



The Impact Authenticity Score

A New Tool for Assessing Methods, Rigor, and
Performance in Impact Investing

Executive Summary

The imperative to address today's social and environmental challenges has catalyzed the emergence of impact investing as a pivotal force for change. Despite its prominence and many positive achievements, the impact investing sector faces challenges, such as 'impact washing,' wherein some impact investing firms overstate the effects of their portfolios. This practice has complicated the efficient allocation of capital toward effective solutions and raised questions about the long-term sustainability of this approach.

The imperative to address today's social and environmental challenges has catalyzed the emergence of impact investing as a pivotal force for change. Despite its prominence and many positive achievements, the impact investing sector faces challenges, such as 'impact washing,' wherein some impact investing firms overstate the effects of their portfolios. This practice has complicated the efficient allocation of capital toward effective solutions and raised questions about the long-term sanctity of this approach.

This paper introduces a comprehensive framework, the Impact Authenticity Score (IAS) designed by the Impact Evaluation Lab (IEL). It addresses an impact investment management team's ability to clearly define an authentic strategy aimed at tackling a social or environmental challenge, diligently allocate resources to pursue this impact mission, and successfully achieve the anticipated returns promised to investors. It proposes to advance the application of existing frameworks by evaluating three crucial aspects of a fund's performance: Mission Authenticity, which measures a firm's commitment to impact objectives; Impact Execution, which evaluates the rigor of impact measurement practices; and Financial Performance, which determines alignment with financial objectives. The methodology also considers factors such as investment strategy, team expertise, and legal entity structure to ensure a comprehensive evaluation.

A pilot test of the IAS framework on 17 leading impact investing funds—a collaboration between IEL and the Sorenson Impact Institute (SII) at the David Eccles School of Business at the University of Utah—demonstrated its efficacy in capturing performance across a range of investment strategies and impact areas. To ensure the framework captured the diversity of the impact investing sector, the funds assessed covered a range of asset classes, impact themes, geographic coverage, and fund sizes.

The pilot test was conducted in several phases, including a careful review of each fund's self-reported responses to a detailed questionnaire and supporting documents, followed by at least two interviews with senior members of each fund's management teams, representing the impact management and portfolio management processes. Each fund was independently scored by two reviewers, ensuring consistency and objectivity, and then received a final reconciled score. Out of the 17 funds initially reviewed, three were not scored, with two excluded due to mission misalignment and one in early fundraising stages, without having made investments.

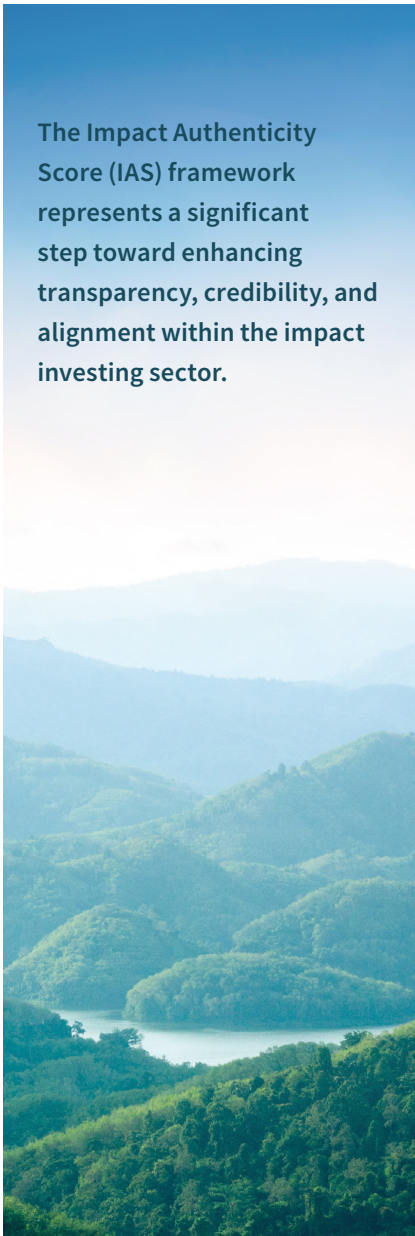
Our analysis of aggregate and fund-specific performance within Mission Authenticity and Impact Execution subcategories confirms overarching observations about the impact investing landscape. In general, most funds excelled at integrating impact into their investment processes, with many articulating a coherent impact thesis guiding their decisions. This underscores the rigor of the impact investment screening process. However, even though most firms assess impact potential during the screening and investment decision phases, this rigor often diminishes post-investment. Consistent evaluation of achieved impact throughout the investment lifecycle, including consideration of counterfactual scenarios, is thus essential.

The IAS framework represents a significant step toward enhancing transparency, credibility, and alignment within the impact investing sector by providing investors with a systematic and transparent resource for evaluating impact investment strategies and performance against impact goals. As a result, the IAS framework has the potential to increase the growth and scalability of impactful capital deployment, decrease inefficiencies, and ultimately drive positive social and environmental change.

Introduction

Today, the world faces a growing number of complex challenges, demanding solutions to a myriad of issues in domains like human health and economic wellbeing, primary and secondary education, economic inequities, and the environment. Within this landscape, critical solutions are driven by three fundamental forces—innovative ideas, dedicated investment, and resolute leadership—which work together to enact change at scale.

The Impact Authenticity Score (IAS) framework represents a significant step toward enhancing transparency, credibility, and alignment within the impact investing sector.



Advancing these solutions are entrepreneurs, nonprofit executives, policy advocates, and others who have championed the belief that, as custodians of capital, they have a right and a responsibility to direct their assets toward the greater good. Impact investing is one pathway through which they pursue this goal. Developed as a means for capital allocators to channel their resources toward innovations and solutions addressing social and environmental challenges, while still yielding robust financial returns, this investment strategy has gained traction and velocity over the past five decades.

In recent years, however, the sector has faced challenges, such as ‘impact washing,’ wherein impact investing firms overstate the impact performance of their portfolios. This practice has complicated the efficient allocation of capital toward effective solutions and raised questions about the long-term sustainability of this approach.

To address these concerns, this paper introduces a new framework for evaluating impact investment strategies and summarizes findings from a pilot test of the framework applied to 17 leading impact investing funds. We establish a set of evaluative criteria applicable across asset classes to empower asset owners to identify investment opportunities aligned with their intended impact outcomes. By doing so, we aim to expedite the process for asset managers who seek capital for strategies that address issues aligned with their values and financial goals.

The paper is divided into three sections:

First, we provide a brief review of socially responsible investing to situate the impact investing framework. We then delineate the broad subgroups of asset owners and their objectives in capital allocation. Finally, for clarity, we define and distinguish three primary categories of responsible investing practices: Sustainable investing, ESG investing, and impact investing.

Next, we introduce our framework, focusing on the new impact fund manager ratings system designed to evaluate impact investment strategies. This section provides an overview of the framework, highlighting the market gap it addresses, and outlining our process for testing and refining the framework.

The third section provides a summary of our initial findings based on the pilot test of our framework applied to leading impact investing funds.

The Impact Investing Landscape



Despite recent enthusiasm and accelerating adoption, the practice of applying an impact lens to investing emerged more than 50 years ago, in 1971, when two United Methodist ministers pioneered an investment strategy that led to the creation of the Pax World Fund. This strategy initially aimed to exclude investments in companies supporting the Vietnam War but soon expanded to avoid manufacturers of weapons and other products deemed unsuitable for church investments. In the 1980s, the publication of the report “Our Common Future” by the World Commission on Environment and Development laid the foundation of United Nations’ Sustainable Development Goals (SDGs), which today provide a framework for addressing global challenges.

For corporations, the notion that capital can be deployed responsibly took shape in the 1970s when General Motors Director, Reverend Leon Sullivan, drafted the Sullivan Principles, which defined a code of conduct for engaging in commercial activity in South Africa. Adopted by GM and later 100 other leading American companies, these guidelines played a significant role in the anti-apartheid movement in South Africa.

Five decades later, these practices have evolved into a series of investment philosophies described using terms such as ‘double bottom line investing’, ‘socially responsible investing’, ‘faith-based investing’, ‘values-aligned investing’, and ‘stakeholder capitalism’, to name a few. As efforts to systematize these ideas into actionable strategies unfolded, investment strategies, such as ‘sustainable investing’, ‘ESG’, ‘impact investing’, ‘SDG Aligned’, and others have emerged. Still, for many generalist investors, the concepts encompassed by these terms remain varied and ambiguous, resulting in questions regarding their effectiveness and impact.

Investors seeking to take steps to align their investment strategies with their personal values face the challenge of deciphering a plethora of terms, standards, metrics, and data provided by numerous well-intentioned organizations. They must also navigate recommendations from consultants and advisors who advocate, and sometimes inadvertently misrepresent, approaches to ‘doing good.’ In fact, Elizabeth Pollman, a legal scholar and co-director of the Institute for Law and Economics at The University of Pennsylvania, highlighted this challenge in a 40-page article on the history and meaning of ESG. In it, she reflects, “...few observers know where the term comes from, who coined it, and what it was originally aimed to mean and achieve.” This problem persists today, necessitating a more standardized and transparent approach to evaluating impact investments that provides clarity and guidance to investors navigating a complex landscape.

Understanding the various types of capital solutions is a first step.

Three Types of Capital Solutions

Historically, there have been three primary tools used by agents of change to address social and environmental challenges: grant financing, regulations and government policy, and risk-capital financing.

1. Grant financing from foundations and government agencies has traditionally been provided to the nonprofit sector to deliver programs and services addressing local issues. Until recently, nonprofits have been seen as the main entities offering solutions-oriented approaches to social and environmental challenges.



2. Regulation and government policy, on the other hand, can both incentivize and restrict individual and corporate behavior through regulatory constraints on behavior, tax relief for specific economic actions, and direct subsidies for particular activities.

While both of these approaches drive change, the scale of the most pressing challenges often exceeds available capital. Indeed, estimates suggest a shortfall of approximately \$4T in annual investments funneled toward the UN's SDGs. Even initiatives by major foundations and governments fall short in addressing challenges like carbon transition, global poverty, and water scarcity at optimal scale.

3. The third source of capital is risk-capital financing.¹ In recent years, the private sector has mobilized to offer innovative market-driven solutions to address social and environmental challenges. Risk-capital financing, equity or debt offered by corporations or investment firms, has been a financing tool for these for-profit entities that is distinct from grant financing due to its expectation of receiving a financial return on its investment.

The most impactful and lasting results emerge when all three capital sources converge throughout the solution's life cycle. For instance, government tax subsidies for the solar industry at scale, combined with local grants for rural homeowners in underdeveloped parts of the world, alongside commercial operators benefiting from early-stage venture capital. However, sustainable solutions cannot be achieved without the additional direct allocation of private capital. This capital falls into three broad categories.

Socially responsible investing (SRI) is the most established of these approaches, characterized by exclusionary portfolio management that avoids companies whose products or services conflict with the values or ethics of the asset owner. Established by religious organizations in the 1970s, this practice was characterized by investors who avoided munitions manufacturers, tobacco producers, alcohol sellers, and other so-called 'sin products.'

More recently, exclusionary investing has evolved to incorporate the idea that a company's portfolio should be evaluated using non-financial criteria, reflected in the ESG movement. These investors are guided by the belief that one should own or favor companies that adhere to a set of externally defined objectives related to non-financial stakeholders representing environmental, social, and governance ideals. **Sustainable investing** follows a related approach, prioritizing enterprises aligned with the long-term viability of the planet and humanity. Consequently, investors following this path seek to invest in companies that manage their resources, operations, and human capital sustainably.

Finally, **impact investing** drives change by channeling capital into companies addressing global challenges in the environment and society more broadly. Typically, they target specific problems through investments in commercial entities, which may be as varied as digital health technologies to address health inequities in North America or fintech solutions to address financial inclusion in India. Consequently, impact investments are typically specific and well-defined in their objectives, playing an important role in catalyzing change. One way they do so is by merging traditional investment practices with philanthropic endeavors, resulting in three types of impact investments (see Figure 1):

- **Market-rate return impact investments** closely resemble traditional investments in their return expectations. Market-rate return investors invest in companies whose product or service directly addresses a social or environmental challenge while not compromising on the potential financial return of their investment. For example, an investment firm seeking to promote financial inclusion in low and middle income countries could make an investment in a mobile money service provider.

¹ In this paper, risk-capital financing includes the nonprofit sector's mission-related investments.

Figure 1. Comparison of Traditional Investing, Impact Investing, and Traditional Philanthropy

| Traditional Investing | Impact Investing | Traditional Philanthropy |
|--|---|--|
| Financial First Market-Rate | Impact First Blended | Charitable Grants |
| Seek to maximize risk-adjusted rates of return Selection driven by traditional investment characteristics | Seeks both financial as well as social returns on investment Targets a risk-adjusted market rate of return while supporting the investors’ mission by generating a positive social or environmental impact Investments intended to prioritize measurable social and environmental impact over a financial return Investors may accept below-market (concessionary) returns | No expectation of any financial return Aligned with values and/or mission |

- **Impact-first investments** prioritize the solution outcome (the mission) over the financial return target. Impact-first investors might make an investment as a limited partner (LP) accepting subordinated position in a loan, or as a first-loss investor in a riskier endeavor. Impact-first investing may take the form of structured finance opportunities or blended finance structures.
- **Concessionary investments** are typically facilitated by grant-making organizations or tax-exempt foundations, and comply with specific IRS guidelines. Returns are intentionally concessionary in support of the impact outcome to be achieved by the investment.²

Existing Best Practices and Frameworks

Across these investment types, thought leaders in the impact community have provided guidance by constructing frameworks that set standards for impact measurement and management (IMM) and empowering investors and advisors with best practices to integrate impact considerations into their investment processes. However, investors have a limited selection of privately available options to evaluate their investment process and verify their implementation of best practices and frameworks. Consequently, the market lacks a standardized assessment tool that collectively assesses a firm’s investment process, IMM practices, and fund performance to assess whether an investor is achieving or contributing to measurable, positive performance. To further delineate these challenges, we now summarize the strengths and limitations of three of the most widely used and referenced best practices and frameworks in the impact investing sector.

The *International Finance Corporation’s (IFC) Operating Principles for Impact Management* provide guidance on integrating impact considerations throughout the investment process, from sourcing deals to exit decisions. Many investment management firms disclose their adherence to these Operating Principles by independently verifying their processes, which we consider a valuable assessment. However, the Principles themselves do not contain guidance for measuring impact, nor do the most substantial verification assessments of alignment with the Principles endeavor to assess an organization’s measurement efforts. As such, neither can provide sufficient insight into the firm’s measured progress towards its stated impact objectives. Furthermore, we note two related gaps in the market. First, independent verification can be a significant cost, out of reach of younger funds looking to attract limited partner investments, posing a financial burden for smaller firms, and second, detailed information regarding alignment with the Operating Principles is often inaccessible to the public.

² We do not distinguish between the three general forms of impact investing. We assume each asset owner has measurable expectations for their financial returns, and makes an informed decision about the tradeoff for impact outcome.

The impact investment sector currently lacks a credible approach to evaluate fund managers' performance in meeting the specific impact objectives they claim for their strategies.

The *Five Dimensions of Impact*³ provide a framework for measuring and managing impact across five dimensions: What, Who, How Much, Contribution, and Risk. By posing specific questions for each dimension, this approach guides users in collecting relevant data to derive meaningful insights about their impact. When used effectively, this framework enables organizations and funds to identify key impact outputs and outcomes for monitoring as well as counterfactual outcomes necessary for substantiating impact claims. Despite its value, most investors have used this framework to describe the expected, rather than actual, impact of their investments. Additionally, they measure and report selectively those impact dimensions that are either most important or most flattering to them (e.g., fund managers focused on breadth do not measure depth, whereas fund managers focused on depth do not measure breadth), restricting limited partners' ability to make comparisons across funds.

Sustainability disclosure requirements like the *European Union's Sustainable Finance Disclosure Regulation* (SFDR) aim to enhance transparency in the sustainability investing markets. They do so by requiring funds to disclose the extent to which environmental and/or social factors influence their investment decisions, including sustainability risks and principal adverse impacts.⁴ Yet, while the environmental indicators capture impact outcome metrics, the social indicators do not. Additionally, there are no regulatory requirements to disclose the measurable impacts (outcomes relative to a counterfactual) of a stated impact investment strategy. The result is that investors relying upon regulatory compliance must assume that a fund management strategy is rigorous in their practices claimed in the regulatory filings.

While these frameworks offer invaluable tools for those with an interest in impact, these emerging risks in the impact investing marketplace present three primary issues for impact investors:

1. Impact fund management teams often shape their investment thesis and present themselves to asset owners to reflect adherence to existing impact management frameworks. As the impact sector expands, we are seeing evidence that adherence to these norms varies, which is a cautionary note for the expanding community of impact investors. Without proper industry benchmarking, we could see a fragmented understanding of mission alignment across strategies and the acceptance of lower-quality data. Both of these could potentially result in untested claims about the authenticity of a fund manager's strategy in achieving its mission.
2. The impact investment sector currently lacks a commonly accepted standard to evaluate fund managers' performance in meeting the impact objectives they claim to address. This gap has allowed some funds to make false claims about their contributions to the social and environmental challenges they aim to tackle. The broad acceptance of weak measurement rigor could impede investors' ability to select fund managers based on both impact and financial performance.⁵
3. For a fund manager, engaging a consultant to review the impact process embedded in their strategy is valuable but expensive. Similarly, for asset owners or fund management firms, establishing an internal process to evaluate the impact methodologies of all funds under consideration requires significant resources. This dynamic can lead to a size bias in the impact management sector, where larger fund management firms are perceived as having the best practices and the largest asset owners wield significant influence over impact investment strategies that receive critical early-stage capital.

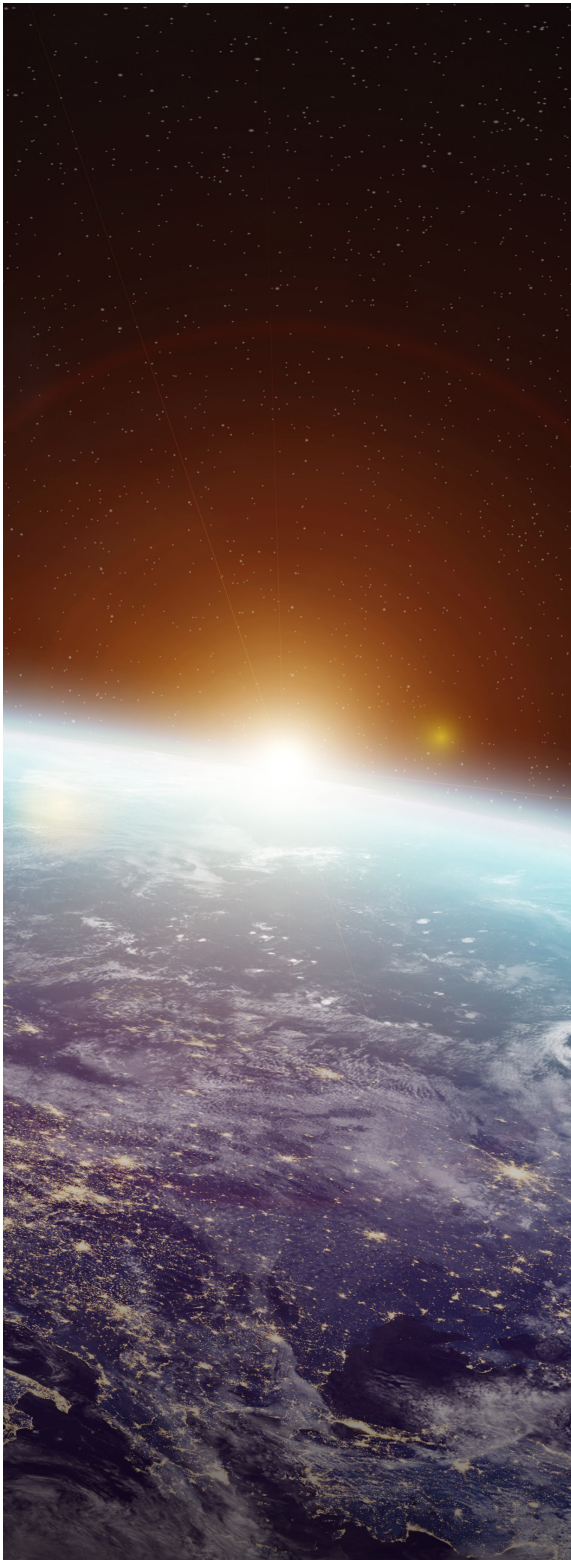
Together, these risks pose a challenge to the credible expansion of the impact investing sector. In this landscape, asset owners with good intentions may overlook strategies that align with their mission, while high-quality fund management teams might not receive the capital they need. To address this, investors need a systematic and transparent process for evaluating impact investment management strategies. This process would enhance the assessment of impact funds and simplify the connection

3 The Five Dimensions of Impact is part of the Impact Management Norms which provide a common logic to help enterprises and investors understand their impacts on people and the planet, so that they can reduce the negative and increase the positive.

4 The EU's SFDR defines "sustainability risks" as environmental, social, or governance events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investment. Principal Adverse Impacts (PAI) are a set of metrics that measures the impact of investment decisions or advice on sustainability factors.

5 The newly released Impact Performance Reporting Norms offers the field a promising framework for reporting impact performance.

The Impact Authenticity Score



between asset owners and these strategies, thereby fostering the growth and scalability of impact capital deployment. The Impact Authenticity Score (IAS) aims to fulfill this need.

The IAS introduces a consistent and rigorous ratings methodology to evaluate specific investment products, assessing their authenticity and potential to achieve desired impact outcomes and financial returns. In formulating this approach, we embraced five core principles:

1. **Diversity of Impact Goals:** Recognizing that asset owners may have distinct impact objectives, we acknowledge that what is crucial to one investor may be secondary to another. Multiple solutions to a single problem can be equally valid and effective.
2. **Context-Driven Evaluation:** There is no one-size-fits-all approach to analyzing impact investment strategies. However, there should be minimum standards of mission authenticity and rigor that the impact investing community collectively upholds.
3. **Importance of Data and Metrics:** Data, metrics, and consistent reporting at both the investment and portfolio levels are integral to evaluating a mature strategy. While narratives and anecdotal evidence can complement this, they cannot substitute for rigorous measurement. Process and implementation are equally vital.
4. **Resource Flexibility:** Standards for metrics and reporting should accommodate the constraints faced by earlier stage and smaller fund management teams with limited resources. Constrained resources can sometimes lead to focused and effective energy allocation.
5. **Public Good:** A ratings assessment should serve as a public good, reflecting best practices and meeting the expectations of the broad impact investment community and society more broadly.

In summary, our assessment aims to determine if an impact investment management team has articulated an authentic strategy designed to address the targeted problem, applied resources to that mission rigorously, and delivered the returns stated as a goal to investors.⁶ In other words, this framework aims to answer: Did the fund management team fulfill their stated commitments?

⁶ The IAS methodology does not attempt to assess the importance or relative merits of different impact strategies. Instead, it seeks to evaluate managers on the objectives they set for themselves.

To do so, the IAS is derived by assessing three distinct aspects of an investment manager's strategy: Mission Authenticity, Impact Execution, and Financial Performance.

First, the **Mission Authenticity** category evaluates the investment manager's commitment to incorporating impact considerations into their investment process. It assesses alignment with best practices like the IFC's Operating Principles and ensures that the investment process aligns with the fund's stated impact objectives. Additionally, it considers the team's experience in impact investing and measurement, as well as their engagement with the impact community. This is measured across three dimensions:

- **Integrity of Mission** evaluates the fund management team's process and practice, focusing on aspects such as Intentionality and Alignment, Cogency of Mission, and Integration of Mission.
- **Firm Capacity** examines the composition and skills of the team, including Team Experience in IMM and Impact Investing, Team Experience in Asset Management, Team Representation, Institutional Resilience, and Regulatory Risk.
- **Participation in Impact Community** assesses the strategy's IMM and impact processes in relation to generally accepted standards and the team's involvement in the impact community.

Second, the **Impact Execution** category evaluates the fund's IMM practices for individual investments and the overall portfolio. It focuses on the fund's data collection process, impact measurement practices, and reporting standards to assess the credibility of the fund's impact claims. This is measured across two dimensions:

- **Methodological Rigor** assesses the fund management team's data collection process and self-imposed measurement standards to ensure consistency and reliability in impact measurement.
- **Results and Validation** examines the fund management team's practices in identifying and measuring impact claims. It also examines the fund manager's reporting practices and transparency regarding impact outcomes and validation processes.

The **Financial Performance** category is designed to assess each fund's financial performance over time, comparing it to the stated objectives or benchmarks for LPs and/or other investors. This evaluation determines whether the strategy's returns align with the objectives set forth by the fund. This is measured by financial performance over 1-, 3-, and 5-year periods (as applicable) to determine whether the strategy returns met objectives communicated to capital allocators.

Pilot Test

Methodology

IEL partnered with Sorenson Impact Institute (SII) to refine the initial draft of the scoring methodology and pilot test the IAS framework on 17 funds.⁷ The final methodology consists of specific questions aimed at capturing a fund's investment process, alignment with the stated impact thesis, expertise of key personnel, compliance with current regulations, and IMM practices.

Funds were chosen to represent impact investing firms and fund management teams leading the way in impact investing, IMM and asset management. This sample captures a wide range of best practices in the investment process and innovative impact assessment methods. Apart from demonstrating excellence in their investment and measurement practices, funds had to satisfy additional criteria to qualify for the market testing phase. Figure 2 outlines the eligibility criteria employed for participation in this phase.

Figure 2. Eligibility Criteria for Fund Participation

- 1. Investment strategy is defined as addressing a social and/or environmental challenge**
- 2. Investment management team and/or impact measurement and management team are generally considered thought leaders in the impact investing space**
- 3. Investment management team or impact measurement and management team has at least 3 years experience managing an investment strategy**
- 4. Fund vehicle is a legal entity accepting investments from accredited investors**

To ensure the framework captures the diversity of the impact investing sector, invited funds covered a range of asset classes, impact themes, geographic coverage, and fund sizes. Figure 3 provides an overview of the selected funds. For a detailed list describing the anonymized funds, please refer to Appendix 1.

Approximately 59 percent of the funds assessed were private equity or private credit funds, consistent with published statistics on the impact investing sector. According to the Global Impact Investing Network (GIIN), about 70 percent of impact investors allocate a portion of their assets under management to private equity, with about 50 percent investing in private credit.⁸ Regionally, the sample of funds was equally split between those focused on developed markets and those targeting emerging markets. These funds addressed diverse impact themes such as affordable housing, racial and gender equity, financial inclusion, carbon mitigation, and more.

Our assessment process included several phases, beginning with a review of each fund's self-reported questionnaire responses and relevant documents. These documents included prospectuses, private placement memoranda, impact reports, and IMM frameworks. Depending on the firm's structure, we conducted one to three 60-minute interviews with senior members of each fund's portfolio management and impact measurement teams.

Each fund was independently scored by two reviewers after evaluating answers to 40 distinct questions across categories in Mission Authenticity and Impact Execution. Questions in Mission Authenticity related to Integrity of Mission, Firm Capacity, and

⁷ Note we first shared the framework questions with multiple thought leaders in the impact investing sector, including policy advocates, industry peer groups, asset managers, and asset owners. Based on feedback received from both these thought leaders and the independent review by SII, we revised the IAS framework.

⁸ Hand, D., Sunderji, S., Pardo, N. (2023) 2023 Market GIINsight: Impact Investing Allocations, Activity & Performance. The Global Impact Investing Network (GIIN). New York.

Figure 3. Characteristics of Selected Funds

| Asset Class | # Funds | Select Impact Themes | Geographic Coverage | Average AUM |
|------------------------------------|---------|---|---------------------------------------|-------------|
| Private Equity and Venture Capital | 6 | Energy transition, health, education, financial inclusion, affordable housing, racial equity, carbon mitigation, agriculture, gender equity, economic mobility, employment, workforce development | Developed Countries, Emerging Markets | \$255M |
| Private Credit | 4 | Economic mobility, wealth creation, employment, financial inclusion, agriculture, affordable housing, education, gender equity, health, energy transition | Emerging Markets, Developed Countries | \$268M |
| Publicly Traded Securities | 4 | Carbon mitigation, energy transition, employment, racial equity | Emerging Markets, Developed Countries | \$666M |
| Real Asset | 3 | Economic mobility, affordable housing, racial equity, carbon mitigation, gender equity, financial inclusion, employment | Emerging Markets, Developed Countries | \$888M |

Impact Community. Questions in Impact Execution related to Methodological Rigor and Results Validation. Any discrepancies were resolved before creating a final score. Discrepancies were resolved by referencing the appropriate documents or by follow-up requests to the fund PM to clarify responses that led to conflicting responses across reviewers. This approach ensured the consistent interpretation of questions and answers and objective evaluation of the funds.

The aggregated scores in Mission Authenticity (also referred to as ‘Authenticity’) were assigned an alphabetic rating of A through D, and the scores in Impact Execution (also referred to as ‘Execution’) were assigned a numeric rating from 1 to 5, with A1 being the highest possible rating and D5 the lowest. The alphabetic and numeric scales allow funds to understand their performance relative to peers and industry best practices.

The Authenticity alphabetic cutoffs group fund managers based on their stated impact mission and the alignment of their investment practices with that mission. The ratings of A or B indicate the fund incorporates best investment practices aligned with the stated impact mission with minimum areas for improvement to achieve its impact objectives. Funds rated A or B typically display a clearly-defined mission, a team with experience and competence, and a strong affiliation with the impact investment community. A rating of C or D means the assessment identified areas for improvement that would allow better alignment of the investment process with the fund’s impact thesis.

The Execution numeric cutoffs group fund managers by the rigor with which managers measure, manage, and communicate impact.⁹ A rating of 1 or 2 means the fund largely adopts industry best practices in measuring and reporting achieved impact with minimum areas for increasing the specificity of analysis or rigor of reporting. Funds with a 1 or 2 Execution rating typically display a careful and specifically defined data collection process, and offer consistent periodic reporting on the impact of their investments. A rating of 3, 4, or 5 means the assessment identified areas for improvement in data collection and impact measurement in order to assess how well the fund is performing in achieving its impact objective.¹⁰ For a summary of the IAS Authenticity and Execution ratings, refer to Appendix 2.

9 ‘Rigor’ does not mean conducting rigorous impact evaluations, such as randomized control trials, but instead the degree to which the fund collects impact outcome metrics—not just impact output metrics—and assesses the outcomes against a counterfactual, such as secondary data, published statistics, or findings from published research.

10 Funds with a robust and well-articulated impact mission who have yet to invest LP commitments may be assigned a preliminary provisional score for Mission Authenticity, but no score for Impact Execution.

Findings

This section provides the aggregated results of the fund evaluations. Out of the 17 funds initially reviewed, three were not scored. Two of these funds were excluded because their mission objectives did not meet our definition of an impact strategy (seeking positive, measurable social and/or environmental impact alongside financial returns). The third fund was in the early fundraising stages and had not yet made any investments.

The tables below present descriptive data and aggregated ratings for the Authenticity and Execution subcategories, each rated on a scale of A through D and 1 through 5, respectively. Figure 4 provides the percentage of funds receiving a rating of A or B and 1 or 2 for Authenticity and Execution by asset class, respectively.

Figure 4. Authenticity and Execution Results by Asset Class

| Asset Class | # Funds | Authenticity % A or B | Execution % 1 or 2 |
|------------------------------------|---------|--------------------------|-----------------------|
| Private Equity and Venture Capital | 6 | 83% | 33% |
| Private Credit | 4 | 100% | 50% |
| Publicly Traded Securities | 2 | 50% | 50% |
| Real Asset | 2 | 50% | 50% |
| All | 14 | 79% | 43% |

Of the total number of funds, 79 percent received an A or B Authenticity rating, and 43 percent received a 1 or 2 Execution rating. This relatively high performance for Authenticity likely stems from a positive selection bias, with these funds generally demonstrating best practices during the evaluation period. Private Credit funds had the largest share of funds that scored either an A or B in Authenticity among asset classes, with 100 percent of the assessed funds in this asset class receiving an A or B rating. Private Equity and Venture Capital funds also performed above the average of all funds assessed. Most of the funds assessed were signatories of the IFC's Operating Principles for Impact Management and had thorough impact assessment processes. Notably, Publicly Traded Securities and Real Asset funds were less likely to be signatories of the IFC's Operating Principles for Impact Management, with only 50 percent of funds assessed receiving an A or B rating.

Half of Private Credit, Publicly Traded Securities, and Real Asset funds received a 1 or 2 Execution rating. Private Equity and Venture Capital funds received the lowest average Execution score, with only one-third of selected funds receiving a 1 or 2 Execution rating. While many funds showed rigorous practices in their IMM frameworks adopted to assess potential impact, few assessed impact beyond basic output metrics (e.g., number of people reached).

Approximately 40 percent of the funds had a minimum of three years of audited financials, allowing for an assessment of their financial performance relative to their stated objectives. In some cases, prior fund performance was referenced in our data reporting. None of the Private Equity and Venture Capital or Real Asset funds reported realized gains, while Private Credit and Publicly Traded Securities funds reported realized gains for at least three years. Seventy-five percent of Private Credit funds achieved their stated financial objectives, while none of the Publicly Traded Securities funds assessed achieved their financial objectives.

Figure 5 provides the subcategory scores for Authenticity and Execution by fund size. Fifty-seven percent of the assessed funds managed assets between \$50M to \$200M. Approximately 88 percent of these received an A or B Authenticity rating and 50 percent received a 1 or 2 Execution rating. Three funds oversaw assets between \$200M and \$750M, with 100 percent of funds receiving an A or B Authenticity rating and roughly 67 percent receiving a 1 or 2 Execution rating. Three funds managed over \$750M in assets, having the lowest share of funds receiving top ratings, only one-third of these funds received an A or B on Authenticity and none received a 1 or 2 on Execution.

Figure 5. Authenticity and Execution Results by Fund Size

| Fund Size | # Funds | Authenticity % A or B | Execution % 1 or 2 |
|-----------------|---------|--------------------------|-----------------------|
| \$50M - \$200M | 8 | 88% | 50% |
| \$200M - \$750M | 3 | 100% | 67% |
| >\$750M | 3 | 33% | 0% |
| All | 14 | 79% | 43% |

When developing the framework, we made a concerted effort to ensure that smaller firms weren't disadvantaged for potentially lacking resources available to larger firms. For example, when assessing how impact is evaluated and who bears responsibility, we assigned equal scores to a firm with a dedicated IMM team comprising multiple staff and a firm with a single head of impact or IMM professional if the analytical result was equally robust. Similarly, we emphasized the experience and expertise of the team in impact investing, IMM, and the specific impact theme rather than focusing solely on the size of the investment team. Results indicate that there is no discernible correlation between fund size and IAS ratings. Twenty-five percent of funds managing assets between \$50M and \$200M achieved their financial targets, while 100 percent of funds managing assets between \$200M and \$750M achieved their financial targets. None of the funds managing assets more than \$750M achieved theirs.

Figure 6 presents the subcategory scores for Authenticity and Execution by geographic coverage. Among the funds assessed, 64 percent manage investment strategies aimed at companies addressing social and environmental challenges in emerging markets, 64 percent invest in solving challenges in developed countries. Funds exclusively focusing on developed countries had the lowest shares of funds receiving top ratings for Authenticity and Execution, with 40 percent receiving A or B Authenticity rating and 20 percent receiving the 1 or 2 Execution rating. Conversely, those investing exclusively in emerging markets had a markedly higher share of funds receiving top ratings, specifically on Authenticity, in which every fund received an A or B rating. Funds investing in both emerging and developed markets performed even better, with 100 percent of funds receiving an A or B Authenticity rating and 75 percent of funds receiving a 1 or 2 Execution rating.

Figure 6. Authenticity and Execution Results by Geographic Coverage

| Geographic Coverage | # Funds | Authenticity % A or B | Execution % 1 or 2 |
|---------------------|---------|--------------------------|-----------------------|
| Emerging Markets | 5 | 100% | 40% |
| Developed Countries | 5 | 40% | 20% |
| Both | 4 | 100% | 75% |
| All | 14 | 79% | 43% |

Discussion

In developing the IAS framework, our aim was to capture both current industry best practices and emerging, aspirational standards. For instance, we evaluated whether firms reported underperformance of investments, accounted for the share of impact attributable to their investment, and collected outcome data to assess against a counterfactual. Our analysis of these aggregate and fund-specific performance within Authenticity and Execution confirmed overarching observations about the impact investing landscape. In general, most funds excelled at integrating impact into their investment processes, with many articulating a coherent impact thesis guiding their decisions. This underscored the rigor of their impact investment screening process.



Furthermore, a majority of funds collected Key Performance Indicators (KPIs) from portfolio companies, reporting performance at the portfolio-level. While significant, these KPIs predominantly focused on impact outputs, providing breadth rather than depth in impact assessments. For instance, reporting on the number of below market rate apartments, but not average rent savings or improvements in quality of life. Additionally, nearly all firms produced annual impact reports covering their impact thesis, IMM framework, and achieved impact. This offered some degree of transparency about the degree to which a fund is measuring and achieving its impact objective.

While promising, the reluctance of funds to address investment underperformance relative to impact objectives highlighted an opportunity for increased transparency and accountability. None of the firms reported on investments in their portfolio that were unlikely to generate impact, unintentionally caused negative impacts, or deviated from the original impact focus. Indeed, while many firms detected underperforming investments during risk reviews, enabling them to make decisions aligned with fund impact objectives (e.g., withholding additional funding or exiting investments), this information often remained undisclosed. This underscored the pressing need for greater transparency and accountability across all investment strategies. Furthermore, only three of the firms assessed accounted for the share of impact attributable to their investments, although many firms communicated generally or anecdotally how their investments and engagement contributed to the achieved impact.

To bridge this gap, several firms are beginning to administer surveys to the clients or customers of their portfolio companies to gauge impact. While this provides valuable insights into client perspectives, it falls short of objectively assessing actual impact. Furthermore, although most firms rigorously assess impact potential during screening and decision phases, this rigor often diminishes post-investment. Consistent evaluation of achieved impact throughout the investment lifecycle, including consideration of counterfactual scenarios, is thus essential.

Finally, while the majority of funds took a comprehensive approach to their impact mission, from investment sourcing to portfolio management and exit strategies, a handful of firms appeared to prioritize market-driven decisions, offering little evidence of actual impact. This raises concerns about impact-washing within the sector, where projects may be pursued with impact claims lacking substantive evidence of their true social or environmental influence. For instance, funds focusing on affordable housing or financial inclusion may exploit regulatory loopholes without adequately demonstrating the genuine need in their target markets.

Conclusion

This paper introduces the Impact Authenticity Score, a tool that empowers investors in evaluating investment strategies aimed at addressing social and environmental challenges and impact fund managers in sharpening their investment strategies and raising more assets.

The primary objective of this framework is to promote greater efficiencies in the allocation of impact capital, enabling asset owners to better align their investments with their impact objectives and to benchmark their performance to others in the industry. A further benefit will be greater capital inflows for the most promising funds and managers. By providing a comprehensive set of evaluative criteria, the IAS framework equips fund managers with the means to assess the alignment of their investment processes and Impact Management and Measurement (IMM) practices with industry best practices. Moreover, it offers insights into areas for improvement to increase the probability of fund manager success in delivering desired impact results, including more capital.

By piloting this framework with a select group of funds known for their IMM practices, we've demonstrated its applicability to impact investment strategies across various asset classes, fund sizes, geographic regions, and impact objectives. With a growing demand for independent assessments, the next phase of this project aims to bring the IAS methodology to scale, building the world's most robust database of impact funds.

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Appendix I: Fund Characteristics

| Fund | Asset Class | Select Impact Themes | Geographic Coverage | AUM Range | Environmental/ Social |
|---------|----------------|---|---------------------------------------|-----------------|--------------------------|
| Fund 1 | Private Credit | Financial Inclusion | Emerging Markets | \$50M - \$200M | Social |
| Fund 2 | Real Asset | Energy Transition, Carbon Mitigation | Emerging Markets | \$200M - \$750M | Social, Environmental |
| Fund 3 | Venture Equity | Energy Transition, Carbon Mitigation | Emerging Markets, Developed Countries | \$200M - \$750M | Social, Environmental |
| Fund 4 | Private Credit | Financial Inclusion, Affordable Housing, Education | Emerging Markets, Developed Countries | \$50M - \$200M | Social, Environmental |
| Fund 5 | Public Equity | Energy Transition, Carbon Mitigation, Human Rights | Developed Countries | >\$750M | Social, Environmental |
| Fund 6 | Public Equity | Carbon Mitigation, Racial Equity, Gender Equity, Human Rights | Emerging Markets | > \$750M | Social, Environmental |
| Fund 7 | Public Equity | Energy Transition, Carbon Mitigation | Developed Countries | <\$50M | Social |
| Fund 8 | Real Asset | Affordable Housing | Developed Countries | \$200M - \$750M | Social, Environmental |
| Fund 9 | Private Credit | Financial Inclusion | Emerging Markets, Developed Countries | \$200M - \$750M | Social |
| Fund 10 | Venture Equity | Financial Inclusion, Economic Mobility | Emerging Markets | \$50M - \$200M | Social |
| Fund 11 | Venture Equity | Economic Mobility, Wealth Creation | Developed Countries | \$50M - \$200M | Social |
| Fund 12 | Real Asset | Affordable Housing | Developed Countries | > \$750M | Social |
| Fund 13 | Private Credit | Financial Inclusion | Emerging Markets | \$50M - \$200M | Social, Environmental |
| Fund 14 | Venture Equity | Carbon Mitigation | Emerging Markets | \$50M - \$200M | Social, Environmental |
| Fund 15 | Venture Equity | Financial Inclusion, Affordable Housing, Economic Mobility | Developed Countries | \$50M - \$200M | Social, Environmental |
| Fund 16 | Venture Equity | Financial Inclusion | Emerging Markets | >\$750M | Social, Environmental |
| Fund 17 | Public Equity | Energy Transition, Carbon Mitigation | Emerging Markets, Developed Countries | \$50M - \$200M | Social, Environmental |

Appendix 2: IAS Mission Authenticity and Impact Execution Rating Summaries

The **Authenticity** subscore is grouped using an alphabetic ranking from A to D. The alphabetic cutoffs group fund managers by the authenticity to their stated impact mission and how their investment practices are aligned to the stated mission.

A – The fund demonstrates rigor and thoroughness in incorporating impact throughout the investment process that is consistent with the fund’s impact thesis. The team brings extensive experience in IMM, impact investing, and the social or environmental impact themes. The firm is recognized in the impact investing community as best in class and has contributed to improving the impact investing and IMM sector.

B – The fund demonstrates rigor and thoroughness in incorporating impact throughout the investment process that is consistent with the fund’s impact thesis. However, the fund may have minor areas of improvement in how impact is assessed to inform the investment decision. The team brings modest experience in IMM, impact investing, and the social or environmental impact themes. There may be only one team member with extensive experience.

C – The fund has a clear impact thesis, but insignificant rigor is used in incorporating impact throughout the investment process. Areas of improvement have been identified that would allow better alignment of the investment process with the fund’s impact thesis. The team brings modest experience in IMM, impact investing, and the social or environmental impact themes. There may be only one team member with extensive experience.

D – The fund’s impact thesis may not be clear, the fund lacks rigor or in incorporating impact throughout the investment process or impact is not considered throughout the investment process. The fund brings little experience in IMM, impact investing, and the social or environmental impact themes.

The **Execution** subscore is grouped using a numeric ranking from 1 to 5. The numeric cutoffs group fund managers by the level of rigor with which they measure, manage, and communicate their impact.

1 – The fund employs rigorous and credible impact measurement and management practices by collecting impact output AND outcome data from portfolio companies that are benchmarked against a counterfactual in order to make claims about impact. The fund manages impact by monitoring impact performance of portfolio companies in order to quickly respond to potential risks to impact. The fund adopts best practices in reporting out portfolio level impact.

2 – The fund employs rigorous and credible impact measurement and management practices by collecting impact output data from portfolio companies. The fund could improve their impact data collection efforts by collecting outcome data from portfolio companies. The fund manages impact by monitoring impact performance of portfolio companies in order to quickly respond to potential risks to impact. The fund adopts best practices in reporting out portfolio level impact.

3 – The fund collects impact output data that is consistent across all portfolio companies in order to report portfolio level output data. The fund has limited ability to assess impact performance at the company level due to a lack of outcome data collected or company specific impact metrics. The fund does not monitor impact performance of portfolio companies. The fund adopts best practices in reporting portfolio level impact.

4 – The fund does not consistently collect impact data across portfolio companies. The fund has limited ability to assess impact performance at the company level due to a lack of outcome data collected or company specific impact metrics. The fund does not monitor impact performance of portfolio companies. Areas of improvement have been identified in impact data collection which will allow more credible claims about achieved impact. The fund adopts best practices in reporting out portfolio level impact.

5 – The fund does not collect impact data across portfolio companies. The fund does not monitor impact performance of portfolio companies. The fund does not report impact metrics for the portfolio.