

Core Characteristics of Impact Investing



The **Core Characteristics of Impact Investing** define the growing approach of impact investing, and offer the financial markets greater clarity on what constitutes credible impact investing.

Every investment contributes to short- and long-term positive and negative social and environmental effects. All investors shape these effects through investment decisions. Impact investing is an approach used by investors to harness the power of their investment capital to actively contribute to improvements in people's lives and the health of the environment. Investors can incorporate impact investing practices across asset classes and with a variety of return expectations.

For impact investments to contribute effectively to positive social and environmental impacts and for the approach to remain credible as more capital becomes available for impact investing, the financial markets need clarity on expected practice and the terms of participation in the impact investing market. These Core Characteristics provide that definition, equipping investors with:

- A list of the practices that will define the credibility of their impact investing approach in the market
- Reference points for considering the quality and credibility of a potential investment partner's impact investing approach.

These Core Characteristics provide a collective understanding of the actions that:

- Define impact investing in practice and differentiate impact investing from other investment approaches
- Ensure investments have the highest likelihood of contributing to positive impacts.

WHAT ARE IMPACT INVESTMENTS?

The GIIN defines impact investments as investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. There are four key elements:

- **INTENTIONALITY:** Impact investments intentionally contribute to social and environmental solutions. This differentiates them from other strategies such as ESG investing, Responsible Investing, and screening strategies.
- **FINANCIAL RETURNS:** Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy.
- **RANGE OF ASSET CLASSES:** Impact investments can be made across asset classes.
- **IMPACT MEASUREMENT:** A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments.

WHAT ARE THE CORE CHARACTERISTICS OF IMPACT INVESTING?

The Core Characteristics of Impact Investing complement the GIIN's definition of impact investing. The four fundamental tenets, which have been refined in collaboration with leading impact investors around the world, provide further definition of the baseline expectations for impact investing.

INVESTORS MAKING IMPACT INVESTMENTS:

- 1 Intentionally contribute to positive social and environmental impact
- 2 Use evidence and impact data in investment design
- 3 Manage impact performance
- 4 Contribute to the growth of impact investing.

WHAT ARE THE CORE CHARACTERISTICS OF IMPACT INVESTING?

IMPACT INVESTORS ADHERE TO FOUR PRACTICES THAT DEFINE IMPACT INVESTING. THEY DESCRIBE THESE AS:

1 Intentionally Contribute to Positive Social and Environmental Impact through Investment alongside a Financial Return. We intentionally finance solutions and opportunities for social and environmental challenges.

This includes:

- Setting transparent financial and impact goals
- Articulating an investment thesis that is explicit about these goals and the strategies we will use to realize them.

2 Use Evidence and Impact Data in Investment Design. We use the best quantitative or qualitative impact data and evidence that we can to increase our contribution to positive impact. This includes:

- Identifying a social or environmental need aligned with empirical evidence or well-established science as well as one expressed by the population or environmental community the investment seeks to serve
- Using the best evidence accessible to us to:
 - Set targets about our investment's contribution to improvement of that need
 - Design investment strategies based on solutions effective in addressing the needs we identified and an understanding of potential negative impacts in the context of the investments
 - Identify the qualitative and quantitative indicators we will use to gauge performance against our targets
- Improving our capacity to conduct impact analytics over time to improve the rigor of our activities.

3 Manage Impact Performance. We use impact performance data in decision-making to manage our investments towards achievement of our social and environmental objectives. This includes:

- Embedding feedback loops through the life of the investment as feasible
- Identifying risks to achieving our stated impact goals and developing mitigation plans
- Seeking to mitigate the negative consequences of our actions
- Disclosing actual impact performance data to investors and investees, in as comparable a manner as possible.

4 Contribute to the Growth of Impact Investing. We take action to enable more investors to make impact investments effectively. This includes:

- Being transparent about our degree of use of these impact investing practices
- Committing to using shared conventions, approaches, and standards for describing our impact goals, strategies, and performance
- Considering the impact performance and quality of impact management practices of prospective co-investors and investees in our decision-making
- Sharing non-proprietary or non-private positive and negative learnings, evidence, or data.

To learn more about the GIIN, please visit www.thegiin.org



ABOUT THE GLOBAL IMPACT INVESTING NETWORK (GIIN)

The Global Impact Investing Network (GIIN) is the global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing. The GIIN focuses on reducing barriers to impact investing so more investors can allocate capital to fund solutions to the world's most intractable challenges.