BLUE MARK

Making the Mark

Benchmarking Impact Management Practice

MAY 2023

About BlueMark

BlueMark is a leading provider of independent impact verification and intelligence for the impact and sustainable investing market. Founded in January 2020 as a spinoff from **Tideline**, an expert consultant to the impact investing industry, BlueMark's mission is to "strengthen trust in impact investing" by providing investors with market-leading impact verification services, benchmarks, and analytics.

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

- **Impact Management Practice** – assessment of the extent to which a client has implemented the policies, tools, and processes to execute on their impact strategy; and
- **Impact Reporting** – assessment of the extent to a client's reporting of its impact performance is complete and reliable

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 130 verifications for impact investors managing a combined $214 billion in impact-oriented assets. Learn more about BlueMark and impact verification at www.bluemarktideline.com.

Acknowledgements

Thank you to everyone on the BlueMark team for their continued excellence and diligence in verifying the impact management practices of our clients. The lead authors for this report are Christina Leijonhufvud, CEO, Tristan Hackett, Director, and Mya Stanislas, Associate. We would like to especially acknowledge the team involved in the research and production of this report, including George Collier and Layla Varkey. We would also like to thank Dmitriy Ioselevich and Sule Dedekarginoglu (17 Communications) and Dustin O'Neal (Great Jones Studio) for their expert guidance in writing and designing this report, respectively.

Finally, a special thank you to each of BlueMark's verification clients, without whom this report would not have been possible.

BlueMark's Practice Verification Clients*

ABC Impact

Actis

Adams Street Partners

AgDevCo

Albright Capital Management

Altitude

Apollo Global Management, Inc.

Astanor

Bain Capital Double Impact

Big Society Capital Limited

BlueEarth Capital AG

BlueOrchard Finance Ltd.

Bridges Outcomes Partnerships

British International Investment

Calvert Impact

Closed Loop Partners

Coeli Circus

Community Investment Management LLC

Credit Suisse

DEG - Deutsche Investitions und Entwicklungsgesellschaft mbH

Development Partners International LLP

DFC | U.S. International United States Development Finance Corporation

Dream Unlimited Corp.

DWS Country-Specific Clean Energy Fund

DWS Country-Specific Environment Fund

DWS Sustainable Agriculture Strategy

DWS Sustainable Energy Strategy

Elevar Equity

European Bank for Reconstruction and Development (EBRD)

European Development Finance Institutions (EDFI)

Finance in Motion

FinDev Canada

Finnish Fund for Industrial Cooperation (Finnfund)

Franklin Templeton

FullCycle Climate Partners

HealthQuad

Insitor Partners

Invest in Visions

The Investment Fund for Developing Countries (IFU)

Jonathan Rose Companies

Kohlberg Kravis Roberts & Co. L.P.

LeapFrog Investments

LGT Venture Philanthropy Foundation

LightRock

MedAccess

MPM-BioImpact Capital

MUFG

New Forests

Norfund

Nuveen, a TIAA company
- Nuveen Fixed Income Impact
- Nuveen Private Equity Impact
- Nuveen Real Estate - Impact Investing

Omnivore

Partners Group AG

Planet First Partners SCA

Prudential Financial, Inc. - Impact & Responsible Investing

Quona Capital Management Ltd.

Radicle Impact Partners

Schroders Asset Management

Scottish National Investment Bank

SEAF

St. Cloud Capital Partners

Summa Equity

Summit Africa

The Osiris Group

The Rockefeller Foundation's Zero Gap Fund

Tomorrow Capital

Trill Impact

Two Sigma Impact

UBS Group AG

Van Lanschot Kempen

Vital Capital

Vox Capital

Women's World Banking Asset Management

*BlueMark has completed 100 practice verifications for 75 firms as of May 2023. These figures include several unnamed firms, firms that received multiple verifications for distinct strategies or funds, and firms that have been re-verified. Some verifications were commissioned by asset allocators.

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Case Studies

BlueMark's assessment is based on its analyses of publicly available information and information in reports and other material provided by clients. BlueMark has relied on the accuracy and completeness of any such information provided by clients. The assessment results represent BlueMark's professional judgment based on the procedures performed and information obtained.

This report may be cited as: BlueMark (2023): *Making the Mark*: Benchmarking Impact Management Practice

Available online at bluemarktideline.com/making-the-mark-2023

Foreword

WHEN WE LAUNCHED BLUEMARK THREE YEARS AGO, it was clear the market needed a trusted, independent source of impact verification. We believed that such verification would best serve the interests of market stakeholders if it was structured to generate the insights and data necessary to interpret the quality of impact practices and performance, identify best practices, and motivate investors to continuously improve. Since that time, investors have come to demand more data-driven benchmarks and analytics to compare and differentiate impact performance among investors of all types. This need is particularly acute among institutional allocators, which not only have to identify top performers within a rapidly expanding pool of asset managers, but also engage with managers to drive them towards greater alignment with industry best practices.

The demand for improved benchmarks, analytics, and data-driven insights was also a driving force behind BlueMark's successful Series A funding round, which we announced last month. Our backers all recognize that improved data is central to improved decision-making, and that continuously raising the bar on best practices is the key to scaling this field with integrity.

Indeed, we have always viewed impact verification as more of a learning than a check-the-box exercise, which is why we designed our services to generate the kind of data and benchmarks necessary to spotlight best practices and identify specific areas for improvement. Our goal with this approach is to encourage a 'race to the top' where investors can learn from their peers and work together to advance best practices.

> With more than 100 practice verifications now under our belt—in addition to more than 25 reporting verifications —we can confidently say that investors in this field are committed to pursuing best practice impact management.

What's more, the race to best practice is no longer one confined to certain asset classes or driven solely by market standards – BlueMark's verifications increasingly span public and private markets strategies and about two-thirds (or 65%) of our practice verification clients are signatories to the Impact Principles. While we encourage our clients to become signatories wherever possible and practical, the increasing pursuit of best practice impact management is itself a reflection of the success of standards like the Impact Principles and growing interest in impact investing. As the market has grown exponentially, so too has the competitiveness among investors, driven by a combination of increased regulatory pressures and growing scrutiny by LPs.

It should come as no surprise to readers of this report that many impact investors want to maximize both impact performance and financial performance. To do so requires continuously innovating their approach to impact management and measurement. Just in the past year, we've seen new and interesting approaches to everything from quantifying impacts to linking impact with financial incentives. Undoubtedly, we will see more innovation in the years ahead as an increasing and more diversified array of investors enter this market.

What you will find in this year's *Making the Mark* report

In our fourth annual *Making the Mark* report, we've shortened much of the analysis to make the key findings more digestible. Not to worry – we will have plenty more analysis to share throughout the year! But we also want to let the data speak for itself and turn this annual report into a reference guide for investors tracking the evolution of best practices in impact management.

84 VERIFICATIONS | 75 INVESTORS

$209B IMPACT AUM

The analysis in this year's report is based on 84 verifications for 75 investors managing a combined $209 billion in impact-oriented assets under management. Within this dataset is 16 'repeat' practice verifications for past clients, which we used to replace earlier verification data to ensure the analysis only reflects the current state of impact management practices.

Here's a preview of what to expect in this year's *Making the Mark* report:

AgDevCo

BlueEarth CAPITAL

Calvert Impact Capital

nuveen

- **2023 edition of the BlueMark Practice Leaderboard.** Congratulations to the four investors that have been newly named to the 2023 edition of the BlueMark Practice Leaderboard: *AgDevCo, BlueEarth Capital AG, Calvert Impact Capital,* and *Nuveen Fixed Income Impact*. They join the six investors that were named to last year's Leaderboard – *Bain Capital Double Impact, British International Investment, Finance in Motion, LeapFrog Investments, Nuveen Private Equity Impact,* and *Trill Impact*. To qualify for the Leaderboard, investors must have been verified within the last two years and achieve top quartile ratings for every Principle in the BlueMark Practice Benchmark.

- **Updated Practice Benchmark and Practice Dashboard.** We've published updated versions of both the Practice Benchmark and the Practice Dashboard to reflect the larger sample size and new emerging practices, which allows us to spotlight key insights and performance across different practice areas. We've also continued to segment our findings by quartile to help define what it takes to be an "impact leader" (the top quartile) vs. an "impact learner" (the bottom quartile).
- **New benchmarks and data snapshots.** As we've expanded our sample size of verifications, we can better cut the data to zero in on different segments of the market. This report and the accompanying landing page on the BlueMark site includes several snapshots by investor type (asset manager vs. asset allocator), thematic focus (social vs. climate/environmental vs. multi-theme), and asset class (private equity vs. private debt vs. real assets).
- **Case studies on innovations in impact management.** We've published five case studies to highlight some interesting innovations and recent trends in impact management, featuring a diverse group of investors: Adams Street Partners, Franklin Templeton, FullCycle Climate Partners, Schroders Asset Management, and Summa Equity.
- **Analysis of signatories to the Impact Principles.** We've updated our analysis of the Operating Principles for Impact Management (or Impact Principles) based on verifications of the 170+ signatories. BlueMark continues to be the leading verification provider and was responsible for 42 verifications out of the 119 total published verifier statements. If excluding the 15 internal verifications, BlueMark was responsible for 40% of third-party verifications. In addition, BlueMark conducted 40 practice verifications for investors who are not signatories to the Impact Principles.

We hope the data, insights, and benchmarks presented in this year's *Making the Mark* report will empower investors with the tools and confidence to structure investment processes that optimize for impact as well as financial return goals. We also hope that more investors join in the race to the top as we all work together to address our shared sustainability challenges.

Christina Leijonhufvud

CEO & CO-FOUNDER, **BLUEMARK**

MANAGING PARTNER & CO-FOUNDER, **TIDELINE**

Practice Verification Findings

Practice Verification Findings

This section presents data and analysis on the aggregated results of BlueMark's practice verifications to date. Taken together, these data points provide insight into the current state of impact management practice and its evolution over time.

The 2023 Practice Benchmark

Figure A presents the aggregated results from BlueMark's 84 most recent practice verifications, excluding 16 verifications for investors that have been re-verified. BlueMark's proprietary rating system evaluates the degree of investor alignment with the Impact Principles on a four-part scale (Low, Moderate, High, Advanced[1]), providing a shorthand for investors to understand where their impact management system excels and where they have room for improvement.

The benchmark categorizes practice trends by quartile, providing a mechanism for investors to compare themselves to their peers and to learn from others in the market.

The Benchmark for Impact Investing Practice

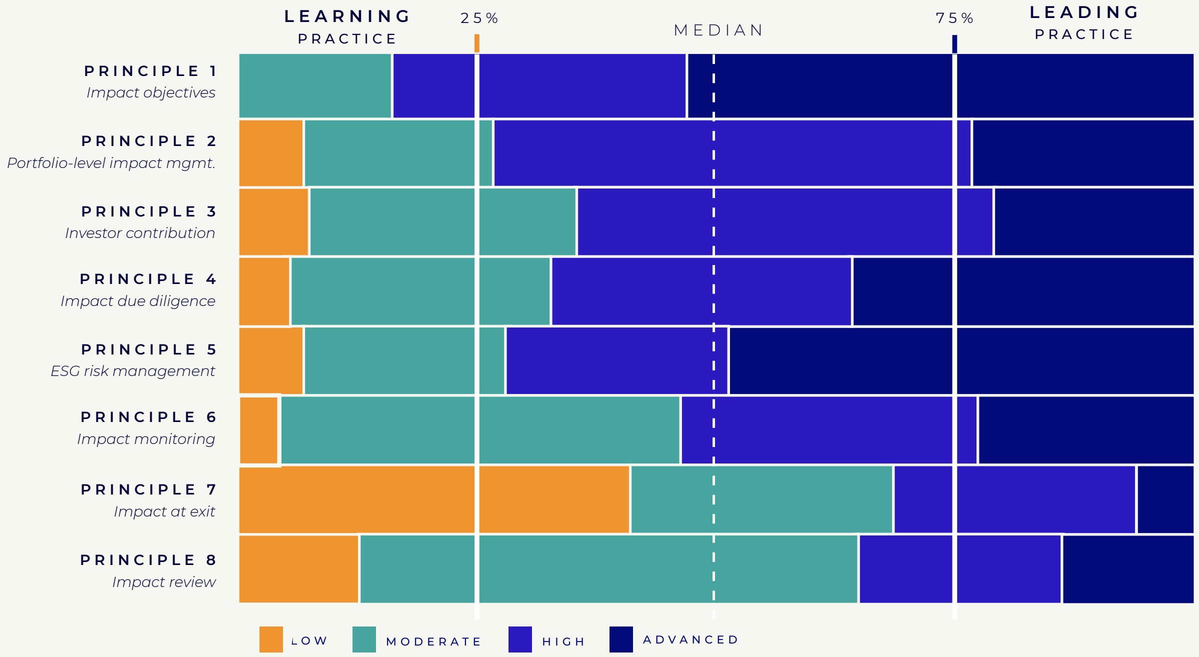
Leading Practice	*Leading Practice represents the top quartile of our sample (75th percentile and above). Leading practice incorporates all the core elements of impact management, as well as several leading-edge practices that may go above and beyond the requirements of the Impact Principles.*
Median Practice	*Median Practice reflects the impact management practices of the median impact investor in our sample (50th percentile). The Practice Median represents the current standard and incorporates many of the core elements of impact management.*
Learning Practice	*Learning Practice represents the bottom quartile of our sample (25th percentile and below). These investors may have good intentions, but lack many core practices necessary to effectively manage positive impact. Many are early in their impact investing journeys, while others have yet to embed impact considerations at key stages of the investment process.*

1 For more on BlueMark's verification methodology, please refer to the Appendix.

FIGURE A

The Benchmark for Impact Investing Practice 2023

BlueMark ratings of investor alignment with the Impact Principles



While our benchmark sample size has increased significantly, the updated Benchmark reinforces conclusions represented in previous '*Making the Mark*' reports. Indeed, the Median Practice Benchmark has remained the same and continues to demonstrate that investors perform better on impact practices at the earlier stages of the investment process and continue to face challenges when it comes to impact management during the later stages, particularly as it relates to ensuring impact endures at and beyond exit (Principle 7) and reviewing impact to improve of their processes (Principle 8).

One notable change in this year's Practice Benchmark relative to last year's is a shift downward for portfolio-level impact management (Principle 2) alignment to best practice, with the Learning Practice (25th percentile and below) median moving from High to Moderate and the Leading Practice (75th percentile and above) median dropping from Advanced to High. This decrease in overall performance for the specific practice area suggests that many impact investors continue to face challenges when it comes to establishing portfolio-level indicators of impact performance and creating systems for linking staff incentives to impact.

For additional analysis on each practice area and benchmark changes over time, please see the "Verification Data by Practice Area" section below.

The BlueMark Practice Leaderboard

The BlueMark Practice Leaderboard[2] was created as a way to highlight those impact investors with best-in-class impact management practices. To earn a spot on the Leaderboard, verified investors must receive top quartile ratings across all of the Impact Principles in the Benchmark for that year. In this year's edition, there was one change to the criteria with the top quartile for Principle 2 shifting from an Advanced to a High, which means verified investors must now receive an Advanced score on Principle 1, 4, 5, and a score of High or above for the other five Principles. Only impact investors that have been verified within the previous two years are eligible for inclusion in the Leaderboard to ensure that their systems are assessed against the current state of the market.

With this evolution of the Benchmark, four new investors have been named to the 2023 edition of the Practice Leaderboard, bringing the total to 10 investors – or 12% of the 84 practice verifications included in this year's analysis. This group also reinforces the view that leading impact management practice can be achieved across a variety of different investment contexts, with representation on the Leaderboard of a variety of investor types (GPs and LPs), asset classes, investor sizes, geographies, and impact themes.

2 Explore the latest version of the BlueMark Practice Leaderboard at https://bluemarktideline.com/practice-leaderboard/

FIGURE B

The 2023 Practice Leaderboard

INVESTOR NAME *ASSET CLASS*, VERIFICATION DATE	GEOGRAPHY	IMPACT THEMES
AgDevCo *Private Equity, Private Debt* | June 2021	Africa	· Sustainable Agriculture
Bain Capital Double Impact *Private Equity* | April 2023	North America	· Health & Wellness · Education & Workforce Development · Sustainability
BlueEarth Capital AG *Private Equity, Private Debt* | Feb. 2023	Africa, Asia, Europe, North America, Latin America	· Multi-theme
British International Investment *Private Equity, Private Debt* | June 2023	Africa, Asia, the Indo-Pacific and the Caribbean	· Productive, Sustainable and Inclusive
Calvert Impact Capital *Private Debt* | April 2023	Africa, Asia, South America, North America	· Access to Community Service · Financial Inclusion · Climate Change
Finance in Motion *Private and Public Debt, Private Equity* | Nov. 2021	Global Emerging Markets	· Green Economy · Climate Finance · Entrepreneurship & Livelihoods · Financial Inclusion
LeapFrog *Private Equity* | Jan. 2023	Sub-Saharan Africa South and Southeast Asia	· Financial Inclusion · Healthcare · Climate Solutions
Nuveen Private Equity Impact *Private Equity* | June 2022	Global	· Resource Efficiency · Inclusive Growth
Nuveen Fixed Income Impact *Public Debt* | June 2022	Global	· Affordable Housing · Community & Economic Development · Renewable Energy & Climate Change · Natural Resources
Trill Impact *Private Equity, Private Debt* | Jan. 2022	Europe	· Multi-theme (SDG-aligned impact)

Verification Data by Practice Area

This section will provide a deeper dive into the dataset to spotlight key trends and challenges across each of the following key stages of impact management:

- **Strategic Intent:** Establishing impact objectives and a theory of change consistent with investment strategy and managing impact at the portfolio-level, including aligning staff incentives to impact performance
- **Impact Due Diligence:** Assessing investor contribution to the impact of each investment and assessing the expected positive impact and impact risks associated with potential investments
- **Impact Monitoring & Measurement:** Monitoring and engaging on ESG risks and impact performance data through the investment period
- **Impact at Exit:** Taking actions to sustain impact at and beyond exit and using learnings from review of impact performance data to improve processes

Strategic Intent

IMPACT OBJECTIVES AND THE SDGS (PRINCIPLE 1)

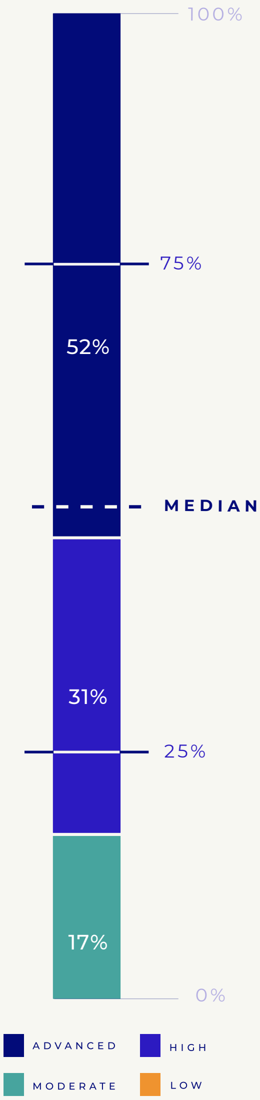
Setting impact objectives that are consistent with an investor's investment strategy is a foundational impact management practice that allows investors to ensure they have a credible impact strategy that is rooted in evidence and aligned to global consensus for achieving positive outcomes.

KEY PRACTICES	VARIANCE FROM 2022*	2023
Align with the Sustainable Development Goals	=	91%
Align with the 169 Targets underlying the SDGs	=	43%
Create a theory of change with supporting evidence	↓	60%

**Variance is defined as a material increase or decrease in percentage change (i.e., +/- 10%) compared to the 2022 research sample.*

PRACTICE MEDIAN

ADVANCED



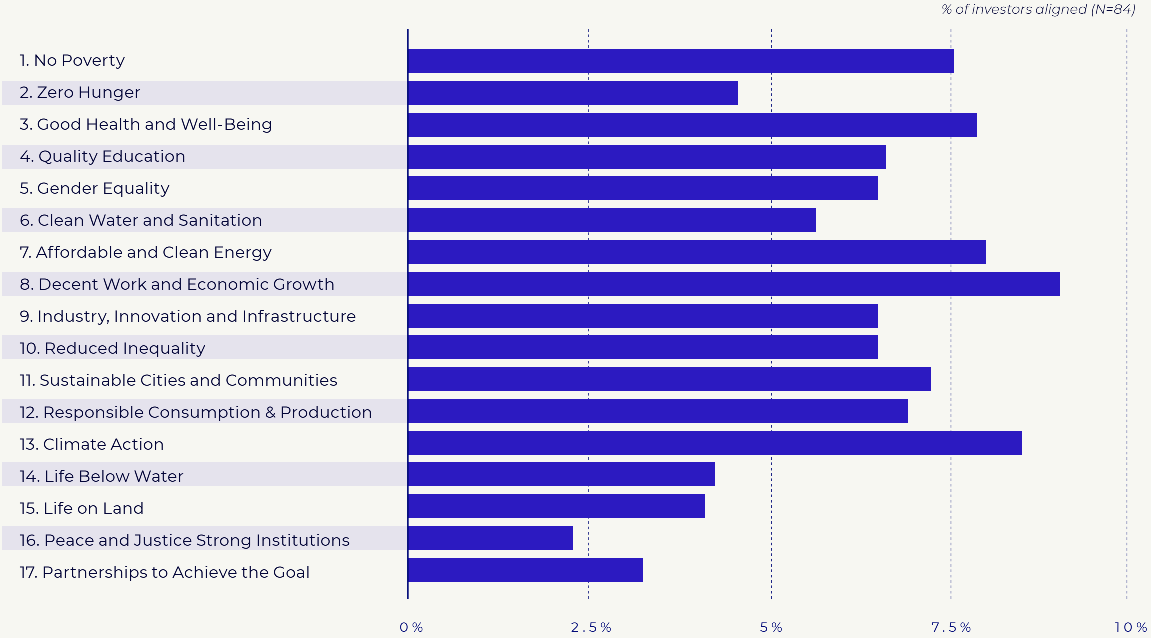
Key Insights

- **Setting impact objectives continues to be the strongest practice area amongst verified investors**, with a median rating of Advanced. That being said, BlueMark's 2023 verification data illustrates an overall decrease of Advanced scores from 2023, demonstrating mixed practice when it comes to substantiating a theory of change with a robust evidence base (only 60% of investors).
- **The Sustainable Development Goals** are nearly ubiquitous as a tool for articulating impact goals in impact investing, with 91% of verified investors utilizing the global framework. On the other hand, only 43% of investors align their investments to the specific underlying SDG targets. While the SDGs remain the dominant framework for consensus goal-setting, investors are increasingly leveraging the Paris Agreement and associated initiatives such as Science-based Targets to anchor their climate-specific impact objectives.
- **Decent Work and Economic Growth (SDG 8)** is the most commonly cited SDG amongst verified investors, followed by the environmental-related goals of Climate Action (SDG 13) and Clean Energy (SDG 7). All 17 SDGs are represented in the verification

sample, reflecting the diversity of impact themes targeted by BlueMark clients and the fact that certain investors, such as asset allocators, broadly align their goals to all SDGs.

FIGURE C

Reported alignment to SDGs

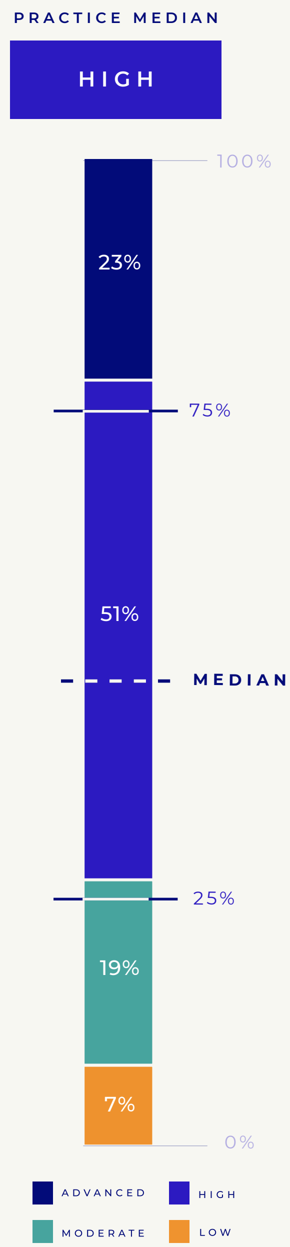


PORTFOLIO-LEVEL IMPACT MANAGEMENT AND STAFF INCENTIVES (PRINCIPLE 2)

Establishing a process for consistently assessing and tracking impact across the portfolio – through the development of an impact framework or scoring system – allows investors to compare impact across their investments and gauge overall performance at the portfolio-level, aiding in portfolio-level target setting and linking staff-incentives related to impact.

KEY PRACTICES	VARIANCE FROM 2022*	2023
Have a consistent approach to compare impact performance across investments	↓	88%
Use a composite impact scoring or rating tool to assess impact across the portfolio	=	29%
Align staff incentive systems with impact performance	↓	31%

*Variance is defined as a material increase or decrease in percentage change (i.e., +/- 10%) compared to the 2022 research sample.



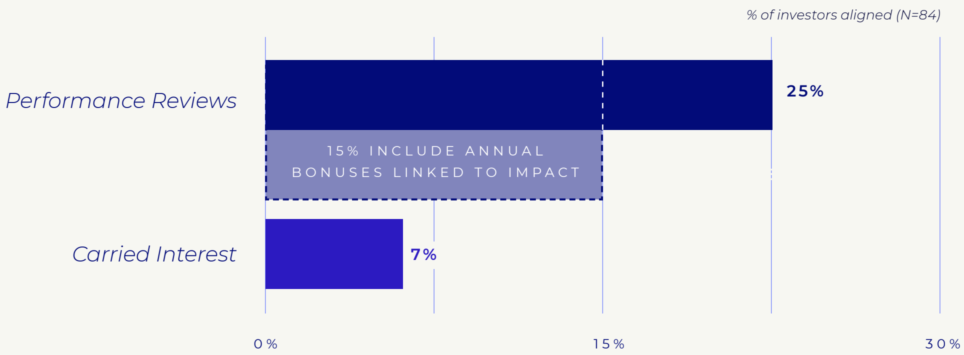
Key Insights

- **88% of verified investors have a process in place to manage portfolio-level impact**, which is represented by a median score of High for the practice area. That said, investors are struggling to reach best practice levels, with the percentage of Advanced scores decreasing by 9 percentage points compared to last year's research sample.
- **29% of investors have adopted bespoke impact scoring or rating tools to track portfolio-level impact.** These tools may span quantitative scoring systems linked to the 5 IMP dimensions of impact, scorecards that incorporate key impact metrics and qualitative analysis to determine composite scores, and impact monetization methodologies.
- **Adoption of staff-incentive systems remains limited in the market**, with only 31% of investors linking their staff compensation to impact performance. 25% of those do so by integrating aspects of impact performance and practice into annual staff performance reviews and development decisions, while another 15% make the

compensation link more explicit through links to variable pay, such as annual bonuses tied to achievement of impact targets. Finally, only 7% of investors have linked carried interest to impact results (in part because this technique is only applicable to private equity and venture capital funds), where fund managers typically forfeit a portion of carried interest if the fund does not meet certain impact targets. For additional analysis on staff incentive system practices, please see BlueMark's recent article in *New Private Markets*.[3]

FIGURE D

Approaches to Impact-Aligned Staff Incentives



3 New Private Markets (2023): Tying financial incentives to impact

CASE STUDY

Facilitating SFDR compliance through impact verification

(ADAMS STREET PARTNERS)

Increasing concerns about the credibility of investors' claims of social and environmental impact have led to a firestorm of regulatory responses aimed at preventing impact- and green-washing. In particular, the recent introduction of the EU's Sustainable Finance Disclosure Regulation (SFDR) has left investors scrambling to prepare for increasingly complicated disclosure requirements entering into force this year.

Fortunately, there is strong synergy between good Impact Management (IM) practice and the ability of investors to credibly and reliably meet SFDR's disclosure requirements. In response, BlueMark has adapted its verification framework to provide advice on the adequacy of an investor's IM framework to meet the disclosure requirements of either Article 8 or Article 9, which includes disclosures around the Principal Adverse Impacts (PAIs) and other key elements of the regulation.

Our SFDR assessments serve to help investors launching new Funds or seeking to fundraise in Europe to determine what it would take to classify under Article 8 vs. 9 based on a detailed review of a fund's and/or firm's strategy and impact management processes.

Client spotlight: Adams Street Partners

Adams Street Partners is a global private markets investment manager with investments in more than 30 countries across five continents. The firm manages over USD 52 billion in assets. Adams Street is committed to Responsible Investing and engaged BlueMark to perform a gap analysis and assess the strength of the firm's impact strategy and newly-designed IM framework to meet potential disclosure requirements related to SFDR Article 8 and Article 9.

Based on a thorough document review and numerous interviews, BlueMark mapped Adams Street's IM framework and practices against key SFDR requirements and highlighted a number of IM practices which made Adams Street particularly well-positioned to produce credible and reliable SFDR disclosures.

The firm uses a quantitative scoring framework to assess the potential impact of an investment along multiple dimensions and aligned with the firm's strategy. Adams Street requires an investment to meet a threshold score to be included in the portfolio, which enables the firm to define and assess adherence to the "binding elements" (i.e., minimum criteria for portfolio inclusion) that it specified as part of SFDR compliance.

Another relevant practice is Adams Street's process for selecting and monitoring performance against key impact indicators — a part of both pre-contractual and periodic SFDR product-level disclosure requirements. To start, the firm determines a relevant core impact metric for each of its investments as part of its ex-ante impact assessment. To monitor impact performance, Adams Street has adapted the GIIN's COMPASS methodology to calculate a Cumulative Annual Growth Rate (CAGR) for each core impact metric. The firm uses a CAGR-derived metric at the portfolio-level to communicate its impact in its periodic disclosures.

In addition to finding key synergies between the firm's existing IM practices and SFDR's requirements, BlueMark also helped Adams Street identify several key gaps in its current processes as it pertains to some of the more burdensome areas of SFDR (e.g., consideration and reporting against the Principle Adverse Impacts and the Minimum Safeguards) that relate to compliance with Article 9 disclosures. Fortunately, even where gaps remain, the existence of a robust ESG framework at Adams Street, which includes utilizing third-party data providers to regularly monitor key ESG risks and controversies, makes closing those gaps an easier lift.

SFDR is a highly complex and evolving regulatory framework and BlueMark's experience shows that there is significant alignment between strong IM practices and the ability to credibly and reliably comply with SFDR disclosure requirements.

> "The BlueMark verification process provided Adams Street with a clear and independent view of our existing approach to impact investing, highlighting key strengths and opportunities for improvement relative to best-practice and regulatory requirements. BlueMark's verifier's report also allows us to provide greater transparency to potential investors regarding our impact strategy, by offering a summary of the key findings to support investors' own impact due diligence efforts. By undertaking this work, we hope to underscore Adams Street's commitment to align with best practice standards in the areas of impact reporting and impact management, as well as to pursue ongoing improvement."

YOHAN HILL, PRINCIPAL & DIRECTOR OF ESG AND RESPONSIBLE INVESTING, ADAMS STREET PARTNERS

Impact Due Diligence

INVESTOR CONTRIBUTION TO IMPACT (PRINCIPLE 3)

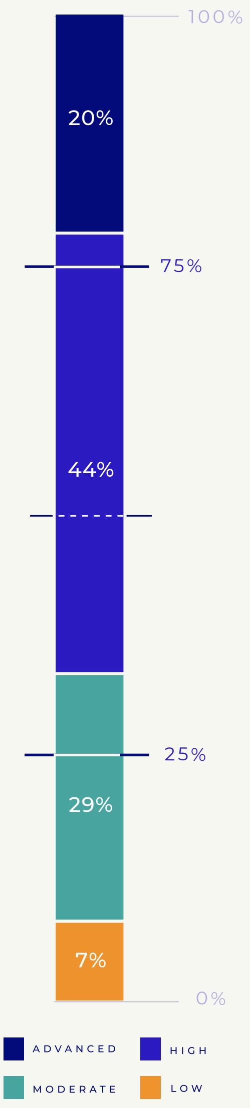
Assessing expected investor contribution to the achievement of impact enables investors to gauge their unique value-add, both financially and non-financially, to the impact of each investment. While measurement of an investor's unique contribution to impact is still an emerging and nuanced practice, investors with robust ex-ante assessments are starting to track the results of their investment-level contributions to gain a better understanding of their role in driving and improving investee outcomes.

KEY PRACTICES	VARIANCE FROM 2022*	2023
Assess investor contributions to the impact of each investment	=	68%
Track and monitor results of investor contribution activities	=	23%

**Variance is defined as a material increase or decrease in percentage change (i.e., +/- 10%) compared to the 2022 research sample.*

PRACTICE MEDIAN

HIGH



Key Insights

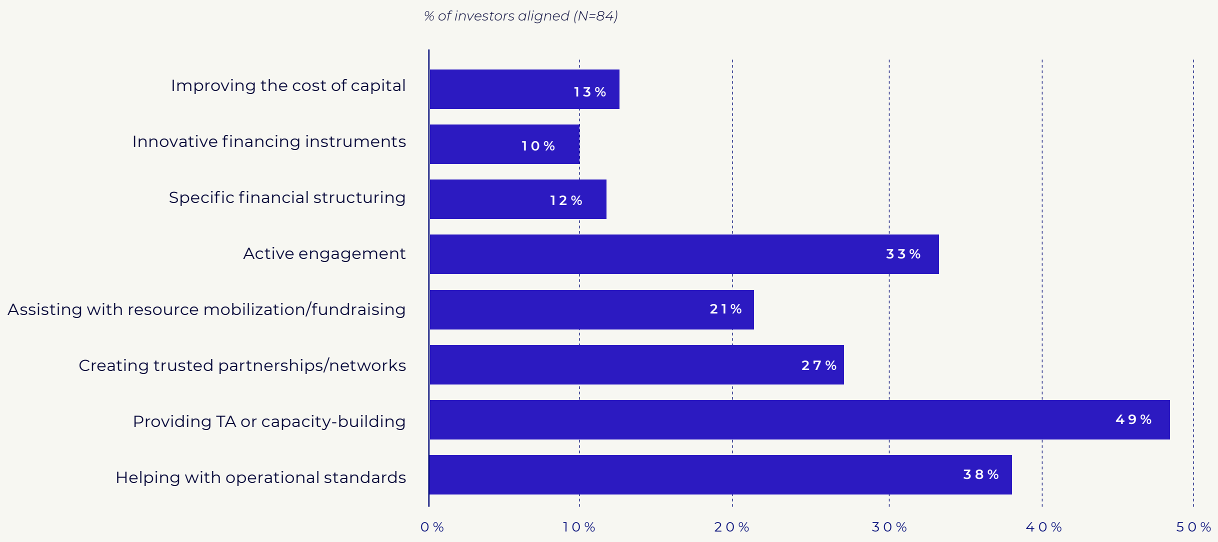
- **Assessing investor contributions to impact remains a fundamental practice in the market** with a High median rating that shows 68% of verified investors have a process to assess expected investor contributions to impact during due diligence.
- **23% of investors track and monitor the results of their contribution activities systematically.** While still a minority practice, monitoring contribution is becoming an impact management expectation as the market increasingly encourages additional accountability and evidence behind broad investor contribution narratives – facilitated by market initiatives such as Investor Contribution 2.0[4] that can help investors better track and monitor their expected contribution with metrics taxonomies and engagement tracking templates. Indeed, BlueMark has found that investors more regularly measure the impacts resulting from their non-financial contributions given the challenges in measuring financial contribution or "additionality," such as the effects from innovative financing instruments or improved terms, due to the lack of counterfactuals, longer time horizons, and diversity of other financing variables.

4 Impact Frontiers (2022): Investor Contribution 2.0

- **The most common type of investor contribution activity among BlueMark's sample is providing technical assistance support and capacity building to investees** (i.e., technical support to impact products or services), followed by helping investees with improved operational standards (i.e., ESG disclosures or certifications) and active engagement (i.e., board or governance participation). These types of non-financial contributions are not mutually exclusive and often intertwined as part of broader value-add strategies, which demonstrate the importance of impact investors finding meaningful avenues to contribute to investees above and beyond their financial investment.

FIGURE E

Types of Investor Contribution Assessed



IMPACT SCREENING AND DUE DILIGENCE (PRINCIPLE 4)

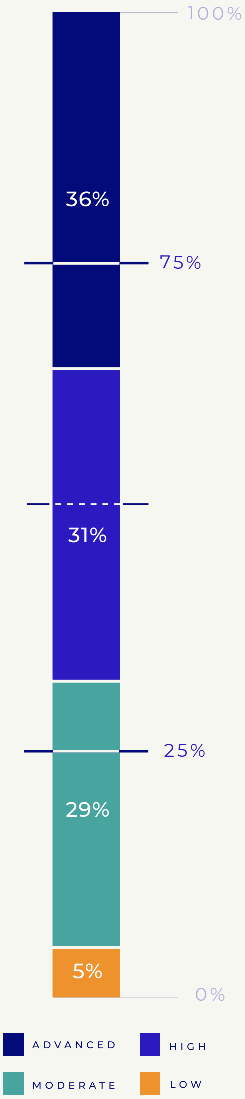
Assessing impact during due diligence against a robust set of criteria is a fundamental practice to ensure an investor selects investments aligned to their strategy for driving outcomes. Robust practice should, for each investment, analyze all the fundamental components of impact[5] sought in addition to broader material impacts (i.e., indirect and negative impacts) while setting clear targets to allow for effective performance monitoring and analysis ex-post.

KEY PRACTICES	VARIANCE FROM 2022*	2023
Assess expected potential impact performance (ex-ante) for each investment	=	95%
Assess impact risks related to each investment	=	55%
Assess all fundamental components of potential impact for each investment	↑	26%

**Variance is defined as a material increase or decrease in percentage change (i.e., +/- 10%) compared to the 2022 research sample.*

PRACTICE MEDIAN

HIGH



Key Insights

- **Assessing ex-ante potential impact is an increasingly strong practice for the market** with a High median rating and 5 percentage point increase in the share of investors attaining Advanced scores compared to 2022. Verified investors are continuing to improve their impact due diligence process to embed impact analysis within decision-making and align with best practice frameworks, such as the Impact Management Project (IMP).
- **26% of investors have due diligence processes that account for all 5 key components of impact** (i.e., Who, What, How Much, Risk & Enterprise Contribution), which is considered the gold standard for a holistic evaluation of impact and reflects one of the fastest growing areas of practice within the field with a 17 percentage point increase in the share of verified investors compared to 2022 data. While "Enterprise Contribution"[6] is the least commonly assessed dimension at 32%, there has been a notable increase from 22% in this year's sample demonstrating increased focus on investee-level additionality in addition to investor contribution.

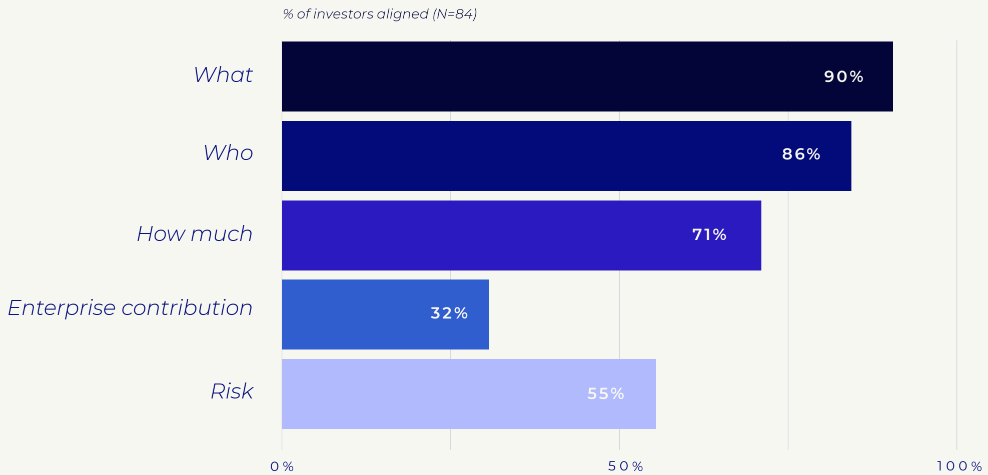
5 Commonly referred to as the Impact Management Project's (IMP) 5 dimensions of impact, including the What, Who, How Much, Contribution, and Risk.

6 Enterprise Contribution deals with the technical definition of 'impact' used by evaluators, which involves counterfactuals: an organization's 'impact' is equal to the difference between the outcome experienced by stakeholders as a result of the organization's activities, and the outcome they likely would have experienced in the organization's absence. Impact Frontiers (2022): Enterprise Contribution

- **55% of investors include an analysis of impact risk in due diligence**, however investors tend to focus their assessments on the likelihood of impact occurring ("execution risk") rather than assessing potential negative impacts ("unexpected impact risk"). In fact, only 24% of investors include a standardized assessment of negative impacts as part of their process, which suggests the market has more work to do when accounting for potential negative outcomes in due diligence.

FIGURE F

Use of the IMP 5 Dimensions of Impact



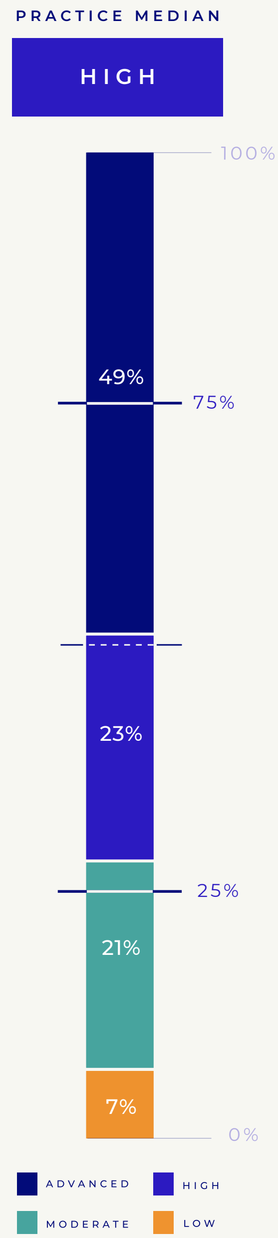
Impact Monitoring & Measurement

ESG RISK MANAGEMENT (PRINCIPLE 5)

Although many impact investors previously assumed their strategies were entirely distinct from ESG investment strategies, assessing and monitoring Environmental, Social, and Governance (ESG) risks is now regarded as a critical component to impact management. By actively managing ESG risks or improvements during the life of investments, managers are able to ensure that investees are not creating undue harm on people or the planet through the way their businesses are operated.

KEY PRACTICES	VARIANCE FROM 2022*	2023
Have a process to identify select Environmental, Social, and Governance (ESG) risks	=	92%
Actively engage and manage ESG issues with investees	↑	52%

**Variance is defined as a material increase or decrease in percentage change (i.e., +/- 10%) compared to the 2022 research sample.*



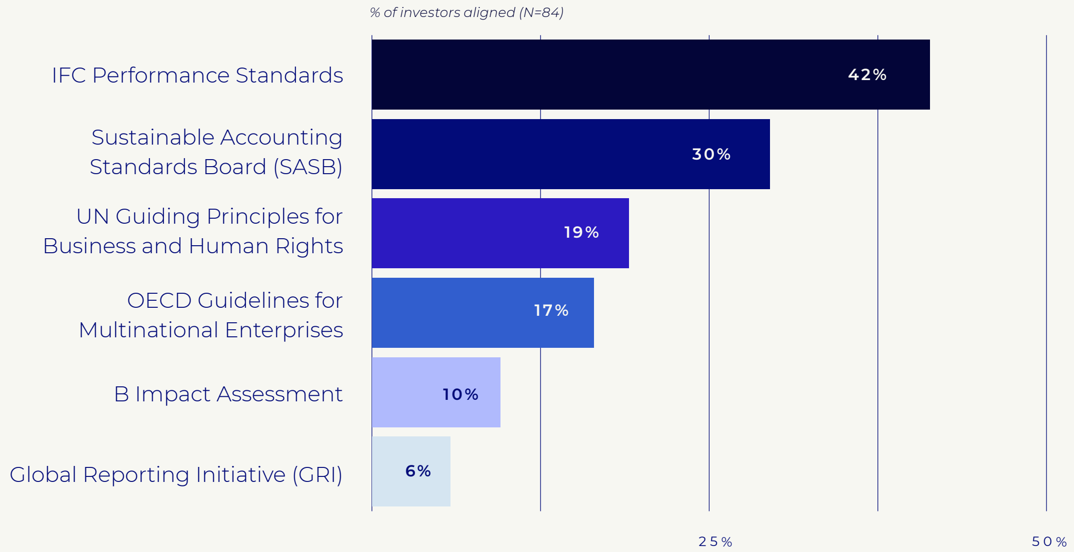
Key Insights

- **ESG risk management has become a core expectation for both impact and traditional investing**, with more than 90% of verified investors having a process in place to identify ESG risks. As more robust practices have been emerging from the market over the past year, BlueMark has seen improved ESG risk management processes across the board, which could be explained by increasing regulation (i.e., SFDR) and the launch of impact products by investors with already strong ESG approaches already in place.
- **52% of investors are actively engaging investees on ESG issues**, in contrast to a more passive ESG approach that involves using only screens or other basic due diligence processes to screen out or flag ESG risks up front. The increase in this practice from last year's sample is illustrative of the overall increase in robust ESG management in the market and the fact that improving investees ESG-related practices is now becoming a core aspect of investor contribution strategies in the impact investing industry.
- **The IFC Performance Standards are the most commonly used ESG industry standard (42% of verified investors)**, followed by SASB (30%), and the UNGP (19%) and OECD guidelines (17%). The diversity

of ESG standards leveraged in our sample show that investors continue to adopt and build ESG frameworks relevant to their specific investment strategy, asset class, and geography rather than converging on a single unified approach across the market.

FIGURE G

Use of the ESG Industry Standards and Frameworks



IMPACT MONITORING AND MEASUREMENT (PRINCIPLE 6)

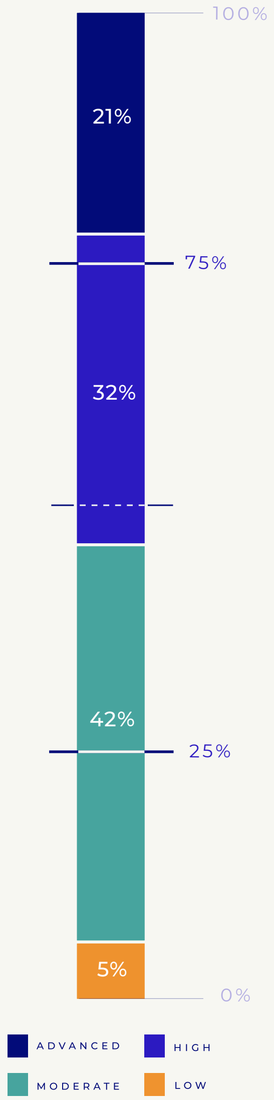
Monitoring impact performance data consistently against expectations or targets established in due diligence enables investors to ascertain whether their intended outcomes are being achieved by investees and to take action in the event of impact underperformance. Robust monitoring frameworks and practices are therefore a crucial requirement for holding investees to account for impact performance and for delivering quality impact reporting to investment stakeholders.

KEY PRACTICES	VARIANCE FROM 2022*	2023
Monitor impact data against expectations or a target	↓	60%
Solicit input from end-stakeholders to validate impact outcomes	↑	32%

Variance is defined as a material increase or decrease in percentage change (i.e., +/- 10%) compared to the 2022 research sample.

PRACTICE MEDIAN

HIGH



Key Insights

- **Impact performance monitoring practices range broadly across the impact investing market:** While a High median score shows that consistent impact monitoring is the norm for most impact investors, the fact that 42% of investors score as Moderate demonstrates there is still significant room for improved practice across the market.
- **80% of impact investors collect impact data regularly from investees**, with 37% of investors monitoring impact performance on an annual basis and 30% monitoring quarterly. BlueMark's observations reflect these monitoring cadences are typically defined by the type of impact data collected in addition to investors' reporting schedules with LPs.
- **An increasing number of impact investors are engaging with end-stakeholders (e.g. workers, customers, or affected community members) and actively soliciting their input to validate outcomes alongside investee data.** While still a minority practice, with less than a third of investors (32%) regularly engaging with end-stakeholders, an increase of 4 percentage points compared to last year's research sample shows that soliciting input from end-stakeholders will become a key part of robust impact management and monitoring.

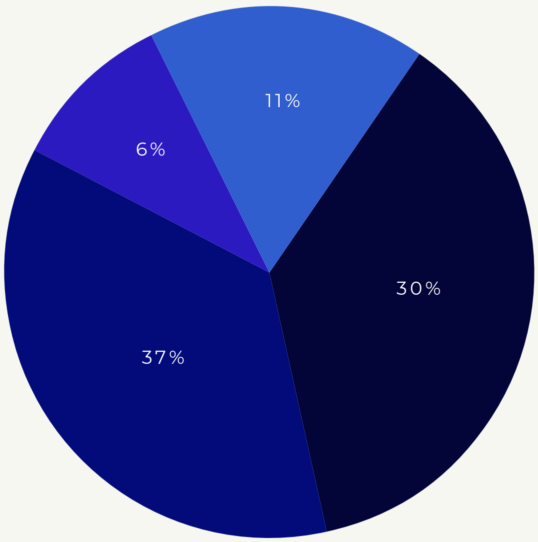


FIGURE H

Frequency of Data Collection from Investees

% of investors aligned (N=84)

QUARTERLY

ANNUALLY

FLEXIBLY

OTHER

CASE STUDY

Linking impact management to quality reporting

(SUMMA EQUITY)

Impact reporting is increasingly being recognized not just as a marketing or communications tool, but as a crucial component to high-quality impact management that provides accountability and informs decision-making. While the Impact Principles do not prescribe requirements related to impact reporting, BlueMark has developed its own framework to assess the quality of impact reporting based on consultation with 50+ impact investing experts and an analysis of existing reports in addition to broader market standards, as summarized in our *Raising the Bar* report[7].

Our Verification Insights

Findings from our first 25 impact reporting verifications representing over USD 8 billion in AUM demonstrate the integral link between quality impact management and complete reporting. Indeed, many of the practices highlighted in this report and the Impact Principles act as a foundation to be able to provide complete reporting. For example, creating an evidence-based impact theory of change (60% of verified investors) and collecting investor contribution data (22% of verified investors) are two processes that enable investors to clearly articulate their impact intentions and strategy for driving outcomes within reporting. Similarly, systematic impact monitoring processes that compare impact results against expectations (60% of verified investors) are required to be able to report impact performance results in a relative way. Recognizing this correlation, BlueMark increasingly delivers both services together in order to provide holistic verification that assesses both an investor's practice for managing impact and their reporting of impact performance externally.

Client Spotlight: Summa Equity

Summa Equity ("Summa"), a Stockholm-based private equity firm investing in impact themes related to Resource Efficiency, Changing Demographics, and Tech-Enabled Transformation, engaged BlueMark to verify and provide feedback on both its impact management approach and upcoming annual impact report. In doing so, BlueMark was able to provide a consolidated analysis on where impact management practices could lead to improved reporting and vice versa.

7 BlueMark (2022): Raising the Bar: Aligning on the Key Elements of Impact Performance Reporting.

In terms of synergies, the firm has developed a sophisticated impact due diligence process that leverages the IMP dimensions, which allows for reporting a holistic view of expected impacts for each investment. Summa also monitors KPI targets related to both ESG and impact for each investment, which supports high-quality annual reporting of investment-level progress against their impact results framework.

On the other hand, BlueMark highlighted an opportunity to improve its alignment to the Impact Principles by more systematically assessing and tracking Summa's extensive impact value-add activities across investments. This led to a related reporting recommendation on how, over time, they could more effectively use contribution data — drawing on industry initiatives like Investor Contribution 2.0[8]—to enable more complete portfolio-level reporting. BlueMark also noted areas to improve the reliability of Summa's reporting by bringing increased quality control processes and consistency to the management of a diverse set of impact and ESG data sources.

The findings from both the practice and reporting verification were delivered in a consolidated report alongside benchmarking analysis and best-practice examples – allowing Summa to incorporate immediate changes to its upcoming impact report and prioritize longer-term impact management recommendations based on potential other improvements to future reports.

"Summa had a great experience working with BlueMark on the 2022 impact verification. The process provided valuable insights and learnings, informing improvements to our internal processes on how to further increase impact considerations throughout the investment cycle, including enhancing our investor contribution during ownership."

HANNAH JACOBSON

PARTNER, SUMMA EQUITY

8 Impact Frontiers (2022): Investor Contribution 2.0

Impact at Exit

SUSTAINING IMPACT AT AND BEYOND EXIT (PRINCIPLE 7)

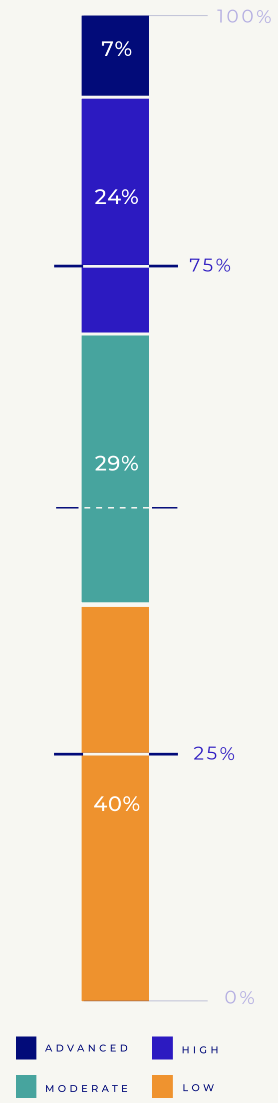
Having an approach to sustaining impact at and beyond exit is a critical practice to help investors ensure that the impact generated by their investment can continue and expand beyond their investment period.

KEY PRACTICES	VARIANCE FROM 2022*	2023
Have an approach to sustaining impact at exit	=	60%
Identify potential actions to ensure impact is sustained at and beyond exit	↑	27%

**Variance is defined as a material increase or decrease in percentage change (i.e., +/- 10%) compared to the 2022 research sample.*

PRACTICE MEDIAN

MODERATE



Key Insights

- **Sustaining impact at exit continues to be one of the most elusive impact practice areas**, with an overall Moderate median rating. However, the practice is continuing to strengthen, with a slight increase in both Advanced and High scores in this year's sample, which shows 60% of investors now demonstrate some consideration of the sustainability of impact at or beyond exit.
- **27% of investors are also taking consistent actions to ensure sustainable impact creation**, with many leveraging their investor contribution strategies by working with investees to embed impactful practices that will last beyond investment. Many of these best-practice actions span the investment lifecycle and can be considered as early as screening and due diligence through assessing impact risks and investee growth plans and establishing governance structures for preserving impact.
- **Advanced practice also includes assessing, at the time of exit, the likelihood of impact outcomes continuing** under new investment circumstances and the effect the buyer as well as the timing and structure of the exit will have on the sustainability of impact. Given practices range broadly across asset class contexts and the related levels of control or influence an investor has, additional norms and consensus best practice across asset classes will be required for this market practice to continue to improve.

IMPACT REVIEW AND LEARNING (PRINCIPLE 8)

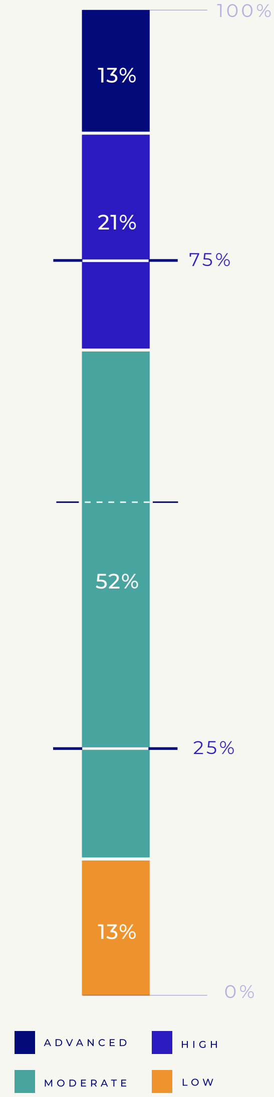
Consistent review of impact performance gives investors a chance to learn from their investment decisions and impact performance data, and thereby subsequently improve strategic investment decisions and other operational and management processes to ensure continual optimization of their approach for driving outcomes.

KEY PRACTICES	VARIANCE FROM 2022*	2023
Consistently review each investment's impact performance	↓	89%
Use impact review findings to improve processes and strategy	↑	39%
Monitor and review any unintended consequences	↓	16%

**Variance is defined as a material increase or decrease in percentage change (i.e., +/- 10%) compared to the 2022 research sample.*

PRACTICE MEDIAN

MODERATE



Key Insights

- **Systematic impact review and formal feedback loops are practices with mixed performance**, as reflected in a Moderate median rating. 39% of investors now use impact review findings to improve processes and strategy, which has increased since 2022 and is a positive indicator of the market improving and developing feedback loops based on additional track record of investing for impact.
- **Only 16% of investors monitor and review unintended consequences resulting from their investments** – a decrease from last year's sample that signifies impact investors have significant room for improvement in strategically reviewing ex-post data on broader impacts that are not core to an investment's primary impact thesis.

CASE STUDY

Investing for impact in public equities

(SCHRODERS ASSET MANAGEMENT)

While the amount of public equities' capital labeled as "impact" continues to grow,[9] these impact funds still represent just a fraction of the $70 trillion globally held in public equity markets.[10] The question of how to unlock more public equity investments for impact has sparked considerable interest and debate from practitioners as to how impact management practices designed first and foremost for private markets can be effectively adapted for public markets. Recent market initiatives, such as the GIIN's Listed Equities Working Group and accompanying publication,[11] are helping to demystify investing for impact in public equities by providing practical guidance and frameworks. However, there is still a need for clarity on best practice and continued innovation by practitioners to ensure that impact investing in the asset class scales with integrity.

BlueMark's experience has found that many of the core tenets of good impact practice are extensible to public markets. Indeed, having conducted public equities verifications for investors representing a combined USD 11.9 billion[12] in AUM, we have been able to further define and adapt our verification methodology to account for nuances and best practices in a public equities context – particularly as it relates to assessing investor contribution and managing impact at exit, where precedents are less clear.

Our Verification Insights

One of the key impact management challenges cited for public markets investors is the ability to effectively attribute impact to an investor's financing or value-add activities given the diversity and scale of shareholders. Our experience has shown that, while the linkages to investee outcomes may be less direct, there is still a clear opportunity to articulate a public equity investor's non-financial contributions, through avenues such as active engagement. In fact, many of the public equities investors that BlueMark has verified have been able to create a framework for considering their expected contribution to impact for each investment—a core tenet of impact investing. That being said, there continues to be a need for more emphasis placed on validating investor contribution—

9 GIIN (2020): Annual Impact Investor Survey
10 Harvard Kennedy School (2021): Impact in Public Equities
11 GIIN (2023): Guidance for Pursuing Impact in Listed Equities
12 Proprietary BlueMark verification data

with our verification experience demonstrating that public equities clients often struggle to regularly track the results of their contribution activities.

Another related challenge in public markets IM is the ability and control to ensure the sustainability of impact after an investor has exited an investment. Given the limited control and/or influence that public equities investors are likely to have after their holding period, this practice requires a particularly strategic approach to embedding impact during the hold period. While challenging and still relatively rare for the asset class, our verification experience has demonstrated that strong practice is still achievable through a cohesive approach and leveraging active engagement related to impact-related reporting standards, governance practices, and negative impacts.

Client Spotlight: Schroders Asset Management

Schroders Asset Management (Schroders), a global diversified asset management firm headquartered in London, engaged BlueMark to do a diagnostic practice verification to assess their IM system's degree of alignment to the Impact Principles for their impact-driven fund range, including two public equities funds, one focused on emerging market impact, the second on impactful US small and mid-cap companies, as well as a third semi-liquid fund investing in companies that facilitate a circular economy.

As an active owner, engagement is core to Schroders' investor contribution strategy. The firm assesses its expected contribution to the achievement of impact through its degree of influence, which is based on their holding size and depth of relationship with the company and management teams. As part of the assessment, the firm outlines an engagement plan and specifies whether each engagement will be on operational or products and services-focused factors, leveraging thematic focus areas that are aligned to their engagement blueprint. During ownership, Schroders will then monitor progress across its engagements using a database to set engagement objectives and review progress towards engagement milestones on an annual basis. Even though investor influence on key outcomes may be less direct in public equities, Schroders is still able to clearly assess and provide evidence of its investor contribution by strategically engaging on impact activities and actively tracking engagement results – for example, Schroders engagement to improve the measurement and disclosure of recycling impacts at a Chinese electronics recycling company led to improved focus and understanding of the circular economy outcomes for the investee.

Through their investor contribution and engagement efforts, Schroders has also developed a strategic approach to embedding impact during their holding period to help ensure the sustainability of impact. To manage impact risk, Schroders will also reduce share position or potentially divest entirely when impact or sustainability performance is consistently below expectations and engagement is not deemed a viable solution. Upon divestment, Schroders then completes an exit questionnaire, which assesses their contribution to impact, whether they achieved the impact target, and whether outcomes sought will continue after exit. Despite the challenges of public markets impact investing, Schroders is still able to implement leading impact practices that enable the firm to have a clear view of their contribution to impact and encourage impact to remain a focus beyond their investment.

These best practices are critically important for the integrity of impact investing as more and more public capital flows to "impact." While the way to implement impact management activities may differ significantly across asset classes, BlueMark has found that public equities investors – particularly those with active engagement strategies and larger shareholdings – can and should still abide by the core principles of quality impact management.

"The diagnostic verification was a great opportunity to reflect on our impact management practices and identify new ways to innovate and improve, and having an independent perspective really facilitated that. The verification process gets to the core of the Impact Principles and the BlueMark team provided very helpful guidance and were able to draw upon their diverse experience of industry best practice. Our core ambition is to scale impact with integrity. We have been very deliberate in developing an IMM framework that is consistent across asset classes to ensure that we meet the highest bar for all our impact strategies. There's complexities and nuances associated with that, but also huge value in ensuring the widest reach and greatest impact."

CATHERINE MACAULAY

IMPACT INVESTMENT LEAD, SCHRODERS

Benchmarking Impact Practices by Market Segment

Benchmarking Impact Practices by Market Segment

In the following section, we share key practice data across various segments of the market. This customized data is designed to help illustrate how the implementation of specific impact management practices differ across the impact and sustainable investing market. The following data tables help to broadly illustrate impact management strengths and weaknesses across key market segments, including investor types (e.g., asset managers vs. asset allocators), asset class (e.g., private equity vs. private debt), and impact themes (e.g., climate-focused vs. social-focused).

BlueMark uses these different slices of practice data to develop targeted benchmarks and insights – ultimately helping clients understand how their approach and specific practices compare with various peer groups. While the following data only offers a glimpse into our proprietary benchmarks, we plan to share additional insights as our data set continues to grow and mature over time with the benefit of additional verifications.

For each of the segments, we spotlight the following verification benchmark data based on **Key Practices**, which show the percentage of adoption for 10 key impact practices as well as the variance from the overall median for that practice area. For additional information about **Profiling Data,** which shows a breakdown of BlueMark client types within each segment, please see the Appendix.

Asset Managers

For Asset Managers, we compare specialized asset managers that only manage impact products (i.e., “Impact-only managers”) versus asset managers that manage a range of traditional and impact products (i.e., “conventional managers).

Key Practices: Impact-only versus Conventional Managers

INVESTMENT STAGE	IMPACT PRACTICE	MEDIAN BENCHMARK (N=84)	IMPACT-ONLY MANAGERS (N=38)	CONVENTIONAL MANAGERS (N=27)
Strategic Intent	Create a fund-level theory of change with supporting evidence	**60%**	58%	52%
	Align staff incentive systems with impact performance	**31%**	34%	15%
Impact Due Diligence	Use a composite impact scoring or rating tool to assess impact across the portfolio	**29%**	34%	19%
	Assess all fundamental components of potential impact for each investment	**49%**	47%	52%
Impact Monitoring and Measurement	Actively manage and engage on ESG risks with investees	**52%**	45%	56%
	Consistently monitor impact data against expectations or a target	**60%**	61%	63%
	Track and monitor results of investor contribution activities	**23%**	21%	19%
	Solicit data from end-stakeholders to validate outcomes	**32%**	34%	33%
Impact at Exit	Have an approach to sustaining impact at exit	**60%**	66%	52%
	Use impact review findings to improve processes	**39%**	37%	41%

variation from Median based on +/- 10% >+10% <-10%

Asset Allocators

For Asset Allocators, we compare Development Finance Institutions (DFIs) against other allocator types, including Foundations, Family Offices, & Wealth Managers.

Key Practices: DFIs versus Other Allocators

INVESTMENT STAGE	IMPACT PRACTICE	MEDIAN BENCHMARK (N=84)	DFIS (N-12)	OTHER ALLOCATORS (N=7)
Strategic Intent	Create a fund-level theory of change with supporting evidence	**60%**	67%	86%
	Align staff incentive systems with impact performance	**31%**	58%	29%
Impact Due Diligence	Use a composite impact scoring or rating tool to assess impact across the portfolio	**29%**	42%	14%
	Assess all fundamental components of potential impact for each investment	**49%**	33%	71%
Impact Monitoring and Measurement	Actively manage and engage on ESG risks with investees	**52%**	75%	43%
	Consistently monitor impact data against expectations or a target	**60%**	50%	57%
	Track and monitor results of investor contribution activities	**23%**	33%	29%
	Solicit data from end-stakeholders to validate outcomes	**32%**	25%	29%
Impact at Exit	Have an approach to sustaining impact at exit	**60%**	50%	71%
	Use impact review findings to improve processes	**39%**	42%	43%

variation from Median based on +/- 10% >+10% <-10%

Asset Class

In terms of asset class, private equity investors represent a significant share of the impact investing market and of BlueMark's verification sample. Within private equity, growth strategies are the most common, followed by venture and buyout strategies. Private debt and real assets are two other common private markets asset classes in impact investing, followed by a range of other asset classes that are fairly new to impact investing, including public equities, fixed income, and grant-making. To protect client anonymity, we compared the most common asset classes, including Private Equity, Private Debt, and Real Assets.

Key Practices by Asset Class

INVESTMENT STAGE	IMPACT PRACTICE	MEDIAN BENCHMARK (N=84)	PRIVATE EQUITY (N=65)	PRIVATE DEBT (N=31)	REAL ASSETS (N=14)
Strategic Intent	Create a fund-level theory of change with supporting evidence	**60%**	57%	65%	71%
	Align staff incentive systems with impact performance	**31%**	31%	39%	14%
Impact Due Diligence	Use a composite impact scoring or rating tool to assess impact across the portfolio	**29%**	29%	29%	43%
	Assess all fundamental components of potential impact for each investment	**49%**	43%	52%	43%
Impact Monitoring and Measurement	Actively manage and engage on ESG risks with investees	**52%**	51%	71%	50%
	Consistently monitor impact data against expectations or a target	**60%**	58%	68%	64%
	Track and monitor results of investor contribution activities	**23%**	20%	23%	29%
	Solicit data from end-stakeholders to validate outcomes	**32%**	29%	26%	29%
Impact at Exit	Have an approach to sustaining impact at exit	**60%**	52%	55%	64%
	Use impact review findings to improve processes	**39%**	39%	39%	50%

variation from Median based on +/- 10% >+10% <-10%

CASE STUDY

Driving impact in real assets

(FRANKLIN TEMPLETON)

Investing in real assets plays a vital role in reducing the effects of climate change, with estimations that buildings are responsible for up to 39% of global energy-related carbon emissions and for providing basic services to underserved populations.[13] Recognizing this urgent need, investing for impact in real assets has grown quickly and, with it, the need for greater clarity and consensus on what best practice for managing impact in the asset class looks like.[14]

BlueMark has conducted 14 verifications for real assets investors, representing a combined USD 42 billion in AUM. In doing so, we have been able to adapt our verification methodology to account for the nuances of investing in real assets and begin to establish what constitutes best practice, particularly as it relates to robust due diligence and ESG risk management processes.

Our Verification Insights

One question for real assets investors is how to manage the materiality of various impacts and Environmental, Social, and Governance factors across different projects. For example, are governance factors relevant to incorporate when investing in a new infrastructure development? Or should environmental impacts be assessed when investing to preserve affordable housing?

At BlueMark, we have found that a comprehensive ESG management system is increasingly "table stakes" for high quality impact management in real assets—and, indeed, 93% of our real assets clients have a systematic process in place to do so. In fact, our experience has shown that the best real assets investors do not isolate ESG factors depending on the theme of their strategy but have IM systems in place that are accountable to all material impacts regardless of their thesis.

Client Spotlight: Franklin Real Assets Advisors

Franklin Real Asset Advisors, an investment platform within Franklin Templeton ('Franklin Templeton'), engaged BlueMark to do a reverification of its Social Infrastructure strategy's alignment to the

13 World Green Building Council (2019): Bringing Embodied Carbon Upfront
14 GIIN (2020): Annual Impact Investor Survey

Impact Principles. The strategy seeks to improve the quality of social infrastructure assets across Europe while reducing the carbon footprint of the built environment through investing in various real assets, such as social and affordable housing, hospitals, schools, and buildings related to justice, emergency and civil services.

Given its dual social and environmental objectives, Franklin Templeton has designed an IM and ESG management system that can consistently account for material impacts – both positive and negative – through the development of an impact rating system. The rating seeks to capture the current and projected state of each asset's community and environmental performance based on a predefined set of community (i.e., community purpose, quality of services, accessibility) and environmental factors (i.e., pollution, energy use, greenspace). Franklin Templeton uses this rating to assess each asset at acquisition and then project and monitor the environmental and social results from its investment and value-add initiatives over time.

This dedicated social infrastructure strategy also seeks to incorporate wider indirect and potential negative impacts, that may not be captured directly, within its rating system. For environmental factors, during the due diligence process, Franklin Templeton completes a comprehensive climate risk assessment, which includes both physical and transition risks for each asset and leverages commissioned sustainability reports in addition to analysis using the Carbon Risk Real Estate Monitor (CRREM) tool. Industry ESG standards specific to real assets, including the Global Real Estate Sustainability Benchmark (GRESB) and Building Research Establishment Environmental Assessment Method (BREEAM), help to support the strategy with both relevant and standardized data to inform these types of assessments.

To manage and assess broader social outcomes, Franklin Templeton has implemented various stakeholder engagement processes, such as sentiment surveys, direct tenant engagement and site-visits which can help elicit perspectives from community members to inform the positive or negative effects that the asset is having on the community.

Given the broad range of material impacts in real assets, it's increasingly important that impact management systems are designed to account for both ESG risks and indirect and negative impacts. BlueMark worked with Franklin Templeton and encouraged this type of approach and had the opportunity to re-verify and validate improvements made since its last verification. It is essential that, for real assets impact investing to create tangible impact, it encourages the promotion of social and environmental well-being through the built environment and infrastructure.

"The key to our approach has been a commitment to the continuous improvement of our impact-management process, and this is not possible on our own. We were excited to engage with BlueMark for our OPIM verification services because we wanted more than just verification; we wanted critical feedback from a group that understands impact investing and its practical implementation. We have taken comments from BlueMark from our first verification process and implemented many of their suggestions. This has undoubtedly helped us as we seek to execute market best practices for impact in real estate."

JOHN LEVY

DIRECTOR OF IMPACT, FRANKLIN TEMPLETON

Impact Theme

BlueMark's clients invest across a range of impact themes—often as part of a single strategy—which is highlighted in the data in the Appendix. The most commonly targeted impact theme among BlueMark's sample is education and workforce development, which we grouped together with employment to create a "Social" impact theme. Many BlueMark-verified investors have themes targeting environmental impacts, which include clean energy, climate adaptation and resilience, and climate change mitigation, and make up the "Environmental" category. Lastly, investors that target a wide-range of social and environmental impact themes we have labeled "Multi-theme."

Key Practices by Impact Theme

INVESTMENT STAGE	IMPACT PRACTICE	MEDIAN BENCHMARK (N=84)	SOCIAL (N=36)	ENVIRONMENTAL (N=44)	AGNOSTIC/ MULTI-THEME (N=13)
Strategic Intent	Create a fund-level theory of change with supporting evidence	**60%**	61%	55%	62%
	Align staff incentive systems with impact performance	**31%**	31%	32%	23%
Impact Due Diligence	Use a composite impact scoring or rating tool to assess impact across the portfolio	**29%**	31%	30%	39%
	Assess all fundamental components of potential impact for each investment	**49%**	50%	43%	69%
Impact Monitoring and Measurement	Actively manage and engage on ESG risks with investees	**52%**	56%	61%	69%
	Consistently monitor impact data against expectations or a target	**60%**	69%	61%	39%
	Track and monitor results of investor contribution activities	**23%**	22%	20%	31%
	Solicit data from end-stakeholders to validate outcomes	**32%**	31%	27%	46%
Impact at Exit	Have an approach to sustaining impact at exit	**60%**	58%	50%	62%
	Use impact review findings to improve processes	**39%**	47%	36%	54%

variation from Median based on +/- 10% >+10% <-10%

CASE STUDY

FullCycle

Managing for climate mitigation impact

(FULLCYCLE)

Investment in early-stage carbon technologies is an urgent area of focus and growing rapidly.[15] In 2022, global investment represented more than one quarter of every venture dollar invested in 2022, with a particular focus on technologies with the highest potential to reduce carbon emissions.[16] As impact investors become increasingly focused on the pressing need to invest in climate change mitigation technologies, investors are pushed to find effective ways to measure and monitor the impact of these investments, which tend to operate on relatively longer timescales than many other kinds of impact investments.

BlueMark has conducted over 20 verifications for climate mitigation-focused investors and continues to adapt its practice verification to account for climate impact management and promote best practices related to emissions reduction potential frameworks.

Our Verification Insights

In reviewing how IM systems for climate change mitigation investors performed, one key data point is the median rating of Advanced on ESG risk management practices (Principle 5). This data suggested that regulatory frameworks like SFDR, along with voluntary market initiatives such as the ESG Data Convergence Initiative and Net Zero Asset Managers, have enabled greater consensus and definition as it relates to ESG and sustainability risk management. In other words, to identify as a climate impact investor, incorporating and managing ESG risk – for example, supply chain disruptions, toxic waste created through operations, or real property damage during the construction of mitigation technology infrastructure – is a gateway to entry.

However, when it comes to monitoring the impact of climate change mitigation technologies, investors face the challenge of accurately capturing emissions reductions experienced in the real economy. This is particularly true for early-stage investors, where the effects or implementation of new technologies or projects may not be fully realized during their holding period. This challenge

15 Prime Coalition (2020): Project Frame

16 HolonIQ (2023): 2022 Climate Tech VC Funding; PwC (2022): State of Climate Tech Report

is reflected in the fact that climate change mitigation investors tend to score lower on impact performance and monitoring (Principle 6) – with a median score of Moderate compared to the overall median score of High.

The challenge presented by capturing data on actual emissions reductions means that these investors primarily rely on emissions reduction prediction methodologies to articulate and track impact potential. Given the complexity and diversity of factors in assessing emissions reduction potential, it is particularly crucial that these investors have strong methodologies with reliable and transparent assumptions.

Client Spotlight: FullCycle Climate Partners

FullCycle Climate Partners ("FullCycle") is a North American-based asset manager investing in growth-stage companies developing climate change mitigation infrastructure and technologies. FullCycle engaged BlueMark for its second verification to assess their IM system's degree of alignment to the Impact Principles.

In calculating the impact potential of its investments, FullCycle has developed a framework of "Carbon Return on Investment (CROI)" to assess the quantity of GHG emissions abated per dollar invested in each prospective investment. One aspect of FullCycle's emissions reduction methodology that is particularly unique is its focus on "short-lived" climate pollutants – such as methane and nitrous oxide – which have a disproportionate warming effect in their first 20 years of emission. While many carbon methodologies tend to work with 100-year time periods, FullCycle's focus on these short-lived climate pollutants reflects a growing consensus that addressing higher-potency greenhouse gasses with an outsized warming potential are a critical component for achieving net zero goals.[17]

Because of the nature of the outcomes they target, climate technology investors will always face challenges in accurately capturing actual emissions reductions and therefore require robust emissions reduction methodologies to manage impact. While the field is quickly evolving, industry initiatives like Prime Coalition's Project Frame[18] and efforts from IGCC[19] are increasingly providing greater consensus and resources for what constitutes a robust carbon reduction methodology. BlueMark's verification process helps to assess alignment with these best practices and ensure that

17 Over 100 countries have joined the Global Methane Pledge to slash 2030 methane emissions by 30% from 2020 levels.
18 Prime Coalition (2020): Project Frame
19 Institutional Investors Group on Climate Change (IIGCC)

bespoke emissions reduction methodologies – like FullCycle's – stand up to external scrutiny in their ability to effectively facilitate climate mitigation impact management.

"BlueMark's verification process helped FullCycle both benchmark our IM system against peers and identify industry best practices to be incorporated as we continuously improve our process. FullCycle's IM system was designed to both align with industry best practices and to integrate our core carbon investing metrics. Our core metric Carbon Return on Investment (CROI20) is integrated into our investment strategy which aims to achieve greater impact by targeting those emissions with disproportionately high warming potential."

YAZAN AL TAHER

PARTNER, FUND AND PORTFOLIO OPERATIONS, FULLCYCLE

Appendix

Impact Principles Verification and Signatory Data

Analysis of verification statements

To assess the growing market for impact verification services, BlueMark again conducted an analysis of signatories to the Operating Principles for Impact Management (Impact Principles), which requires signatories to independently verify their alignment to the framework.

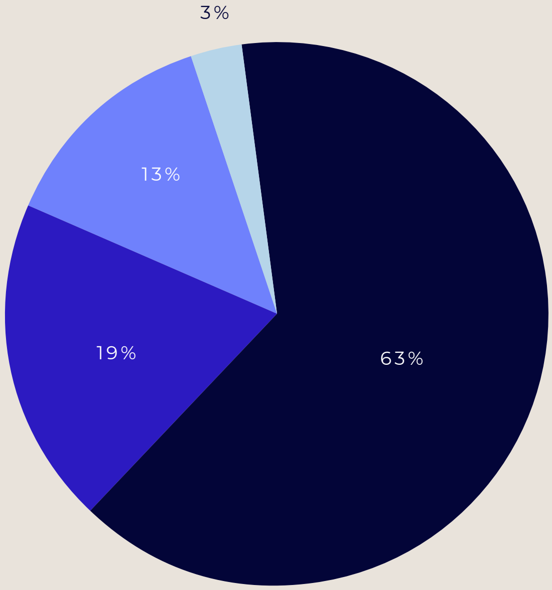
Of the 172 signatories to the Impact Principles, 119 had completed an independent verification as of April 1, 2023, of which 104 were conducted by a third-party. BlueMark continues to be the dominant verification provider, having completed 42, or 40%, of all third-party verifications for signatories, more than four times the number of verifications conducted by the next biggest peer (EY). BlueMark is responsible for 35% of all verifications when internal verifications are included (internal audit committees conducted 13% of all OPIM verifications completed to date). BlueMark has also conducted 26 impact management practice verifications for non-signatories, reflecting the growing demand among investors to have an expert, third-party assess their degree of alignment to industry standards.

We found evidence of 35 distinct firms (compared to 29 in 2022) providing verification services against the Impact Principles, led by BlueMark (42 signatories verified), EY (10), and KPMG (7).

Specialized service providers like BlueMark, Steward Redqueen, and Luminis Advisors were responsible for 63% of all verifications, compared to 19% for traditional audit firms like the Big Four (EY, KPMG, Deloitte, PwC), which is consistent with our observations last year.

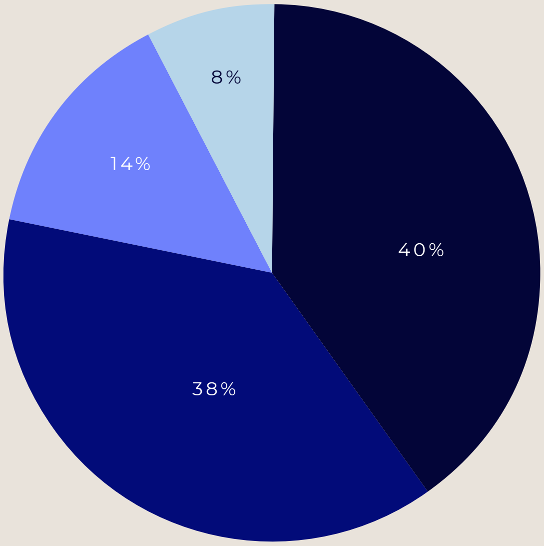
Compliance-oriented assurance vs. performance-oriented assurance

Similar to what we observed last year, signatories to the Impact Principles are split regarding the impact verification approach they seek. In our analysis, there was a 9% increase in signatories' preference for compliance-driven assurance, with 40% (vs. 36% in 2022) opting for limited assurance (37% vs. 33%) or reasonable assurance (3%), while 38% (vs. 37% in 2022) opted for a more performance-oriented approach to assurance. BlueMark was responsible for most of the performance-oriented assurance engagements known to date (42 of 45), while the Big Four firms accounted for about half (23 of 48) of the compliance-driven verifications. The remaining 22% of verifications were split between internal verifications (8%) and "unknown" (14%), the last of which is a catch-all category for assurance engagements that blend different verification approaches.



Verifier Types

- IMPACT SPECIALIST
- BIG FOUR AUDITOR
- INTERNAL
- OTHER



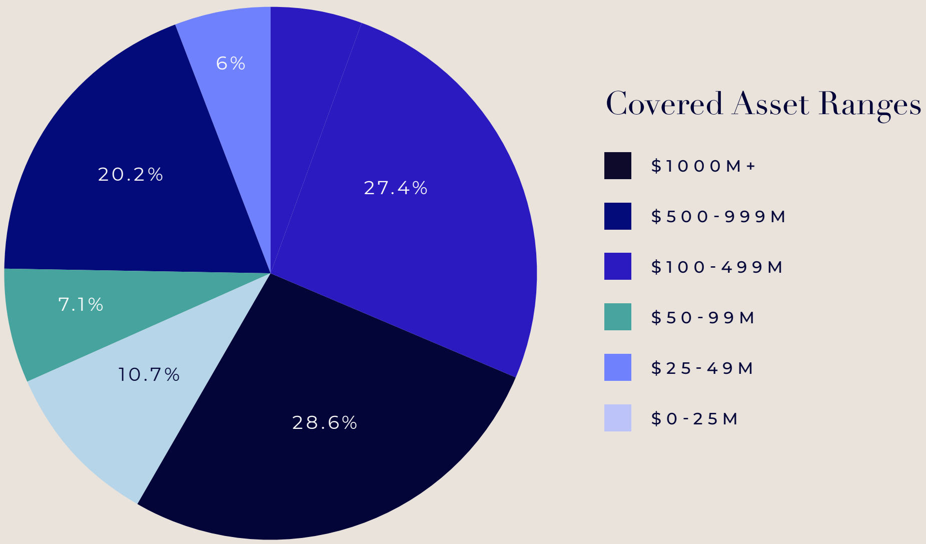
Verification Service Type

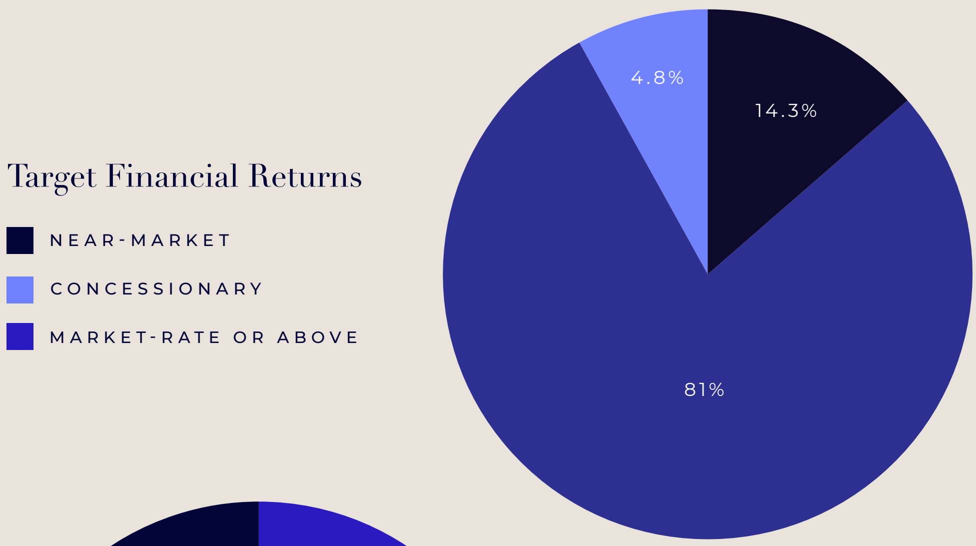
- COMPLIANCE-DRIVEN
- PERFORMANCE-DRIVEN
- UNKNOWN
- INTERNAL

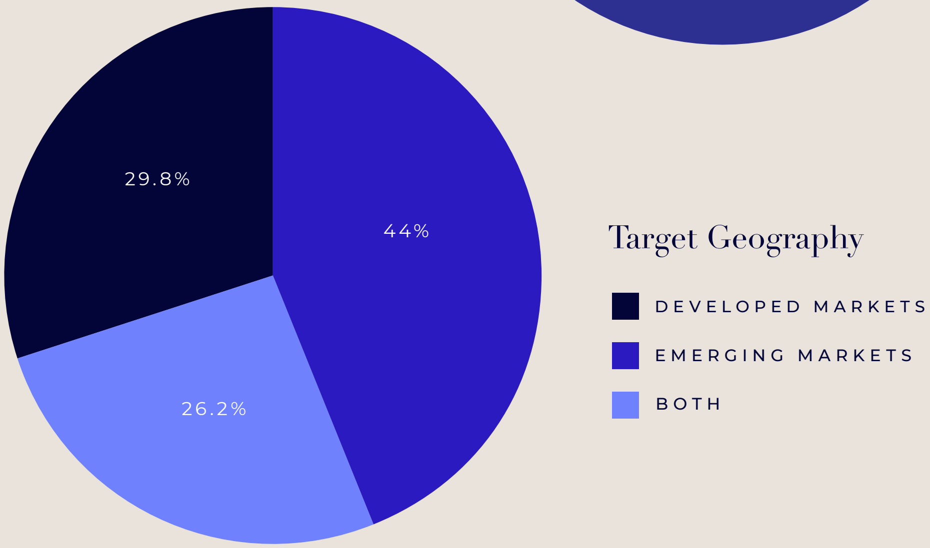
Top 10 Verifiers

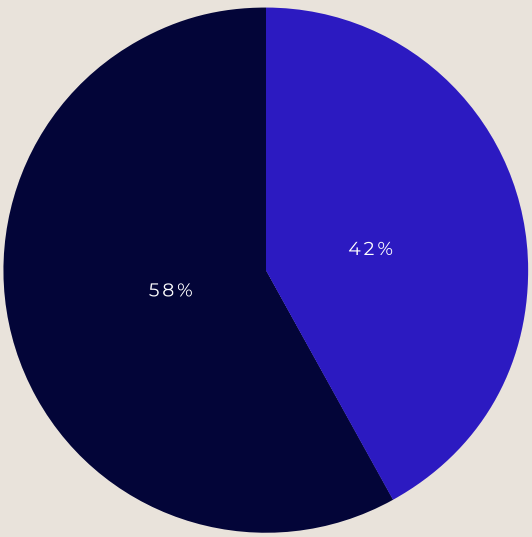
VERIFIER	COVERED ASSETS ($MM)	# CLIENTS
BlueMark	186,314	42
Internal	51,951	15
EY	123,588	10
KPMG	70,760	7
PWC	19,557	3
Deloitte	9,483	3
Steward Redqueen	2,512	3
CAFIID	1,430	2
Tameo Impact Fund Solutions	2,900	1
PKC Advisory	1,861	1

BlueMark Verification Data: Sample Size Characteristics



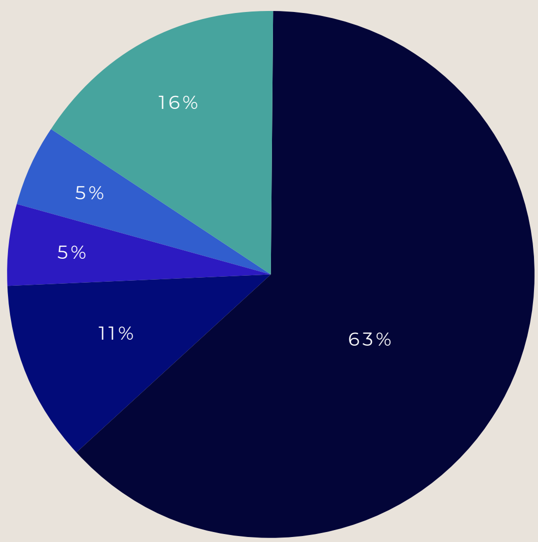






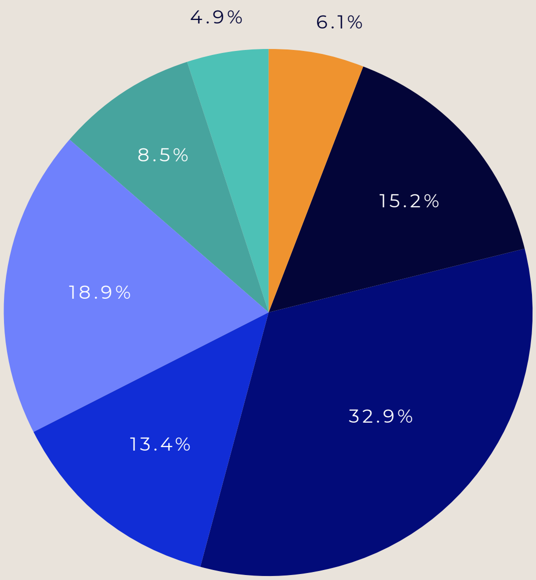
BlueMark Clients by Asset Manager Type

- CONVENTIONAL
- IMPACT-ONLY



BlueMark Clients by Asset Allocator Type

- DEVELOPMENT AGENCY / DFI
- FOUNDATION
- SINGLE FAMILY OFFICE / HNW
- WEALTH MANAGER
- OTHER

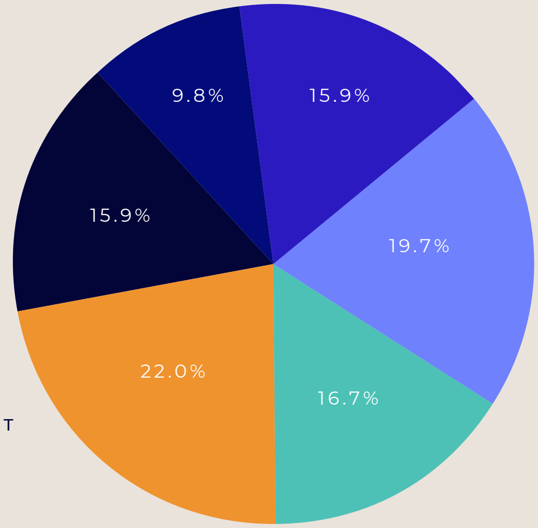


BlueMark Clients by Asset Class

- PRIVATE EQUITY / VENTURE CAPITAL
- PRIVATE EQUITY GROWTH
- PRIVATE EQUITY BUYOUT
- PRIVATE DEBT
- REAL ASSETS
- PUBLIC MARKETS
- OTHER

BlueMark Clients by Impact Theme

- EMPLOYMENT
- MULTI-THEME / THEME AGNOSTIC
- CLEAN ENERGY
- CLIMATE ADAPTATION & RESILIENCE
- CLIMATE CHANGE MITIGATION
- EDUCATON AND WORKFORCE DEVELOPMENT



The 2023 Practice Dashboard

PRINCIPLE	MEDIAN RATING	KEY PRACTICES	% OF VERIFIED INVESTORS
PRINCIPLE 1 Impact objectives and the SDGs	ADVANCED	Create a fund-level theory of change with supporting evidence	60%
		Align with the Sustainable Development Goals	91%
		Align with the 169 Targets underlying the SDGs	43%
PRINCIPLE 2 Portfolio-level impact management and staff incentives	HIGH	Have a consistent approach to compare and aggregate impact performance across investments	88%
		Use a composite impact scoring or rating tool to assess impact across the portfolio	29%
		Link staff incentive systems to impact performance	31%
PRINCIPLE 3 Investor contribution to impact	HIGH	Assess investor contribution to impact for each investment	68%
		Track and monitor results of investor contribution activities	23%
PRINCIPLE 4 Impact screening and due diligence	HIGH	Assess all fundamental components of potential impact for each investment	26%
		Assess expected potential impact performance (ex-ante) for each investment	95%
		Assess impact risks related to each investment	55%
PRINCIPLE 5 ESG risk management	HIGH	Have a process to identify select Environmental, Social, and Governance (ESG) risks	92%
		Actively engage and manage ESG issues with investees	52%
PRINCIPLE 6 Impact performance monitoring	HIGH	Monitor impact data against expectations or a target	60%
		Solicit input from end-stakeholders to validate impact outcomes	32%
PRINCIPLE 7 Sustaining impact at and beyond exit	MODERATE	Have an approach to sustaining impact at exit	60%
		Identify potential actions to ensure impact is sustained at and beyond exit	27%
PRINCIPLE 8 Impact review and learning	MODERATE	Consistently review each investment's impact performance	89%
		Monitor and review any unintended consequences	16%
		Use impact review findings to improve processes and strategy	39%

BlueMark Verification Methodology

Realizing that verification requirements may present a substantial hurdle for both new and long-time impact investors, BlueMark's parent company Tideline began developing a methodology in early 2019 that sought to be both efficient and rigorous. Building on Tideline's experience working with a range of asset managers and asset owners as an impact investing consultant, BlueMark developed a customized approach that has been honed over three years and 100+ practice verifications spanning a wide range of impact investment strategies and investor types. BlueMark provides verification clients with actionable guidance on each of the Impact Principles, through a proprietary approach designed to help impact investors understand and implement best practices. Our practice verification methodology follows a three-step process: **Learn, Assess, and Review.**

BlueMark's Approach to Practice Verification

LEARN

- Review all relevant materials (e.g. investment memos, checklists, policy documents, etc.)
- Conduct interviews with members of the team responsible for implementation of IM processes
- Randomly select investment case studies to assess implementation of IM processes

ASSESS

- Assess an investor's IM system based on the Compliance, Quality, and Depth of an investor's practices
- Assign a score from Low to Advanced to indicate the degree of alignment with each of the Principles
- Deliver a presentation with assessment findings and discuss potential areas for enhancement

REVIEW

- Consider any additional information or documentation made available to ensure accuracy of findings prior to finalization
- Draft Verifier Statement to convey independent verifier's view on the extent to which the IM system aligns with the Principles

Our process involves collecting and analyzing a wide range of materials (e.g., investment memos, policy and process documents, monitoring tools, etc.) as well as impact-related documents from a set of randomly selected transactions. We supplement this information with interviews with investment and impact team members. We then use our proprietary rubric to assess the degree to which an investor's practices align with each Principle and assign a rating. BlueMark has also introduced AccessPoint, a new service for boutique and emerging managers—generally defined as those having less than $100 million in assets under management for private equity firms and less than $250 million for private debt firms—seeking to attain alignment with the Impact Principles. The goal of this specialty service is to encourage and enable greater industry-wide adoption of best practices by making impact verification more affordable and accessible to a broader range of impact investors.

BlueMark Rating Scale

ADVANCED
Limited need for enhancement

HIGH
A few opportunities for enhancement

MODERATE
Several opportunities for enhancement

LOW
Substantial enhancement required

More information about our practice verification and our AccessPoint service can be found on **BlueMark's website:** www.bluemarktideline.com.