictet Turrettini & Co. Ltd
Degroof Petercam
Developing World Markets
Domini Impact Investments
EdenTree
Eighteen East Capital Ltd
European Bank for Reconstruction and Development (EBRD)

**Fiduciary Trust International***
Fonds de solidarité FTQ
Funds For Good
GAWA Capital
Glenmede
Global Endowment Management (GEM)
Global Impact Investing Network (GIIN)
Handels Banken Fonder AB
Handelsbanken Fonder AB
Hermes Investment Management
Impact Investment Exchange (IIX)
Impact Investment Group Pty Ltd
IMPact SGR
IMPact SGR SpA

Impax Asset Management
Impress Capital Limited
Incofin Investment Management
Inter-American Development Bank Group
Islamic Corporation for the Development of the Private Sector
Janus Henderson Investors
Japan Social Innovation & Investment Foundation (SIIF)
Kieger AG
La Financière de l’Echiquier
LGM Investments | BMO GAM
LGT Venture Philanthropy
Lok Capital
M&G Investments
Mercer
Milton A. & Charlotte R. Kramer Charitable Foundation

**Mitsubishi UFJ Trust and Banking Corporation***

**MN***
Morgan Stanley
Nippon Life Global Investors Singapore
NN Investment Partners
Nuveen, a TIAA Company
Octobre
PGGM
Phenix Capital
Portocolom Agencia de Valores
Project Heather  Treehouse Investments, LLC
Realdania  Trinity Wall Street
Regnan  Triodos Investment Management
responsAbility Investments AG  U.S. International Development Finance Corporation (DFC)
Reyl  UBS
Robeco*  Union Bancaire Privée, UBP S.A.
Schroders  Van Lanschot Kempen
South Pole  Vontobel
Surdna Foundation  Vox Capital
Symbiotics SA  Wellington Management
TED University  

WHEB Asset Management*
Zurich Insurance Group

* Advisory committee members.

Legal Disclaimer

The Global Impact Investing Network (GIIN) is a nonprofit 501c(3) organization dedicated to increasing the scale and effectiveness of impact investing through research, education, and other activities. Readers should be aware that the GIIN has and will continue to have relationships with many organizations identified in this brief, through some of which the GIIN has received and will continue to receive financial and other support.

These materials do not constitute tax, legal, financial or investment advice, nor do they constitute an offer, solicitation, or recommendation for the purchase or sale of any financial instrument or security. The information contained in these materials is made available solely for general information purposes. The GIIN has collected data from third parties for this document that it believes to be accurate and reliable, but the GIIN does not warrant the accuracy, completeness, or usefulness of this information. Any reliance you place on such information is strictly at your own risk. We disclaim all liability and responsibility arising from any reliance placed on such materials by any reader of these materials or by anyone who may be informed of any of its contents. Readers should consult with their own investment, accounting, legal and tax advisers to evaluate independently the risks, consequences, and suitability of any investment made by them.

© March 2023 Global Impact Investing Network