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Real World Impact: Creating a framework to target, manage and measure the social and environmental impact of our investments

The Church Commissioners for England

Foreword

by Jamie Broderick, director of the Impact Investing Institute

Progress in impact investing has often relied on the pioneering efforts of people and organisations with moral and socially purposeful motivations. But successful social and environmental outcomes cannot depend solely on the actions of the vocally virtuous... there just aren't enough of them. It is crucial that these morally motivated efforts eventually embed themselves in the secular and commercial practices of asset owners and asset managers.

Real World Impact: Creating a framework to target, manage and measure the social and environmental impact of our investments is an ambitious undertaking, and in dedicating the resources to seek to analyse the outcomes delivered by their £8.7 billion portfolio, the Church Commissioners for England may have been motivated by moral principles of the Anglican faith. But the Commissioners also believe that the fiduciary case for impact investing is clear: investing for financial returns and investing for positive social and environmental impact are not only compatible, but mutually supportive. Others with fiduciary obligations, including pension trustees, are increasingly coming to the same conclusion.

The Church Commissioners for England have long punched above their weight in their advocacy for social and environmental causes, whether in labour practices, or in their engagement with oil companies and those who supply their loan capital. The world takes an interest in the positions taken by the Commissioners, and one hopes that the same applies to this initiative.

But the gaps in analysing a portfolio's impact are many, and one of the virtues of this report is to highlight these. As the authors note, they are "keen to start somewhere", recognising the imperfections in the approach, but hoping to commit themselves and other investors to improvement.

Analysis like this by asset owners is not common. But it is fundamental to understanding the impact of investments and therefore the extent to which a portfolio supports its owners' societal beliefs. It also lays down a challenge to mandated asset managers to dig deeper into their own understanding of company outcomes, and share that insight more actively with their clients, the asset owners.

We hope this pioneering report will be an inspiration to asset owners and asset managers to collaborate in raising the quality of understanding of our investments' true impact on society and the planet.

impact investing institute

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Credits

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Executive summary

- The Church Commissioners for England (CCfE) manage an £8.7bn investment portfolio to support the mission of the Church of England, which has incorporated responsible investment practices, including environmental, social and governance (ESG) analysis, for many years

- The CCfE have become increasingly interested in how their portfolio can deliver positive social or environmental impacts – especially as this increasingly aligns with their fiduciary duty to deliver a sustainable financial return.

- To formalise an approach that could systematically improve the real-world outcomes across the portfolio, the CCfE have taken the first steps to create an impact investment framework, consulting with beneficiaries, investment managers, peer investors, and industry bodies.

- Impact priorities have been determined by looking at the core principles of the Anglican faith, together with the UN Sustainable Development Goals, to identify non-financial outcomes that are most important to key beneficiaries then linking these to investable opportunities, such as renewable energy.

- Measuring 'real world' impact has drawn on the Impact Management Project's Five Dimensions of Impact. This deconstructs each investment's impact in terms of its primary activity; the beneficiaries it is serving; the scale, depth and duration of the activity being delivered; its contribution to positive outcomes that would not have happened anyway; and the risk of impact not happening as expected.

- These principles have then been applied across the CCfE's entire portfolio, covering public equity, private equity, private debt and real assets.

- Creating this initial framework has identified many challenges. Most notable is the lack and inconsistency of data on actual impact (both positive and negative) achieved by enterprises, with many investment managers/underlying companies only at the stage of reporting on activities, and not outcomes.

- The CCfE believe that commonly-accepted reporting standards would make investing for impact simpler and begin to allow for comparability and benchmarking among investors; it is therefore keen for investment managers to align reporting with appropriate standards such as the EU Taxonomy for sustainable finance.

- The CCfE concludes that impact investment and assessment should not be seen as a revolutionary approach, but a complement to existing responsible investment practices. However, developing robust measurement of the exact outcomes generated by investments is now essential to enable investors to understand how and where to allocate capital effectively to deliver their intended financial and non-financial impacts.

Introduction: Taking our first steps into impact

The Church Commissioners for England manage an £8.7bn investment portfolio. Our aim is to generate a total annualised return of inflation (CPIH) + 4% over the long term in a responsible and ethical way. We use the returns we generate to support the mission of the Church of England, including grants for mission activities, bishops and cathedrals.

UN SDGs driving institutional interest in impact

The topic of how to invest capital so it can have a positive social or environmental impact in the wider world – while also generating an above-inflation return to support our core mission – is of growing interest to us, as it is to many other institutional investors.

This paper shares our approach to our first impact measurement exercise across our total portfolio, from the implementation of a framework through to our experience of assessing a multi-asset portfolio for impact alignment.

The 2016 Paris Agreement on Climate and the launch of the United Nations' Sustainable Development Goals (SDGs) in 2015 have particularly inspired a wide range of institutions to look at how their activities can explictly benefit people and the planet.

But the issues of which impacts to target, how to achieve and manage those targets and – most important of all – how to measure and manage the actual outcomes achieved are still at a very early stage of development.

This paper shares our approach to our first impact measurement exercise across our total portfolio, from the implementation of a framework through to our experience of assessing a multi-asset portfolio for impact alignment. We highlight what we have learnt from this process and the next steps we intend to take.

We have written this paper to share our own thoughts and lessons learned, as well to help develop this evolving area of responsible investment by encouraging debate and learning from others.

We are very keen to hear feedback from all stakeholders. Please send any feedback to Aaron Pinnock at aaron.pinnock@churchofengland.org

Tom Joy
Chief Investment Officer

Why we are looking at impact investment and assessment

We knew that many investments within our portfolio were creating positive outcomes for society. But we also knew that there were areas across our portfolio where we needed more information.

Like many other investors, the Church Commissioners believe that incorporation of responsible investment practices such as environmental, social and governance (ESG) integration, action on climate change, and shareholder engagement and voting can enhance investment returns. As such, these practices are consistent with our fiduciary duties, and as an asset owner, they have long formed part of our investment process, and that of our investment managers.

Expectations of the investor's role are shifting

In recent years, expectations of many investors among their beneficiaries and broader society have evolved, shifting from 'doing no harm' to 'doing good'. This is certainly true as a faith-based investor, but it is no less true for pension funds whose future retirees overwhelmingly support a transition to a more sustainable and fairer world.[1] Industry guidance from bodies such as the UN's Principles for Responsible Investment (PRI), and regulation such as the UK's new Stewardship Code, have also put an increasing focus on investing for positive outcomes.

The fiduciary case for impact is growing

Underpinning this focus is the fact that the fiduciary case for impact investing is becoming clearer. Climate change, for example, is a systemic issue that – left unaddressed – will have a significant negative effect on long-term investment returns.[2] Portfolios are most likely to perform best in a world that limits climate

1 Investing in a Better World: Understanding the UK public's demand for opportunities to invest in the Sustainable Development Goals, DFID (September 2019)

2 Investing in a Time of Climate Change – The Sequel, Mercer (2019)

change. In turn, portfolios positioned for the transition to a low-carbon global economy are likely to perform better than those that are not.

The increasing number of investors committing to net zero carbon emissions targets – either through groups such as the UN-convened Net Zero Asset Owner Alliance, or through internal commitments – demonstrates not only the importance of this transition, but the role that investors can and should play in moving to a more sustainable world.

Effective outcomes require going beyond ESG
The challenge now for investors is how to enhance positive real-world outcomes, while delivering investment returns consistent with their fiduciary responsibilities in both the short and long term. The consideration of environmental, social and governance (ESG) factors goes some way to address these concerns. But the primary focus of ESG is as a tool for investors to assess a company's internal operations to manage these types of risk, rather than looking at the broader outcomes of investment activities. An additional focus on investment outcomes, therefore, can help investors direct capital towards better outcomes for society, which in turn address the systemic issues that we face.

Creating a portfolio-wide approach to impact
Against this background, the Church Commissioners looked to formalize our approach to enhancing the positive environmental and social impacts that could be generated by our portfolio. Anecdotally, we knew that many investments within our portfolio, as well as our actions as investors, were creating positive outcomes for society. But we also knew that there were areas across our portfolio where we needed more information to help us better understand both the positive and negative outcomes being generated by our holdings.

We therefore wanted to establish an approach across our whole portfolio that would help us systematically improve the real-world outcomes of our investments. On the following pages, we outline the steps we've taken to determine what that approach should be.

First, we outline how we created our impact framework. We focus on how we defined the core requirements for our impact approach and how we agreed our impact priorities, before addressing the method we developed to measure our real-world impact, building on the Impact Management Project's five dimensions of impact.

We then discuss how we assessed our portfolio against this framework, before outlining the key things we learnt about both our portfolio and the process.

Finally, we note the next steps we plan to take and reflect on what we have learnt from this process. We were struck by the fact that while impact is a new way of looking at our portfolio, it is a complement to our existing responsible investment practices that will not only deliver on our beneficiaries' and our own non-financial goals, but is also consistent and additive to our fiduciary responsibilities.

Creating our impact framework

The process of creating a framework to target, manage and measure impact across our whole investment portfolio began in early 2019. Taking the time to consult with stakeholders, peers and industry bodies and to draw on the best of existing practice has enabled us to establish an initial approach that continues to evolve.

Step One: Defining an approach that works for us

The first step we took was to define an approach to impact that worked for our investment team and was rooted in our beneficiaries' non-financial priorities.

This was an involved process that brought together stakeholders with different perspectives, but this level of engagement was imperative to deliver an approach that would have longevity.

Broad consultation was key to a credible approach
At this stage, we spoke to several of our peers with impact investing practices, as well as leading industry bodies such as the PRI, the Impact Management Project (IMP) and the Global Impact Investing Network (GIIN). Listening to peers and established industry bodies was instrumental for all actors to have confidence in our approach.

Following this, we came up with a list of six core requirements for our approach:

Figure 1: Our six impact approach requirements

1. Fiduciary alignment
Our chosen approach should always be consistent with our fiduciary duty to provide an income for our beneficiaries.

2. Complementary
It should complement our existing responsible investment activities, and be useful and practical from an investor perspective.

3. Outcome-focused
It should be rooted in the non-financial priorities of our beneficiaries, aiming to deliver these over time.

4. Universal
It should cover and be implementable across our entire, multi-asset portfolio.

5. Flexible
It should have flexibility to evolve, given the nascency of impact investment and impact measurement.

6. Exemplary
It should be aligned with industry best practice, which will also continue to evolve.

Formulating these requirements were essential – clarifying and guiding all our further work on impact. Regularly checking back to these requirements ensures our activities remain focused on our original aims and fully in step with the needs of our beneficiaries, stakeholders and the core mission of the Church.

Step Two: Agreeing our impact priorities

There are many environmental and social impacts we could look to achieve through our investment activities. To narrow these down, we looked at core principles of the Anglican faith to help identify non-financial outcomes that are most important to our beneficiaries.

Having identified the most critical non-financial outcomes, we translated these to financially tangible impact themes, using the PRI's Impact Investing Market Map and the GIIN's IRIS+ system to help identify such themes and ensure that no material impact themes were missing from an investment perspective.

Impact themes are divided across environmental and social issues. These in turn map to relevant goals and measurement indicators of the SDGs, which allows us to see how we are contributing to these goals in a consistent way.

The SDGs offer a clear and common framework to articulate impact

We then mapped these themes to the goals and sub-goals of the UN's Sustainable Development Goals (SDGs). Although the SDGs were created for the use of governments and policy makers – and therefore are not directly transferrable to the private sector – we felt SDG mapping was important for two reasons: first to help articulate the impact of our investments in accordance with a globally-agreed sustainability framework, and, second, because of the SDGs' increasing prominence in the investment industry as a common framework and language.

These impact themes are divided across environmental and social issues. For example, one of the Church of England's stated missions is to *'safeguard the integrity of creation and sustain and renew the life of the earth'*, which we linked to eight investable environmental impact themes – see Figure 2 below. These in turn map to relevant goals, sub-goals and potential measurement indicators of the SDGs, which allows us to see how we are contributing to these goals in a consistent way. We outline this exercise for two of our themes in Appendix 1.

Figure 2: Linking our stated missions to investable impact themes

Mission: 'to safeguard the integrity of creation and sustain and renew the life of the earth'			
Investable impact themes			
Renewable energy	Energy efficiency	Responsible production	Green buildings
Sustainable agriculture	Water	Sustainable forestry	Nature-based solutions

We appreciate that not every investor has guiding ethical principles as clear as a faith-based investor. However, throughout this process we recognised the clear overlap between the Church's missional goals and the SDGs. As noted, although the SDGs have limitations in a financial context, we believe they offer a comprehensive framework to help identify social and environmental issues, and are extremely helpful in communicating material real-world impact.

Step Three: Measuring our real-world impact

Having agreed our impact priorities, we then looked at the difficult issue of how to measure the alignment and contribution of our investments to these social and environmental issues. Following our discussions within the market, we found there was growing consensus in using the Investment Management Project's five dimensions of impact as an effective approach to conceptualise the real-world impact created by an enterprise.

We felt that the IMP's explicit distinction between an enterprise's impact and the investor's own contribution to impact was important. An investor's impact on the world comes not just from the impact of their underlying investments, but their own actions (e.g. shareholder engagement and voting) or the actions of their investment managers.

Figure 3: The Investment Management Project's Five Dimensions of Impact

The Investment Management Project (IMP) is a global forum of over 2,000 organisations seeking to build consensus on how to measure, assess and report impacts on environmental and social issues. IMP members have agreed that 'impact' can be deconstructed into five dimensions:

IMPACT DIMENSION	IMPACT QUESTIONS EACH DIMENSION SEEKS TO ANSWER
WHAT	• What outcome/s does the enterprise drive? • How important are these to the people or environment experiencing it?
WHO	• Who experiences the outcome? • How underserved are the affected stakeholders in relation to the outcome?
HOW MUCH	• How much of the outcome occurs in terms of: **Scale** – The number of people experiencing the outcome **Depth** – The degree of change experienced by stakeholders **Duration** – The period the stakeholder experiences the outcome
CONTRIBUTION	• What is the enterprise's contribution to the outcome, taking into account what would have happened anyway?
RISK	• What is the risk to people and planet that impact does not occur as expected?

The IMP's five dimensions of impact offer a way to assess comprehensively an investment's impact. However, as an asset owner with hundreds of underlying investments, we are unable to assess each company individually using this framework. We therefore explored ways in which we could use the IMP's approach in a more practical way to identify impact alignment across our portfolio.

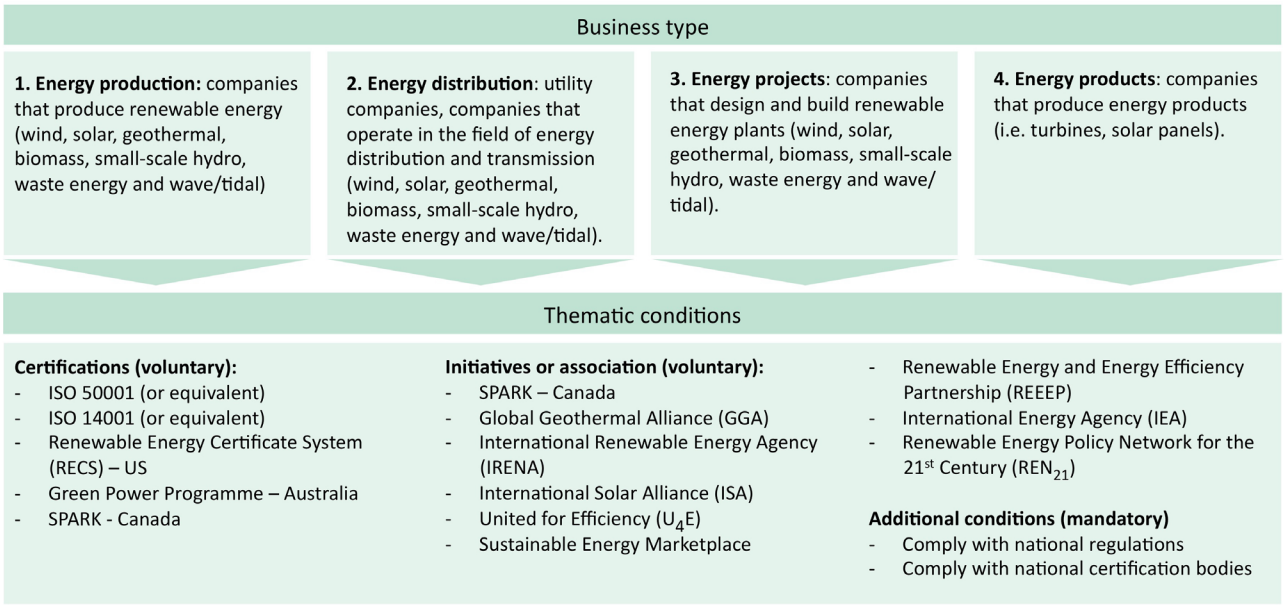
1 What: Aligning to our themes

This dimension identifies the primary social or environmental outcome(s) that an investor or company is attempting to achieve. Having identified the impact themes most relevant to the Church Commissioners, we defined 'What?' as any investment's alignment to one or more of these themes.

An internal classification provides a means to implement impact themes
To help us assess investments that contribute to such themes, we developed an internal classification to make this process more practical and implementable. As mentioned, we drew upon the PRI's Impact Investing Market Map, the GIIN's IRIS+ system, and the UN's SDGs to help us define our impact themes.

We then leveraged these resources to help us develop our internal classification. Using Renewable Energy as an example, any investment that we classify as aligned with this impact theme would fall into one of four business types, and would be required to meet certain mandatory conditions – see Figure 4 below.

Figure 4: Defining business types and mandatory conditions for Renewable Energy investments



Source: PRI

Industry standardisation of impact investment criteria is needed
We will keep this internal classification flexible, which we feel is important given the ongoing evolution of the impact and sustainable investing space. For example, now that the EU Taxonomy has defined criteria for the classification of investments that contribute to climate mitigation and climate adaptation, we will look to incorporate these definitions into our assessment criteria.

We feel that generally accepted principles are a better mode of assessment to ensure comparability between investors. Indeed, we created an internal classification out of necessity rather than choice. Although impact objectives are idiosyncratic based on the objectives of the organisation, we feel generally agreed criteria would be most useful for the industry.

2 Who: Identifying end-user value

Understanding end-stakeholder needs remains highly challenging
The 'Who?' dimension looks at how necessary a solution is from the perspective of the end stakeholder. We found this very difficult to assess from an asset owner's perspective, given our high number of underlying investments and often limited data.

We therefore felt the best approach was to embed the 'Who?' dimension into our internal classification, drawing again from the PRI's Market Map. For example, a highly recommended condition by the PRI for its Education theme is on affordability and access; purely privately funded facilities are therefore generally not included. We've incorporated similar criteria into our own classifications. At present these criteria are only applied to social impact themes, as we always count the environment as an underserved stakeholder.

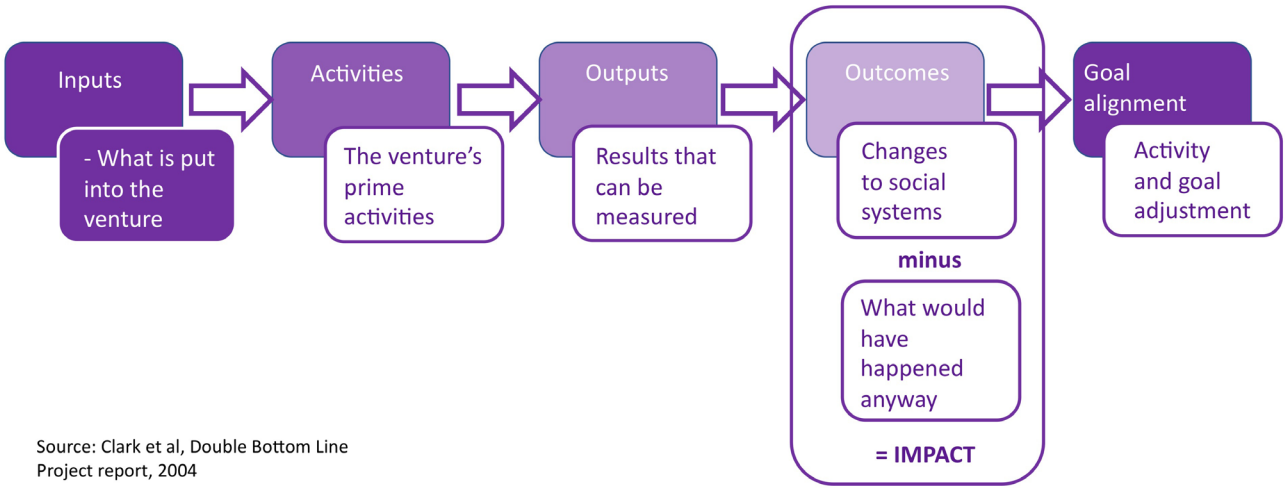
Common standards are needed to help direct capital
We are conscious that across our portfolio we have very little understanding of the end-user of the products and services of our investments. As mentioned above, we feel that commonly accepted standards – in this case addressing the necessity of a company's product to the end-user – would help investors greatly in their assessment of impact, and help direct capital to solutions that are genuinely needed.

Commonly accepted standards would help investors greatly in their assessment of impact, and help direct capital to solutions that are genuinely needed

3 How Much: Quantifying outcomes

Impact reporting needs to move along the theory-of-change pathway
Determining how much of an identified outcome occurs as a result of investment is difficult to assess for a single asset, let alone for a portfolio with multiple underlying investments. To identify 'how much' of an outcome occurs can best be captured using a theory-of-change 'outcomes' pathway, as shown in Figure 5. The goal for effective impact measurement is to move reporting further along this pathway – looking at both intended and unintended outcomes – as this will help investors better identify the impact that is being generated by investments. Ideally, an investor should be able to see data at all stages of this pathway in order to determine the real impact of their investment.

Figure 5: Using a theory-of-change pathway to measure investment impact



Source: Clark et al, Double Bottom Line Project report, 2004

A pharmaceuticals company producing vaccines will often report the revenues generated by that activity, but rarely on the number of vaccines produced or the number of people vaccinated

Reporting on actual investment outcomes is still very rare
For an institutional investor taking a whole-portfolio approach, assessing investment impact is frankly impossible at present. Very few of our investment managers, or their underlying companies, report beyond the 'Activities' stage in Figure 5.

For example, a pharmaceuticals company producing vaccines for a certain disease will often report the revenues generated by that activity, but rarely on the number of vaccines produced or the number of people vaccinated – let alone the profile of the people they are ultimately providing their product to, (i.e. the 'Who?' in the IMP's five dimensions of impact in Figure 3 earlier). It is rarer still for investment managers to collect and report on outcomes information across their portfolios.

However, we were keen to start somewhere, recognise the imperfections that exist in the approach, and commit to improving reporting over time. Our approach to measuring outcome has therefore been as follows:

- **Use revenues from a theme as a proxy for impact for now:** At present, a portfolio-wide understanding can only be achieved by looking holistically at the 'Activities' stage of an investment, which can primarily be captured by mapping the revenues generated from a good or service against a specific theme. In a few sectors, such as infrastructure in the construction phase, revenues are not an appropriate measure. In these cases, we determined the most appropriate measure on a case-by-case basis, which is often capital expenditure or income. Our thinking is that revenues generated – or a similar measure – however imperfect, can act as a proxy for impact delivered until we can move further down the chain to true outcome reporting.

- **Determine share of impact using share of capital:** In order to determine our own share of impact achieved (or alignment in this case), we multiply the total aligned revenues within an enterprise by our share of investment in the company's total capital. This information is generally available across both private and public markets, although it can require some digging. For fixed income, if the debt raised is allocated toward a specific activity such as with green bonds, then isolating that activity is the most appropriate way to identify attributed impact. However, we found that this is extremely difficult in practice and so attributed on a total enterprise level. Attribution is not so important at the revenues level as we pro-rated this to our investment share, however when reporting on outcomes it becomes an important exercise.

Moving reporting from 'activities' to 'outcomes'

So far, we have identified an enterprise's primary activities that align with our identified impact themes. Our long-term goal is to gain a more complete picture of our investments by moving further down the reporting chain shown in Figure 5. This level of reporting will capture not only the intended positive outputs of a company's operations, but also unintended impacts – from positive ones like increased employment to negative ones such as environmental damage and pollution.

We already have access to a large amount of this information through our own and our investment managers' ESG practices. For example, as part of the Church Commissioners' commitment towards a net-zero carbon emissions portfolio by 2050, we are now gathering greenhouse gas emissions data for all investments right across our portfolio. This will allow us to see which assets are the most carbon intensive, and begin to draw a net zero pathway for them.

Incorporating other positive and negative operational factors into this assessment will allow us to understand more holistically an investment's real-world impact. It also offers compelling scope to see how impact can be evaluated in financial terms. For example, Harvard Business School's Impact Weighted Accounts, which attach a monetary value to an enterprise's positive or negative impacts in order to embed them into financial statements, is one interesting way to bring impact further into the investment decision-making process.

4 Contribution: Delivering additionality

Both financial and non-financial investor contributions need to be assessed
One of the fundamental concepts of impact investing is that of *additionality,* or the contribution from the investor towards an identified outcome that would otherwise not have happened. In the Impact pathway shown in Figure 5, this is shown in the box at the 'Outcomes' stage.

From an investor's perspective, contribution can be made in three primary ways as shown in Figure 6.

Figure 6: Three investor contributions to impact

1. Investment
Providing new capital to enable an enterprise to develop.

2. Engagement
Non-financial efforts, such as shareholder engagement can lead to a company implementing change.

3. Indirect impacts
Indirect impacts can include the signals sent to the market if an investor refuses to invest into or divests from a sector or company.

Taken from: Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact, Kolbel et al. (October 2019)

From a capital allocation perspective, providing new capital to enable an enterprise to expand is clearly a contribution from an investor in a financial sense, as expansion can be evidenced through the financial accounts. In the same vein, in order to assess the development of environmental or social outcomes from additional capital, the company or investor should review progress of targeted outcomes against a baseline pre-investment.

In the case of secondary markets, academic studies suggest that the primary mechanism in achieving real-world impact is through the non-financial efforts of the investor, most notably engagement with their underlying companies. At the Church Commissioners, engagement and voting are core parts of our responsible investment practice. While it is difficult to attribute changes in corporate behaviour to the engagement of any single investor or investor body, we attach a great deal of importance to our investment managers' active ownership of companies in public markets.

Assessing investor contribution needs far more data
Generally, there is a lack of data to allow us to assess our own investor contribution for the vast majority of our investments. We can point to a limited number of investments and investor initiatives. But on a total portfolio level, our contribution can only be estimated at present, for example, through the alignment of our portfolio towards certain goals.

One focus for us in the future, therefore, will be to determine the level of capital being provided by our managers in private markets which can be counted as additional and leading to impactful outcomes. We will also look to assess across both private and public markets the outcomes of both our own and our managers' engagement and stewardship efforts with underlying companies.

5 Risk: Positive impact vs negative impact

We primarily assess risk at the investment manager level, given that managers are making the investment decisions. As there is frequently an element of blind-pool risk to us as the asset owner, we primarily have to be comfortable that managers' responsible investment practices align with our own values.

Impact risk has two specific dimensions

In terms of impact risk specifically, we have decided to look at the IMP's nine impact risks and distil them into what we believe are the most material risks for us. We divide impact risk into two dimensions: risk of positive impact not occurring, and risk of negative impact occurring – see Figure 7.

Figure 7: Our material impact risks

Risks from positive impact not occurring	Risks from negative impact occurring
External risk: The probability that external factors disrupt the ability to deliver the expected impact.	**Unexpected impact risk:** The probability and level of negative impact that may be produced by an activity expected to produce positive impact.
Execution risk: The probability that the activities are not delivered as planned or are not delivered for a long enough period, and therefore do not result in the desired outcomes.	**Misalignment risk:** The probability that that investment does not align with our ethos as investors.
Alignment risk: The probability that impact is not locked into the enterprise model, making mission drift more likely.	
Stakeholder participation risk: The probability that the expectations and/or experience of stakeholders (i.e. those who should benefit from achieved impact) are misunderstood or not taken into account.	

At the enterprise level, the risk of negative impact occurring aligns closely with the Outcomes reporting element within the 'How Much?' dimension of impact detailed earlier. We hope to incorporate negative as well as positive impact as part of our process as we become more sophisticated in our impact assessment.

Currently we do not explicitly mandate our investment managers to adopt an impact focus. However, following our initial review of our portfolio, we are now discussing with managers how to incorporate impact risk analysis into their responsible investment process. In our experience, most managers are enthusiastic but generally are deterred by a lack of common understanding, combined with resource constraints. We will continue this conversation as part of refining our responsible investment process in partnership with managers.

Step Four: Assessing our portfolio against the framework

Having developed a framework, we then assessed how it could be applied to our existing portfolio. Out of necessity, the means of assessing our portfolio against the framework was slightly different across each asset class.

Public Equity

Like most asset owners, the Church Commissioners hold public equity positions in hundreds of companies. This makes it effectively impossible to assess the impactful business activities that every company is involved in. It was therefore necessary to use a third party to help us.

A number of data providers and consultants offer services that offer to identify a public company's exposure to impact themes and/or the SDGs.[4] Our goal was to find a provider that:

- offered an approach and impact classification that aligned closely with ours
- would therefore enable us to use an automated process rather than a more time-consuming, and potentially expensive, custom service
- covered a large universe of companies and had further plans to develop their service.

Although no single provider offered a perfect solution, several had offerings that provided a lot of the information we wanted. Having chosen a provider, we aligned their own classification to ours as far as possible, allowing us to see revenue alignment across impact themes for the vast majority of our public equity holdings.

Operational impact data is improving

Data providers are now beginning to incorporate operational impact data into their analysis of companies, which helps us gain a more complete impact picture than simply relying on how company revenues align with impact themes. We are very keen to see more data provision go beyond the 'activities' – or revenue alignment – stage.

Aggregating this information up to the investment fund level allows us to see which of our managers are invested in companies with strong impact alignment. We can compare the level of impact alignment of different managers in our portfolio (within and across asset classes) and against specific market benchmarks. This helps us arrive at a more complete picture of our managers' commitment to responsible investing; a portfolio with strong ESG characteristics but very limited impact alignment, for example, may be missing the bigger picture.

As well as assessing impact alignment, we look at the active ownership efforts of our public equity managers. Those with a strong commitment to stewardship and active shareholder engagement are likely to deliver more real-world impact than through capital allocation decisions alone.

4 For example, Pensions for Purpose have recently released an overview of the many companies that can provide SDG mapping services for investors.

It may not be a significant stretch for many private companies to report non-financial output data and, in turn, understand how financial growth influences potential non-financial outcomes.

Private Markets & Real Assets

There are no off-the-shelf solutions for impact measurement within private markets. Therefore we had to conduct our own manual review of impact alignment for our private assets. For this, we developed the following steps:

1. **Identify portfolio holdings:** We obtained a look-through analysis of the underlying companies or assets held within each fund/manager, including latest fiscal year revenues. This information came from quarterly and annual reports, ESG reports if available, as well as our own internal data systems and analysis from consultants we use.

2. **Determine impact alignment:** We assessed each company/asset based on our framework to determine the percentage of its revenues that align to our impact themes. This assessment was primarily made through reports and information provided by our fund managers, as well as publicly available information such as company websites. As we are given industry verticals and descriptions of the companies we invest into, it was not a particularly arduous task to identify the companies that may align with our impact themes, before going into further depth on potentially applicable companies.

3. **Calculate our impact contribution:** We then pro-rated the proportion of our attributed revenues – or other appropriate measure – to our investment share in each company.

Throughout this process we identified that many companies do report output data both publicly and privately (for example, number of patients treated in a health clinic), but that this was unstructured and with limited application for comparability between companies.

Some companies reported in line with GRI reporting standards. However, we felt that currently this information is of limited use to us – partly because not all companies report across the same disclosures, and also aggregating this information manually for our portfolio companies would take a significant amount of time. If this data was centrally provided, or if our managers provided data on a fund level, then this would be significantly more useful.

Generally, however, we felt that the availability of output data was encouraging. It may not be a significant stretch for many private companies – and therefore investment managers – to begin to report non-financial output data and, in turn, understand how financial growth influences potential non-financial outcomes.

Assessing impact across our private equity and real asset holdings has also helped us to identify what additional information we need in order to get a better understanding of parts of our portfolio. One example is the supply chain structure of our forestry assets. Sustainably-certified forestry is often regarded as a sustainable investment. But to be able to articulate its carbon benefit and the associated positive outcomes accurately, an investor needs to know what products the harvested wood is used for. Timber products that displace other materials and are designed for long-term use have much better sustainability characteristics than single-use items. However, the downward supply chain of timber products from suppliers is not generally well known.

Out-of-scope Assets

There were many instances where we were unable to get the information that we required to make an impact assessment. We classified these as 'out of scope' in our analysis. Generally, investments that we regarded as out of scope fell into three buckets:

1. Investments where the underlying number of companies were too numerous for us to effectively assess, given the amount invested in each. such as in fund-of-fund mandates

2. Where information/data was lacking from our investment managers to make an appropriate assessment at the enterprise level

3. Certain strategies where impact – unless a stated objective of the fund with positive impact coming from the investor's contribution – is not an immediate effect of investment. An example of this would be derivatives strategies.

Fixed Income

The Church Commissioners' portfolio currently does not invest in corporate fixed income. Therefore, processes for mapping this asset class to our impact framework have not been required.

Putting it all together: a case study

Using the framework outlined on the previous pages, we've been able to identify our portfolio's alignment to specific impact themes. In aggregate we've identified £480 million of investments with a positive environmental focus and that directly contribute to one of the Church's missions to *'safeguard the integrity of creation and sustain and renew the life of the earth'*.

Below is an example of how one investment – an investment in solar power in Chile – is aligned to our theme of Renewable Energy. This includes how we have deconstructed the investment against the five dimensions of impact outlined earlier – and how these map to relevant targets and indicators of the UN Sustainable Development Goals (SDGs).

Figure 8: Profiling one portfolio investment for impact	
Related Church of England mission	To safeguard the integrity of creation and sustain and renew the life of the earth
Impact theme	Renewable Energy
Impact analysis of one portfolio holding	
What	Construction of two renewable power (solar) plants in Chile **SDG 7.2 (indicator 7.2.1):** Chile's share of renewable energy in total final energy consumption is 24.9% compared to an average of 22.1% among World Bank-defined high income countries **SDG 8.4 and 9.2 (indicator 9.4.1.):** Chile's energy-related CO2 emissions per capita are 4.8 tonnes compared to 9.6 tonnes among high-income countries. However, this is increasing each year.
Who	Clean energy provided in 2019 to c 110,000 people in Chile (CCfE share: c.900 people)
How much	**Depth:** Current operational capacity of 190MW; generated 430GWh in 2019 (CCfE share: 3.5GWh) **Duration:** Expected lifespan of 25+ years
Contribution	– Estimated **avoided emissions** of 170,000 tonnes of CO2e per year (CCfE share: 1,400 tonnes) – Equivalent to taking 36,000 cars off the road (CCfE share: 300 cars)
Risk	– Project risk is judged to be low given low external risk, execution risk and alignment risk – Unexpected impact risk is to be monitored as with all investments.

Note: CCfE – Church Commissioners for England

Building an impact framework: What we've learnt

Defining and implementing a framework to manage and measure impact in our portfolio has been time-consuming but highly insightful. From a process perspective, there are four things we think are worth highlighting for other investors and their managers:

1. **It is an invaluable investment of time:** Creating our framework and conducting the initial portfolio assessment was a large time commitment. But now that the process is in place and the sources of information are known, we expect it to be much less intensive in the future. We hope that over time the impact reporting effort can become an investment manager's responsibility – similar to reporting on ESG factors.

2. **It requires deep manager engagement:** A more resource-constrained asset owner will likely benefit from talking to their managers about the topic of impact. Our experience suggests that many managers have begun considering the issue, but far more industry engagement will be needed to adopt an impact approach as a norm.

3. **Managers are at very different stages of assessing impact:** Impact information differed significantly across investment managers. Some already have or are in the process of forming an understanding of 'impact' and their own data collection efforts. Some have begun SDG-mapping portfolio companies but through very different approaches: some map companies based on revenue alignment, others use operational measures. The more robust approaches focus on the direct activities of the portfolio company, not just the broader ancillary effects of a company's operations.

We hope that over time the impact reporting effort can become an investment manager's responsibility – similar to reporting on ESG factors.

4. **...so standardisation is now key:** Commonly-accepted standards would make investing for positive outcomes a much simpler process and begin to allow for comparability and benchmarking among investors. This would also allow the reporting effort to be the manager's responsibility and create efficiencies for all involved in the process. For this reason, we are keen for standards such as the EU Taxonomy in Europe for investments in environmental solutions to get industry-wide adoption as a matter of priority.

Our next steps: Taking a systematic approach to impact

The process outlined in this report has identified for us how and where we can improve the understanding of our portfolio. It has also made clear some practical steps that could help us enhance positive outcomes from certain investments now.

Incorporate impact into responsible investment
Our efforts over the next 12 months will concentrate on speaking to our managers about our initial exercise and begin to address systematically the concept of impact in their responsible investment process. This includes not just a greater focus on the intended outcomes from impact-aligned investments, but also bringing together ESG factors to arrive at a more complete picture of material outcomes from an investment. We're also in the process of doing this ourselves in those areas of our portfolio under our direct control.

Retain manager flexibility
Similar to our approach to responsible investment, we do not want to be prescriptive in how our managers should approach impact. We believe an approach should be well considered and appropriate to each manager's investment philosophy, which will differ by asset class and strategy. Our primary asks are:

- for managers to formally consider impact in their investment process
- for portfolio reporting to be aligned to appropriate standards such as the EU Taxonomy
- for carbon emissions reporting to be provided at an asset level.

We do not want to be prescriptive in how our managers should approach impact. An approach should be appropriate to each manager's philosophy, which will differ by asset class and strategy.

Deepen our health and environment focus
Another core piece of work directly relates to the most material impact themes that our portfolio is aligned to, namely health and environmental solutions. We are exploring these themes in greater depth, given that health is a very broad and often controversial theme, and that environmental solutions have such a significant role to play in our commitment to a Paris Agreement-aligned investment portfolio. We have just started this process and are interested to hear from others that may have experience in these areas.

Conclusion: Outcome measurement will drive effective capital allocation

Overall, creating an initial impact investment framework has given us valuable new insight into our portfolio and contributed to our responsible investment practice. We now have a baseline and approach to be able to track our portfolio's alignment to solutions-based investing. This is helpful to communicate to our beneficiaries as well as for tracking our alignment to targets such as net zero carbon emissions.

Getting a true picture of impact

But we are aware that assessing impact alignment is only the beginning for an impact approach. If the goal is to enhance real-world outcomes (within our ability as an investor with fiduciary responsibilities), then these outcomes need to be clearly measured and documented.

> Assessing impact alignment is only the beginning for an impact approach. If the goal is to enhance real-world outcomes, then these outcomes need to be clearly measured and documented.

For example, investments targeting environmental and health issues were by some distance the biggest impact themes within our portfolio. Developing robust measurement of the exact outcomes generated by such investments – such as carbon emissions avoided or the number of patients treated – could help us understand how to allocate capital effectively to deliver impactful outcomes.

Other factors – such as unintended outcomes of operations, which are captured in part by traditional ESG analysis – should also form part of this assessment. In this way, we can arrive at a more complete picture of the externalities that our investments cause, and therefore form a more appropriate view of the true value of these investments.

An evolution not a revolution

What has become clear to us is that assessing for impact is a new way of looking at our portfolio, but the concepts that came up throughout the process were rarely new to us or many of our managers. As such, impact investment and assessment should not be seen as a revolutionary approach. Instead, it is a complement to existing responsible investment practices that will not only deliver on our beneficiaries' and our own non-financial goals, but which are consistent with our fiduciary responsibilities.

We recognise that what we have outlined here is just our own first step, and that other investors are looking at this space and adopting their own approaches. We would be interested to learn more about the challenges and choices other investors face as we try to reach more common ground towards investing for positive real-world impact.

Appendix 1: Mapping our impact investment themes onto the UN Sustainable Development Goals

Mission	Theme	SDG Alignment		SDG Indicator - Macro Measure		Potential Enterprise Measures
Safeguard the integrity of creation and sustain and renew the life of the earth	Renewable Energy	7.2	By 2030, increase substantially the share of renewable energy in the global energy mix	7.2.1	Renewable energy share in the total final energy consumption	Renewable energy capacity (MW); Generation last 12 months (MWh); Number of individuals provided GHG emissions avoided
		8.4	Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead	8.4.2	Domestic material consumption, domestic material consumption per capita, and domestic material consumption per GDP	
		9.4	By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities	9.4.1	CO2 emission per unit of value added	
	Energy Efficiency	7.3	By 2030, double the global rate of improvement in energy efficiency	7.3.1	Energy intensity measured in terms of primary energy and GDP	Number of status-quo products replaced; Energy consumption of product replaced (CO2e emissions displaced)
		9.4	By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities	9.4.1	CO2 emission per unit of value added	

The Church Commissioners for England

Real World Impact: Creating a framework to target, manage and measure the social and environmental impact of our investments.

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