IMPACT COMMUNITY CAPITAL

TRUTH IN LABELING: IMPACT IN YOUR INVESTMENT PORTFOLIO

By Liz Kang, General Counsel

The interest in socially responsible investing — also referred to as ESG or impact investing — has grown dramatically. Increasing interest from institutional investors has resulted in a plethora of new managers and new strategies claiming impact or ESG objectives. The rapid growth of ESG strategies has led to confusion among investors and intensified the need to standardize the definition, measurement and reporting of ESG and impact results. The growth has been so strong as to garner the attention of the SEC, which released an April 2021 Risk Alert focusing on the importance of accurate disclosures to clearly articulate, measure and report on ESG objectives.

Increased claims and promises made by investment managers about responsible and sustainable investments make clear the need for greater accountability. When evaluating an investment opportunity, investors have long demanded that their managers clearly articulate the investment thesis, approach to investment underwriting, benchmarking, performance evaluation, and reporting. The approach to the impact thesis should be just as rigorous.

Investors should ask:

- For a clear statement of the impact.
- For a clear definition of the impact and expect a clear, detailed response.
- Whether there are commonly accepted impact criteria and if not, how impact will be measured.
- Whether/how impact will be incorporated into the investment process.
- For reporting that substantiates the impact claims in the same way performance reports are expected to substantiate investment return promises.

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THE INVESTMENT THESIS, UNDERWRITING, PERFORMANCE EVALUATION, AND REPORTING

THE APPROACH TO THE IMPACT THESIS SHOULD BE JUST AS RIGOROUS.

IMPACT'S EVOLUTION: DEFINING AND TRACKING AFFORDABLE HOUSING IMPACT

Twenty years ago, IMPACT was formed for the sole purpose of originating and managing impact investments. These investments fit the investment mandates of institutional investors and were made with the intent of creating measurable change in underserved communities. At IMPACT, because every one of our investments is intended to address a critical societal need, we recognize the importance of a clear impact thesis, access to measurable data and reporting that substantiates the impact we set out to make. As part of our growth in channeling institutional capital at scale into under-invested communities, we've continually evolved our approach to defining, measuring and reporting our impact.

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We made our first investment in affordable housing in 2001. Lacking a clear definition for "affordable," we simply measured number of units created and number of people housed. As we evolved, we understood that we needed a more precise definition for affordable housing and clearer description of our impact. We came to define affordability as a property with more than 50% of its total units affordable to an individual or family whose income is less than 80% of the area median income (AMI). This gave us a baseline to discuss affordability with our investors and from which to expand our reporting efforts. Today, we think about housing as more than shelter. We look for metrics that help to measure how our investments can offer families the opportunity for inclusion and economic prosperity.

In our 2021 Impact Report, in addition to tracking the number of new units created or families housed, we reported on:

- Depth of Affordability (# of units at 80%, 60%, 40% of AMI).
- Average monthly rent savings.
- Social services offered: Adult Education, Health/Wellness, Childcare, Resident Support.
- Green/Environmental features.

STANDARDIZATION FOR GREATER SCALE AND REAL IMPACT

Every investment manager has a responsibility to tell the truth about their strategies and every investor has a responsibility to diligence its managers and demand transparency. Every investment manager claiming to make impact investments must be able to clearly articulate the impact intent of its strategy, how they define impact, the metrics that will be used to substantiate the impact, and how it will report on impact performance.

We should welcome industry and regulatory efforts to define and standardize ESG/impact disclosures. Oversight, standardization, and transparency will expose managers that overstate their impact bona fides and reduce the confusion and noise that currently exist in impact investing. Most importantly, this can clear the path for more investors to direct more capital to traditionally underinvested communities with the scale needed to address long-standing issues of diversity, equity, and inclusion.

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