

Impact Frontiers
U.S.A

December 28, 2023

Re: Draft Impact Performance Reporting Norms

Dear Impact Frontiers team,

On behalf of Phenix Capital Group (hereafter referred to as 'Phenix Capital'), we would like to thank you for the opportunity to share our insights on the document titled '*Impact Performance Reporting Norms*' (hereafter referred to as 'Norms'). Our comments are informed by Phenix Capital's extensive 11-year track record as a leading impact investment advisory firm, dedicated to mobilising institutional capital for the SDGs (Sustainable Development Goals).

Phenix Capital collaborates closely with impact investors across various asset classes, impact themes, and geographies. Leveraging a proprietary database comprising over 2,500 global impact funds, our insights are enriched by extensive engagements with a wide spectrum of institutional investors, asset owners, and asset managers. Our experience in providing a comprehensive array of services, encompassing Impact Advisory, Impact Fund Assessment, Impact Fund Selection, Impact Reporting, Impact Due Diligence, and Impact Principles verification, has equipped us with firsthand perspectives on various elements influencing capital mobilisation. Further, we bring a decade of experience in organising curated 'Investor Connect' events, facilitating interactions between institutional investors and asset managers globally throughout the year.

We applaud the release of the Draft Norms and fully support Impact Frontiers' objectives aimed at helping investors mitigate the risks associated with "impact-washing" and "cherry-picking." These efforts will be instrumental in establishing a collective foundation that promotes integrity, consistency, comparability, and quality in impact performance reporting worldwide.

In summary, Phenix Group recommends:

- Encouraging report preparers to adhere to the prescribed reporting and structuring guidelines for both private and publicly available impact performance reports to encourage credibility, consistency, and informed decision-making.
- Emphasising prioritisation of a qualitative narrative until reliable quantitative metrics can be reported by select fund managers, ensuring transparency via the "disclose-or-explain" method.
- Advocating for report preparers to adhere to the principle of conservatism, ensuring transparent disclosure of impact risks, research evidence, and data sources.
- Improving Impact Frontiers' visibility and accessibility beyond North America, especially among European and Asian investors.
- Offering guidance to report users on supporting report preparers and sharing insights within the investor community.

Our views of question # 1: The Norms make two key assumptions: first, that the primary users of the impact performance reports are providers of capital, and second, that these reports will be shared privately with them by report preparers. However, current market trends suggest that private reporting alone may not be sufficient to address impact washing—a key objective of these Norms. Our experience working with global providers of capital also indicates that some of them rely on publicly available impact performance reports and information for screening of impact funds during the initial stages of due diligence. Moreover, given the suggested formatting (i.e., text only) report preparers are likely to create publicly available impact reports as well. As a result, the absence of suggested structure and format for content in these additional reports poses a significant risk of impact washing and cherry-picking.

Phenix Capital recommends that the Norms advocate for report preparers to adhere to the prescribed 'Content and Structure' for crafting publicly available impact performance reports as well. We believe that this practice will foster greater integrity and quality in impact performance reporting. Moreover, it will enable providers of capital to access complete and reliable information for making well-informed investment decisions.

Our views of question # 2: Phenix Capital commends the thoughtful structuring and elaboration of '3. Impact Performance', particularly the inclusion of qualitative and quantitative reporting on impact. In our collaborations with asset managers primarily focused on social impact, including both emerging fund managers and those investing in early-stage companies, we have observed their challenges in identifying, gathering, and reporting relevant output metrics. Frequently, these managers face difficulties quantifying such metrics.

Phenix Capital recommends that the Norms encourage asset managers facing similar situations to prioritise qualitative information until they can report quantitative metrics. However, report preparers should adhere to the prescribed "disclose-or-explain" approach. Moreover, the Norms should clarify the role of capital providers, advocating for support rather than penalisation, to assist these managers in enhancing the depth and quality of impact performance reporting, especially during the proposed three-year transition period.

Our views of question # 3: Phenix Capital endorses the incorporation of the principle of conservatism. Considering the prevailing state of impact reporting—where most report preparers primarily base their reports on self-reported data from their investees—greater transparency is needed regarding the robustness of data collection and management processes. Additionally, most report preparers do not measure outcomes and impacts, nor do they offer credible research evidence to connect outputs to intended outcomes and impacts.

The Norms should, therefore, encourage report preparers to adhere to the principle of conservatism and provide transparent elaboration on various aspects including impact risks, research evidence, data sources, assumptions, calculations, and extrapolations made. This is

likely to enhance transparent reporting practices, subsequently enhancing the confidence of report users in the reported metrics.

Our views of question # 4 and 5: Headquartered in Amsterdam, Phenix Capital actively engages with capital providers and asset managers worldwide. Through our interactions, we have observed a notable contrast: while most institutional investors and asset owners in North America are more informed, their counterparts in Asia, Africa, and Europe demonstrate limited awareness of Impact Frontiers' pivotal role and contributions within the global impact investing market.

Therefore, we recommend that Impact Frontiers explore strategies to enhance visibility and accessibility for the investor community beyond North America. This could involve enhancing the involvement of investors from Asia, Africa, and Europe in Impact Frontiers' Technical Working Group, alongside active participation in specialised impact investing forums and events such as the GIIN's Annual Conference in Europe and Phenix Capital Group's Annual Impact Series - Europe.

Additionally, recognising the significant role of report users in the adoption of these Norms, we propose the inclusion of guidance on the role of report users. This guidance could encompass their role during the transition period, potential financial and non-financial support they can offer to report providers, ways to assist report preparers in improving their impact performance reporting, and avenues for exchanging insights with other report users. Such guidance has the potential to drive the implementation and uptake of the proposed Norms.

Further, aligning with the implementation of SFDR (Sustainable Finance Disclosure Regulation), Impact Frontiers should actively seek targeted consultations from industry stakeholders regarding the implementation of the Norms, especially up to the conclusion of the initial transition period cycle (three years from the official launch of the Norms). Impact Frontiers should leverage market feedback to refine and, if necessary, revise the Norms annually. This iterative process will ensure that the Norms evolve to be more comprehensive, robust, and beneficial over time.

Once again, we appreciate your commitment to this initiative and for allowing us to share our insights. We would be delighted to delve deeper into our feedback and engage in a more detailed discussion. Please feel free to reach us at MahitSaini@PhenixCapitalGroup.com.

Sincerely,

On behalf of the Phenix Capital Group Team

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