



Engaging with Evidence in Impact Measurement | **Sonen Capital**

Sonen Capital is a dedicated impact investment management firm specializing in mobilizing financial assets to help meet large-scale, 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 can be targeted through various asset classes, such as financial services, housing, healthcare, land and water resources, and environmental infrastructure, among others. Sonen pursues the dual objective of achieving competitive financial returns and positive social and/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. This reality is because for some asset classes – for example listed equities -- post-investment data collection can be difficult, if not impossible. Sonen invests across asset classes, and because some investments face these performance data limitations, they believe that it is critical to include and integrate the rationale and evidence¹ behind their decisions regarding a particular investment. With this integration of evidence, there can be a high degree of confidence that it is best suited to deliver maximum expected social and environmental impact.

The challenge for Sonen’s team, then, 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 both what the expected impact of an investment is and why it is relevant in addressing large-scale challenges, the firm ensures that prior to any investment the rationale for a particular investment strategy and the predicted outcome is clearly articulated.

As part of this process, 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 and data that identify the drivers of social and environmental change and in which contexts those drivers may work most effectively. With a strong

¹ Impact evidence is the available body of facts or information that can be used to judge to what extent (or not) impact has occurred -- for example, academic and field studies conducted by researchers. Source: [Impact Management Project](#).

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 be able to expect from a portfolio constructed with these ideas in mind. For example, when the team targeted water as a theme, they first analyzed the financial merits of an investment in the water sector. By doing so, the team was able to consider increasing rates of urbanization, deficits in infrastructure, and effects of climate change globally. It became clear that the availability and affordability of water would be 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 satisfy 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.

To effectively deploy capital to address a thematic issue, Sonen has created impact frameworks to help guide and inform the process. The frameworks cover both the financial and the impact case for investments. The frameworks focus on three key impact metrics to track performance and provide investment examples (see [Sonen's impact frameworks here](#)). To date, Sonen has published six of these frameworks and will publish two additional frameworks in coming months. 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. To investees, the simplicity means that they can provide direct feedback on whether the metrics requested are feasible. To the investment team, the streamlined approach means that they can easily qualify potential investments based upon the agreed metrics. To 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

Sonen highlights three main challenges in impact measurement. These are:

- *Tension between reducing complexity and incorporating science-based information.* Sonen'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, they measure three main indicators for all investments within an investment theme, streamlining both data collection and portfolio-level aggregation. This approach has worked well for Sonen 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:* Sonen'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, Sonen relies on different methodologies to evaluate impact depending on asset classes. This is explained further in Sonen's [webinar](#) from April 2016, titled "The Five Ways Sonen Measures Impact."
- *Lack of Transparent Impact Performance Data:* Sonen notes that although investors are becoming increasingly sophisticated in impact measurement -- along with the philanthropic and social enterprise sectors -- 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, Sonen notes that a variety of international development models

whose fundamental efficacy have been questioned are still widely used by donors and investors. Sonen 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

Sonen'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 strategy, for example, has a time frame of 10-12 years and impact measurement will remain consistent for the duration. But in other cases, Sonen expects to be able to gather and use stronger, more standardized public data, particularly for publicly traded assets. Sonen notes that there is a considerable depth of ESG data available, but without much standardization. As organizations like the Sustainability Accounting Standards Board (SASB) and others move the available data toward stronger uniformity, Sonen expects evidence to become increasingly accessible, streamlined, and useful for investment decision-making. Sonen anticipates that more widely available and standardized data will increase investors' ability to target and maximize specific social and environmental outcomes.