SNOWBALL

REPORT

MANAGING FOR IMPAC+

WHAT WE HAVE LEARNT
AND WHAT COMES NEXT

SNOWBALL

WHAT WE KNOW

Snowball exists to change the way the investment industry thinks and acts. We want all investors – from fund managers to individuals – to consider that their impact on people and the planet is as important as the financial profit they seek.

So before you dive into this report, a word on the importance of managing your assets for impact. To us at Snowball this means investing in fund managers dedicated to achieving impact. These managers are acting on our behalf - and yours – and are important players in creating that shift in the way the investment industry acts. This report shares our methodology for identifying those managers.

Collectively, if we can manage our assets for impact, financial markets can be a mechanism that protects society and the environment, rather than extracting from them. That funds solutions for the challenges our planet and society face, rather than perpetuating them.

Covid-19 is highlighting how we are failing to take care of our climate and our communities. We cannot go back to normal; it was normal that got us here in the first place. Will we continue to prop up systems that need reform or do we have the courage to invest in a better future?

Daniela Barone Soares

DANIELA BARONE SOARES
CEO, SNOWBALL

SNOWBALL

CONTEXT

Snowball is a fund management firm aiming to change behaviours in capital markets so that all capital is invested for social and environmental - as well as financial - returns.

The Snowball portfolio seeks to maximise impact whilst delivering attractive returns and pursuing a fully diversified investment strategy. As a fund-of-funds, Snowball invests primarily into funds run by fund management firms (referred to as managers in this report).

Impact is integrated across the investment process and Snowball applies an impact framework to all the assets in the portfolio. The framework considers:

- the potential and actual impact of the investments that its managers hold (**enterprise impact**); and
- how managers work with their investees to improve their impact (**manager impact**).

LET'S RETHINK GROWTH

Snowball's manager impact framework builds on the four investor contribution strategies developed by the Impact Management Project (IMP) with additional criteria focusing on (1) the mission, behaviour and values of the manager; and (2) impact risk management.

In this report, Snowball analyses the responses to a survey sent to its managers to assess the manager impact across its portfolio.

This is the second report that sets out Snowball's approach to impact. The first is The Investor's Perspective Building an impact management process for a multi-asset class portfolio, considered enterprise impact.

SNOWBALL FOUND:

01 **High levels of engagement from managers.** Snowball was pleased with the degree to which managers engaged with the survey and it is clear from their responses that manager impact is an area in which they want to improve.

02 **Room for improvement.** Snowball found that managers are not performing as well in these areas as they think they are – managers' self-assessed scores were moderated down by an average of c.10% against Snowball's good practice framework. Snowball found that there are clear areas for improvement: for example, the highest scoring questions were around the impact intent of managers, whereas questions on how this is actioned scored less well – including key skills such as impact measurement and management.

03 **Performance is uneven across categories.** Managers are performing better in certain categories – for example, responses on active ownership significantly outperformed impact risk management. Encouragingly, this demonstrates that managers are clear on their value add, but there is still some way to go to effectively manage and mitigate impact risk.

04 **Private market managers lead the way in manager impact.** The highest performing asset class was private debt, with public debt managers scoring lowest. It is easier for investors to make a contribution in the private markets where capital flows are additional and the investor typically has greater engagement with, and influence over, its investees. Private market managers are also more likely to provide catalytic capital supporting underserved markets and creating products to address gaps in the market.

05 **Mission and behaviours and impact risk are useful additions to understanding the impact of managers.** IMP investor contribution is a helpful starting point, but for investors such as Snowball with a wider ambition to catalyse systems change in the capital markets, it is important to go further to understand the mission, behaviour and values of the manager. The survey found that managers' behaviours did not always match their impact intent and the impact risk management category highlighted gaps in managers' management and mitigation of impact risk. By identifying these areas for improvement, Snowball can now work with managers to address them.

SNOWBALL

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WHA+ WE DO

ABOUT SNOWBALL

Snowball is a fund management firm aiming to catalyse change in the investment industry and ensure that every investment considers, and prices in, its environmental and social impact.

Snowball believes that business and financial markets are essential to resolving social and environmental emergencies. As all investments create impact, whether positive or negative, Snowball does not treat impact as a separate asset class but as integral to its investment approach.

Snowball has constructed its strategy and invested its fund of funds portfolio to optimise the potential for all investments to make a positive impact on society and the environment without compromising on financial return. As such, impact is embedded throughout Snowball's investment process using its unique framework.

Snowball recognises that more people want to invest in line with their values, but that curating a diversified high-quality impact portfolio is difficult for individual investors. Snowball has therefore been established to address this challenge. It plans to do this by launching a publicly listed closed-end investment vehicle that gives its investors full visibility of the social and environmental impact of their investments. Ultimately, Snowball envisages impact investing becoming the norm across the asset management industry.

This is the second report that sets out Snowball's approach to impact. The first, The Investor's Perspective Building an impact management process for a multi-asset class portfolio, was co-authored with the Impact Management Project and published in November 2018. It showed how Snowball calculated enterprise impact, giving guidance on how investors articulate the impact goals of a portfolio of assets and make data-driven investment allocation and impact management decisions to achieve these goals.

This report explains how Snowball assesses manager impact in both the public and private markets. By publishing its approach to the assessment of manager impact, Snowball hopes to:

- contribute to the conversation around manager impact and best practice;
- improve impact practice amongst managers; and
- develop Snowball's own approach to impact.

SNOWBALL PORTFOLIO

Snowball runs a global balanced impact portfolio. It invests across private and public debt and equity, and real assets including social housing, sustainable forestry and renewables. The portfolio has 31 investments with 24 managers[1], with the majority invested through funds.

HOW SNOWBALL ASSESSES MANAGER IMPACT

Snowball invests in managers dedicated to improving their own impact as well as that of their underlying investments. These managers are likely to share similar values to Snowball and have a strong impact-focussed culture. They will take their stewardship responsibilities seriously and want to grow the impact investing market.

Since its inception, Snowball has been using a unique framework (shown below) to assess and monitor the impact of its managers across several dimensions. The framework has developed over time informed by, and cross referenced against, evolving best practice across the sector, including the Impact Management Project investor contribution strategies and the Operating Principles for Impact Management developed by International Finance Corporation (IFC).

SNOWBALLS'S FRAMEWORK

MISSION AND BEHAVIOURS
Mission | Behaviour | Values
What drives the organisation and how determined is it to live those values?

IMPACT PROCESS
Intent | Measurement | Transparency & accountability
What is the impact thesis and how is it being measured?

ACTIVE OWNERSHIP
How does the manager approach active ownership?

CATALYTIC
Capital allocation | Systems change
How is the fund manager acting as a pioneer to achieve impact?

IMPACT RISK MANAGEMENT
What are the key manager risks around investing for impact?

HOW SNOWBALL'S MANAGER IMPACT FRAMEWORK RELATES TO IMP INVESTOR CONTRIBUTION STRATEGIES

The Impact Management Project has achieved consensus on four strategies for investors to contribute to the impact of their investees: (1) *signal that impact matters,* (2) *engage actively;* (3) *grow new or undersupplied markets;* and (4) *provide flexible capital.* Managers are not just asked about the impact of the enterprises they invest in; they are challenged as to how they make a difference to that impact.

The figure on the right shows how Snowball's framework maps onto the Impact Management Project investor contribution strategies. For example, Snowball considers managers' impact processes by assessing their impact intent, impact measurement and wider accountability and transparency. This maps onto the IMP strategy *signal that impact matters* which requires investors to proactively and systematically consider impact in their decision-making and communicate this both to their investee enterprises and the wider market.

Building on this, Snowball has developed additional criteria focusing on (1) the mission, behaviour and values of the manager and (2) impact risk management.

- **Mission, behaviour and values**: Snowball views manager impact through the lens of its long-term goal of systems change: to achieve a cultural shift in the capital markets whereby all money is invested for social and environmental impact. In practice, this means Snowball places additional emphasis on the mission, behaviour and values of its managers, as well as whether they are providing catalytic capital and pursuing systems change.
- **Impact risk management:** Snowball believes that impact risk is relatively well understood at an enterprise level through the Impact Management Project's nine types of impact risk, but not adequately assessed for managers. Snowball contends that certain impact risks are particularly relevant for the manager's own impact and assesses its managers against them. To address this, the framework includes an additional category: Impact Risk Management.

SNOWBALL MANAGER IMPACT	IMPACT MANAGEMENT PROJECT INVESTOR CONTRIBUTION
MISSION AND BEHAVIOURS What drives the organisation and how determind is it to live those values?	
IMPACT PROCESS What is the impact thesis and how is it being measured?	SIGNAL THAT IMPACT MATTERS
ENGAGEMENT How does the manager approach active ownership?	ENGAGE ACTIVELY
CATALYTIC How is the manager acting as a pioneer to achieve impact?	GROW NEW OR UNDERSUPPLIED MARKETS; PROVIDE FLEXIBLE CAPITAL
IMPACT RISK MANAGEMENT What are the key manager risks around investing for impact?	

The table below sets out what Snowball believes are the five key risks to the manager delivering the intended impact.

RISK	MANAGER CONTEXT
Execution Risk	Does the manager have the experience, expertise and resources to execute against its strategy and theory of change?
Evidence Risk	Is the manager's strategy based on sound evidence and is it collecting relevant data to deliver against it?
Efficiency Risk	Is the manager's strategy an efficient use of capital and other resources to deliver the desired outcomes?
External Risk	Could external factors outside the manager's control – such as changes in government policy – impact a manager's ability to deliver the impact.
Drop-off Risk	Is there a risk of mission drift and how does the manager preserve impact when exiting an investment?

[1] Snowball holds investments in four listed renewable energy companies which are treated as one manager for the purposes of this report.

SURVEY

To assess the impact of its managers, Snowball devised a survey comprising 49 questions across Snowball's five categories of manager impact:

- Mission and Behaviours
- Impact Process
- Active Ownership
- Catalytic
- Impact Risk Management

The sections with the category findings (see Section 5.2 of this report) each include a sample of some of the questions asked of managers. Some categories were further broken down into sub-categories – for example, Catalytic comprised questions on (1) capital allocation and (2) systems change.

The survey was sent to managers to score themselves against the questions. In each case, the manager's self-assessed score was moderated by Snowball to ensure consistency against Snowball's best practice framework. Snowball acknowledges that assessing managers is subjective and sought to mitigate this by providing the guidance framework. The moderation process took into account the supporting evidence provided by the manager and Snowball's prior knowledge of the manager's impact practice. All analysis in this report is based on the moderated scores. Individual manager responses have been kept anonymous.

MANAGER CLASSIFICATION

Managers were classified by asset type, size of company (based on number of employees), age of company (since inception) and specialist versus generalist manager (in terms of product lines).

SCORING

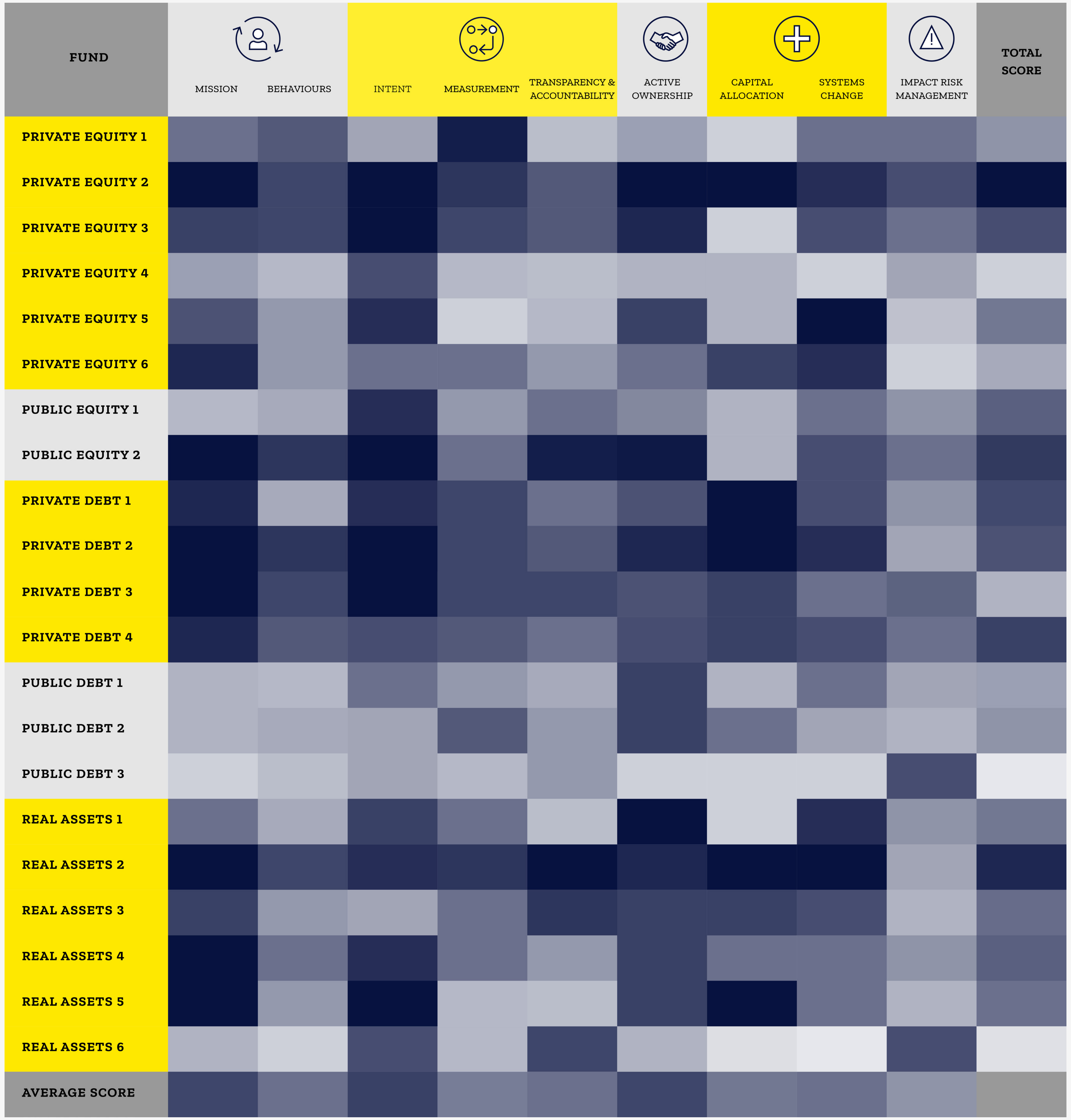
Responses were scored against the framework on a scale from 0 to 3 – with 3 representing Snowball's view of best practice (as shown in the example below). For questions specific to a particular asset class, such as public equity and proxy voting, non-public equity funds were not scored for that question.

Every manager received an average score for each category and sub-category, and an aggregate score based on its performance across the five categories. The heat map on the right shows the range of scores with higher scores in a darker shade of blue.

The breadth of data collected allows Snowball to compare managers within and across asset classes, and to analyse performance within each of the categories and sub-categories. The key findings at an aggregate level and by category are set out in Section 5 of this report.

The sample size of 21 managers is limited and represents a select group which have met Snowball's impact criteria. Snowball is cautious about drawing too many conclusions from the data, but believes there are some interesting trends to observe in the results.

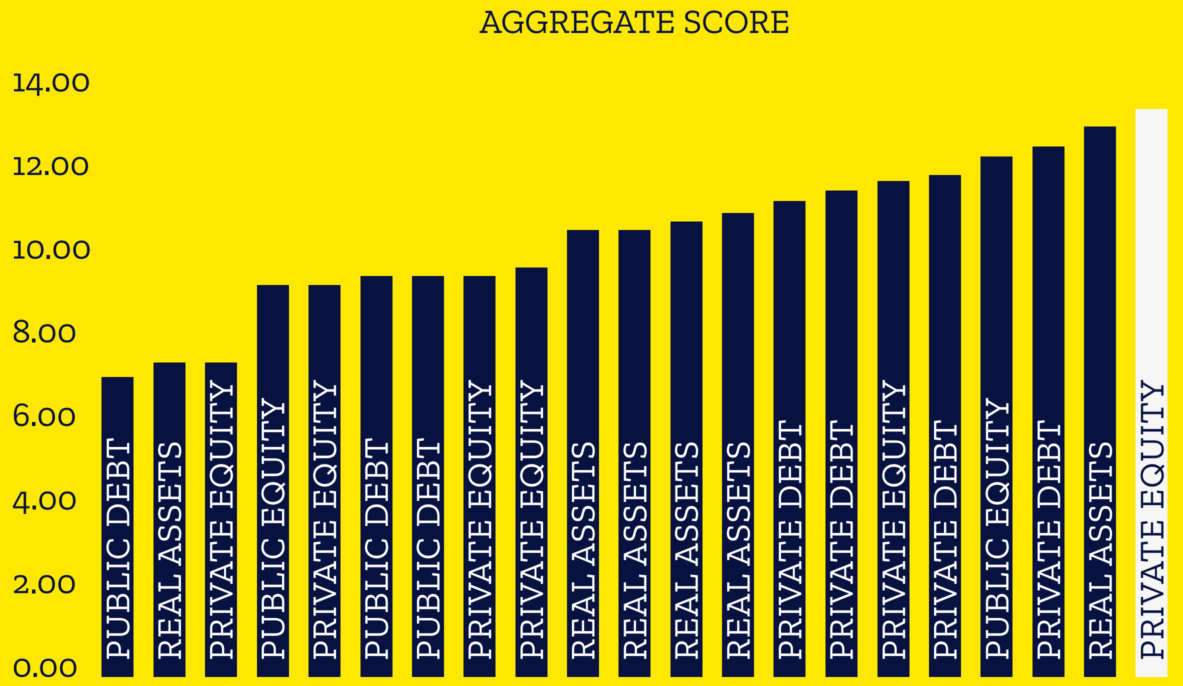
Question	Score			
	0	1	2	3
Is protection in place to prevent mission drift and is impact embedded in the articles etc?	No awareness or consideration	The business is aware of B Corps/ similar structures or looking at ways to prevent mission drift.	The business has an asset locked structure (e.g. CIC, charity) or is in the process of becoming a B Corp or similar	The business is a B Corp (or similar) or otherwise has an asset locked structure or an ownership structure which protects from mission drift.



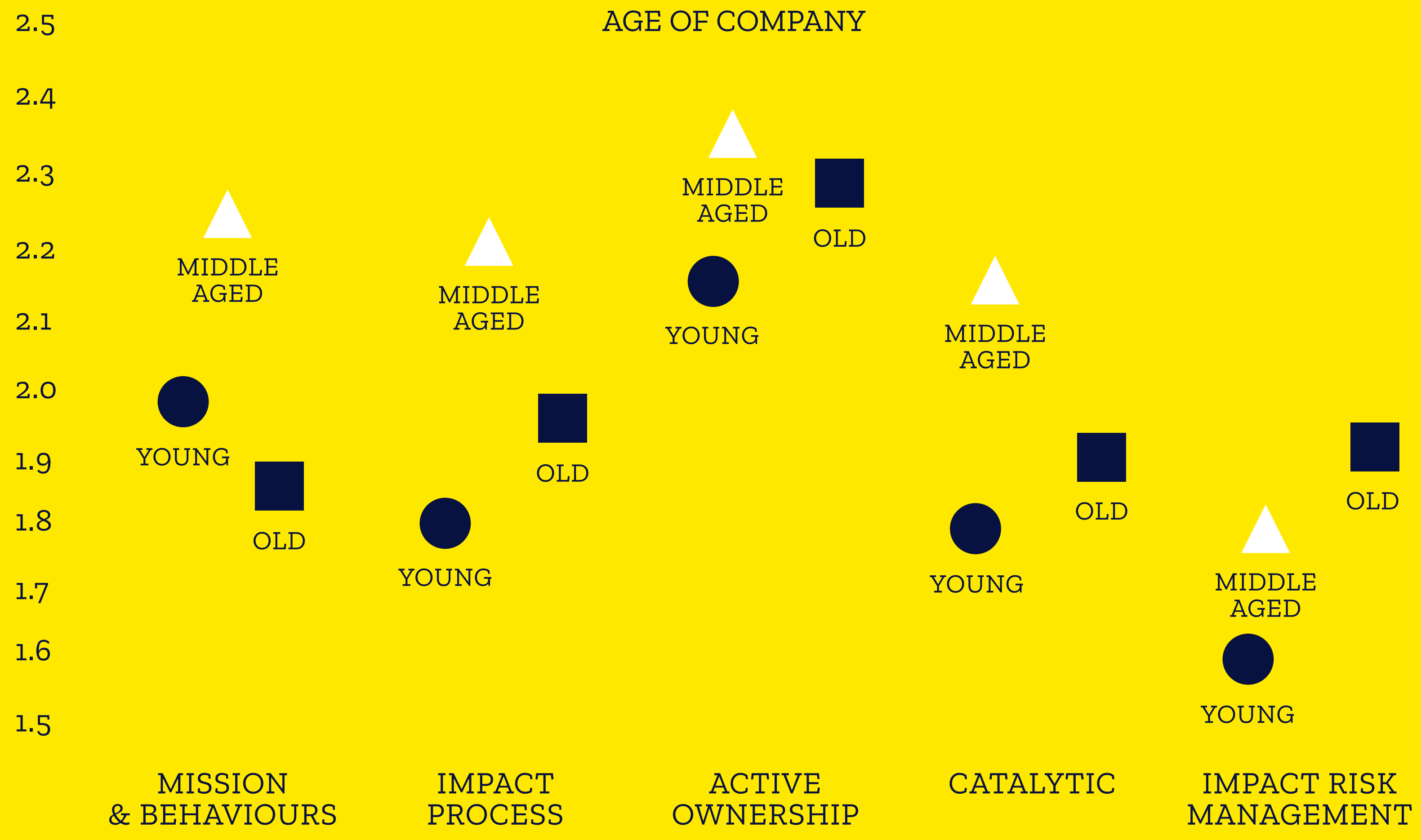
THE SURVEY FOUND:

01 **Managers engaged well with the survey and it is clear from their responses that this is an area in which they want to improve.** The response rate was 85% and many managers were keen to discuss their responses.

02 **Significant variation in scores across managers.** Based on their responses to all questions, each manager received an aggregate score out of 15. These range from 7.1 to a highest score of 13.3, with significant variation within and across asset classes. Snowball has a rigorous due diligence process and will only invest in managers which it believes are, or are aspiring to be, best in class. The survey shows that whilst there is scope for all managers to improve, some are already leading the way on good practice within the industry.

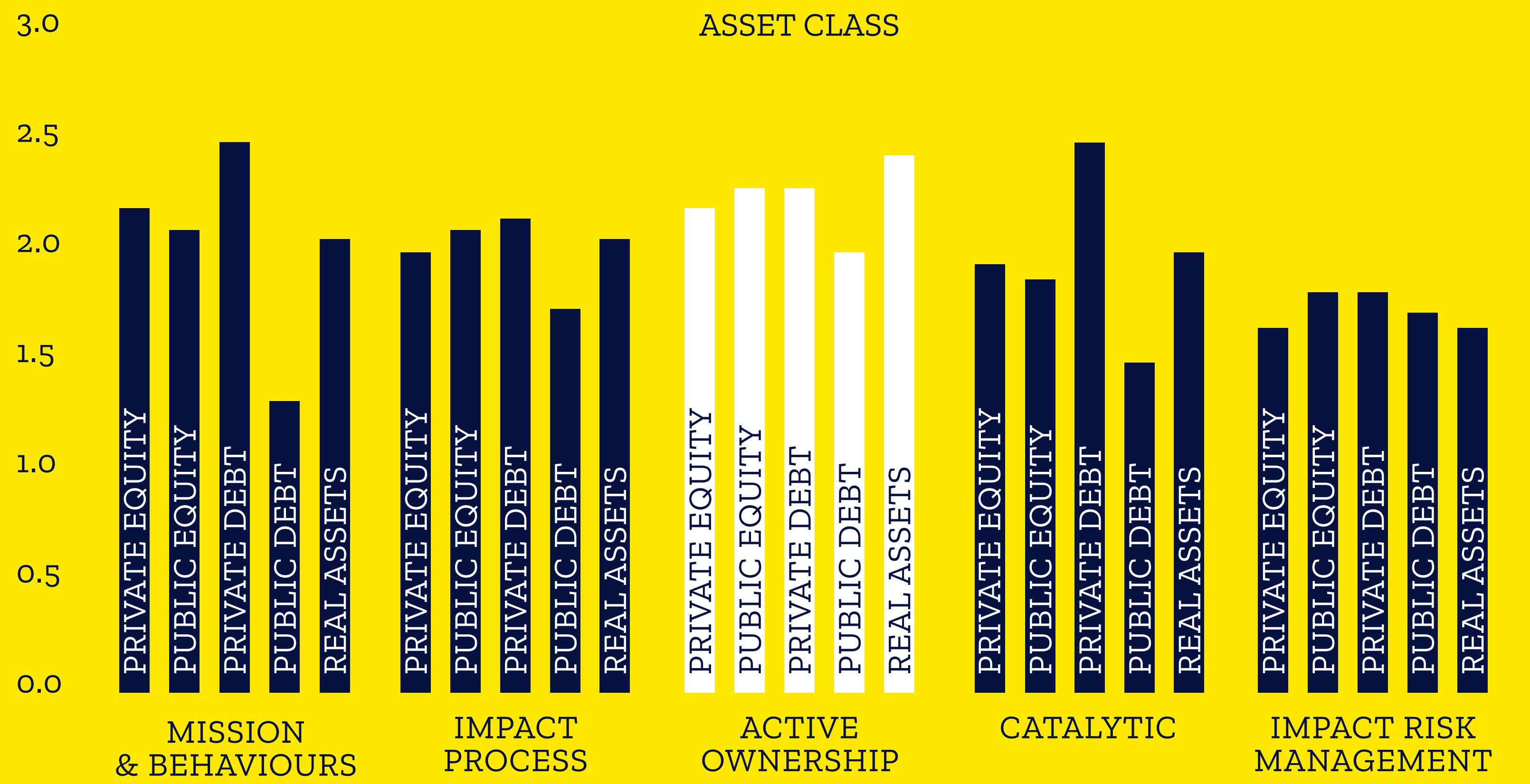


03 **Middle-aged managers outperformed younger and older managers.** Middle-aged managers performed best across all categories, except for impact risk management. In this report, middle-aged managers are those operating between 5 to 20 years and includes early adopters – such as Bridges and Resonance – which launched impact funds contributing to the development of the impact investing ecosystem. By contrast, old managers – operating for 20 years or more – have typically pivoted towards impact, which represents one of many sectors in which they operate. As such, old managers may not have the same commitment to impact throughout the organisation nor are they as likely to launch innovative and catalytic new products. Young managers performed weakest of all – a reflection of their limited track record and an inability to demonstrate impact. Snowball expects these managers to improve their impact practice over the coming years as their intent gets reflected in their behaviours and track record.



RAISING THE BAR

04 **Private markets managers scored best.** The highest performing asset class was private debt, with public debt managers scoring lowest. The survey found it is easier for managers to make a contribution in private markets where capital flows are additional and the investor typically has greater engagement with, and influence over, its investees. This is particularly pronounced for private debt managers which the findings showed were much more likely to be providing catalytic capital.



05 **Active ownership is the highest scoring category.** This perhaps reflects that managers know how to leverage their position to add value to investees (for example, through network and expertise sharing in the private markets or values aligned voting in the public markets). By contrast, Impact Risk Management generated the lowest scores - managers were less clear on how they are managing and mitigating impact risk.

06 **Most managers are not performing as well as they think they are.** On average, managers' self-assessed scores were moderated down by c.10%. Some moderations were simply because the manager had not understood the question, whereas for others the manager had over-scored itself against the tiers of good practice in the framework that accompanied the survey. The questions most frequently moderated down were:

- Is actual impact performance data disclosed to investors and investees?
- Is the manager growing new or undersupplied markets?
- What is the manager's experience/track record in investing for impact?

SNOWBALL MANAGER IMPACT | IMPACT MANAGEMENT PROJECT INVESTOR CONTRIBUTION
MISSION AND BEHAVIOURS
IMPACT PROCESS | SIGNAL THAT IMPACT MATTERS
ENGAGEMENT | ENGAGE ACTIVELY
CATALYTIC | GROW NEW OR UNDERSUPPLIED CAPITAL MARKETS; PROVIDE FLEXIBLE CAPITAL
IMPACT RISK MANAGEMENT

This category concerns an organisation's mission and whether it is evidenced by behaviours. It attempts to assess whether impact really drives an organisation and what systems are in place to ensure it delivers against this.

Snowball's manager framework places particular emphasis on mission and behaviours to screen for alignment around Snowball's long-term goal of systems change: to achieve a cultural shift in the capital markets whereby all money is invested for social and environmental impact. Snowball therefore seeks out mission aligned managers who live out their values.

MISSION AND BEHAVIOURS

Mission

- Does impact drive the decision- making process, and is there evidence of this throughout the organisation?
- Are financial rewards tied to impact?
- Is there independent oversight of impact?

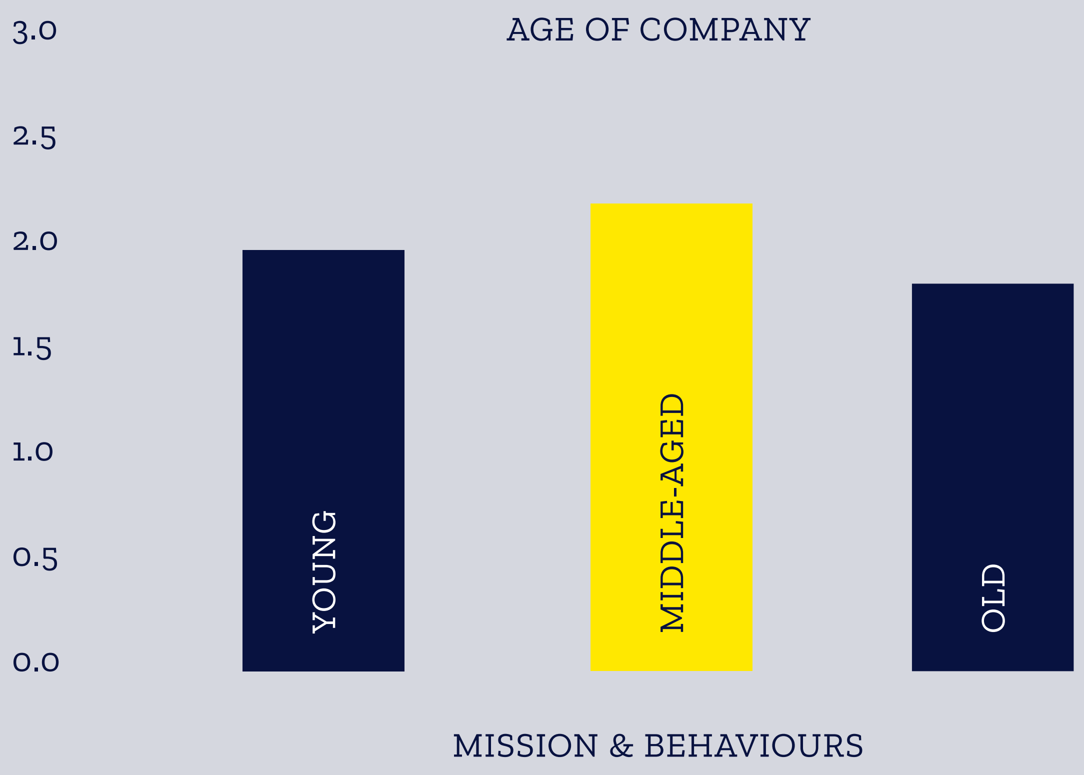
Behaviours

- Does the organisation identify as an impact investor with a clear purpose that aligns with Snowball's desire to create systems change?
- Is protection in place to protect against mission draft?
- How important is impact to the business?

KEY FINDINGS

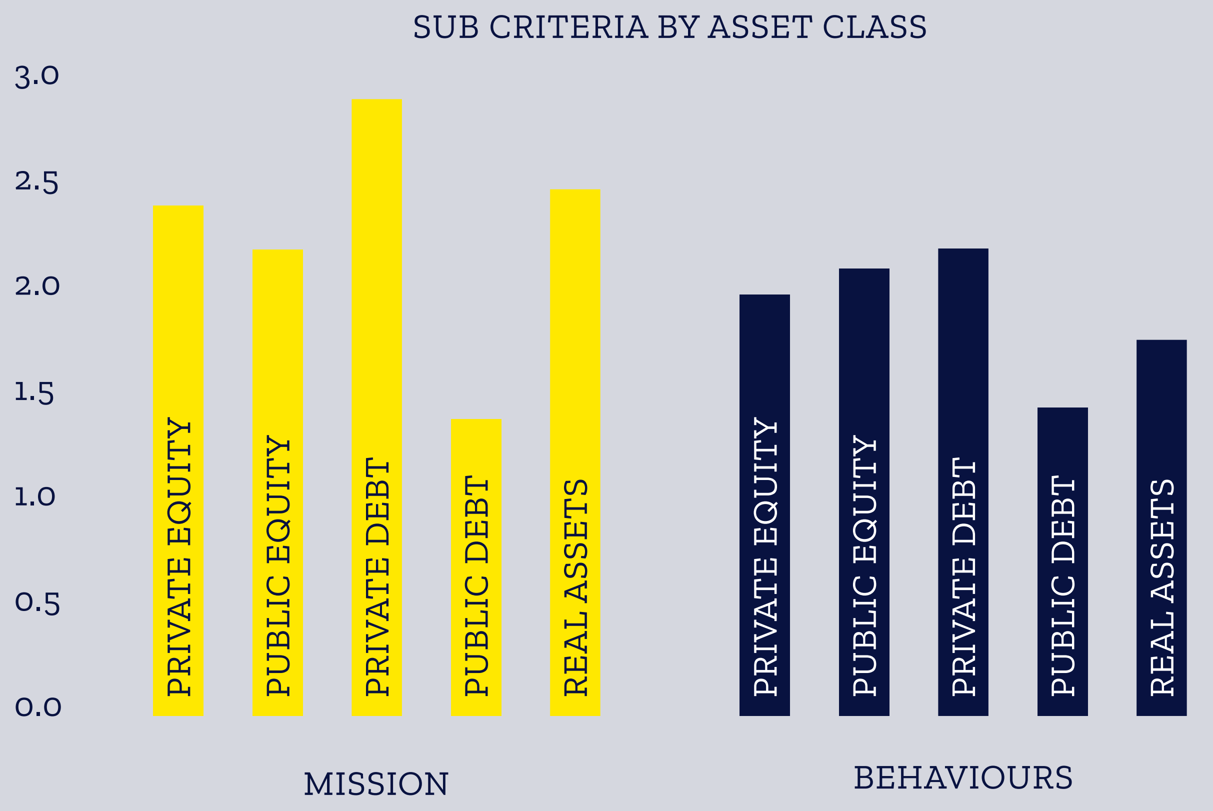
01 **All of Snowball's managers are intentionally and primarily investing for impact.** Common features of managers which score well on mission and behaviours are those with (1) a high percentage of assets under management in impact and sustainable funds; (2) protection against mission drift, for example through an asset lock or B Corp status; and (3) impact leadership throughout the organisation.

02 **Middle-aged managers scored significantly higher than old managers.** Middle-aged managers have typically been established as impact investors with mechanisms to prevent mission drift and impact leadership throughout the organisation. Young managers score less well primarily because of an inability to demonstrate yet that their impact mission is reflected in behaviours.



VALUES ALIGNED

03 **Mission scored more highly than behaviours.** The highest scoring questions in the survey were around the intent and mission of managers, whereas their behaviours – such as whether impact drives decision-making, if it is a learning organisation and whether there is independent oversight of impact – scored less well.



04 **Specialist managers significantly outscored generalists.** This difference is particularly pronounced in respect of managers' mission. The survey found that managers which only invest for impact have a clear mission embedded throughout the organisation compared to generalist managers which are also investing across other non-impact themes.

21% OF SNOWBALL'S PORTFOLIO IS INVESTED IN AFFORDABLE AND CLEAN ENERGY

CREATING CHANGE

WHAT WE WANT TO SEE

- **A commitment to impact leaderships at all levels.** Snowball conducts analysis on each fund manager in its entirety as opposed to individuals, looking for impact leadership throughout the organisation. It would like to see a commitment to impact at all levels of the organisation; this also provides some comfort should key individuals leave.

- **Protection in place against mission drift**. Fewer than half of managers have protection in place against mission drift, such as an asset lock or a commitment to the mission included in their articles of association. Snowball expects this to become common practice over time, particularly as young managers are more likely to put such safeguards in place.

- **Impact and financial returns given equal importance**. Managers cannot currently track impact as accurately as financial returns and are not in the habit of doing so. Snowball would like to see more efforts in this area, understanding that this will also require investment in data collection and movement towards shared and accepted frameworks. Managers are also encouraged to consider how impact and financial rewards can be linked going forward.

CASE STUDY: BIG ISSUE INVEST (BII)

Snowball has invested in BII's Social Enterprises Investment Funds I & II which provide medium term growth capital to social enterprises with potential for growth, financial sustainability and social impact.

BII has been financing the growth of sustainable social enterprises through profit-with-purpose businesses loans since 2005; investing in more than 400 social enterprises and charities across the UK.

BII is a certified B Corp owned by the Big Issue Group, a private company limited by guarantee. This protects against mission drift as does BII's adherence to the wider Big Issue mission to build a world which works for everyone.

BII is committed to impact at all levels of its organisation with all assets invested for impact. This impact intent and mission is backed by behaviours as demonstrated by BII's work leading the sector's response to the Covid-19 crisis; partnering with others to launch the Resilience and Recovery Loan Fund to provide emergency loans to social enterprises and charities.

Snowball expects its managers to have a clear impact thesis and a rigorous impact process. Impact should be embedded through the investment process from initial due diligence to effective impact management post investment. Snowball expects managers to be collecting timely and reliable data from investees which can be used to assess performance and improve outcomes.

To assess a manager's impact process, the questions in this section address impact intention, impact measurement and the transparency of each manager's processes and performance.

SHOWING OUR WOR+H

IMPACT PROCESS

Intent

- Is there a clear impact thesis in the investment process?
- Is ESG integrated into the investment process?
- Is impact integrated into the investment process?

Measurement

- Is impact fully understood and measured?
- Is impact measurement honest, rigorous and improving?
- Are negative impacts addressed, monitored and managed?

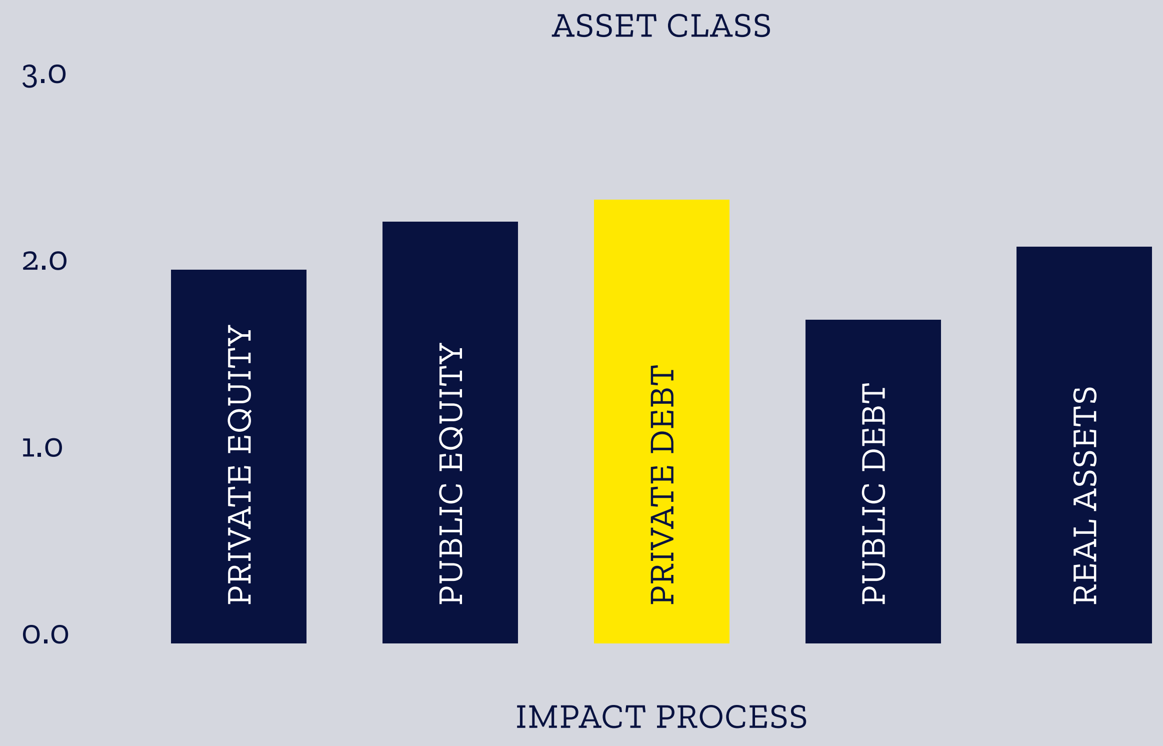
Transparency and accountability

- Is impact performance data disclosed?
- Is there a process for data assurance?
- Is the manager self-critical about measurement methods?

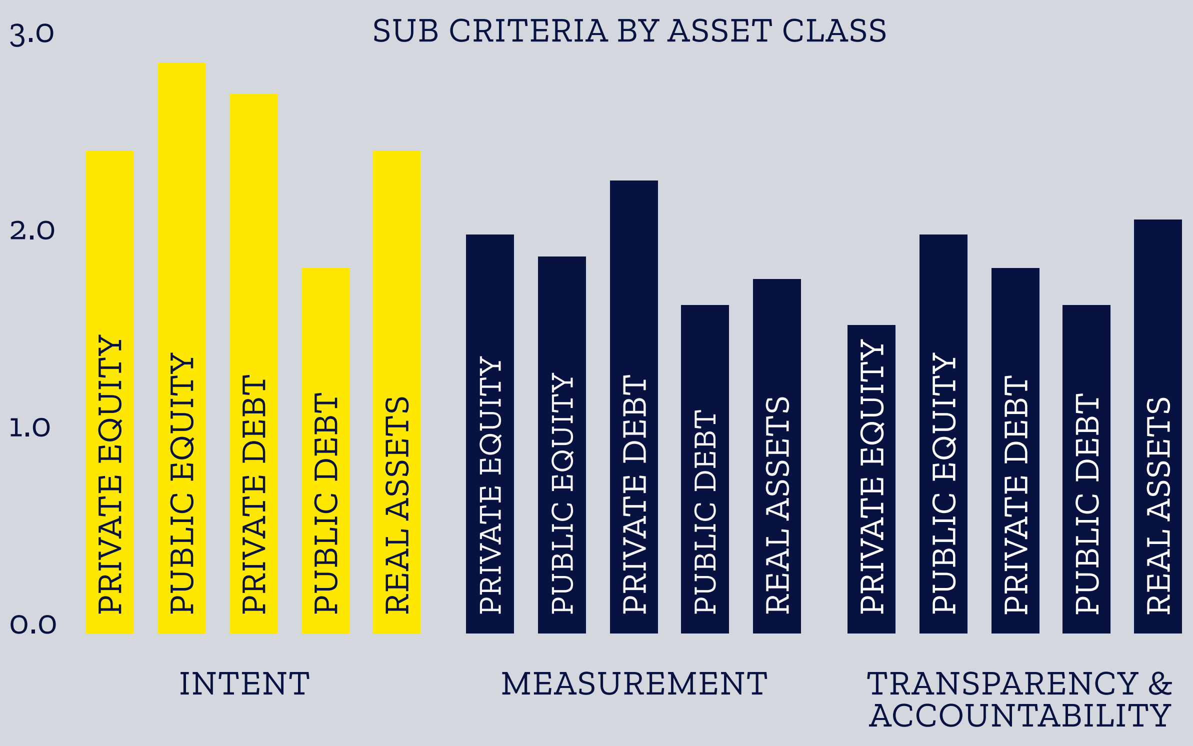
15% OF SNOWBALL'S PORTFOLIO IS INVESTED IN HEALTHCARE

KEY FINDINGS

01 **Private market managers scored more highly than those in public markets.** This likely reflects private managers' focus on active impact management with impact data typically more readily available in the private markets along with greater transparency for investors.



02 **Manager impact intent outscored impact measurement, management and transparency**. The availability, thoroughness and quality of impact data reported by managers can be patchy. Managers are rarely self-critical about their impact measurement and many have not reached the point of verifying data. This raises concerns about the effectiveness of impact management without robust and reliable underlying impact data.



03 **Middle-aged managers significantly outperformed old managers for impact process.**This difference is particularly pronounced for impact measurement, management and transparency. Young managers typically scored best on impact intent, but poorly on impact measurement, management and transparency as it is harder for them to evidence their impact processes in practice and, in some cases, were yet to report on their impact.

GOOD INTENTIONS

WHAT WE WANT TO SEE

\+ **Consideration of negative impacts.** Although some managers are considering negative impacts, few rigorously monitor, measure and mitigate negative impacts regularly alongside positive ones. As Snowball believes that all investments should be evaluated for their impact – both positive and negative – it is not possible to invest for impact without careful assessment of the latter beyond merely consideration of ESG factors.

\+ **Independent verification of impact.** Data verification is predominantly undertaken in-house. A move towards an independent or external verification party should be a goal. Further, Snowball would like to see openness and transparency in impact data and reports, with more acknowledgement of shortcomings, mistakes and associated learnings.

\+ **More public reporting.** Several managers do not report on impact beyond their own investor base. Snowball acknowledges that reporting publicly can present challenges for private equity managers in particular, but nonetheless believes that certain impact data can be shared with the wider market (as some managers already do). Transparency is a core value to Snowball to ensure accountability, and to inform and engage those within and outside the sector.

CASE STUDY (PUBLIC EQUITY): WHEB

Snowball has invested in the FP WHEB Sustainability Fund.

Intent: WHEB has a clear impact thesis: only investing in companies with a positive impact, excluding degenerative and transitioning businesses. It defines positive impact businesses as those with either a modest mitigating impact or a more radical breakthrough impact.

Measurement: WHEB's "impact engine" captures multiple dimensions of impact which creates an impact intensity rating to inform WHEB's investment process. Impact and ESG characteristics are core factors in stock selection. WHEB is openly challenging of its impact assessment methods citing quality of data as one of the main sources of errors in impact calculations. Improving this is a key focus to enable impact driven decisions.

Transparency: WHEB's independent Investment Advisory Committee reviews investment decisions to consider the fund's compliance with its impact objectives. The minutes of those meetings are published on WHEB's website and include a summary of the committee's discussions of each stock. The methodology that sits behind WHEB's impact data and calculations has been reviewed by The Carbon Trust and is considered consistent with international best practice.

CASE STUDY (PRIVATE EQUITY): CIRCULARITY CAPITAL

Snowball invested in Circularity's first fund which invests in growth enterprises in the circular economy.

Intent: Circularity has a clear mission: to deliver value for investors by supporting SME growth and innovation in the circular economy. It has integrated impact into all stages of its investment process and looks to invest in "lockstep" companies where impact is directly aligned with growth.

Measurement: Circularity reports on a quarterly basis sharing a good range of finance and impact data. Each portfolio company's impact performance is tracked using relevant KPIs – for example, Winnow, which has developed a tech solution to monitor and control food waste, reports against the following KPIs: waste reduction, water saved, greenhouse gas reduction and number of meals saved.

Transparency: Each impact report is produced internally and verified by an independent third party to test the methodology and assumptions of the data collected from its enterprises. Circularity is committed to improving its measurement and reporting processes and has always engaged openly and constructively to feedback in this regard.

SNOWBALL MANAGER IMPACT | IMPACT MANAGEMENT PROJECT INVESTOR CONTRIBUTION

MISSION AND BEHAVIOURS

IMPACT PROCESS | SIGNAL THAT IMPACT MATTERS

ENGAGEMENT | ENGAGE ACTIVELY

CATALYTIC | GROW NEW OR UNDERSUPPLIED CAPITAL MARKETS; PROVIDE FLEXIBLE CAPITAL

IMPACT RISK MANAGEMENT

This section looks at how each manager supports and engages with investees around business practices and outcomes. Snowball also assessed whether its managers engage at both a portfolio and industry level, for example around industry initiatives.

Snowball expects all its managers to support investees to improve their societal and/or environmental impact, although engagement opportunities and expectations may differ across asset classes. Some questions, such as those around voting and stock lending, were only applicable to public equity managers and therefore other managers were not scored against them.

ACTIVE OWNERSHIP

All asset classes

- Does the manager have a robust exclusion policy?
- Does the manger engage actively at the company level on ESG and impact issues?
- Does the manager engage around portfolio level ESG and impact issues?

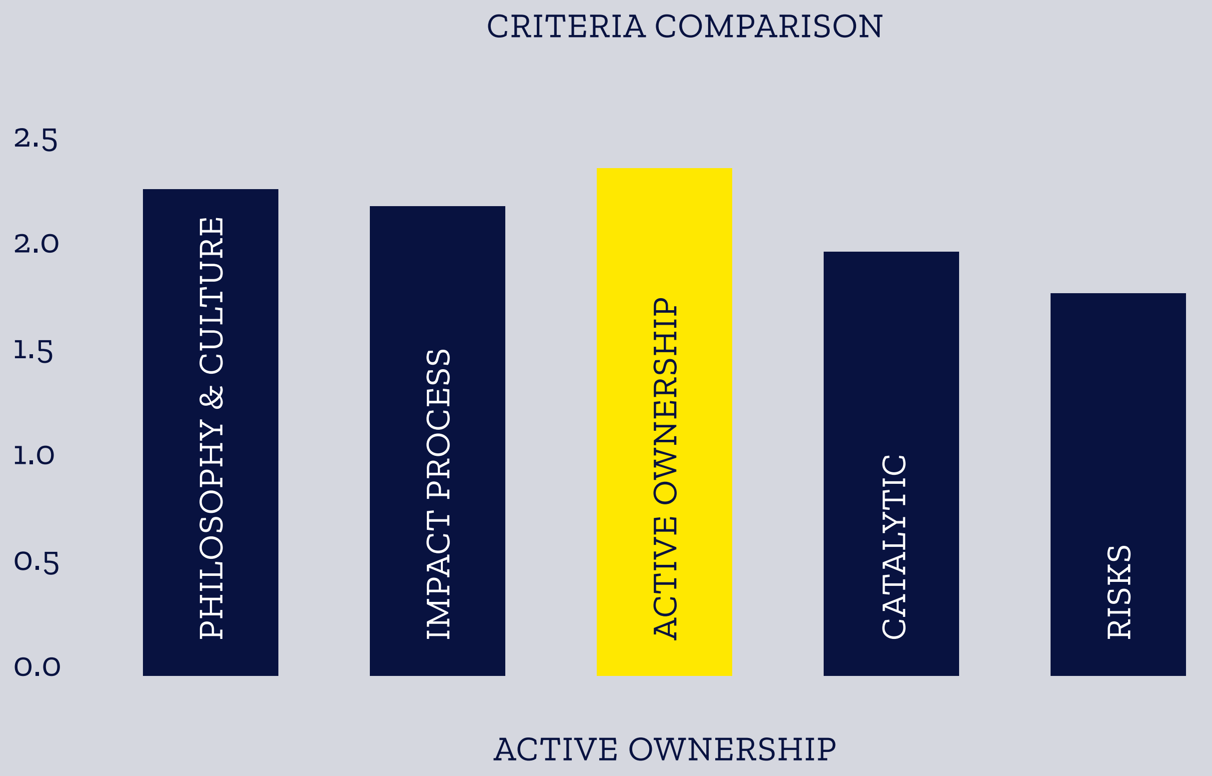
Public equity only

- What is the voting process? Are there proxies involved?
- Is there evidence of impact from voting and engagement?
- What is the stock lending policy?

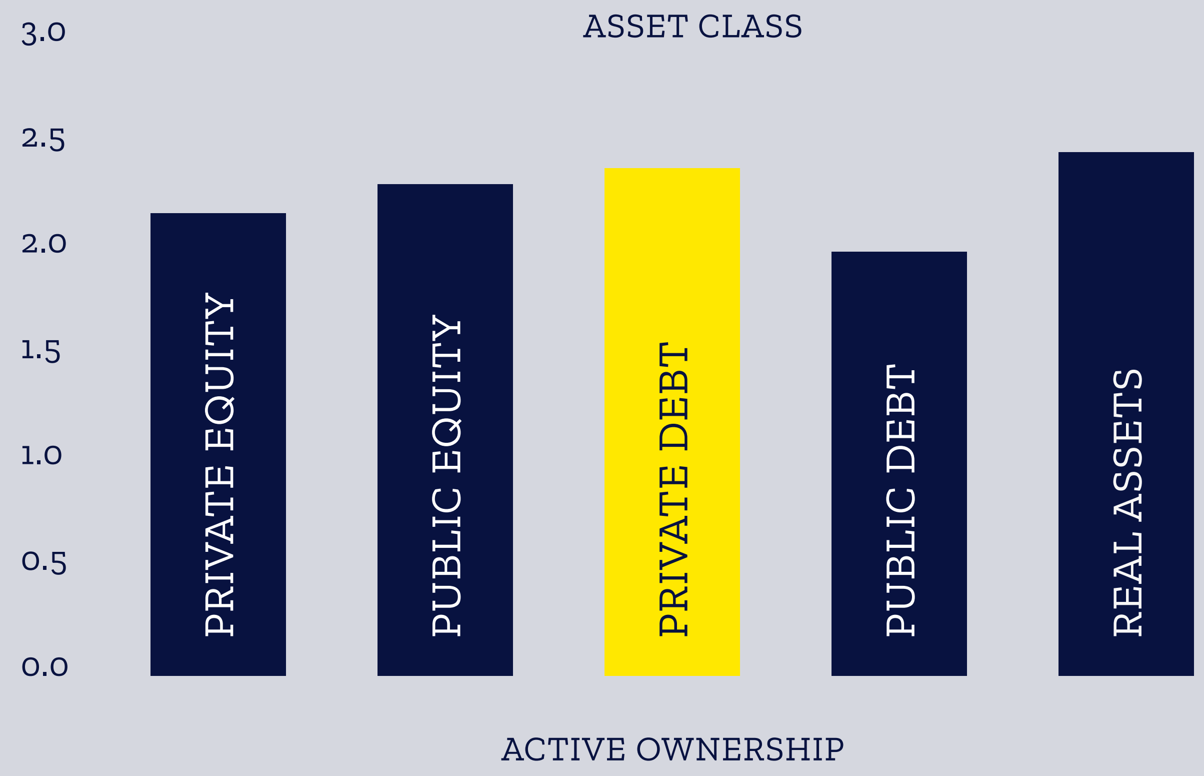
ASSESSING ACTIVITY

KEY FINDINGS

01 **Active ownership is the highest scoring of all the categories in the survey**. Managers across all asset classes performed strongly, scoring equally well regardless of size, age and whether a specialist or generalist manager. This reflects that managers know how to leverage their position to add value to investees (for example, through network and expertise sharing in the private markets or values aligned voting in the public markets).



02 **Private equity scored strongly reflecting their focus on active management.** Engagement with, and support of, investees constitutes a key part of private managers' "value add". The most proactive managers engaged not only with each company within its portfolio, but also at a portfolio and industry level.



03 **Debt managers scored well, particularly in private markets.** While voting rights do not attach to debt in the same way as for ordinary shares – and therefore the ultimate sanction of voting against a company's board at its annual general meeting is not available – active engagement forms an important part of a fixed income manager's responsibilities.

04 **Public equity managers scored more highly than might be anticipated.** This reflects the fact that active ownership by public managers not only includes shareholding voting but also support for sector initiatives. Snowball's due diligence process looks for managers that bring expertise to help investees improve impact measurement and management, request impact data and act as a point of contact for impact advice.

20% OF SNOWBALL'S PORTFOLIO IS INVESTED IN SUSTAINABLE CITIES AND COMMUNITIES

WHAT WE WANT TO SEE

+ **Engagement with portfolio companies on key impact issues.** The nature of each manager's support will vary depending on the asset class and should be tailored to the needs of the enterprise – however, in all cases, managers should be helping their investees to measure and manage impact, and collect timely and relevant impact data.

+ **More engagement around industry level initiatives.** Some managers have very little, or no, engagement at the industry level. Over time, Snowball expects all of its managers to be engaging with, and contributing to, industry initiatives such as the Task Force on Climate-related Disclosures or GOGLA for the off-grid solar energy sector.

+ **Committed and values aligned voting record.** Snowball recognises some of the challenges faced by public equity managers, but would like to see its managers vote on all resolutions in accordance with their values – opposing where necessary to push impact and/or ESG issues. Snowball would also like to see its public managers asking impact-related questions of their portfolio companies; requiring them to improve their impact practice.

CASE STUDY (PUBLIC DEBT): RATHBONES

Snowball has worked with Rathbones since 2017 to build a high-impact fixed income portfolio.

Rathbones engages with bond issuers both before and after investment, to establish and advise on the terms of a bond issue and make organisations aware that it favours those with a positive impact.

Rathbones has a systematic approach to measuring and reporting on impact using the IMP framework and openly acknowledges that its ability to provide detailed reporting on underlying beneficiaries and outcomes remains limited by the quality of impact reporting and data produced by investee organisations. It works with investees to encourage improvement over time – for example by writing to 20 registered providers of social housing, encouraging them to provide basic minimum indicators on ESG issues, such as tenant satisfaction, EPC ratings, Ombudsman complaints, gas safety and the use of HACT value as measure of monetary value of social benefit.

At an industry level, Rathbones looks to broaden access to impact investment in the retail space and actively seeks to encourage public policy and regulation that is more conducive to impact investment. As a group, Rathbones has been a signatory to the PRI since 2009, during which time it has been an active participant in the PRI's Collaboration Platform which enables signatories to pool resources, share information and enhance their influence on ESG issues.

CASE STUDY (PRIVATE EQUITY): BRIDGES FUND MANAGEMENT

Snowball has invested in Bridges' two most recent private equity funds, Sustainable Growth Funds III & IV, as well as both of its Social Outcomes funds.

Prior to making a private equity investment, Bridges' investment team and dedicated in-house impact advisory team work with management of the prospective portfolio company to identify ESG risks and opportunities for value creation. Bridges then helps develop a 100-day plan post-investment as well as a bespoke scorecard to track performance and monitor progress.

Bridges typically takes a majority ownership position and therefore engages actively on ESG matters which are reviewed regularly at Board meetings.

As an example, Bridges Sustainable Growth Fund III invested in World of Books (WOB), a circular economy technology business which reuses and recycles books that might otherwise go to landfill. Bridges has worked with WOB to develop specific initiatives to increase efficiencies and reduce the carbon intensity across its operations. These include upgrading its fleet to more fuel-efficient vehicles; implementing automated routing software; and investing in a hi-tech automated new warehouse which enables WOB to process stock more quickly whilst generating less carbon from inbound transportation.

SNOWBALL MANAGER IMPACT | IMPACT MANAGEMENT PROJECT INVESTOR CONTRIBUTION

- MISSION AND BEHAVIOURS
- IMPACT PROCESS — SIGNAL THAT IMPACT MATTERS
- ENGAGEMENT — ENGAGE ACTIVELY
- CATALYTIC — GROW NEW OR UNDERSUPPLIED CAPITAL MARKETS; PROVIDE FLEXIBLE CAPITAL
- IMPACT RISK MANAGEMENT

Snowball has identified two key components of catalytic managers – bringing capital to new or undersupplied markets and more broadly through contribution to systems change. For example, a fund manager may bring a new product to market such as an innovative blended finance model and/or accept first loss to allow other players into the market.

If a fund manager does not score highly under the catalytic category, Snowball acknowledges it may simply indicate that it is operating in a mature, low-risk sector where established solutions are preferred over innovative ones.

CATALYTIC

Capital allocation

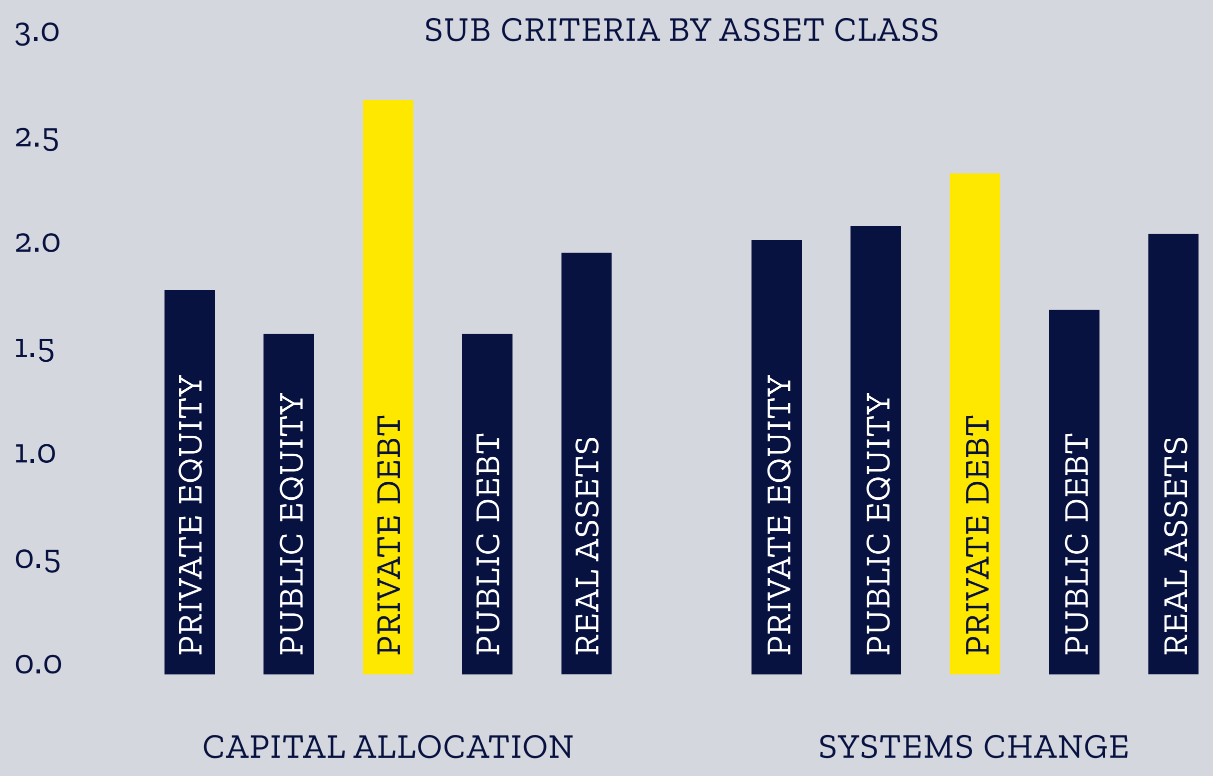
- Is the manager growing new or undersupplied markets?
- Is the manager providing flexible capital or acting in another way that creates markets?

Systems change

- How does the manager contribute to field building?
- Does the manager work towards policy change?
- Is the manager showcasing innovation?

KEY FINDINGS

01 **Private debt managers scored most highly in this category.** These managers achieved the highest score for both capital allocation and systems change. The survey found that private debt managers are most likely to be supporting underserved markets by creating products to address gaps in the market as well as actively seeking to support and influence the industry.



02 **Field building was the highest scoring question.** Most managers engage with relevant impact investing initiatives, such as signing up to the Principles for Responsible Investment and/or the Operating Principles for Impact Management developed by IFC. Managers also contributed to field building by adopting and contributing to industry measurement frameworks and hosting talks and conferences to collaborate and engage with a wider audience.

03 **Snowball's managers are not providing flexible capital returns.** This reflects the composition of Snowball's portfolio. As an investor which seeks market returns, Snowball does not expect its managers to provide flexible or concessionary capital (but acknowledges this represents an important part of the impact ecosystem).

WHAT WE WANT TO SEE

+ **Growing new or undersupplied markets.** Snowball wants its managers to actively seek markets which are underserved, addressing a market failure or a gap in the market.

+ **Impact leadership.** Not only does Snowball look to invest in managers which are leaders in their sector, it expects its managers to be advocates for the industry through contribution to field building, policy work and thought leadership.

+ **Managers innovating to meet need.** Snowball believes that managers should be innovating to address market failures which may include developing new products and processes. To drive change and embed good practice, managers should collaborate wherever possible.

CASE STUDY: RESONANCE

Snowball holds investments in two of Resonance's homelessness funds: National Homelessness Property Fund and Real Lettings Property Fund. Both funds provide move-on accommodation for homeless individuals and families.

Resonance's housing funds address undersupplied markets – currently there are c.85,000 households in temporary accommodation. The homelessness funds look to provide a positive alternative to unsuitable temporary accommodation and help tenants build resilience against homelessness. Resonance is committed to field building and systems change and works proactively with partners to achieve this – for example, it has run workshops for existing stakeholders to improve strategies for tenant move-on and is exploring a technology solution which could benefit tenant progression.

Resonance continues to launch new and innovative impact funds to address gaps in the market and is launching two further property funds: one providing safe housing for women at risk of homelessness, including those experiencing domestic abuse, the first of its kind and the other housing people with learning disabilities and/or mental health problems.

SNOWBALL MANAGER IMPACT | IMPACT MANAGEMENT PROJECT INVESTOR CONTRIBUTION

MISSION AND BEHAVIOURS

IMPACT PROCESS | SIGNAL THAT IMPACT MATTERS

ENGAGEMENT | ENGAGE ACTIVELY

CATALYTIC | GROW NEW OR UNDERSUPPLIED CAPITAL MARKETS | PROVIDE FLEXIBLE CAPITAL

IMPACT RISK MANAGEMENT

LESS TO CHANCE

Impact risk management assesses the likelihood that the manager's impact will not be as expected and the strategies the manager has in place to mitigate impact risks.

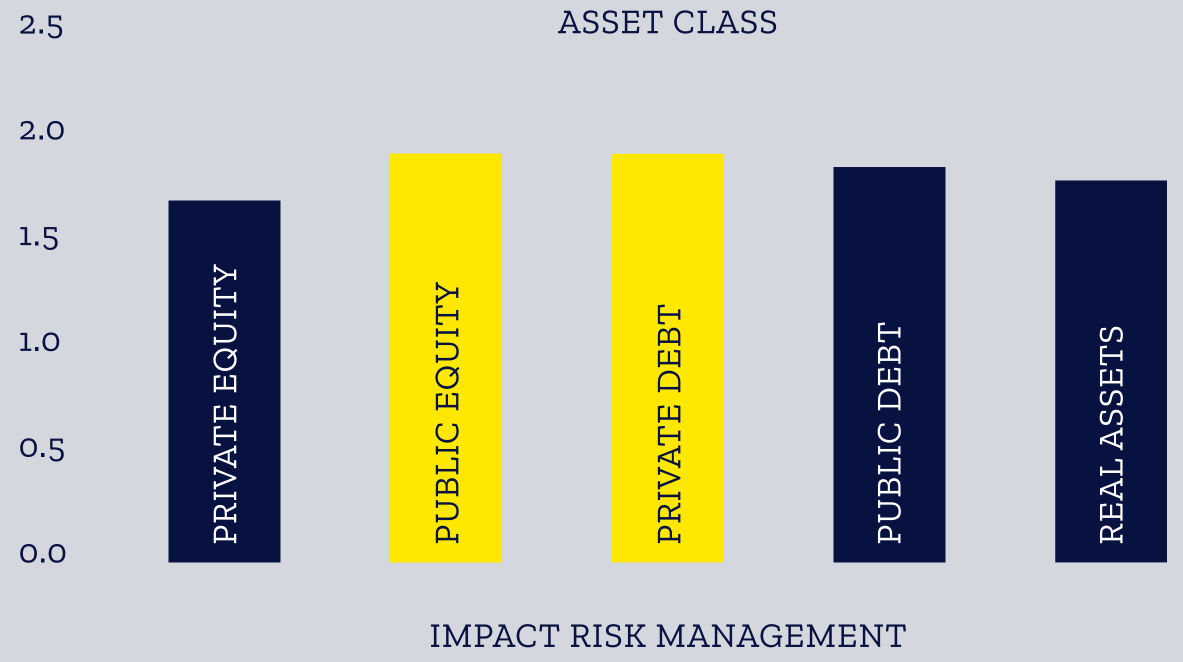
Snowball believes that impact risk is relatively well understood at an enterprise level through the Impact Management's Project's nine types of impact risk, but not adequately assessed for managers. Snowball contends that certain impact risks are particularly relevant for the manager's own impact and assesses its managers against them (see Section 3).

IMPACT RISK MANAGEMENT

- What is the manager's track record in investing for impact and its experience in the strategy?
- Is there a risk that the evidence upon which the strategy is based is poor? What is the risk that execution will fail?
- Does the manager's risk assessment include drop-off and external factors that could disrupt the fund's ability to deliver the expected impact?

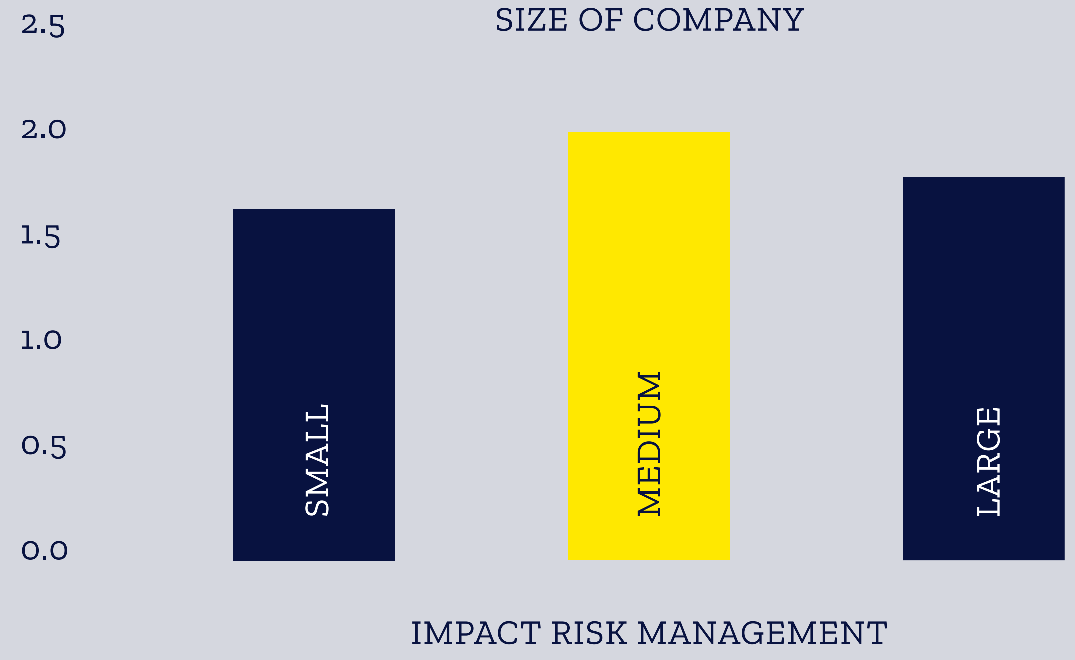
KEY FINDINGS

01 **Private equity managers scored lowest at impact risk management.** This is, in part, because many of Snowball's private equity managers are relatively inexperienced organisations without an established track record in impact investing and lacking experience in their strategy – therefore presenting a high execution risk.



02 **Old managers performed strongly.** Impact risk management is the only category in which old managers outperformed middle-aged managers. This is likely due to their experience implementing processes to mitigate and manage risk across product lines.

03 **Small managers scored as highest risk.** Small managers are those with 10 or fewer employees and are typically newer managers without a track record. Large managers – with over 50 employees – fared unfavourably to those of a mid-size because larger managers are more likely to be generalist fund managers which have failed to institutionalise the assessment and management of impact risks as well as their more specialist peers.



WHAT WE WANT TO SEE

\+ **A mature impact investing market.** Snowball would like to see the impact investing market mature with a greater array of experienced impact managers across all asset classes.

\+ **Impact risks discussed at sector level.** Snowball believes that impact risk should be given greater prominence across the industry – too often attention is focused on an investor's additionality without equal consideration given to its management and mitigation of risk. Snowball welcomes the focus given to impact risks – particularly the consideration of negative impacts in the Operating Principles developed by IFC – and hopes this will lead to better practice amongst managers.

CASE STUDY: FMO PRIVIUM

Snowball has invested in the FMO Privium Impact Fund, a diversified portfolio of both existing and new loans providing long-term capital in emerging markets to support jobs and income generation.

As an investor in emerging markets and developing economies, FMO supports jobs and income generation, improving people's lives in those parts of the world where this makes the biggest difference. It takes on challenging investments and carries risks which the commercial banking sector is unwilling to take. As such, the management of risk is at the core of FMO's business. Founded in 1970, FMO has significant experience executing its strategy with a comprehensive framework in place to manage and control risk from both a financial and impact perspective.

FMO has an appetite for managed risk in its portfolio. FMO has established practices to mitigate execution risk by diversifying across four regions and three key sectors' value chains, namely the financial sector, energy, and agribusiness with a focus on food and water. As an integral part of its investment process, FMO screens all clients on ESG risk during a due diligence process including on-site visits and then works with them to develop and implement an action plan to avoid adverse ESG impacts and to improve ESG risk management over time. FMO has developed and continues to evolve its ESG performance tracker to track key ESG risks and client performance, enabling it to manage ESG risks at a portfolio-wide level.

FMO's integrated approach ensures sustainability is at the heart of its operations and aligned with the Sustainable Development Goals.

SNOWBALL

WHAT SNOWBALL HAS LEARNT

01

Impact mission and intent are at the core of all of Snowball's managers (these were the highest scoring questions in the survey) – and managers are striving to improve elsewhere. Impact investing is still in its relative infancy.

02

Greater accountability and transparency are required. Snowball believes that all asset owners should hold themselves accountable for the positive and negative impact of their investments and should be transparent in their reporting. Openness and transparency are critical to encourage best practice across the sector and to create a culture of learning and improvement. Snowball expects its managers to be open, honest and self-critical.

03

Standard setting has a key role to play. Without a common understanding of what good practice looks like within each asset class, there is not a benchmark to compare managers and against which managers can hold themselves to account. This is particularly challenging for new managers. It is therefore critical that investors and managers coalesce around accepted best practice.

04

It is challenging to assess manager impact. Snowball found that managers approached the same question in a variety of ways and some questions could have been better worded. The review and moderation process sought to correct for some of these misunderstandings, but a number of questions were excluded from analysis. Manager feedback will be used to improve the survey going forward.

WHAT NEXT

Manager Engagement: Snowball has identified areas for improvement for each of its managers and will support its managers to address these. Snowball has tailored its expectations for each manager based on a number of factors, including the asset class, sector and resources of the manager.

Sector Engagement: Snowball hopes its assessment of manager impact builds on, and is a challenge to, the sector's ongoing conversation around investor contribution. Snowball will continue to work alongside industry initiatives – such as the Impact Management Project and the Impact Alliance – to develop best practice whilst also sharing its own proprietary frameworks wherever possible.

Snowball impact: Snowball has its own impact and, like its managers, should be similarly assessed and held to account. This will be the subject of a future Snowball report.

GET IN TOUCH

If you would like to see the full set of questions in the survey and the manager impact framework or would otherwise like to discuss any of the findings of this report, please email hello@snowball.im

THANKS

Snowball would like to thank its managers: Ananda Impact Ventures, Awel, Big Issue Invest, Bluefield Solar, Bridges Fund Management, Circularity Capital, Civitas Social Housing, Columbia Threadneedle, Eka Ventures, Ethical Property Company, FMO Privium, Greencoat Renewables, Greencoat UK Wind, Investisseurs et Partenaires, Lyme Timber, M&G, Oikocredit, Rathbones, Resonance, responsAbility, The Renewables Infrastructure Group, The Yield Lab, Wellington Management & WHEB.

Snowball is grateful to Mike McCreless of the Impact Management Project, Plum Lomax of NPC and Philipp Essl of Big Society Capital for their time and valuable contributions to this report.

This report was published in 2020 by Abigail Rotheroe and Jake Levy and is designed by Lovers.