Discussion Paper

Refining the Global Standard of Impact Measurement and Management
-- Views from a Japanese Working Group--
(Part 1)

GSG Japan National Advisory Board
Working Group on Impact Measurement and Management (IMM)

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1. INTRODUCTION

The impact investing market in Japan is on a growth path. According to the GSG Japan's report, *Impact Investing in Japan: Current Status and Future Prospects (FY2020 Report)*, the domestic impact investment balance as of the end of the most recent fiscal year was approximately ¥512.6 billion, a significant increase from the ¥317.9 billion in the FY2019 report. As impact investing efforts have progressed, particularly among major domestic financial institutions, one of the biggest challenges has been the lack of familiarity with and fragmented approaches to impact measurement and management (IMM).

In the global impact investing market, the sophistication of IMM approaches has seen a major development over the past decade – as surveyed by the Global Impact Investing Network (GIIN), for example[1] – and is also one of the key issues for scaling the impact investing market.

Against this backdrop, in September 2020 the GSG Japan NAB established the IMM Working Group (WG) to create a common understanding of the IMM among current and future impact investors in Japan and to improve the quality of IMM practice. The WG and its observers were comprised of asset owners, asset management companies and venture capital firms in private and public equities (the member list is provided in the Annex (a)). In FY2020, the Working Group met six times, to share global principles, frameworks and tools of IMM, to learn from overseas and domestic case studies, to identify points for discussion and issues to resolve, and to work towards good practice of the IMM. Two products in Japanese ensued from this work. One is the "Guidelines for Impact Measurement and Management for Impact Investing", and the other is the "IMM Practice Guidebook." Besides these two products, this Discussion Paper was written to inform the English-speaking audience of the WG's work and perspective as well as to summarize the key points of the two products, and to indicate the IMM areas that can be taken into consideration by the global impact investing community. The WG hopes that it will contribute to refining the global standard for IMM. This Discussion Paper is titled Part 1 as further points of discussion will be raised and other papers issued as the WG continues its work.

Note: Throughout the text, the term "fund manager" is used to refer to asset owners, asset managers, private equity and venture capital firms, fund general partners, or institutions responsible for managing investments for impact.

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[1] The State of Impact Measurement and Management Practice: Second Edition, 2020, https://thegiin.org/research/publication/imm-survey-second-edition

2. PRINCIPLES FOR IMPACT MEASUREMENT AND MANAGEMENT IN IMPACT INVESTING: A GUIDE FOR FUND MANAGERS (English Translation)

ABOUT THE PRINCIPLES

These principles have been prepared specifically for institutional investors[2] in Japan who practice impact investing.

For the purposes of this document, "impact investing" refers to investment activities that are characterized by the intent to generate positive and measurable social and environmental impact[3] in parallel with financial returns. The intent of the institutional investor is considered to be the most important element that distinguishes impact investing from other forms of investing, and as a means of realizing that intent, institutional investors practice Impact Measurement & Management (IMM)[4].

In practicing these principles, IMM provides a structured approach in which institutional investors measure the impact of their investee's business and encourage improvement through engagement with the investee.

Based on the discussions in the GSG IMM Working Group, which are described below, these principles capture the basic concepts that will contribute to the realization of effective IMM. It is hoped that each institutional investor will act in accordance with these principles and take autonomous measures to increase the investee's corporate value taking into account the generated impact.

[2] "Institutional investors" is a generic term for corporate investors that invest and manage funds contributed by clients, including pension funds, life insurance companies, casualty/property insurance companies, trust banks, asset management companies, venture capital companies, and private equity funds.

[3] "Impact" refers to "social and environmental changes and outcomes (both short term and long term) that occur as a result of business or activities." (GSG Japan National Advisory Committee, *Impact Investing in Japan: Current Status and Issues - FY2020 Survey*)

[4] As defined by the Global Impact Investing Network (GIIN), IMM "includes identifying and considering the positive and negative effects one's business actions have on people and the planet, and then figuring out ways to mitigate the negative and maximize the positive in alignment with one's goals" and "is iterative by nature."

Backgrounds

- The impact investing market in Japan has moved on from its infancy period and is beginning to enter a period of growth. The impact investing balance in Japan is about 512.6 billion yen in FY2020, which is a significant increase from 317.9 billion yen in the FY2019 survey.
- Since 2018, major domestic institutional investors in Japan entered the impact investing market, while many startups that have impact generation as a core part of their business have started to raise funds through the capital market. The GSG Japan National Advisory Committee (NAB) deemed it timely to establish the Social Equity Finance Subcommittee in August 2018, in order to examine the key issues and look for solutions in using capital markets for social purposes. The Subcommittee found that one of the biggest challenges was that there were few practical examples of IMM and its approaches were fragmented and not systematic.
- Looking at the global impact investing market, IMM approaches have become increasingly sophisticated over the past 10 years, and as a result global standards for IMM are being developed at a rapid pace. This is considered a key to the future development of the “impact integrity” in the impact investing market.
- Based on this background, the GSG Japan NAB established the IMM Working Group (the WG) in 2020, in order to create a shared understanding of IMM among impact investors and to improve the quality of IMM practices. The WG, comprised of practitioners of impact investing in public and private equities from 17 companies (including observers), met six times between September 2020 and March 2021 to share and discuss the global principles, frameworks and tools of IMM, domestic and international case studies, and to identify issues and solutions for working on the IMM.
- As a result, the WG produced two outputs in Japanese, the Principles document and the "IMM Practice Guidebook," and the “Discussion Paper: Refining the Global Standard of Impact Measurement and Management -- Views from a Japanese Working Group” in English.

How these Principles should be Read

- These principles are based on the contents of the "IMM Practice Guidebook" and are the points emphasized in the IMM practice that were agreed upon and highlighted by the IMM WG members.
- These principles are intended to apply to impact investors in public and private equities, although many of the basic concepts outlined in these principles are also useful for the IMM in other asset classes.
- The WG believes that each institutional investor should devise its own way of working with the principles tailored to its own circumstances. This is because

IMM practice may vary depending on the asset class and the end investor as well as other factors. As we are witnessing a rapid development of IMM, global norms may shift as well. In light of these factors, the principles should not be viewed as detailed rules but precisely as principles with which each institutional investor should navigate its own IMM practice appropriately.

- The WG expects that domestic institutional investors in Japan who are engaged in impact investing will accept the principles of "Responsible Institutional Investor" (the so-called Japanese Stewardship Code). In addition to the principles in the Code, the principles in this document should be considered for impact investing.

Expectations behind the Principles

- These principles are based on the discussion of the WG and summarize the current global standards of IMM as well as practical knowledge from Japan and overseas. The WG deemed it appropriate to incorporate the global approach because, by doing so, 1) institutional investors will be able to communicate with various stakeholders around the world using a common language, and 2) by using the common language, fund managers will be able to raise capital and access possible investees much more broadly. At the same time, the WG felt that it was necessary to compile principles in Japanese based on the market environment and practices in Japan so that they could be widely shared with institutional investors in Japan. The WG strongly hopes that IMM norms and practices in Japan will not become isolated but rather will follow the front-runner practices in the world and produce best practices from Japan.
- The WG believes that it is important for institutional investors to practice IMM by referring to the principles and the guidebook, and to share their learning with each other. This will serve as a foundation for building an ecosystem in which risk money and necessary support are provided to businesses and entrepreneurs (including social entrepreneurs) who take on the challenge of solving social issues through business activities.

The Principles

Institutional investors practicing impact investing should follow these principles in their investments to achieve impact and to ensure its sustainable expansion.

Principle 1: Institutional investors should clearly articulate impact generation in their overall corporate strategy and formulate impact fund’s investment strategy based on the overall strategy.

Principle 2: Institutional investors should design an appropriate IMM process, taking into account globally adopted approaches and methods, to ensure that investments are made in line with the impact fund's investment strategy.

Principle 3: Institutional investors should develop a deep understanding of the impact generated by the investees. This should be done by working closely to accurately understand the external and internal environment of the investee (monitoring) and by conducting constructive and purposeful dialogue with them (engagement). This will thereby contribute to the sustainable augmentation of the investee's corporate value.

Principle 4: When selling an equity stake of the investee, institutional investors should consider the sustainability of the impact generation to ensure that the impact created by the investee is not lost.

Principle 5: Institutional investors should regularly report to end investors on how they are realizing their impact intentions and contributing to the sustainable augmentation of the investee's corporate value.

Principle 1: Institutional investors should clearly articulate impact generation in their overall corporate strategy and formulate impact fund's investment strategy based on the overall strategy.

With their intent to generate positive and measurable social and environmental impact in parallel with financial returns, institutional investors facilitate the augmentation of the corporate value of the investee through consideration of the impact and promote its sustainable growth. By doing so, the institutional investors seek to increase the medium- to long-term financial and social returns for their clients and beneficiaries.

Based on this understanding, institutional investors should clearly articulate in their overall corporate strategy how to realize the intentions of impact investing as entities that manage finance in the economy, bearing in mind their own position in the investment chain from clients to investees to beneficiaries.

This strategy should incorporate fund management approaches that express value proposition to society which includes the establishment of impact themes and their integration into the strategy, the degree of compatibility between economic and social returns, and the investment decision-making process utilizing IMM.

For more details on the above, refer to the IMM Practice Guidebook.

Principle 2: Institutional investors should design an appropriate IMM process, taking into account globally adopted approaches and methods, to ensure that investments are made in line with the impact fund’s investment strategy.

To realize the intentions of impact investing in line with the impact fund’s investment strategy, institutional investors should design and implement an IMM process, which is a systematic method, to measure the impact of the investee’s business and to encourage improvement of the business through engagement. In order to ensure a certain level of IMM quality of the impact fund, it is important to apply a consistent IMM process to all investments made by the impact fund.

The IMM process should include: identification and multi-faceted analysis of positive and negative impacts of the investee’s business at the time of the investment decision; setting of key impact KPIs and targets; post-investment monitoring and engagement (Principle 3); sell/exit decisions that take into account the ongoing impact of the investee’s business (Principle 4); and impact performance reporting (Principle 5).

For more details on the above, refer to the IMM Practice Guidebook.

Principle 3: Institutional investors should develop a deep understanding of the impact generated by the investees. This should be done by working closely to accurately understand the external and internal environment of the investee (monitoring) and by conducting constructive and purposeful dialogue with them (engagement). This will thereby contribute to the sustainable augmentation of the investee’s corporate value.

After making an investment, institutional investors should keep track of the impact being generated by the investee’s business in reference to the intended impact analyzed at the time of investment decision by monitoring the progress of the impact KPIs. At the same time, the engagement with the investee should be geared toward augmenting its corporate value from a medium- to long-term perspective.

In the monitoring and engagement process, it is important to lay out its key elements in accordance with the impact fund’s investment strategy, which may include challenges surrounding the investee's progress toward the impact KPIs, issues of negative impact and the response, etc., as well as the financial status.

Although the method and depth of engagement will vary depending on the asset class and the business stage of the investee, it is important to conduct a collaborative dialogue in line with the impact fund's investment strategy. In the case of private equities, it is suggested that the investor provide hands-on support so that the IMM process becomes a common language with the investee's stakeholders.

For more details on the above, refer to the IMM Practice Guidebook.

Principle 4: When selling an equity stake of the investee, institutional investors should consider the sustainability of the impact generation to ensure that the impact created by the investee is not lost.

Institutional investors should consider when and how to sell their equity stakes in line with the intentions of the end investors. When making a decision to sell, institutional investors should give due consideration to ensuring that the impact created by the investee will be sustained.

For example, in the case of private equities, when making an exit decision, in addition to the sale price, it is important to understand the impact the investee is generating and to carefully consider how it can be further expanded.

In the case of public equities, although institutional investors may make a decision of the sale based on the financial performance of the investee, it is important to establish an investment process that makes it possible to work on a long-term investment as well as an on-going engagement with the investee that seeks to generate impact.

For more details on the above, refer to the IMM Practice Guidebook.

Principle 5: Institutional investors should regularly report to end investors on how they are realizing their impact intentions and contributing to the sustainable augmentation of the investee's corporate value.

Institutional investors should regularly report to end investors on the extent to which their impact intentions have been realized, as end investors invest in impact funds with the intention of generating impact. In doing so, a combination of quantitative and qualitative information should be reported to the end investor, such as the comparison of the performance of the impact generated with the impact KPI targets and the verification of the positive and negative impacts. By reviewing the investment activities based on this information, the lessons learned can be used to improve future impact investing and how best to conduct the IMM.

While the development of IMM is rapidly progressing in global impact investing markets, there are few examples of IMM practice in Japan. Thus, it is important for institutional investors in Japan to share the lessons learned with both the global market and the Japanese investment industry in order to repeat the learning and improve the IMM process by utilizing familiar business cycle approaches such as the PDCA (Plan-Do-Check-Act).

For more details on the above, refer to the IMM Practice Guidebook.

3. DISCUSSION POINTS

It is the WG's understanding that the IMM approach has been maturing through an iterative process, with the co-development of principles and frameworks on the one hand and the actual practice on the other. The WG used the 9 principles of the Operating Principles for Impact Management as the main reference point[5] while also paying attention to other standards and frameworks developed by PRI,[6] UNEP-FI[7] and others. The WG discussions have resulted in a Guidebook proposing a 4-step framework, outlined below.

Step1: Investment Strategy
Step2: Organization and Structuring
Step3: Monitoring and Engagement
Step4: Sell/Exit and Reporting

The WG held a series of discussions on each of these steps. In this Discussion Paper, two points related to Step 1 are raised in the hope that they will contribute to refining the global understanding and standard for IMM.

A. Setting the Impact Theme: What to Look for

<u>Point A.1.</u> The SDGs serve as the common frame of reference, but there also may be important impact themes outside the SDG goals and targets.
The SDGs provide a useful common frame of reference that can be used in investment strategies in a variety of country and societal contexts; however, there can be other, universally-appealing impact themes that fall outside of the exact framing of the SDG goals and targets.

Sustainable Development Goals (SDGs)

As observed in the Guidebook, in setting the impact theme – which serves as the first step in crafting the investment strategy – many impact funds use the Sustainable Development Goals (SDGs) as expressed in the UN 2030 Agenda as the overarching frame of reference for working on global as well as national and

[5] https://www.impactprinciples.org/9-principles
[6] Investing with SDG Outcomes: A Five-Part Framework, https://www.unpri.org/download?ac=10795
[7] The Principles for Positive Impact Finance, https://www.unepfi.org/wordpress/wp-content/uploads/2017/01/POSITIVE-IMPACT-PRINCIPLES-AW-WEB.pdf

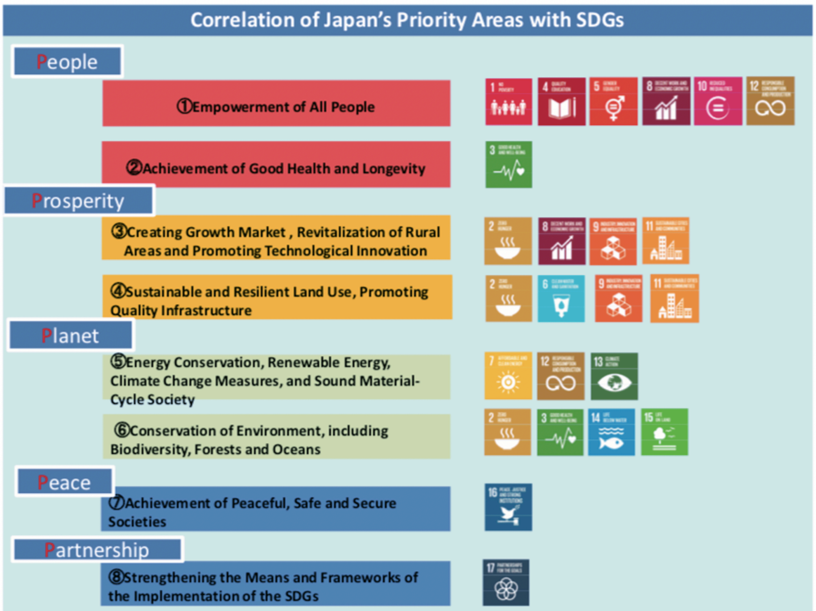
local issues. Many members of the WG pointed out that asset owners in Europe and the U.S. require asset managers to develop impact statements based on the SDGs. Many commented that the use of global, widely-accepted impact themes such as the SDGs is effective in setting common expectations with end investors and investees. Because of the acceptance of SDGs and their universality (i.e., applicable to both developing and developed economies), the global community has acquired a common language for speaking about critical social and environmental issues that affect all.

At the same time, however, the WG members expressed some reservations in using the SDGs as if they covered all the issues that investment strategies need to address. The WG observed that there were some examples of impact themes which did not necessarily correspond directly to any particular SDG goal, such as financial inclusion and affordable housing in the U.S., and quality of life that is increasingly seen as a major topic in many countries including Japan. In those instances, investments were made even though they were not in line with the SDGs and their relevant targets and indicators.

Point A.2. The SDGs need to be used as a flexible frame of reference and it is advisable to look at both the global and country level goals and targets.
The SDGs need to be viewed as a flexible frame of reference, rather than a strict set of targets and indicators. It is also important to recognize and examine country level SDGs where the impact investing is going to take place.

Some members of the WG suggested that the SDGs be viewed as a flexible frame of reference, rather than a strict set of targets and indicators for each goal. While the SDGs may be comprehensive, the set of targets for each goal does not necessarily provide a precise prescription of what needs to addressed in pursuing the respective goal. Although the SDGs have a universal appeal, they focus on developing and emerging countries at the target and indicator levels.

It is advisable to look at both the global level goals and targets and the country level SDGs where the investment takes place because many countries have also developed a national SDG plan. Each year at the UN High-Level Political Forum (HLPF), member states provide a Voluntary National Review (VNR) of the country's plan and progress in achieving the national goals.[8] Accordingly, for example, the Japanese government provided its first VNR in 2017.[9] In it, the SDGs Implementation Guiding Principles of the Japanese government – "which represent Japan's national strategy to address the major challenges for the implementation of the 2030 Agenda"[10] – were introduced. The Implementation Guiding Principles reclassified the SDGs' 17 goals into 8 pillars aligned with the "Five Ps" of the 2030 Agenda (people, prosperity, planet, peace and partnership).



The 8 Pillars of Japan's SDGs Implementation Guiding Principles

<u>Point A.3.</u> Current issues in Japan may serve as a precursor to what other countries may experience in the future.

It is advisable to regard the Japanese demographic shifts and their impact on the economy, as a precursor to what may be expected in other countries.

Japan has serious problems related to the declining birthrate, ageing population, population decline, over-ageing and loss of economic activity in rural communities. As of 2015, Japan's "ageing rate"[11] is 26.0%, compared to an Asia average of 7.5% and a global average of 8.2%.[12] As the figures show, looking at the current situation, Japan may seem exceptional however it must be viewed as a precursor to what other economies will face in a few decades.

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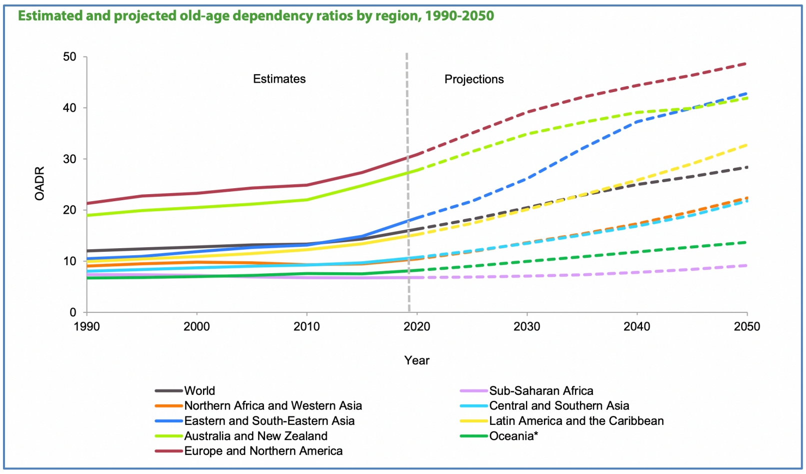
[8] https://sustainabledevelopment.un.org/vnrs/

[9] Japan's Voluntary National Review: Report on the implementation of the Sustainable Development Goals, https://sustainabledevelopment.un.org/content/documents/16445JapanVNR2017.pdf

[10] Ibid., p.4

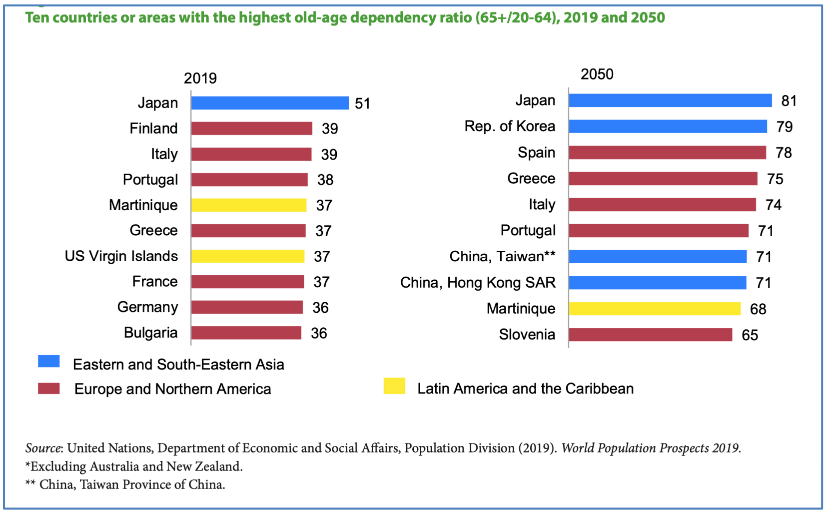
[11] "Ageing rate" is defined as the number of persons of 65 years or older divided by the total population.

[12] According to data query at the UN DESA Population Division, https://population.un.org/wpp/DataQuery/



Global Trend of the Old-Age Dependency Ratio

According to a UN report,[13] the old-age dependency ratio (the number of old-age dependents [persons aged 65 years or over] per 100 persons of working age [aged 20 to 64 years]) is on the increase globally. The ten countries/areas with the highest old-age dependents ratio in 2050 will include not only countries/areas in Asia (Japan, Korea, Taiwan and Hong Kong) but also in Europe (Spain, Greece, Italy, Portugal and Slovenia), and over time the gap between Japan and other countries will diminish.



Countries/Areas with the Highest Old-Age Dependency Ratio (2019 and 2050 projection)

These demographic changes are having a big impact on economic and social policies, and thus innovations in business that address these concerns could attract investments. While the inflow of private sector funds may potentially work towards dealing with this issues, the importance of addressing them is not yet recognized globally. The WG pointed out dealing with demographic shifts as a major concern in setting the impact theme as well as in communication with institutional investors in Europe and North America.

<u>Point A.4.</u> It is especially important for developed economies to consider the many resources available for achieving SDG Goal 3 (Good Health and Well-being).

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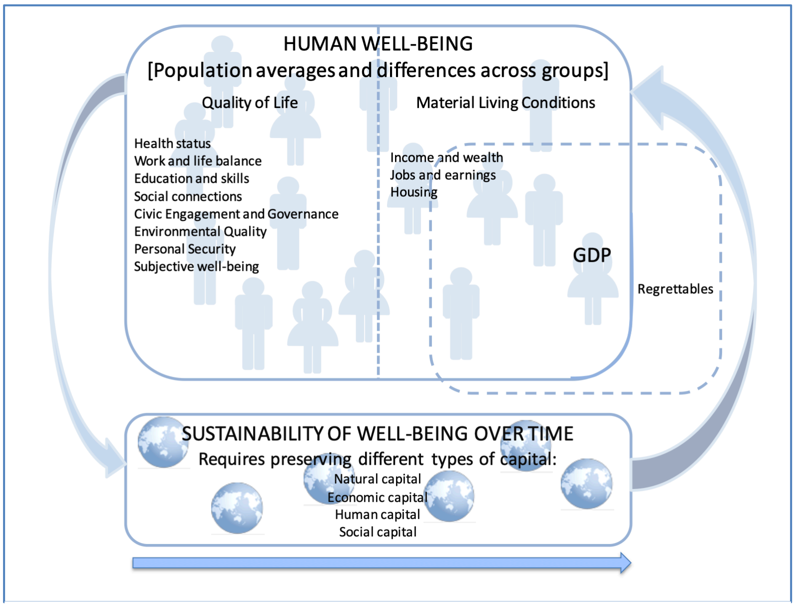
[13] UN Department of Economic Social and Affairs, World Population Ageing 2019, https://www.un.org/en/development/desa/population/publications/pdf/ageing/WorldPopulationAgeing2019-Highlights.pdf

There are many global resources available for achieving well-being indicators, beyond the SDG targets/indicators, that are worth exploring as they provide useful reference points and benchmarks for measuring human conditions in the 21st century.

Development of well-being measurements has been in progress over many years, in tandem with the development and implementation of the SDG goals and targets. In setting the impact themes, especially in the context of developed economies, this is especially important to recognize because SDG Goal 3 (Good Health and Well-being) targets primarily cover the concerns of developing countries, such as maternal mortality, neonatal and under-5 mortality, infectious diseases (AIDS, tuberculosis, malaria), deaths and illnesses from pollution and contamination, and universal health coverage. These are very important targets but may not address the main issues related to living conditions and well-being concerns of many nations.



OECD's Approach for Well-being

Well-being indicators are being developed by many standard and framework setting organizations. The effort of OECD and its Better Life Initiative[14] is worth noting, as it has been attempting to aggregate different well-being related indicators to a coherent set of understanding about the concept and measurements. In 2011, the OECD published a compendium which serves as the basis of how to aggregate related aspects of well-being.[15] The OECD's approach distinguishes between material living conditions and quality of life on the one hand, and the conditions required to ensure their sustainability over time on the other. Material living conditions (economic well-being) are shaped by the GDP but GDP calculations also include activities that do not contribute to well-being. Quality of life, a key concept in defining non-monetary attributes of individuals, is a primary component in understanding well-being and it includes not only health status, education and skills but also work and life balance, social connections, civic engagement and personal security. The sustainability of the socio-economic and natural systems addresses the living environment that affects people's well-being and their measurement, and has been developing in the natural and social capital approaches, for example.

[14] https://www.oecd.org/statistics/better-life-initiative.htm
[15] https://www.oecd.org/sdd/47917288.pdf

__Point A.5.__ It is also important to recognize local goals and indicators developed by municipalities and community groups.
Making use of locally developed sustainable goals and indicators is useful for investment as it promotes both local ownership and a common understanding of what is important for the end beneficiaries.

Partly inspired by the SDGs' approach of country and local ownership, many local governments and their residents in different parts of the world have been working on developing frameworks for understanding and measuring the health of the community. In Japan, this is accelerating after the adoption of the SDGs and the governments' initiatives to select "SDGs Future Cities" started in 2018. In 2020, 33 municipalities from across Japan were selected and each have set diverse sustainable development themes including disaster prevention/readiness, interconnecting forest, food, agriculture and life sciences, local art festivals and community revitalization, and circular economy development.[16]

An example of local and community initiatives related with the SDGs but not directly linked with the "SDGs Future Cities," is the city of Kurobe (Toyama prefecture), which in partnership with the Community Indicators Consortium[17] in the U.S., developed "5 Goals for Kurobe". These 5 Goals are 1) increase the number of people active in the community; 2) initiate community dialogue; 3) ensure health and welfare for all; 4) use the power of people under 40; and 5) achieve goals through partnerships. It is notable that these goals have been developed through the active participation of community groups and local residents. A set of indicators for each goal is currently under development.

The 5 Goals for Kurobe

B. Setting the Impact Theme: How to Do It

__Point B.1. There are two complementary approaches for integrating impact themes into investment strategy.__
While it may seem straightforward to set the impact theme first and then work on the investment strategy, a combination of top-down and bottom-up approaches is useful to avoid imposing investor's agenda to investees and to ensure effective partnerships.

[16] https://www.kantei.go.jp/jp/singi/tiiki/kankyo/teian/2020sdgs_pdf/sdgs_r2futurecity.pdf (Japanese only)
[17] https://communityindicators.net

As captured in the Guidebook, from interviews with the impact investors outside of Japan and the WG discussions, the WG observed that there are two approaches for integrating the SDGs or other impact themes into investment strategies, which can be called “top-down” and “bottom-up”.

If the SDGs are used as the framework in the top-down approach, the investment manager establishes specific SDG-related impact themes for investment in line with the end investor's intentions. In the bottom-up approach, impact themes are set based on the market research of potential investment targets, regions and sectors, and then relevant SDGs are identified after analyzing the proximity of the impact themes to each SDG goals and targets. The WG discussed how each institution is using these approaches for setting impact strategies. The respective advantages is summarized in the chart below.

Top-down approach	• It is easy to gain global understanding because SDG goals and targets are recognized as important and pressing issues.
Bottom-up approach	• Many of the SDG goals only provide a high-level statement. In order to make them useful in the investment strategy, it is important to break them down into operationalizable sub-themes. • Making the impact theme and strategy aligned with the investee interest and priorities is easier because it facilitates better communication and partnership between parties.

The WG also observed that there were many cases where both top-down and bottom-up approaches were used in a combined and complementary manner to develop strategies. For example, one domestic investor formulated its own ESG statement and set impact themes based on the statement as well as the SDGs. At the same time, the investor connected commonly recognized SDG-related solutions to specific social issues the investee is trying to address and incorporated them into strategies for that particular investee.

4. FUTURE CONSIDERATIONS

As previously mentioned, this discussion paper is Part 1 as it is the WG's intention to continue discussion and to produce other papers that might be beneficial for the global discussion of impact investing and for developing a common understanding of and setting a good standard for the IMM. The points that the WG came up with as "shared views" and are introduced in Chapter 4 of the Guidebook are provided in Annex (b).

The WG hopes that this paper is useful in deepening the sophistication of IMM practice and the WG stands ready to contribute further to the evolving global discussion.

Annex A: Working Group Members

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    Sayaka Takatsuka
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Beyond these members, observers from approximately half a dozen institutions also participated in the WG discussions.

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Annex B: Shared views for each IMM step: from the WG discussion as captured in Chapter 4 of the Guidebook (English Translation)

Chapter 4 of the Guidebook, based on the various perspectives of domestic and foreign investors introduced in the WG discussion, includes a summary table of "shared views". This describes all the points WG members agreed upon and particularly emphasized. It is hoped that not only new IMM practitioners but also those who are already implementing IMM will refer to these in order to promote and refine good practices of IMM.

STEP 1: Investment Strategy	
Key Considerations	Shared Views of the WG
• The fund manager **sets the impact investing within the scope of the corporate strategy and formulates an investment strategy for the impact fund in line with that strategy.**	It is important: • For a fund manager to promote impact investing as part of its corporate strategy. • To clarify the investment's value proposition in developing an impact fund investment strategy by making use of logic models or theory of change when appropriate.
• In order to realize the impact intentions of the fund manager, consider the following in developing an impact fund investment strategy: **1) the establishment of impact themes and their integration into the strategy, 2) the expected degree of financial return as well as social impact, and 3) the appropriate IMM implementation structure (investment decision-making process and team organization).**	It is important: • To employ concepts, such as the SDGs, that are widely known and can objectively explain the importance of the fund's impact theme. • To balance financial and social considerations while recognizing that the emphasis on each will vary depending on the fund's investment strategy. • To properly train the deal team to manage the IMM process implementation. In making investment decisions, financial analysis and IMM analysis results should be considered in a comprehensive manner.
• In order to realize the impact fund investment strategy, **the fund manager provides detailed explanations to potential end investors, including the IMM process, impact performance and overseas market research reports.**	It is important: • To stimulate demand from end investors by providing a wide range of information including the basic concept of impact investing, market information and the IMM process.
STEP 2: Organization and Structuring	

<table>
<tr><th>Key Considerations</th><th>Shared Views of the WG</th></tr>
<tr><td>The fund manager implements appropriate IMM processes to ensure that investments are made in line with the impact fund investment strategy. In doing so, a consistent IMM process that can be applied to all investments made by the impact fund needs to be put in place to ensure quality of the IMM process.
In designing the IMM process, examine how the fund manager will contribute to achieving impact through each impact fund
The fund manager designs an appropriate process in light of each impact fund's investment strategy, drawing on various domestic and international methodologies. The general process of the IMM is as follows.
Identify the outcomes generated by the investee’s business and comprehensively analyze the overall impact.
Establish “impact indicators” that represent the outcomes of the business.
Identify the most important impact indicators among the impact indicators (“impact KPIs”) and set targets for the impact KPIs.
Gather information from investees, macroeconomic data, etc., and use it to make investment decisions.</td><td>It is important:
To understand that the logic model is effective for identifying outcomes; the five dimensions by IMP are effective for comprehensive impact analysis; and that IRIS+ is effective for setting impact indicators.
To properly select one to three indicators as impact KPIs that are directly related to the investee’s corporate value.
To set the target values of the impact KPIs so that they correlate with financial goals.
To communicate with the investee prior to investment to determine whether the data necessary for analysis is already available or (if not) whether it will be possible to collect them in the investment process.
To conduct the IMM by focusing on the business that is creating impact, with an eye toward the possibility of having a larger effect if the investee has a diversified set of projects.</td></tr>
<tr><td>For each investment, the fund manager identifies and evaluates the negative social and environmental impacts of investee activities in addition to the positive impact.</td><td>It is advisable:
To consider utilizing a part of the ESG assessment that the fund managers are already using in their portfolio for ESG investments, if any, to assess</td></tr>
</table>

	negative social and environmental impacts. • To consider measures to avoid negative impact and, if necessary, to work with investees to take steps to eliminate organizational systems and business processes that could create negative impact.
STEP 3: Monitoring and Engagement	
Key Considerations	Shared Views of the WG
• The fund manager executes the investment based on the IMM process designed in Step 2. The fund manager monitors and engages throughout the investment period. • The fund manager **monitors the progress toward the achievement of financial KPIs and impact KPIs**.	It is advisable: • To have sufficient communication with investees and use technology as necessary in monitoring the progress.
• The method and depth of engagement will vary depending on the asset class, fund manager, and business stage of the investee, and **should be conducted appropriately in line with the fund manager's impact fund strategy**.	It is important: • To properly conduct the engagement with the understanding that the method and depth of engagement vary depending on the asset class, the business stage of the investee, and other factors • To consider, in the case of private equities, hands-on support so that the IMM process becomes a common understanding for the investee's stakeholders. • To engage, in the case of public equities, in a collaborative dialogue with investees in order to foster trust and impact generation.
STEP 4: Sell/Exit and Reporting	
Key Considerations	Shared Views of the WG
• The fund manager makes sell/exit decisions to ensure that the impact created by the investee is sustained after sell/exit, and reports on impact performance to the end investor. • When considering the timing, structure and process of sell/exit, the fund manager **takes into**	It is important: • To strengthen the IMM process for fund managers and investees and to work on regular and robust communication in order to make decisions based on impact, although the number of sells/exits may be still small across different asset classes.

account its impact on sustainability as well as fiduciary responsibilities.	
• The fund manager compares and verifies the expected and actual, positive and negative impact, and reports back to the end investor. The fund manager uses the results to improve the IMM.	It is important: • To report on the depth of outcomes by utilizing impact indicators and impact KPIs, avoiding superficial analyses. • To implement the PDCA cycle incorporating the IMM process. • To contribute to the development of IMM practice by actively sharing learning in the investment community.