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Investing for meaningful impact in private markets

Defining our understanding of the requirements to support impact investment

Investing for meaningful impact in private markets

While the growth of impact investing has accelerated, definitions and approaches vary widely. We expect that greater clarity will be key to the continued rise of assets under management in impact strategies. Here we outline our perspective on some of the key components we believe are needed for generating positive, meaningful impact in private markets.

KEY TAKEAWAYS

- Amid varying definitions of impact investing we believe that a considered, evidence-based and measurable approach aligned with engagement[1] is integral.
- We intentionally focus on companies seeking to offer solutions that have a measurable positive impact on key environmental or social problems, through the delivery of goods and services that are core to their business models.
- In this paper, we introduce three proprietary sustainability typologies[2] as the types of impact that investments could deliver: Significant Positive Impact, Positive Benefits, and Sustainability Improver.
- Significant Positive Impact is our priority typology for private market impact investments, assessed by our proprietary framework and impact scoring system, which is an approach that considers the impact significance and additionality of the investment.
- We also define four key characteristics that we believe are required for operational management and measurement of impact in private market investments.

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How we define impact investing

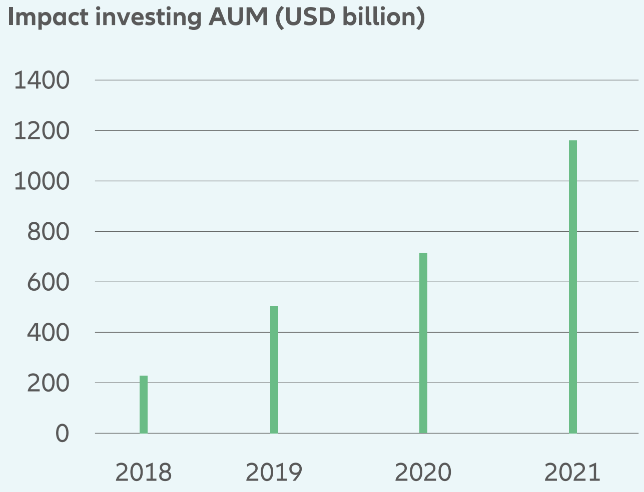
Allianz Global Investors (AllianzGI) defines impact investing[3] as intentionally targeting positive, measurable environmental and/or social outcomes – alongside financial returns – by investing in companies delivering goods and services that seek to provide solutions to key environmental or social problems. We have developed a proprietary impact framework to qualify an investment as an "impact" investment. We do this by assessing for the significance, additionality and measurability of the potential positive impact, which could be generated by the company, alongside assessing for potential investor contribution (as explained in this paper).[4] In addition to the potential positive impact contribution that these companies may deliver, we assess for negative impact risks as part of our impact investment processes to seek to avoid unintended negative environmental and social impacts (eg, greenhouse gas emissions, considerations around worker safety). We view impact investing as a subset of a broader spectrum of sustainable approaches to investing.

According to Bloomberg Intelligence, environmental, social and governance (ESG) investments[5] account for a third of total global assets under management.[6] While the consideration of ESG factors in portfolio management is now mainstream,[7] confusion about the terminology persists. The terms "ESG", "sustainable investing"[8] and "impact investing" are sometimes used interchangeably, with the degree and type of positive impact contribution varying by asset manager and investor when it comes to the definition of impact investing.[9]

A survey of impact investing professionals found that three-quarters see this lack of clarity as a major challenge for the impact investing industry.[10] Emerging regulatory guidance may result in more consistent definitions across the sustainable investment classifications and disclosures,[11] but this is very much a work in progress.

Impact investing has significant growth potential, having risen in the past few years to over USD 1 trillion[12] of assets under management (see Exhibit 1), from USD 502 billion in 2019.[13] Impact investing can be understood as the "tip of the spear" – that is, the advanced end point of a broad spectrum of investments covered by current sustainability terminology. Today, the field finds itself at a crossroads where the rapid growth of investor allocations to impact strategies needs to be supported by greater clarity and consensus on definitions and approaches to impact measurement and management.

Exhibit 1: Rapid growth in impact investments under management over the last few years



Source of 2018 and 2020 figure: Annual Impact Investor Survey 2018, GIIN
Source of 2019 and 2021 figure: 2022 Market Sizing Report, GIIN

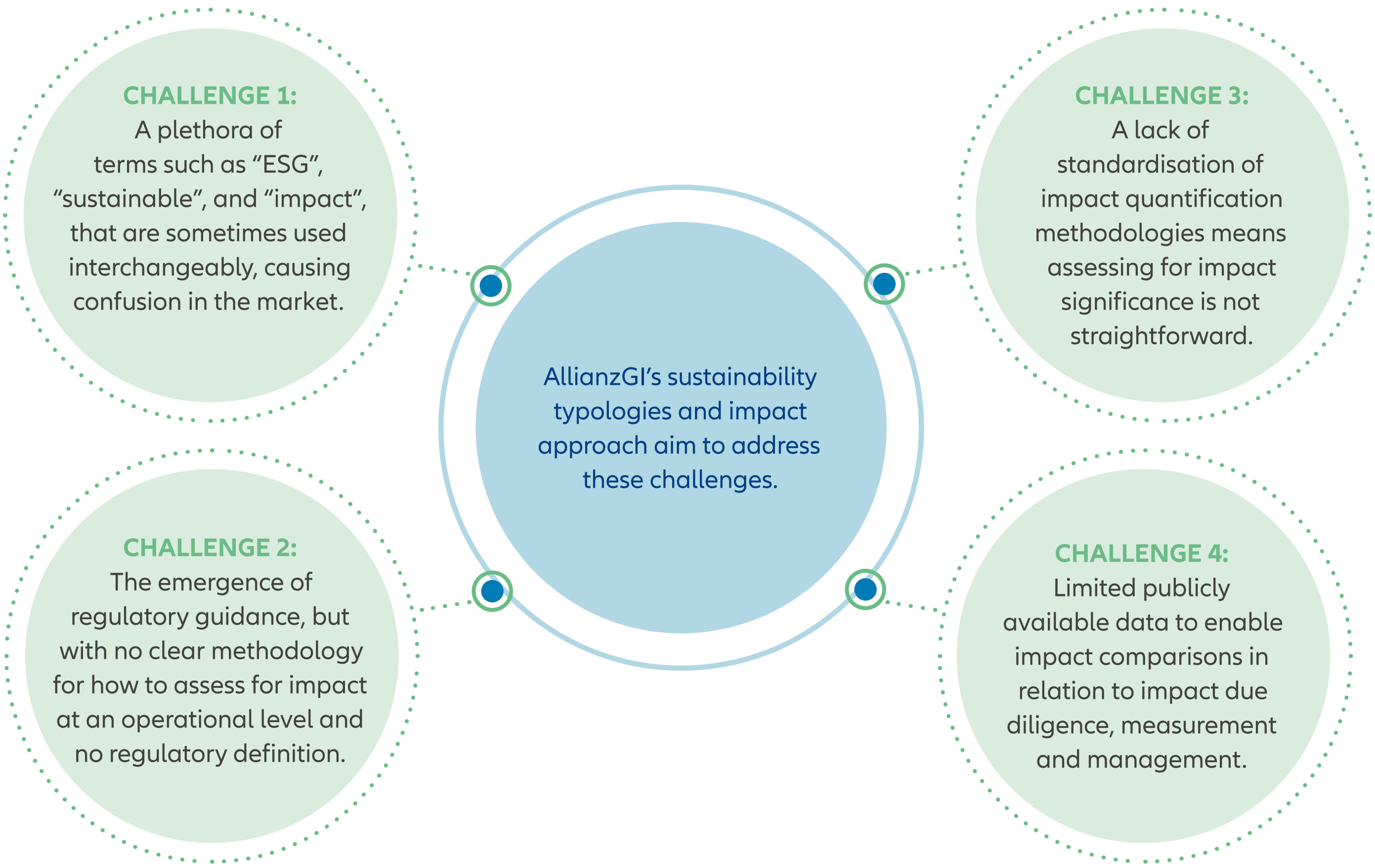
In this paper, we outline our expectations for the outcomes that impact investments could deliver, with a focus on private markets where the impact market and application of regulation is less mature, and impact investing has been most innovative.

We also intend to work with other investors and regulators where possible, to push for more clarity in the industry across jurisdictions. That way, investors can better understand what it means to have an impact-related investment in their portfolios. Ultimately, we believe that greater precision in private markets around impact investing will also help create guiding principles for public market investments in due course.

In Exhibit 2, we summarise the challenges that are consistently raised by investors and a key reason for writing this paper. The challenges cited across investor segments and geographies emphasise the obstacles to overcome in seeking to create greater understanding on the topic.

While early iterations of regulation have shone a light on the overall field of ESG, this has resulted in a complex environment for all market actors. We outline in the following pages three sustainability typologies, which are underpinned by our overall impact approach. These typologies are applied, where relevant, to classify and communicate our private market impact investments more consistently. Our aim is to ensure an improved understanding of impact investing across private markets.

Exhibit 2: Industry challenges in defining, managing and measuring impact



How we define impact: our three sustainability typologies

Our private market impact strategies intentionally target investments in companies that aim to deliver significant, additional and measurable positive impact coupled with attractive financial return potential. We have developed three typologies (see below) to clarify and define the impact of investments, and we connect these to a set of characteristics that enables continuous implementation.

What do we mean by "typologies"? These are the types of impact that these investments could deliver, and by defining them on a proprietary basis we aim to better determine how impactful an investment could be.

Note that any enterprises without sustainability objectives fall outside of our sustainability typologies. In other words, they are not considered eligible as part of our sustainability typologies even if they are, in other respects, good investments from a financial returns perspective or have well-managed ESG-integrated business attributes.

Our three sustainability typologies are:

1 Significant Positive Impact

These companies aim to generate substantial, and measurable positive outcomes, by providing products or services that solve key social and environmental challenges as a core part of their business models. This is our most advanced level of impact and is the primary focus of our private market impact strategies. Very often the solutions offered have the objective of targeting underserved populations or markets, or addressing observed market failures that are inadequately addressed. In addition to the positive impact contribution they aim to deliver, these companies continuously seek to avoid unintended negative outcomes.

2 Positive Benefits

These companies also aim to generate positive outcomes because of their product or service offering, however the significance of the potential impact delivered is lower. For example, the company may not be specifically focused on underserved populations, or the specific offering may lack impact scale or "depth" (ie, products may generate incremental, rather than significant impact). This category also includes companies which we see as having the potential to deliver high positive impact, but where it may currently be challenging to measure the significance of that impact. In addition to the positive benefits they deliver, these companies continuously seek to avoid unintended negative environmental and social impacts. We also selectively include companies seen as leaders in their field due to a deliberate focus on outperformance in their operations and conduct, as measured by, for example, their performance against independently generated benchmarks.[14] This applies where their outperformance is the primary pathway through which they positively contribute towards environmental and social outcomes. Note, however, that for this set of companies, it is critical that the goods and services they provide do not generate negative outcomes, which would require their exclusion from this category.

Positive Benefits companies may form the minority of investments in our private market impact strategies, as a part of the overall portfolio for which the primary pathway for positive outcome generation is via their product or service offering (rather than their conduct and operations). However, we would then expect to spend more time on active engagement (if this is a direct investment) or expect more time to be spent by the fund manager on active engagement (if investing indirectly) to help the specific companies increase and substantiate their positive impact over time. Companies that contribute to positive outcomes via their operations and conduct can be found within our broader private market sustainability strategies, but are not the focus of our impact strategies.

3 Sustainability Improvers

These are companies that would not currently be considered environmentally or socially sustainable according to our internal proprietary methodology. However, they do, in our view, have credible[15] approaches towards delivering measurable sustainability improvements aligned with pre-defined targets,[16] such that they are meaningfully reducing negative environmental and social impacts over time. These types of investments will not be included in our private market impact strategies, but we expect them to be found increasingly within other private market strategies, for example in an energy transition strategy.

Achieving significant positive impact in our private market strategies

While the typologies clarify and define types of impact, it is also important that the management and measurement of our impact investments is applied with a consistent and transparent approach. That way we can determine the designation of each investment's expected impact contribution. As part of our impact due diligence, we assess for impact contribution both at the portfolio company level (enterprise impact) and at the investor level (investor contribution):

- **Enterprise impact** refers to the impact generated by the enterprise or specific project that the AllianzGI financial product invests in through the goods and services that the enterprise provides.
- **Investor contribution** is the impact value the financial product seeks to generate through its investments, through active engagement (where possible) or through a financial contribution.[17]

The following characteristics underpinning our impact approach form part of our overall investment process.[18]

Key characteristic 1: Focusing on the "what" and not just the "how"

A key focus of our impact investments is on the "what". We focus on ensuring that companies make a significant positive contribution through the goods and services that are core to their business models, while seeking to generate attractive financial return.

This is distinct from an ESG integration lens, which focuses predominantly on the "how" – namely, the way in which a company operates or is managed in a responsible way. Considering only ESG factors does not help us understand a company's positive or negative impacts on society. For example, an ESG strategy may assign a relatively low ESG risk score to a meat producer that seeks to decrease energy and water consumption, and puts in place processes to reduce waste and pollution. However, focusing on what the company does – eg, a significant proportion of revenue generated through beef products – highlights the negative environmental impact of the company, given the associated high greenhouse gas (GHG) emissions and the fact that beef production is the most resource-inefficient animal protein. From an impact perspective, this is more critical than the consideration of how ESG risks may be financially material for the company or its transition strategy.

We believe that companies with impact at their core could benefit from market demand for goods and services which seek to address climate crisis challenges or reduce the stark inequalities in areas such as health, education and financial inclusion. These include technology firms that support climate solutions or enterprises that address the growing skills gap.

Key characteristic 2: Building an evidence-based approach – enterprise impact

In 2021, we introduced the AllianzGI impact framework[19] – an impact measurement and management approach aligned with industry standards such as the Impact Management Project's five dimensions of impact[20] and the Operating Principles for Impact Management.[21] We apply this framework consistently across the investment lifecycle of our private market impact equity and debt strategies, while incorporating the flexibility to adapt the assessment process to different private market asset classes and strategies.[22]

Our due diligence process for impact investing strategies includes an internal impact scoring system that considers both enterprise impact and investor contribution (see Exhibit 3 and key characteristic 3 for more detail on the investor contribution component). Beyond identifying investments that deliver impactful solutions, our scoring process assesses an investment's impact significance in terms of both degree (how much impact it makes) and additionality (contribution to desired outcomes which might not otherwise have occurred), acknowledging that additionality is sometimes challenging to evidence.[23]

This scoring process[24] feeds directly into how we classify investments into the respective sustainability typologies. Investments with a high enterprise impact score qualify for the Significant Positive Impact category. Investments with a lower enterprise impact score – where impact contribution is positive but not as significant – qualify for the Positive Benefits category. To consider a company as an impact investment under Positive Benefits we need to understand the potential for investors to contribute towards more substantive impact generation – captured by the investor contribution score.

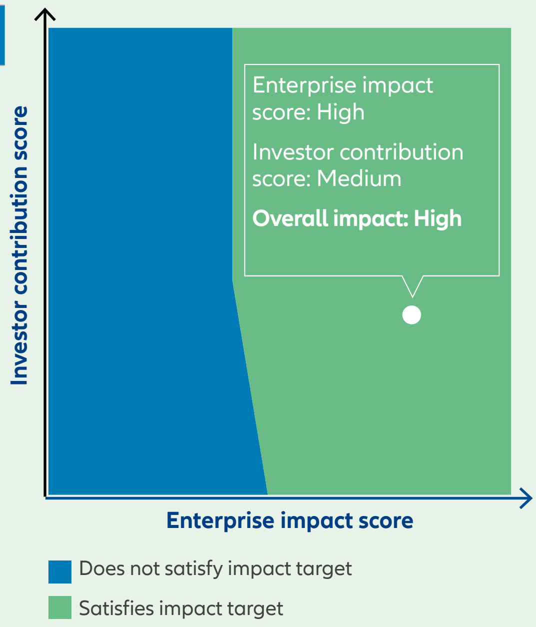
We assess for impact by using the best available data to understand a company's potential impact contribution. Depending on the investment, this might include, for example, estimated tons of CO_2 emissions avoided,[25] anticipated number of underserved customers reached, and anticipated net income gain to those customers over the investment period versus a "business as usual" approach. In doing so, we draw on company data and third-party independent research where possible.

Exhibit 3: AllianzGI's impact scoring system

Components of the impact scoring system

Enterprise impact	Investor contribution
This is the impact generated by the enterprise/ project that AllianzGI invests in – through the products and services the enterprise provides. Our assessment of enterprise impact is based on the Impact Management Project's **five dimensions of impact**: – Who – What – How much – Contribution – Likelihood	This is the impact value we generate as an investor, alongside our partners, through: – **Active engagement** in supporting investees' impact generation; and – **Financial contribution** by enabling, eg, increased investments in under-supplied financial markets/sectors, or underrepresented impact entrepreneurs or fund managers

Overall impact contribution score



Applying this assessment consistently across our range of impact strategies helps us select investments making the most significant impacts. For example, as we increase the number of investments made in sustainable packaging solutions, such as providers that help displace fossil-derived packaging materials, we accumulate data such as tons of CO_2 emissions avoided[26] or tons of single-use plastic packaging displaced. This enables us to gain further insight into the types of sustainable packaging solutions that generate the most impact due to factors such as scalability, the technical and sustainability attributes relative to the available alternatives for specific use cases. This assessment also allows us to understand impact efficiency: the impact generated relative to the amount of investment required.

Impact measurement and comparison

An important component of our impact framework is to identify – in partnership with our investees – impact key performance indicators (KPIs). We measure and report against these, where the KPIs are meaningful to the impact thesis of the specific investee. Where possible, we align the selected KPIs with the UN SDGs and the GIIN.[27]

At this early phase of the market evolution, we rely heavily on proven expertise in judging the information and data to assess enterprise impact. Establishing credible impact comparisons in private markets will take time, particularly since detailed impact data and calculation methodologies often reside in data rooms and are made available only to those invested in a company or fund. As with the evolution of ESG data, we expect to see a growing number of technologies and providers emerge that will enable impact data from alternative sources (such as independent academic studies and industry reports, and data from research or government institutions) to be more efficiently captured, analysed and aggregated.

Given the limited standardisation of impact datasets in private markets, increased collaboration between investors is likely to be critical. The sharing of impact data and best practices in calculation methodologies will be important for streamlining impact assessments and enabling better impact comparability. This will enhance the industry's ability to drive capital allocation towards those investments capable of achieving the highest positive impact.

In a recent survey, 42% of institutional limited partners (LPs) cited the standardisation of impact reporting as a top driver of the long-term success of impact investing, because it allows the impact performance of different companies to be more easily compared. Meanwhile, more than a third of respondents saw the greater rigour of impact methodology as a top driver to reduce fears of greenwashing (see Exhibit 4).

Exhibit 4: LPs' feedback on top drivers for the future success of impact investing

As you look to the future of impact investing, what do you believe will be the most important drivers of success for the sector?

Source: Rede Partners, Private Markets Sustainability and Impact Report

Connecting impact contribution with our typologies

While investments across all three sustainability typologies are required to foster a more sustainable economy and society, our private markets impact strategies specifically target companies with Significant Positive Impact where we can.

We might also invest in firms or projects in the Positive Benefits category. In these cases, we expect to spend more time on active engagement (either by ourselves or our external fund managers if it is an indirect investment) to seek to help the firm increase and substantiate its positive impact. This could be through expansion of product lines or geographic reach. As companies/projects evolve, the sustainability typology with which they are aligned can also change, and they may shift from delivering Positive Benefits to Significant Positive Impact, which we will keep under review.

To demonstrate the type of investments we consider to be generating Significant Positive Impact, we have detailed specific use cases to help the market better understand the real-life application across different sectors – see Exhibit 5.

Exhibit 5: Company sustainability profiles mapped to our three sustainability typologies

				Focus of AllianzGI's impact investing
		Reducing negative outcomes	Contributing to positive outcomes	
Sector Examples	**Investments that do not consider sustainability objectives**	**Sustainability Improver**	**Positive Benefits**	**Significant Positive Impact**
Energy		Supplier of fossil fuel-based liquefied natural gas to marine shipping customers which has begun to rapidly diversify into the supply of clean fuel solutions with a clear strategic goal to decarbonise the shipping industry. This has seen the company make large capital expenditures on the construction or retrofitting of liquefied biomethane plants (sourcing solely from sustainable feedstocks) and additional infrastructure to enable the supply of other renewable fuels such as hydrogen-derived methane. It has committed itself to no further investments in its fossil fuel-based operations and to material reductions in these operations. Scope 1, 2 and 3 emissions.[28] As a result, an increasing proportion of revenues (fast becoming a majority) are generated from these low and zero carbon fuels.	A small, specialised supplier of specialty transformer and magnetic component products, which are key electrical parts enabling the expansion of electric distribution networks and the high levels of electrification needed to decarbonise the economy. The company supplies transformer products to wind and solar farms, and also to utilities, industrial, and commercial clients more broadly. The company has strong commitments around reducing its own carbon footprint.	A company focused on the construction and operation of large-scale anaerobic digestion plants, producing carbon-negative Renewable Natural Gas through the upgrading of biogas to biomethane, utilising dairy manure as the major waste stream. Primary customers are served in the transportation sector where decarbonisation is the most challenging (ie, maritime/shipping). A renewables platform enabling the greenfield development, construction and operation of solar and wind projects in sub-Saharan Africa, contributing to renewable energy access in underserved markets.
Mobility		Automobile company that is pursuing an accelerated transition to zero-emission vehicles relative to peers, as well as leading on progress towards decarbonising its manufacturing process. More broadly, the company also has a focus on aspects such as vehicle safety, diversity and transparency in reporting.	Premium electric vehicle (EV) manufacturer and charging solutions provider, targeted at high-income customers in Asian markets, where it has a first-mover advantage. Whilst the company generates positive environmental benefits via enabling the transition to EVs, the scale of its impact is currently limited by the lack of affordability of its product. The company has a comprehensive sustainability strategy, including robust targets around carbon footprint reduction and minimising virgin materials used.	Producer of high-performance and cost-effective green batteries for use in electric vehicles, power electric machinery and industrial applications, enabling electrification and carbon emissions reductions across multiple sectors. The carbon footprint for the company's battery production is significantly less than peers, due to usage of clean energy for almost all its energy needs and state-of-the-art recycling facilities that recycles materials from old batteries and significantly reduces the use of virgin materials.

Continued overleaf...

Exhibit 5: Company sustainability profiles mapped to our three sustainability typologies (cont'd.)

Sector Examples	Investments that do not consider sustainability objectives	Reducing negative outcomes	Contributing to positive outcomes	Focus of AllianzGI's impact investing
		Sustainability Improver	**Positive Benefits**	**Significant Positive Impact**
Technology		Geospatial mapping and analysis company that has historically focused on providing data solutions to the mining industry to enable optimal extraction and the reduction of operational costs. The company's offering has since expanded and an increasing share of revenue is driven by the company's agriculture ecosystems solutions, which enable farmers to plan and optimise cultivation, helping reduce resource use whilst improving yields.	Data solutions company serving a diverse range of industries. Inclusion is a core component of the company's mission – its delivery centres are situated in areas with limited technology employment opportunities, and the company focuses on employing women and youth from underserved backgrounds, which make up the majority of its workforce. The primary route via which the company contributes to positive outcomes is therefore via its operations and conduct.	SaaS platform for forest management and restoration, using AI applications to support users in for example, determining fire risk, managing water quality, preserving endangered species, with potential significant positive outcomes around climate change mitigation and natural resource preservation.
Education		Provider of generic marketing and business operations services (eg, accounting) for universities and colleges that are not specifically targeting underserved populations. Since the company is not supporting improved access to education services, is relatively easily substituted for by competitors, and is not sufficiently critical to learning impact generation, we would see this as a company with minimal positive impact generation via its goods and services. The company has however recently started focusing on improving its sustainability practices, including strong progress in enhancing workplace diversity and reducing its office buildings' carbon footprint.	Maths learning game that is fun for users, and which has positive but minor benefits for student maths learning outcomes, serving students from a mix of household income backgrounds, alongside seeking to avoid unintended negative social or environmental impact.	Personalised and affordable maths learning product with robust evidence base (including high-quality independent third-party research) around its positive impact on student learning outcomes, serving schools with a medium to high proportion of students from low-income households. Commitment to high quality ESG standards, eg, robust data protection systems, to avoid unintended negative impacts.
Health		Chain of private nursing homes that has had complaints around poor quality care provision which, under new management is demonstrating material progress in addressing skilled staff shortages and in the implementation of higher levels of quality control. This, in turn, is leading to measurable improvements in client wellbeing and health outcomes.	Provider of genetic analysis software targeted for use in pathology labs, with the potential to lower preventative screening test costs and eventually facilitate targeted therapeutics to help improve patient health outcomes. However it is too early to reliably prove the link between genetic profile generation and improved outcomes. Company has strong safeguards around data privacy and use case.	Biotechnology company delivering affordable therapies for diseases that currently lack effective treatments to meaningfully improve health outcomes of patients. Strong commitment to high quality ESG practices, such as robust monitoring of product quality and efficacy.

Key characteristic 3: Engaging to support impact outcomes

Depending on the relevant asset class and investment strategy, investors may contribute to impact generation in several different ways. This can be through active engagement or financial contribution (see Exhibit 3).

When we invest directly in companies via impact credit strategies, we actively negotiate[29] on areas such as use of proceeds,[30] compliance with sustainability standards, and impact reporting requirements to the extent we can. We also use, where possible and sensible, sustainability-linked or impact-linked margin ratchets,[31] which reduce the loan interest margin as a company's performance improves against defined non-financial metrics.[32] These components could then be embedded within the loan agreement to safeguard the use of funding and incentivise and accelerate impact.

From a financial contribution perspective, the companies we lend to may in some cases be early-stage businesses unable to secure growth capital from finance providers focused on more traditional business segments. Alternatively, they may be companies seeking to raise credit for the first time to fund specific impact-related goals. Our investment therefore supports enterprises in raising more capital to expand operations than they otherwise would have found possible.

For direct equity investments, impact could be achieved by actively supporting a company's growth trajectory, focused on expanding impact reach and enhancing impact quality. For example, an investor's contributions may include funding/supporting the company in better understanding the efficacy of its products: continued research and development efforts could yield enhanced impact outcomes and may create competitive advantage for the company versus its less "impactful" competitors.

For indirect investments (eg, via a private equity impact fund) the investor, through its due diligence of the general partner/sponsor, could seek to understand the quality of the manager's or sponsor's impact management and its ability to increase the impacts of its holdings. Depending on this assessment, the investor may contribute via engagement with the manager/sponsor in conversations around potential enhancements in impact measurement[33] and management practices, or set out certain impact-related requirements within the investment documentation. For example, we might require impact and ESG to be included as a standing agenda item in limited partners advisory committee (LPAC) meetings. For blended finance strategies,[34] we may make cornerstone investments in fund managers that operate in emerging markets, which contribute to mobilising further investments from private investors.

Across asset classes and strategies, we seek to engage with fund managers and portfolio companies to support the implementation of impact measurement efforts with underlying portfolio companies. Being aware of when the measured impact post-investment differs substantially from the estimated impact pre-investment – or where there are challenges collecting impact data – prompts us to ask better questions to understand the reasons why. This can in turn help us provide better support to the firms we invest in as they seek to achieve their impact goals; and it can also inform our future impact decision-making. Where feasible, we encourage fund managers and portfolio companies to incorporate input from the stakeholders we expect our investments to positively impact. For example, they may work with research organisations to commission surveys to better understand what outcomes their goods or services are delivering for customers, and what improvements could be made to seek to enhance those outcomes.

Key characteristic 4: Performance management and incentives

We believe in appropriate alignment of employee performance management and/or incentive systems with impact outcomes. This is an emerging practice in the impact investing market. According to impact verification firm BlueMark, 38% of impact management systems explicitly integrate impact considerations into employee performance management and incentives.[35] Methods include integration through employee performance development and review processes and direct financial accountability mechanisms (eg, annual bonuses or carried interest linked to impact achievement).

At AllianzGI, we increasingly discuss the potential for independently verifiable,[36] impact-linked performance incentive structures with our investees in both direct and indirect impact investments. This topic is in the development phase, but its roll-out will be critical in the coming years. While impact investing market participants are in learning mode as to best-practice approaches in the implementation of impact-linked incentives, we believe that the process of designing the impact incentive structure and setting impact targets with the relevant stakeholders[37] is itself a valuable exercise. We see this practice will accelerate over time once impact comparisons become more feasible and disclosures become standardised.

Looking ahead

In our view, the companies that put making a positive impact at the heart of their business model will benefit from impact tailwinds in the years to come. We believe that the three sustainability typologies and four key characteristics outlined above are critical steps towards ensuring that investments are strongly placed to seek to generate significant positive impact.

The typologies help to make clear to clients the impact expectations for their investments. Meanwhile, the key characteristics underpinning our impact approach act as a key part of our investment decision-making for our impact strategies. They are complementary to our existing processes for integrating ESG factors into decision-making and performance management.[38]

With the rapid growth of investor allocations to impact strategies over the past few years reaching over USD 1 trillion[39] of assets under management, the opportunity to generate impact at scale has never been greater. It has also become imperative to clearly provide transparency, substantiate product features and define expectations around what impact investments should deliver for society. We expect the typologies and characteristics outlined above to be an important foundation for our private market impact strategies in generating significant positive impact over the coming years.

1. There is no assurance, representation, warranty or otherwise that engagement, targets/milestones or voting for example (where relevant) by us or any other party will achieve a certain outcome.
2. When we refer to our proprietary sustainability typologies, as of the date of this paper, none of the Allianz Global Investors GmbH/Allianz Capital Partners GmbH private market products are formally offered under these individual typologies. In respect of some of our impact private market strategies, but not all these strategies, such impact strategies have been using our internal proprietary impact scoring system, a component of our impact framework, to distinguish between high positive impact investments (Significant Positive Impact) and low positive impact investments (Positive Benefits). Sustainability Improvers sit outside of our impact strategies. When we refer to the typologies, we provide no assurance, representation, warranty or otherwise that such label or approach will achieve a certain outcome. These labels are subjective and based on our own personal views. None of the typologies have been externally verified or assessed by an independent third party.
3. There are currently no regulatory rules in the EU sustainable finance framework for the use and definition of terms such as "impact", "impact investing" or other impact-related terms. The EU framework in relation to information provided on impact is still developing. Please note in November 2022, the European Securities and Market Authority (ESMA) suggested guidelines for fund naming which would also restrict the use of "impact" in a fund name. See: https://www.esma.europa.eu/sites/default/files/library/esma34-472-373_guidelines_on_funds_names.pdf
4. The qualification of an investment as an "impact" investment is where we consider the investment satisfies key characteristics in terms of impact significance, additionality and measurability. We translate such assessment into an overall proprietary impact contribution score in our impact scoring system that meets our impact target (see Exhibit 3 for further details). An overall impact contribution score that meets our proprietary impact target is consistent with the Significant Positive Impact typology (see page 6) and with a proportion of the investments in the Positive Benefits typology (where it is expected that, eg, via active engagement, where possible, a potential component of investor contribution, these companies have potential to graduate to being in the Significant Positive Impact category over time). We provide no assurance, representation or warranty or otherwise in respect of any score or our scoring methodology in achieving a certain outcome.
5. There is no regulatory definition of "ESG investment", hence such reference is intended to be a 'catch all' to refer to the broad set of ESG related investments or products.
6. According to Bloomberg Intelligence, ESG assets surpassed USD 35 trillion in 2020, up from USD 30.6 trillion in 2018 and USD 22.8 trillion in 2016, to become a third of the total global assets under management, according to the Global Sustainable Investment Association. See: ESG May Surpass $41 Trillion Assets in 2022, But Not Without Challenges, Finds Bloomberg Intelligence | Press | Bloomberg LP
7. Source: PwC Investor Survey: ESG Integration Goes Mainstream, Single ESG Reporting Standard Wanted - ESG Today
8. Source: "Sustainable investment" is defined under the EU Sustainable Finance Disclosure Regulation (SFDR) as amended from time to time.
9. Source: ESG Is Not Impact Investing and Impact Investing Is Not ESG (ssir.org)
10. Source: GIIN Annual Impact Investor Survey 2020.pdf (thegiin.org).
11. Examples include: EU SFDR Articles 6, 8 and 9 disclosures, which is not a labelling regime but a disclosure framework. In addition to the ESMA's guidelines under a consultation on fund names using ESG or sustainability-related terms (including impact-related words), the UK's Financial Conduct Authority's (FCA) also proposes certain ESG investment labels under its Sustainability Disclosure Requirements (SDR) and investment labels consultation – https://www.fca.org.uk/publication/consultation/cp22-20.pdf
12. Source: Impact funds grow 40% over last two years, hitting $1 trillion | Pensions & Investments (pionline.com)
13. Source: Sizing the Impact Investing Market | The GIIN
14. For example, via B Corp's B assessment, which assesses companies for high standards of social and environmental performance, transparency and accountability.
15. Credible approaches to target-setting may for example refer to societal or ecological thresholds as identified through scientific research (eg, Science-Based Targets initiative).
16. Targets could be set by different persons, eg, the company itself or the company in conjunction with engaged investors. These could be in relation to, eg, science-based emissions reduction and net-zero targets. We provide no assurance, representation or warranty or otherwise whatsoever that a target will achieve a certain outcome.
17. See Exhibit 3 for further detail.
18. For example, how we select investments for impact, incorporation of impact requirements into legal documentation, measurement of impact, monitoring and engagement post-investment to support on impact aspects, where feasible.
19. For further details on our impact framework and impact scoring system, see our whitepaper on: Managing and measuring impact in private markets | Allianz Global Investors (allianzgi.com). We make no statement, representation or warranty that the application of our impact framework and related ESG processes will achieve certain environmental or social outcomes in the real economy or otherwise. This can be due to various factors, for example: investing in an early-stage company would require time to build up its operations, to deliver and measure the anticipated impact. There may be various assumptions considered as part of our impact framework and assessment that need to be realised to achieve the desired environmental or social outcomes in the real economy. There are also external factors and risks that may affect successful impact delivery during implementation.

20. Five Dimensions of Impact | Impact Frontiers. Per the Impact Management Project, the impacts of enterprises on people and the planet can be understood across five dimensions. In brief: the "What" dimension tells us what outcome the enterprise is contributing to; the "Who" dimension tells us which stakeholders are experiencing the outcome; the "How Much" dimension tells us how many stakeholders experienced the outcome, the degree of change experienced and the duration of the outcome experienced; the "Contribution" dimension tells us whether an enterprise's efforts resulted in outcomes that were likely better than what would have occurred otherwise; the "Risk" dimension tells the likelihood that impact will be different than expected.
21. Invest for Impact | Operating Principles for Impact Management (impactprinciples.org)
22. For our blended products, which AllianzGI typically manages in partnership with a development finance institution (DFI), the partner may apply its own impact assessment framework when performing impact due diligence on potential investment opportunities. In this case, we work together to ensure broad alignment of impact objectives and assessment frameworks to seek to ensure our investments' ability to deliver a significant impact.
23. Note that we use the Contribution dimension in our impact scoring system to capture the considerations around additionality, aligned with the Impact Management Norms which were facilitated by the Impact Management Project and its community of over 3,000 enterprises and practitioners. There are two levels of contribution defined by the Impact Management Norms, namely Enterprise contribution and Investor contribution. See Contribution – Five Dimensions of Impact | Impact Frontiers.
24. In applying our proprietary impact framework, we base our scoring assessment on various data sources, for example: company data, independent academic research, industry and government data, and other relevant evidence sources, identified and analysed via best efforts. Any scoring will however be subject to inherent risks due to various factors, eg, lack of accurate, consistent, estimated and/or assumed data. The proprietary impact scoring is limited to an internal verification and governance process. Where we can, we provide the sources and assumptions behind our scoring. Further information about our scoring methodology can also be found in our whitepaper as mentioned in footnote 19.
25. Whilst there are ongoing industry efforts (eg, Project Frame, Mission Innovation) that are developing GHG emissions impact methodology for assessing the relative greenhouse gas benefits that an organisation or product can provide when compared to a status quo (ie, avoided emissions), there is currently no standardised methodology for doing so in the market and it is more challenging in some cases than others to 'claim' direct impact (eg, where companies are contributing to climate impact via enabling technology). Estimates and measurements of avoided emissions are based on a series of assumptions and methodological choices (eg, time period over which impact is calculated), and it is important to outline to investors the underlying assumptions and methodological choices where relevant, along with the data and evidence applied.
26 See Footnote 25.
27. Examples of some of the impact KPIs are illustrated in our impact private credit whitepaper, accessible here.
28. See Greenhouse Gas Protocol for definitions for Scopes 1, 2 and 3.
29. For example, with the agent, sponsor or lender.
30. For any sustainability-linked or other securities, any impact related consideration, if any, will be subject to the loan documentation.
31. The EU regulatory and voluntary framework for sustainability linked loans/sustainability-linked securities is currently under development. Any ESG/impact nexus will exclusively be subject to the facility agreement's specific provisions.
32. This will depend on the facility agreement's specific provisions.
33. It is well known that measurement of impact is difficult and lacks standardisation, so comparability between investments and products is difficult. Our impact framework provides further detail on how we measure impact vis-à-vis contributing to the social or environmental outcome intended to be supported, amongst other considerations.
34. Source: https://www.allianzgi.com/en/capability-landing/development-finance/blended-finance.
35. Source: bluemarktideline.com/wp-content/uploads/2022/07/BlueMark_Making-the-Mark_Spotlighting-Leadership-in-Impact-Management.pdf.
36. Verification could be undertaken by specialist independent third-party assurance firms.
37. For example, this could involve a consultative process with the investor in designing an impact-linked performance fee structure, and/or impact KPI target setting with the management team of underlying portfolio companies.
38. Some of our impact strategies fall under the SFDR disclosure requirements, subject to meeting the SFDR qualifying conditions. Where relevant, our impact strategies have been assessed internally under both the SFDR framework, and additionally and separately under our impact proprietary framework.
39. Source: Impact funds grow 40% over last two years, hitting $1 trillion | Pensions & Investments (pionline.com).

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