LIIN

IMPACT SKILLS REPORT '22

Empowering the Impact Investing Community

LIIN REPORT 2022

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LIIN Impact Skills Report 2022

MESSAGE FROM THE LIIN CHAIR

The LIIN Alliance (LIIN) is a catalytic global impact community that connects local and international investment professionals, supports knowledge creation, and fosters investment coordination in positive impact and sustainable opportunities.

Most of all, LIIN is a strategic enabler for individuals and organisations to scale up and boost impact and SDG-aligned initiatives.

We launched the LIIN in 2019 as a London impact community. Today, LIIN engages with more than 1,100 sustainable & impact investing professionals across 21 nations.

As part of our responsibility to contribute to the broader impact investing industry, we decided to launch the first global study to understand, classify and determine gaps in impact skills across different investment professionals (e.g. mainstream impact professionals, niche impact investors) and asset classes.

The LIIN Impact Investing Skill Report results from a combined effort from more than 20 experts working across nine countries.

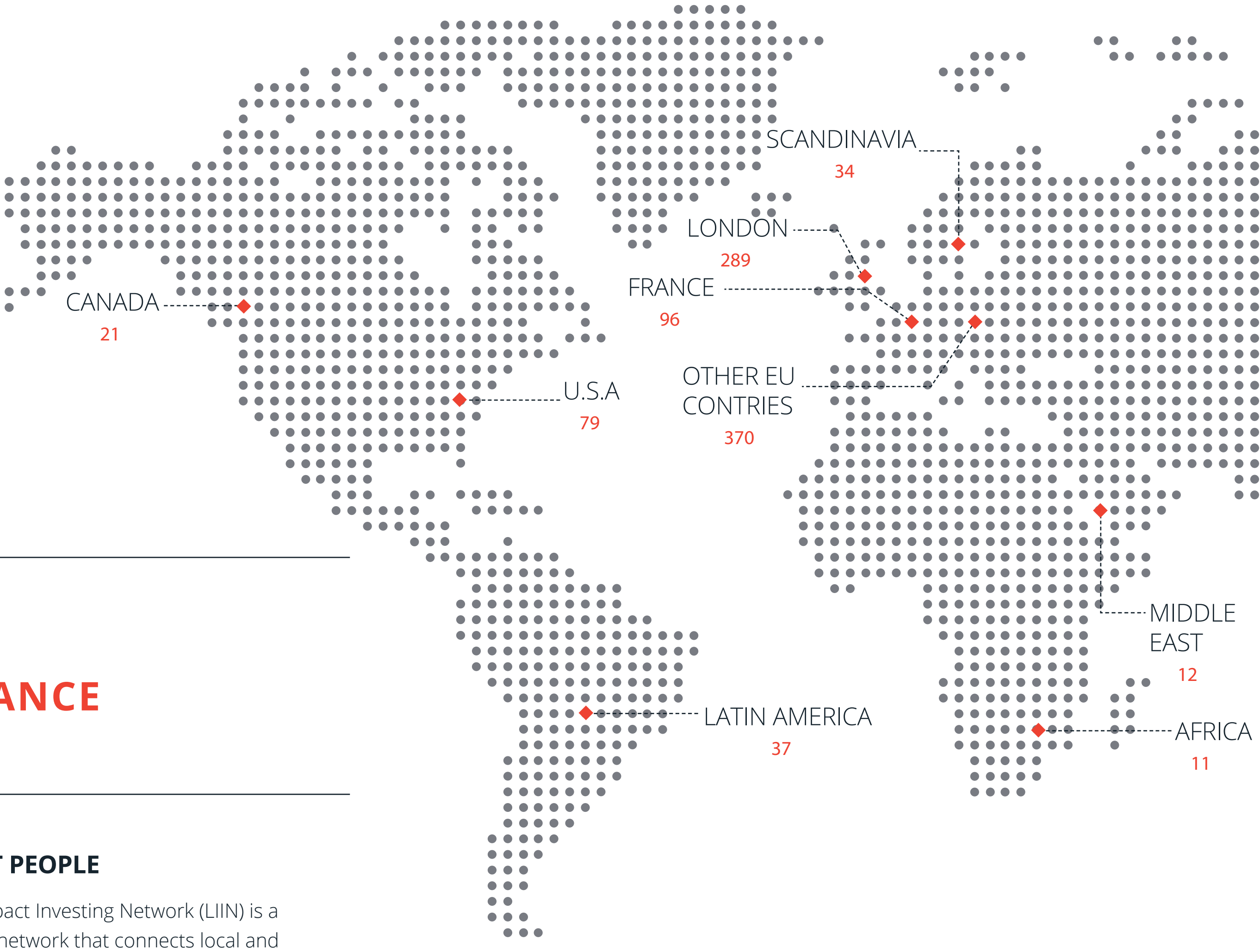
I want to thank all the team members of the LIIN report, our peer reviewers and all the participants of our thematic working groups. In special to:

Oscar Farfan (IADB), Preeti Sinha (UNCDF), Andrew Parry (Newton), Sarah Norris (Standard Life Aberdeen), Rebecca Perlman (Herbert Smith Freehills), Richard Brass (Berenberg), Ugo Amoretti (IFC), Jurgen Hammer (SPTF), Shade Duffy (AXA IM), Stephen Newby (Herbert Smith Freehills), James Purcell (Quintet Private Bank), Don Gerritsen (PRI), Arsalan Mahtafar (JP Morgan), Eric Rice (BlackRock), Karl Richter (Frankfurt School of Finance and Management), Kim Schumacher (Tokyo Institute of Technology), Peter Brock (4L Capital LG), Andre Curran (Stifel), Nills Meinefeld (Hybird), Pedro Goudinho Ramos (KKR), Ian Povey-Hall (ACRE), Andreas Rickert (Phineo), Damien Lardoux (EQ Investors), Jocelyn Cheng (Global Innovaton Fund), Neil Brown (GIB Asset Management).

Kurt Morriesen
LIIN Chairman
&
Senior Advisor
United Nations Development Programme (UNDP)

ACRONYMS

AIMM	Anticipated Impact Measurement and Monitoring
CDP	Carbon Disclosure Project
CSR	Corporate Social Responsibility
ESG	Environmental, Social and Governance
FT	The Financial Times
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Rating System
GRI	Global Reporting Initiative
IFC	International Finance Corporation
IIP	Impact Investing Professionals
IIRC	International Integrated Reporting Council
IMM	Impact Measurement Management
NFRD	Non-Financial Reporting Directive
OECD	Organisation for Economic Co-operation and Development
PRI	Principles for Responsible Investing
SASB	Sustainability Accounting Standards Board
SDGs	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
TCFD	Task Force on Climate-related Financial Disclosures
UNEP-FI	United Nations Environment Programme Finance Initiative
UNGC	United Nations Global Compact
WB	World Bank
WEF	World Economic Forum
WBA	World Benchmark Alliance



LIIN
AT A GLANCE

IT IS ABOUT PEOPLE

The London Impact Investing Network (LIIN) is a catalytic, global network that connects local and international impact investing practitioners to boost their knowledge and foster investment coordination across positive and sustainable opportunities. Most of all, LIIN strategically enables individuals and organisations to engage with international initiatives and connect with a broader community of sustainable investors and businesses.

Created in 2019, LIIN is a changemaker in the industry, managing a network of responsible investors and impact practitioners that collectively' manage over $3 trillion of assets under management (AUM). Today LIIN engages with more than 1,000 sustainable and impact investors across 21 nations. LIIN's success lies in empowering local impact practitioners and connecting individuals with concrete actions to develop their skills and understanding of impact principles, helping the industry advance investments in solutions that are aligned with the UN's Sustainable Development Goals (UN-SDGs) and scaling-up sustainable investments.

As an independent organisation, LIIN helps bridge the coordination gap between global strategies and leadership and local and regional sustainable investment and businesses.

Our
Promise

We are about people

LIIN is an investing community that empowers and brings impact practitioners together.

We help to turn abstract concepts into practical work

by working with impact practitioners to deliver concrete and practical impact investing knowledge and tools that broader society can use.

We think globally, and act locally

by combining local engagements and activities with global programmes and actions.

We give a voice to individuals

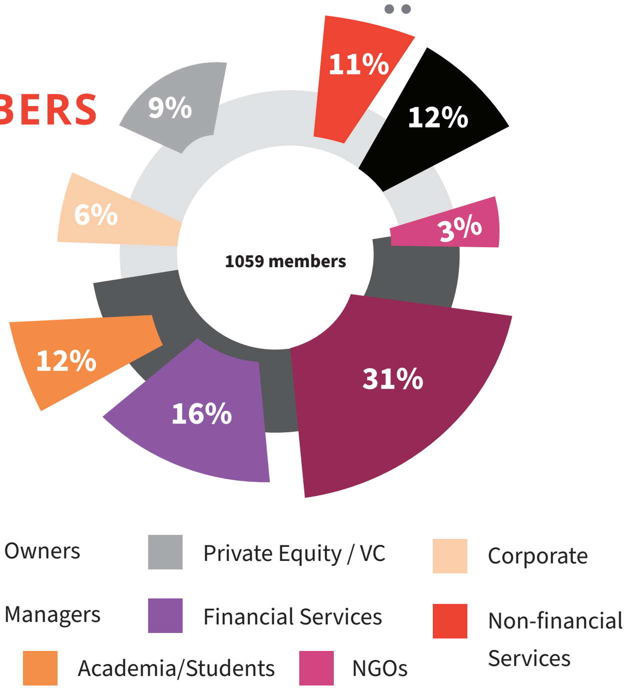
by nurturing a community where people can engage with their peers, share their views and interests, and create an environment where impact ideas can be scalable.

We focus on amplifying what other organisations do

by promoting best practices, sharing lessons learned and democratising impact investing knowledge.

Our **Programmes**

LIIN **MEMBERS**



Events and professional networking

We host webinars, fireside chats and knowledge exchange meetings at which members can learn about impact themes and network with impact professionals and experts.

A global platform for local impact networks

We empower local impact investing communities by offering them a platform to host their meetings, events and engagements. The LIIN Global Platform helps local impact networks to manage their local groups and connect with other impact networks, boosting knowledge exchange and networking.

Knowledge hub and knowledge products

We offer a dynamic platform that allows members to access relevant information and enables the quality of impact investing resources (e.g. tools, frameworks) to be ranked, thereby helping individuals to improve future knowledge products.

Career development and learning

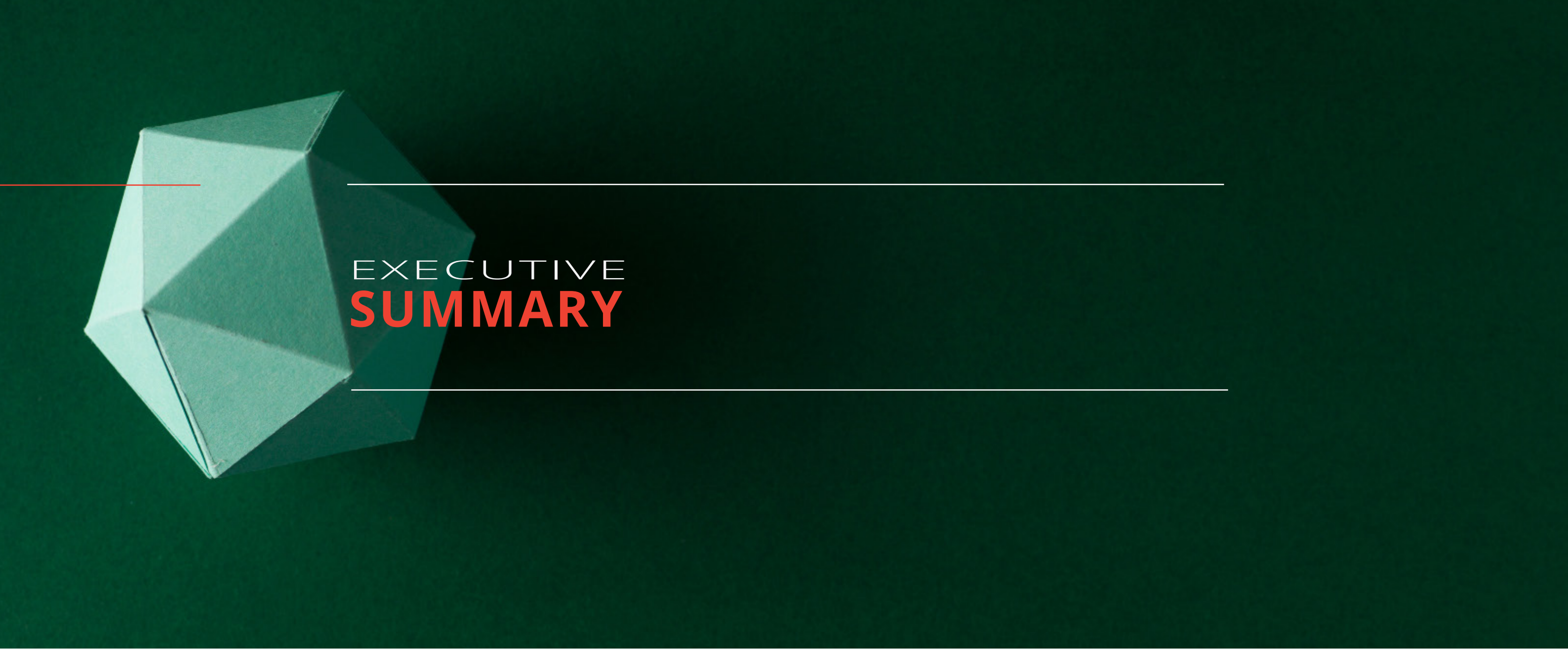
We offer a careers hub where members can find information on educational programmes, and can help members to discover their career preferences and goals.

Working groups and research

We host and support specialist working groups to discuss and produce innovative research on impact investments, including SDG-aligned investments.

Think Globally
ACT LOCALLY

We believe in the power of the individuals and their ability to build communities to advance and foster knowledge in sustainable investments. Our commitment is to empower local impact investing networks and integrate them into a broad community of impact practitioners.



EXECUTIVE SUMMARY

The LIIN Impact Skills Report is the first study focusing on impact investing skills since impact investments emerged in the market. The report provides a unique view on impact skills beyond the usual narrative around impact measurement and reporting.

The study is a milestone in the sustainable investment industry helping organisations and individuals identify knowledge gaps and trends. The report is organised into three key areas:

- Broad financial and non-financial skills that are relevant to impact practitioners
- An in-depth view on non-financial skills that are critical to the success of impact investments and to those that work in the impact/ESG industry
- A detailed assessment of how different investment practitioners perceive impact skills

The report's results combine a global survey with more than 250 respondents across 11 countries, an extensive literature review covering PRI signatories' report, studies produced by international organisations, and an independent peer review with more than 12 global experts from organisations like J.P. Morgan, BlackRock, KKR, and many others. In addition, the LIIN launched thecnical working groups to trevew the data and discuss critical impact skills; these groups were led by James Purcell (Group Head at Quintet Private Bank) and the LIIN Advisory team.

Contrary to many impact studies, the LIIN Impact Skill Report does not describe nor propose a "to-do-list" or best practices in impact investing skills. Instead, it provides a picture of the skills gap and views from different impact practitioners, ranging from private equity to fixed income professionals, from niche to mainstream impact professionals.

The LIIN report aims to instigate and provoke a discussion on impact skills that matter to practitioners and organisations and avoid the common "trap" to look at impact as a reporting tool or a measurability exercise that is advocated by many.

Key Takeaways

The Gargantuan gap between demand and supply of impact skills

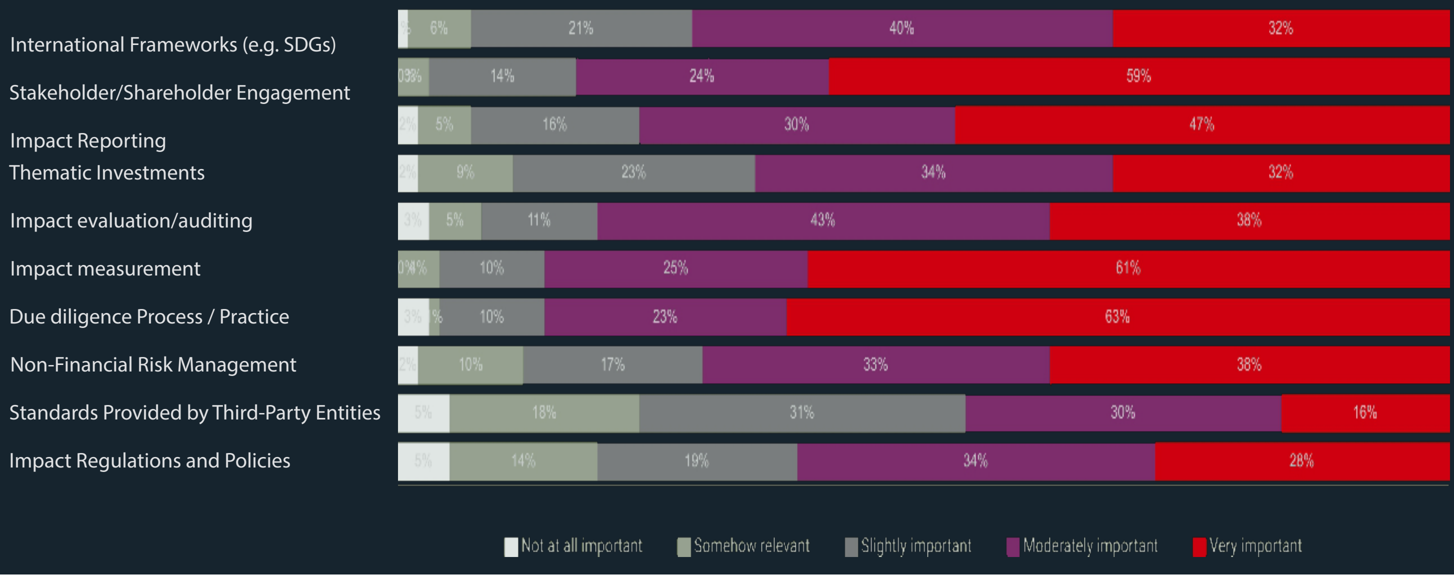
The LIIN Survey identified that 90% of respondents agreed on the gap of impact skills (non-financial skills) being the greatest challenge in the industry. A key concern is the lack of theoretical knowledge since 78% of the respondents agreed that the ambiguity of impact investing concepts and definitions affect the shortage of impact investing skills and its relevance to the organizations' operations.

Not all impact investing practitioners think and act the same

The LIIN Survey identified behaviour patterns among different types of impact professionals. For example, private equity practitioners are less knowledgeable in impact areas like regulations, independent impact verification, thematic investments and international frameworks, suggesting that about a half of the private equity respondents perceive impact skills differently from other peers.

Rethinking Impact Skills and their value to organisations

As the impact market evolves and increases in complexity, impact investing professionals need to expand their skills beyond measurability and typical impact management skills. The LIIN survey identified ten (10) key skills to be embedded and assimilated by impact professionals, based on their importance to businesses and operations. The figure below illustrates the ten skills based on their relevance by impact investing practitioners



Impact Profiles: comparing apples with apples

One of the most interesting results of the LIIN Survey lies in five types of impact investing practitioners. The study applied different data patterns to identify and design five different impact investing profiles, ranging from niche impact investors to finance first impact professionals. An impact profile model is an excellent tool to 'map' professionals' based on their skill set and perceptions, consequently helping organisations better organise teams and assess potential risks and opportunities when working with impact professionals. The five profile types:

Impact-First: Impact-first professionals are concerned about the 'purity' of impact investments and advocate for universal concepts and approaches to apply and replicate impact criteria in businesses, investments and organisations.

Harmonisers: These professionals care about the customisation of skills at all levels, including in asset classes. They also focus more on operational skills (due diligence, stewardship, impact evaluation and risk management) than other impact professionals' archetypes. Overall, harmonisers see non-financial skills as specialised and mutually dependent when assessing impact investments

Impact Streamliners: These professionals rank impact factors above financial criteria, without diluting or ignoring financial criteria when assessing investment opportunities. Impact streamliners are more flexible than impact-first professionals, and they value impact customisation (68%) in different environments (e.g. organisational culture, regions and countries) and approaches (e.g. asset classes, thematic investments). The key difference between impact streamliners and harmonisers is how they perceive international frameworks, regulatory conditions and market standards. For instance, impact streamliners are less inclined to see the value of impact regulation (37%) than harmonisers (55%).

Impact Agnostics: These professionals understand the value of impact factors in investments, but they look for clear proof of impact.

Impact agnostics agree that both financial and non-financial skills are needed to assess investments; however, they give priority to financial skills and criteria over non-financial skills.

Finance First: The vast majority of these professionals (70%) perceive impact principles, theories and approaches to be auxiliary tools, meaning that they view impact factors/skills as having minimal or no influence on how investment strategies are designed and how

The bottom-line

The report's results suggest that the vast majority of the respondents have a theoretical knowledge of impact skills but that fewer understand how to use impact skills appropriately in different contexts and circumstances. The lesson learned here is that in the same way that investment professionals need time to create an investment track record, impact practitioners need time and opportunities to improve their knowledge and skills in the industry.

Preeti
Sinha

General Secretary
United Nations Capital Development Fund

"This report could not be more in line with UNCDF's vision to harness the true power of capital, as it sheds light on the skills required to attract and nurture talents in impact investing.

Bridging the gap between impact and mainstream finance is essential, and this report contributes to an ongoing effort that we champion at UNCDF: to unlock the full sustainable development impact of capital."

UN CDF
Unlocking Public and Private Finance for the Poor

> This insightful report shows that mainstreaming impact investing will still require a lot of work to match that enthusiasm with the right skills. It's very heartening to see so many people excited to work in the area of sustainability and impact investing. This insightful report shows that there is still work to be done to match that enthusiasm with the right skills to mainstream impact investing. In particular, the impact investing space needs more of those who have already invested in developing strong conventional investment capabilities

Eric Rice

Head of impact investing

BlackRock

ABOUT THE **IMPACT SKILL REPORT**

Once a niche area, sustainable and responsible investments have become mainstream; as pointed out by J.P. Morgan, the 'broadly defined' environmental, social and corporate governance (ESG) and impact market is expected to reach a value of $45 trillion in AUM in 2020[1]. Impact investing, a subsection of the sustainable investing industry, is growing, both in size and maturity. As such, the latest Global Impact Investing Network (GIIN) report identified that more than $500 billion had been invested in impact by the end of 2019[2].

Impact investment's extraordinary growth is now shaping organisations, from farmland businesses in South Africa to start-ups in Silicon Valley. Fund managers, private equity groups, family offices, large pension funds and sovereign wealth funds are all now integrating impact principles into their strategies. Most of all, we can see impact investing criteria becoming embedded in EU policies and regulations (e.g. SFDR)[3].

Despite the progress made by organisations such as GIIN, the UN Principles for Responsible Investment (PRI) and Tonic to advocate impact investments over the last decade, a significant problem persists. This issue not only nurtures bottlenecks in the investment market but also supports unwelcome greenwashing practices. One of the major issues lies on the lack of sufficient professionals with impact investing skills in the industry[4].

The last two GIIN survey reports (2019 and 2020) noted that education and training is one of the three key areas shaping the impact investing industry's future; however, very few improvements have been seen in this area in recent years. As pointed out by the GIIN report, 'more than a half (of the respondents) indicated the number of professionals with impact measurement management (or IMM) skills is insufficient'.

Recent analyses[5] demonstrate that the market is thirsty for resources and guidelines to help organisations identify specialised professionals[6] in this industry and improve non-financial knowledge in the sustainable and impact investing field[7]. The difficulty in defining a common baseline for impact investing skills is perhaps rooted in its multidimensional nature, and the colossal challenge of integrating (non-financial) impact skills with the ingrained behaviours and processes of mainstream financial institutions.

As an impact community, LIIN decided to take on pioneering work in this field and launched the first global study of impact investing skills. The goal of this work is to demystify impact investment skills while bringing objective data on what matters to the industry. As such, the LIIN report aims to identify both the financial and non-financial skills required by impact investing professionals.

This report provides valuable information to individuals and organisations on the range of impact knowledge and skills required to succeed in the industry. The report can be used as a tool for human resources specialists, investors interested in assessing fund managers' skills in their selection process and university students interested in expanding their knowledge of impact investing skills.

Most of all, the LIIN report brings clarity and objectivity to the impact investing industry.

KEY GOALS

The goal of the report is to identify and assess the key non-financial skills required for impact investing professionals. The resources highlighted in this report can be used to:

- Feed directly into recruitment strategy, in particular candidate selection;
- Support the development of impact investing teams;
- Contribute to the fund manager selection process by integrating non-financial skills in the selection criteria;
- Assist professionals and students in identifying skills to be developed and improved; and
- Guide impact practitioners in identifying new skills and improving current impact skills.

STRUCTURE

LIIN takes a systemic approach to organise and communicate the key findings of the study. In that sense, information is organised as the following:

1. Methodology: concepts used and processes applied in the design of the report
2. Understanding the context and the conditions that affect impact investing skills
3. Organising critical factors that contribute to the shortage of skills in two levels: material factors and perceptions
4. First survey assessment: Control Group
5. Second survey assessment: Broad Investment Group
6. In-depth data analysis: lessons learned
7. Conclusion

Methodology

This section includes key information on the report methodology and the process to collect, review and analyse data. The methodology section includes:

LIMITATIONS AND CONDITIONS

The LIIN team didn't assess/review university programmes' curriculum on impact investments or ESG finance. The main reason for this decision was to avoid potential bias in defining and ranking non-financial skills to impact practitioners.

The working groups' target audience was impact investing practitioners, students (master's programmes), financial and investment analysts, professors, and senior managers of investment organisations interested in working/investing in the impact industry.

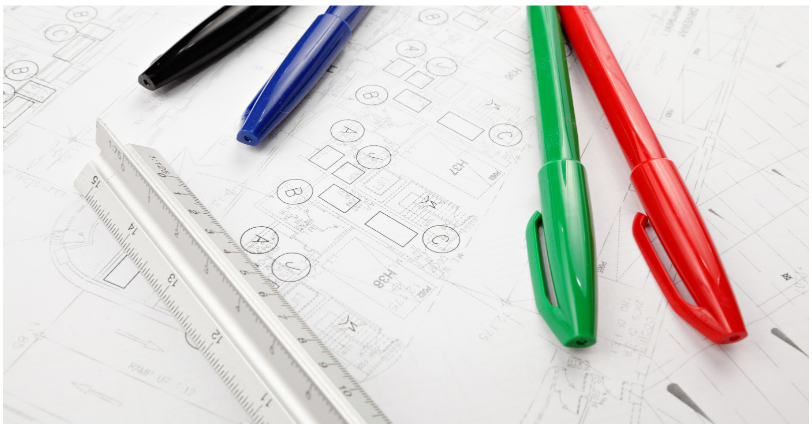
All data and results of this survey were reviewed by peer reviewers and by the LIIN Advisory Group. However, due to privacy policies (GDPR), all raw data is not available.

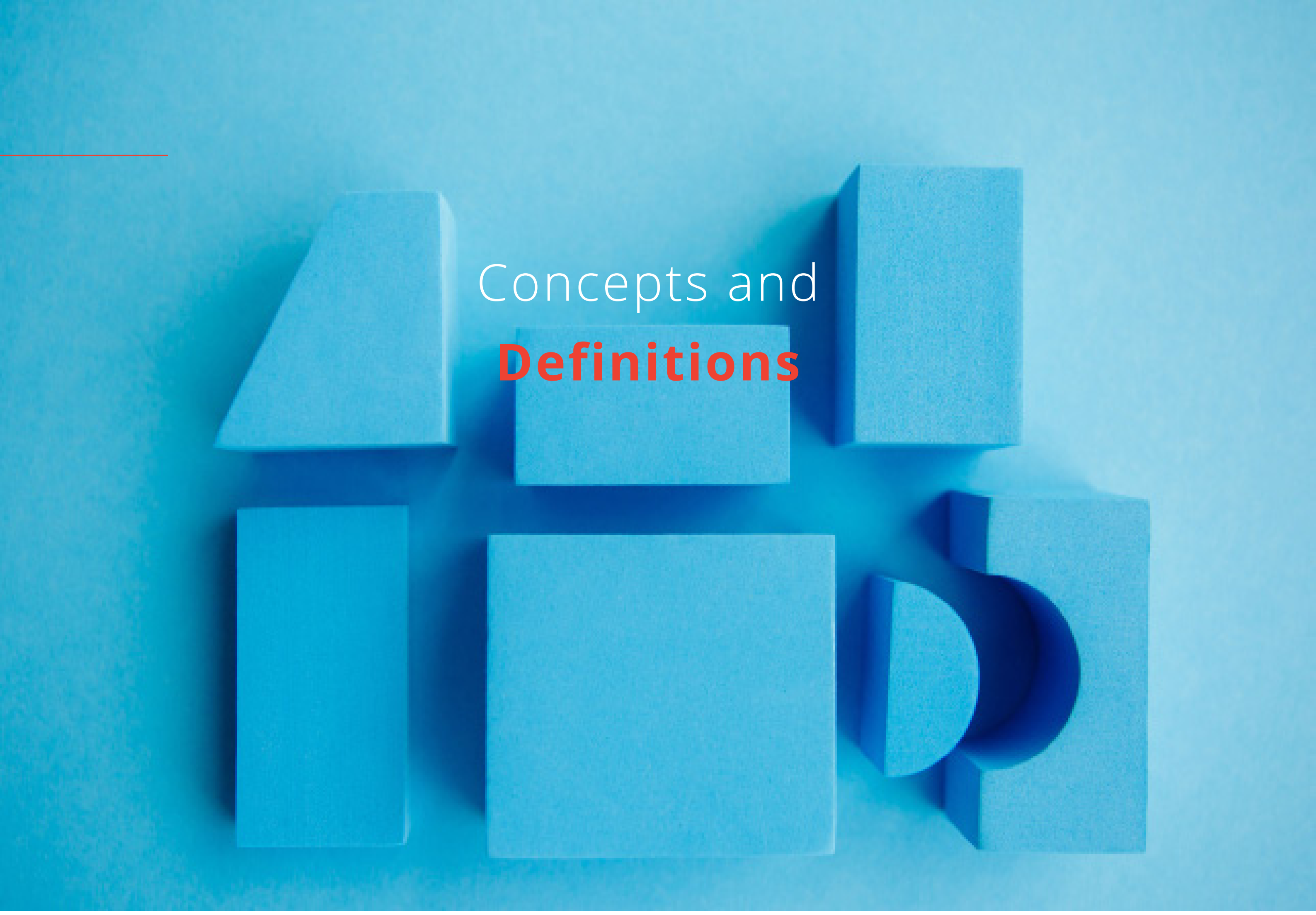
ADDITIONAL INFORMATION

To keep the impact community up-to-date, the LIIN Report on Impact Investments is designed to be published every two years.

The LIIN impact skill criteria and its methodology will be reviewed every two years.

The LIIN team will incorporate the impact investing education criteria in its online platform to support its members to organise their skills and identify areas for improvement.





Concepts and Definitions

Impact Investing

For better or worse, the definition of impact investing is broad and elastic.

To avoid misunderstandings on concepts, the LIIN adopts impact investing definitions used by international organisations and initiatives that influence the overall sustainable investing industry, such as IFC, GIIN and the United Nations agencies.

The LIIN defines impact investing by combining two complementary concepts:

"Investments that target measurable positive social, economic or environmental impact, alongside financial returns." **IFC Impact Investing Principles**[8]

"Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." **GIIN**[9]

GIIN defines *intentionality*[10] as activities, practices and investments that *"aim to solve problems and address opportunities"*; which implies that environmental, social and Governance (ESG) factors may complement impact investing strategies and operations - since it is risk mitigation strategy to reduce exposure to investments and companies' operations associated with non-financial risks. Hence, the LIIN includes ESG factors as a precondition for impact investments.

Environmental, Social and Governance (ESG)

Risk management is the cornerstone of ESG investing; it translates to non-financial factors and criteria as part of analysis processes to identify material risks and growth opportunities; develop plans and actions to mitigate or minimise risks and increase companies' (or projects') resilience[11].

The UN Sustainable Development Goals (UN-SDGs)

The rise of the SDGs complements both impact investing and ESG investing markets, helping organisations to strategize and integrate non-financial criteria in businesses.

Transition Finance

An investment concept where investments are made into organisations interested to shift towards more environmentally sustainable modes of operations and businesses. Hence, this concept doesn't focus on social or governance issues, rather on climate-aligned themes[12].

Materiality

Materiality is a core concept in financial accounting (and now, sustainability reporting) that encourages companies to manage toward and report on aspects of their business that potentially have significant effects (positive or negative) on people and/or the planet[13].

Process

The LIIN team organised the study into a five-process approach:
Part 1: Reviewing reports produced by the GIIN, PRI, Tonic, universities and leading organisations on impact education.
Part 2: Designing thematic working groups with a variety of impact practitioners to discuss key factors of impact investment skills, and
Part 3: Launching a global survey to capture data and validate assumptions and requirements highlighted in documents and working groups.
Part 4: Report draft and data assessment.
Part 5: Peer review of the report to impact investing experts in refining and improving the LIIN report.

Part 1: Literature Review

The LIIN team reviewed a variety of reports and studies about impact investing skills from:
1. Annual reports produced by impact and ESG associations like PRI, GIIN, Tonic.
2. Studies developed by international organisations such as OECD, IFC, United Nations
3. Frameworks, principles and tools designed by independent organisations, multilateral development banks, international organisations and global networks
4. Market research from private organisations, including UBS, HSBC, Triodos, JP Morgan, EY
5. University papers and articles from leading media companies in the impact and ESG space

The LIIN team collected relevant inputs and organised information based on the following themes:
- Common financial skills
- Common non-financial skills
- Skills trends and market trends (e.g. the rise of regulation in the impact space and importance of regulatory/policy knowledge)
- Industry challenges and opportunities (focusing on impact skills and education factors)

This work helped the LIIN team design an initial strategy to engage with working groups and draft the report.

Part 2: Working Groups

Working groups were organised to fulfil two purposes:
i) Have a transparent and democratic space where participants could share their impressions and opinions on impact investing skills, and
ii) Collect relevant information on both financial and non-financial skills aligned with impact investments.

The working groups helped the LIIN team to engage with impact practitioners and validate key points identified during the literature review work. The working groups were led by a non-LIIN member, managing the working group dynamic and consultation process. In total, there were more than 70 participants distributed in 4 working groups.

Part 3: LIIN Survey

The results of the working group process contributed to the design of two surveys:
1. An initial survey targeting working group members;
2. A more extensive survey was targeting the broad impact investing community.

Overall, the two targeted surveys reached more than 280 respondents in total. While the initial survey targeted network members, the second survey was addressed towards the broader investment community. Both of them were critical in leading towards the findings of this working group. While the first survey aimed to target the problems that contribute to the lack of impact investing skills, the second group focused on specific non-financial factors to help improve impact investing skills.

Part 4: Report Draft

The LIIN team drafted an initial report covering key inputs from the working groups, survey data and literature review. The report was then reviewed by seven LIIN Advisory Committee members and inputs included in the report.

Part 5: Peer Reviewers

To improve the report's accountability and transparency, the LIIN team invited 17 experts to review the LIIN report draft. Based on the inputs from LIIN Advisory Committee members and Peer Reviewers, the LIIN team drafted a final version of the report.

Arsalan
Mahtafar

J.P. Morgan Development Finance Institution

> As the impact investing momentum keeps growing, this timely report helps professionals understand the range of skills and approaches that are relevant to the field, as well as the obstacles and challenges that need to be resolved.

Pedro
Goudinho Ramos

KKR

> As impact assessment and measurement becomes centre stage to the financial community, we will need to train and support our next generation of leaders. LIIN highlights a path forward on the broad array of necessary skills and should help us make more informed decisions in hiring and retaining in the years ahead.

LACK OF IMPACT SKILLS
A PICTURE OF THE PROBLEM

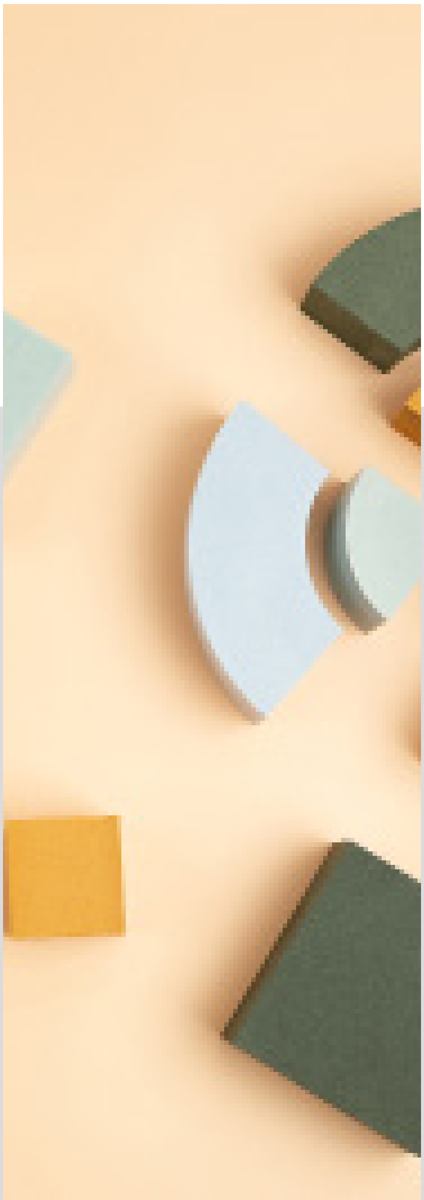
The ESG and impact investing space has grown rapidly in recent years – though from a relatively small base[13]. The market has more than tripled in size over the last decade and the broadly defined ESG and impact-aligned market was expected to reach a value of $45 trillion in AUM in 2020[14]. The impact trend is now shaping organisations and the investment community. For example, about 90% of S&P 500 companies produce sustainability reports[15] and non-financial indicators; and there is more than $100 trillion in AUM aligned (or expected to be aligned) with the UN PRI[16].

On the flip side, the market is witnessing the rise of greenwashing and questionable impact/ESG practices[17].

There are stark differences in the product offerings[18] and huge gaps between investors' expectations and reality[19], including uncertain approaches to balance financial and non-financial criteria; and independent mechanisms to verify impact claims.

The recent proliferation of impact investing funds, impact-aligned companies and investment vehicles imposes an additional burden on investors[20] and organisations interested in investing in this industry. As pointed out by the Financial Times, how can one tell when a business is genuinely motivated by social and environmental concerns and when its ESG/impact claims are hot air?[21]

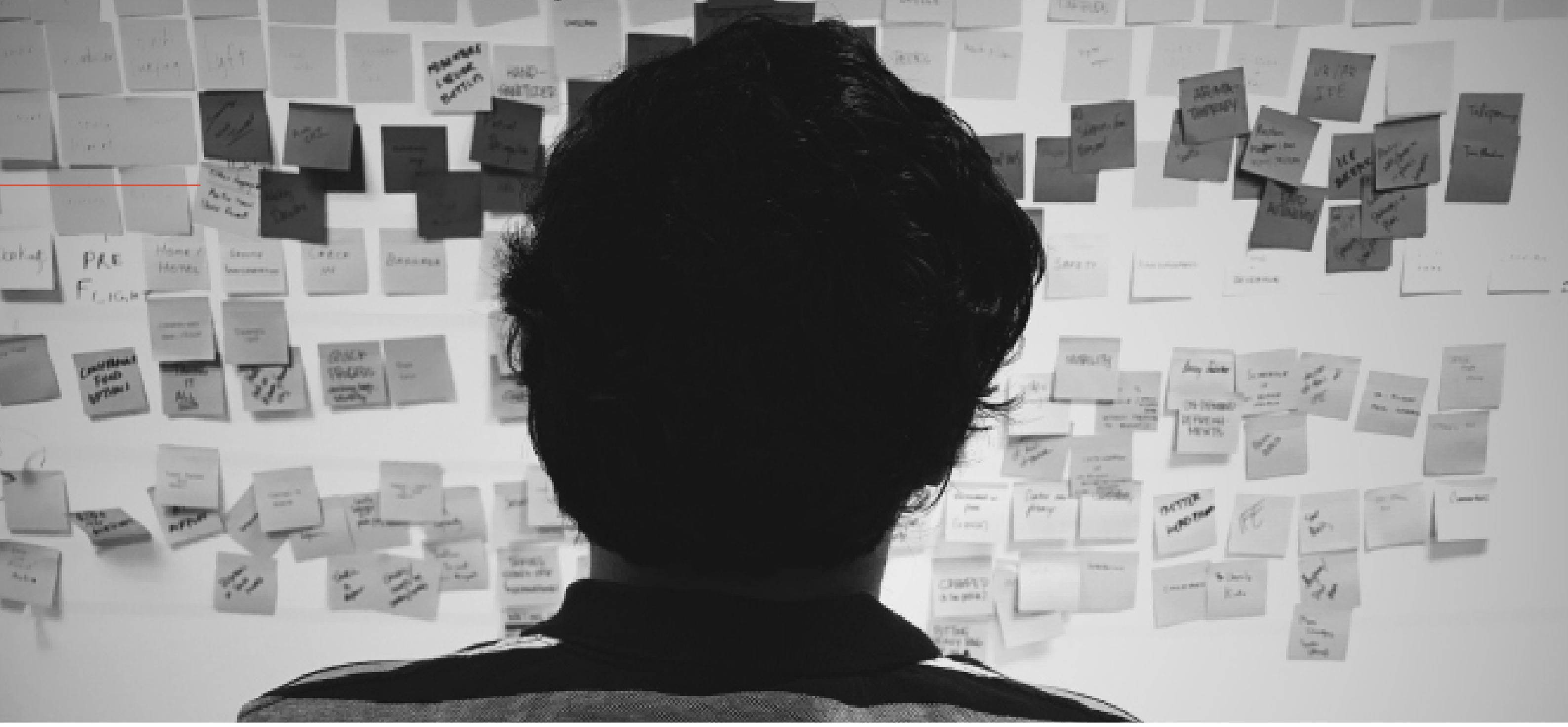
To curb negative practices, international organisations and impact-aligned associations have been developing specialist tools, such as frameworks and impact principles (e.g. the IFC Operating Principles for Impact Management, UNEP-FI Principles, the UK Impact Investing Principles for Pensions). Organisations such as SASB, GRI, TCFD and GIIRS are also helping investors and organisations to increase transparency and align their impact performance.



Still, very few impact investing firms or impact-aligned funds adopt such frameworks in their investment appraisal process and organisational strategy. For example, a study by Japan's $1.5 trillion Government Pension Investment Fund found that although external asset managers include measurement criteria to assess non-financial factors and risks, such measures are not included in actual engagement activities[22].

Despite the progress made by organisations such as GIIN, PRI and Tonic to advocate impact investments over the last decade, highly skilled impact investing professionals do not exist in sufficient numbers to meet the rapidly growing demands of investment managers who are placing ever more emphasis on having impact-orientated products in their line-ups. In GIIN's recent Annual Impact Investor Survey, more than half of the respondents agreed that an insufficient number of professionals have impact measurement and management skills. At the same time, 41% believe there are not enough people skilled in deal-making and structuring[23].

Recent articles from the Financial Times and specialist responsible investing magazines support these claims, highlighting that there are very few financial education programmes[24] that include the ESG and sustainability aspects, and that organisations are struggling to hire professionals knowledgeable in this field.



The difficulty in defining a common baseline for impact investing education is perhaps rooted in its multidimensional nature[25], since it needs to combine non-financial skills (impact) with financial practices (mainstream finance). However, the urgent question to be answered is:

What are the most valuable skills for impact investing professionals?

Before trying to identify the most valuable skills for impact investing professionals, it's important to first identify and frame the critical factors that contribute to the shortage of skills and finding its root-problem. To contextualise and frame the critical conditions that contribute to the shortage of skills and ultimately identify the root-cause. We identified two potential types of issues:

- **Material conditions:** Conditions (or the lack of requirements) that prevent impact skills to be acquired or developed.
- **Perception conditions:** Subjective conditions that prevent to impact knowledge (e.g. concepts, theories) be understood or harmonised across the broad investment industry.

The next two sections of the report explore these two potential areas that affect impact skills in the investment industry.

Material Conditions
KEY ELEMENTS THAT CONTRIBUTE TO LOW-LEVELS OF IMPACT SKILLS

To help to understand these factors, the LIIN team gathered information from recent GIIN and PRI reports and, most of all, collected inputs from impact investing practitioners[26] (via working groups and focus groups). Based on this work, we identified seven key factors:

LACK OF IMPACT EDUCATION OPPORTUNITIES

All respondents agree that there is limited availability of impact, ESG and sustainable investing educational programmes[27].

LACK OF CLARITY AND CAREER DEVELOPMENT

Too many organisations don't prioritise employee development[28]; since they don't have internal policies or metrics to reward and incentivise impact investing professionals; creating risks and complications to retain talents[29].

LOW-LEVELS OF IN-HOUSE TRAINING

The latest GIIN Survey '20 points out that only 37% of the respondents invest in capacity building (training) to improve ESG and impact skills of professionals.

DIFFERENT IMPACT STYLES IN REGIONS/COUNTRIES

As the impact industry expands, we notice substantial regional differences (US vs. EU) in impact concepts and factual-based approaches[31]. And some countries, mainly in Asia, still merge concepts of impact and philanthropy. Hence, we could argue that the shortage of impact skills depends on the cultural differences and the diversity of understanding of what impact investing is.

LACK OF INNOVATION IN IMPACT APPROACHES

Based on the last GIIN survey[30]; less than 15% of the respondents focus on updating fundamental investment theories or fundamental methodologies to improve impact investing methods. Hence, the data suggests low levels of in-house innovation and unadequate integration with impact trends (SDGs) and compliance

LACK OF LEADERSHIP AND ORGANISATION SUPPORT

Based on PRI and GIIN reports (including signatories' report), many impact investing funds and organisations that don't have specialised impact team or a member of senior management responsible for impact investments.

GREAT SPECIALISATION AND COMPLEXITY

Recent developments in ESG/impact investing industry demonstrate the complexity of non-financial skills around the impact-aligned policies (EU Green Deal, Paris Agreement); industry compliance (i.e. TCFD); reporting criteria (i.e. PRI, GIIN), investors' relations and engagement; ESG/impact stewardship activities, and other demanding skills in the impact industry[32]. However, there are few professionals that detain specialised knowledge in non-financial performance. For instance, a CFA study[33] reported that only 11% of investment professionals are equipped to understand ESG/ sustainability data and analysis.

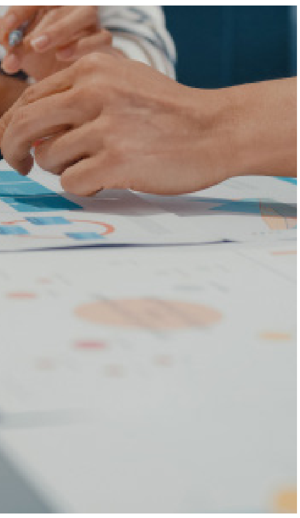
Perception Factors: **OLD PROBLEMS, SAME OLD APPROACHES**

The strategic engagements with +70 working group members helped 'map' market perceptions about impact investments. For example, most participants agreed that outdated concepts persist in the industry, influencing negatively how impact investing is perceived by mainstream investors and senior management.

The LIIN gathered qualitative data on this matter and identified three types of 'outdated definitions' or 'binary perceptions' that prevents impact knowledge to be accessible and harmonised in the investment industry:

IMPACT FIRST VS FINANCE FIRST

The debate about impact first vs financial returns first is an ongoing topic in the impact and "mainstream" finance industry. This debate originated about 10 years ago, when many investors (private equity and venture capital) were trying to distinguish impact investments from blended finance and philanthropic programmes[34] (including corporate social responsibility - CSR).



Also, there was a certain stigma about impact investing scalability[35] and maturity. For example, some impact investors were investing in early-stage investments that required some degree of blended finance (usually partially funded by multilateral development banks, government agencies and foundations). As a result, there were very few impact-aligned opportunities[36].

As of today, the impact investing market is sufficiently mature to align financial and non-financial impacts, not necessarily in equal shares.

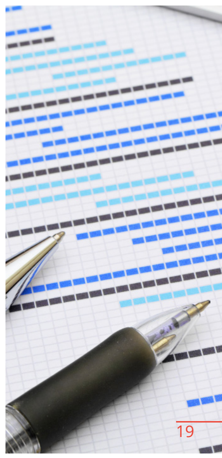
IMPACT NICHE VS MAINSTREAM IMPACT

As highlighted by PRI's Impact Investing Market Map, impact investing inches from niche to mainstream. Differences between these styles are relative and depend upon an organisation's impact strategy and operations[37].

IMPACT REPORTING VS IMPACT VALIDATION (VERIFICATION)

It is fair to say that self-reporting (without indenpendent verification) is the single most significant contributor to greenwashing[38].

As pointed out by IFC Impact Investing Principles, it is not about reporting companies or investments' impacts, but also having mechanisms and processes in place to verify their impact claims[39].



LIIN **SURVEY**

Presenting key findings

The LIIN team organised and launched two independent and complementary surveys to assess impact investing skills. The surveys reached a combined 280 respondents across 11 countries:

1. First Survey: An initial survey targeting working group members, targeting 76 respondents and,

2. Second Survey: A more extensive survey was targeting the broad impact investing community, targeting 210 respondents.

Shade Duffy

Director of Impact Management,
Impact Investing
AXA Investment Managers

"

In the past few years I have only seen Impact Investing going in one direction: growth.

This growth comes along with challenges and one of them is finding the right people that bring investment skills and impact skills to the table.

The LIIN report addresses those challenges and thus lays an important foundation for overcoming those challenges in the future.

OVERVIEW
FIRST SURVEY RESULTS

ABOUT THE FIRST SURVEY AND STRUCTURE

The first survey assesses 76 respondents' inputs, mapping the critical factors that contribute to the lack of impact investing skills, focusing on financial and non-financial criteria. We included:

Two profile questions:
1. Participants' background
2. Participants' experience in the impact investing industry

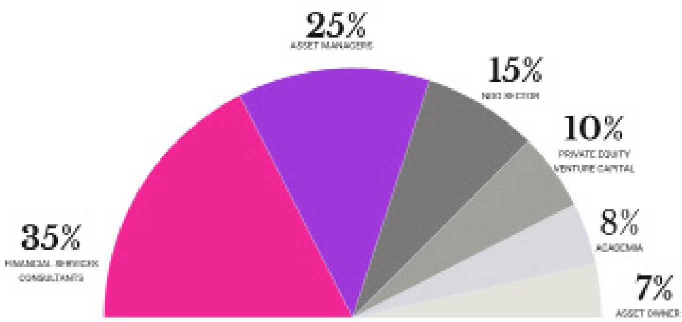
Six (5) specific questions/topics:
1. Which investment skills tend to be missing for professionals to become impact investing professionals (IIPs)?
2. Which particular impact skills tend to be missing among "classic" investment professionals?
3. List and rank financial skills lacking in impact investing professionals
4. List and rank of non-financial skills lacking in impact investing professionals
5. Do you think organisations invest more in training of impact or finance skills?

And two open questions about:
1) How your organisation perceives impact investments?
2) How important is impact investment factors/criteria to your organisation?

Fig. 1

Respondents'
BACKGROUND

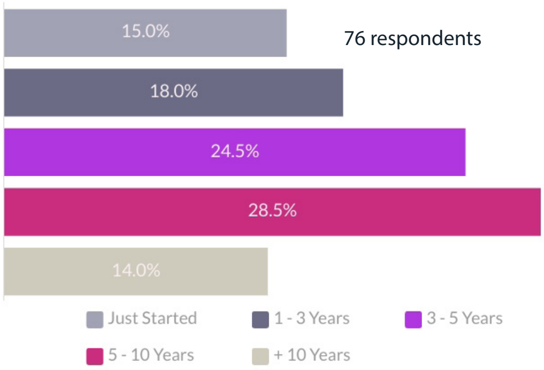
76 respondents



Respondents'
EXPERIENCE

Fig. 2

76 respondents



Overall, we see a concentration of backgrounds from the asset management industry (25%) and financial services (35%). Interesting enough, respondents from the not-for-profit sector were 15%. Looking at seniority levels, 42.5% of the respondents were senior impact investing professions with five or more years of experience in the impact industry.

SPECIFIC QUESTIONS

The working group discussion coalesced around two questions about on two independent but complimentary skillsets':

Which investment skills tend to be missing for professionals to become impact investing professionals (IIPs)?

And

Which particular impact skills (non-financial skills) tend to be missing among investment practitioners?

When asked about impact skills, respondents frequently identified '**investment track record'** (60%) as the missing expertise, followed by '**fundamental financial analysis'** and '**portfolio management skills**' both identified by 55% of respondents.

Further analysis shows that of the respondents who selected the investment track record, 31% were represented by Private Equity & Venture Capital, three times the survey sample representation's weight. Experience levels had no significant impact on the responses.

An interestingly point to be made is that the "investment track report" (60%) might not be considered a skill per se, but an investment "field experience" – a combination of skills that individuals obtain over time in a particular sector/industry/theme. The data demonstrates that the impact investing industry is lacking skills not only at the knowledge level, but also at the professional practice level.

Respondents' views: lack of financial skills

Fig. 3

Another finding is how participants rank two complementary and interconnected skills:

- Fundamental financial analysis
- Financial risk management

For example, half of the participants (55%) stressed the lack of basic financial skills as a critical factor in developing impact investing skills.

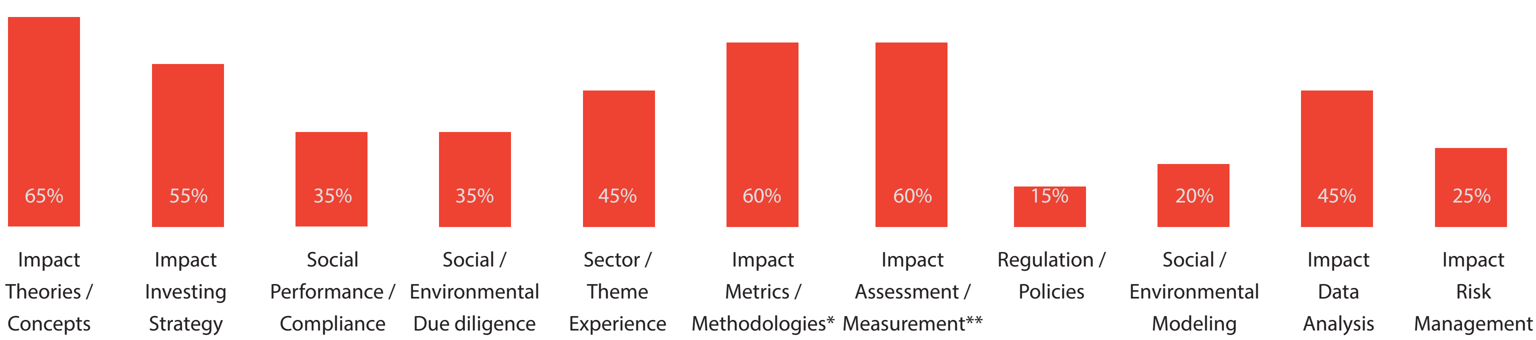
However, the same group of respondents identified that financial risks skills (30%) and advanced and complex investment knowledge are more abundant and accessible in the impact investing industry and across the impact investing professionals.

Needless to say that the data demonstrates contradictions between respondents' perception of the lack of basic knowledge in investments (broad knowledge) and specific investment skills (specialised knowledge). Additional insights on this matter are discussed in the following sections.

The figures 3 and 4 provide aggregated information on the shortage of financial and non-financial skills in the impact investing landscape:

Fig. 4

Respondents' views: lack of non-financial skils



Based on the survey responses, there are three critical areas that explain the gap of non-financial skills in impact professionals:

- Impact theories and concepts (65%)
- Impact assessment and measurement (60%)
- Impact metrics and methodologies (60%)

A further examination of the respondents based on their experience levels and backgrounds demonstrated no significant changes in the overall results of three critical factors above.

We put to the survey respondents a qualitative question about organisations' perceptions of impact investing.

78% of the respondents agreed that the ambiguity of impact investing concepts and definitions affect the shortage of impact investing skills and its relevance to organisation's operations.

Also, 52% of the respondents highlighted the 'lack of leadership' as a crucial bottleneck to embed and develop impact investments skills in organisations.

Footnote:

** Impact Metrics / Methodologies: A theoretical knowledge that includes the understanding of different indicators and methods to quantify and qualify impact claims.*

*** Impact Assessment: A practical skill where a professional applies a broad range of methodologies and strategies to assess organisations' and investments' impact.*

When asked whether the lack of impact or investing skills provided the most significant bottleneck, **90% of respondents agreed that gap of impact skills (non-financial skills) is the greatest challenge in the industry.**

Also, the data shows that most participants agreed that organisations are interested in investing and operating in the impact industry. Still, the wrong incentives and the lack of knowledge limit the ability to develop new impact products or make them aligned with investor demands.

The most unexpected finding was about the participants' views between general impact knowledge (theories, concepts) and skills (applied knowledge).

We organised non-financial 'skills' into two categories:

- **Knowing what**: Common information or theoretical concepts that are part of and influence the impact investing industry.

- **Know-how**: Applied knowledge (professional skills) utilised to perform a task or action, such as a due diligence process.

For the survey methodology, both categories were merged into a single question (ranking non-financial skills lacking in impact professionals). The exercise aimed to identify whether the respondents understand these types of knowledge and how they rank them. The table below demonstrates the shortage of impact skills predominantly relates to conceptual knowledge.

Respondents' views: lack of non-financial skils

"KNOW-WHAT" Theory	"KNOW-HOW" Practice
Impact Investing Metrics/Methodologies **(60%)**	Impact data analysis **(45%)**
Impact concepts and theories **(65%)**	Due diligence process **(35%)**

Dr Kim Schumacher
Lecturer in Sustainable Finance and ESG | School of Environment and Society | Tokyo Institute of Technology

> It is important to note that passion and awareness for sustainability issues do not equate material ESG subject matter expertise, hence its is crucial for impact investment practitioners and impact investors to assure that they are able to underpin their aspirations with proper skills and knowledge.

OVERVIEW
FINAL SURVEY RESULTS

The LIIN Second Survey (final survey) provides detailed information on the key non-financial skills that are required to impact aligned professionals.

ABOUT THE FIRST SURVEY AND STRUCTURE

The results of the first survey helped to understand key impact investing drivers and skills gaps (both financial and non-financial skills).

With that in mind, the second survey focuses on identifying and ranking critical non-financial skills and how these skills are applied in different contexts. The second survey focuses on ten questions, organised as:

Profile questions:
1. Participants' background
2. Participants' experience in the impact investing industry

Non-financial skills questions:
1. Do you agree that impact investing skills can be operationalised differently depending on the organisation's nature, size and investment focus? For example, would a pension fund apply impact concepts and approaches differently than a private equity firm?
2. To you, what type of skill is more relevant when assessing an impact investment opportunity?
3. In your opinion, which skills are more relevant to support organisations with their impact proposition and sustainable strategy (e.g. impact and SDG factors)?
4. Do you think organisations invest more in training of impact or finance skills?
5. Do you agree that thematic investments (e.g. investments in water, health, education) require specialised non-financial skills?
6. Do you think a particular asset class requires specialised non-financial skills? For example, would you apply specialised impact due diligence approaches when assessing investment opportunities in the listed market? (Select as many options that apply)
7. Please assess the impact skills from the list below, based on their importance to the impact investing market.
8. Do you agree that impact skills (non-financial skills) can be applied differently when investing in different countries and regions (especially in emerging economies)? For example, can impact investing approaches (e.g. due diligence processes, data collection, impact measurement) that work in the UK be successfully replicated in other countries, like Ghana?

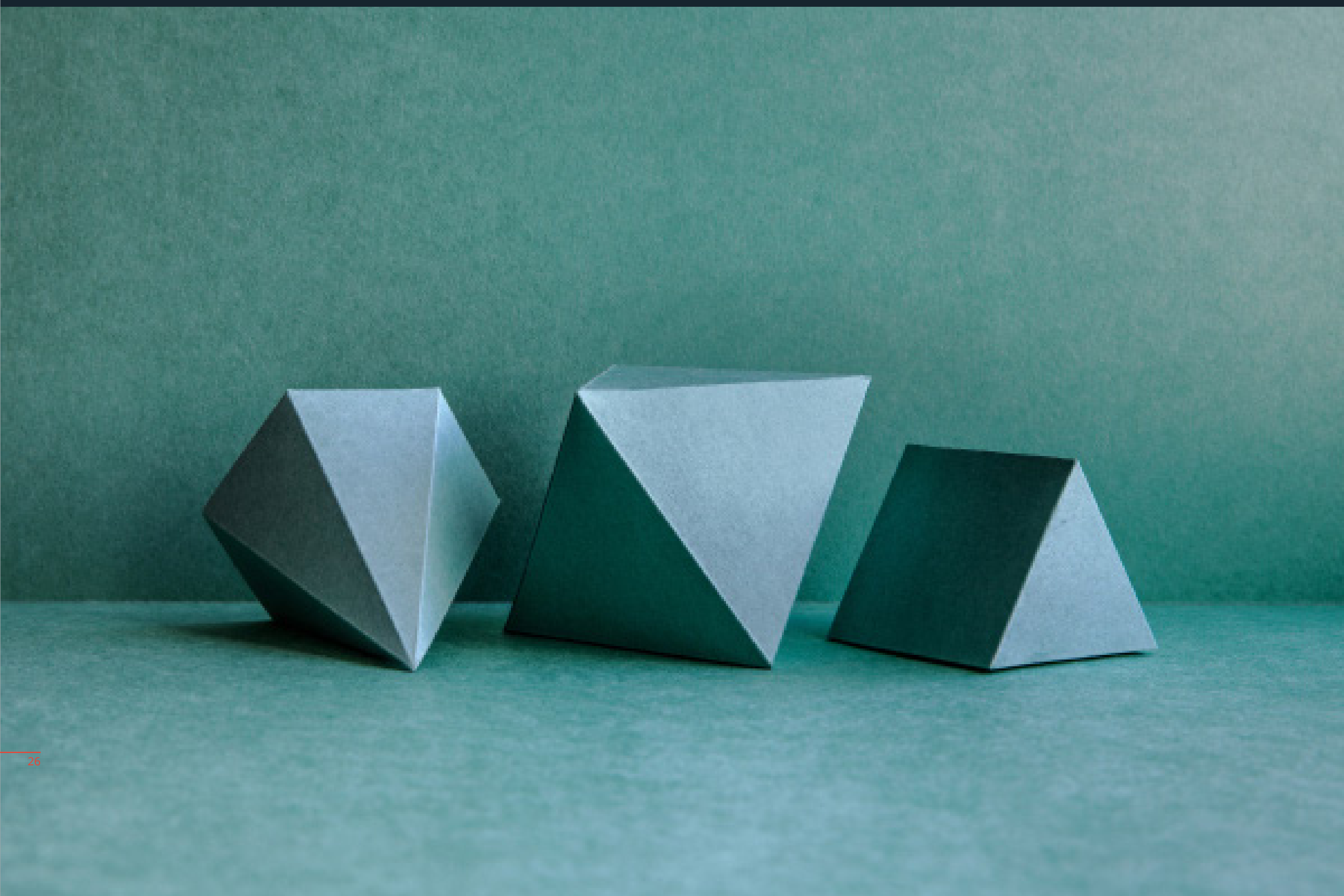
The following sections of this report presents the key findings of these questions and provides relevant insights based on data aggregation and data patterns.

James
Purcell

Group Head: ESG, Sustainable and Impact Investing

Quintet Private Bank

> Impact investing professionals are perceived to lack financial skills. Accurate or not this perception potentially marginalises impact professionals in many mainstream organisations.



RespondentS'
BACKGROUND

210 respondents

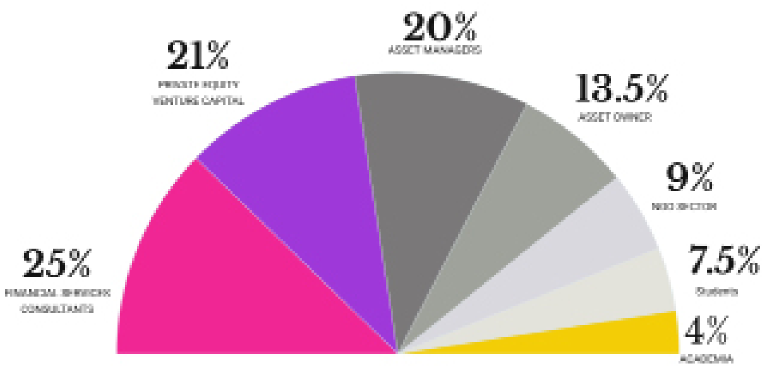


Fig. 5

RespondentS'
EXPERIENCE

210 respondents

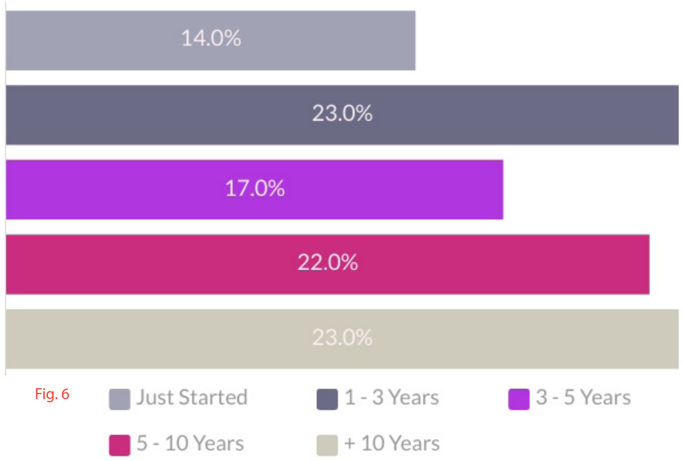


Fig. 6

11 COUNTRIES

All respondents work with impact investments and initiatives.

210 Respondents

The seniority of the second sample's demographic was superior to the one of the first survey. The group that described itself as "just started" represented 14%, 1-3 years of experience came in at 23%, 3-5 years of experience represented 17%, 5-10 years of experience 22% and more than 10 years of experience represented 23%.

IMPACT INVESTMENT SKILLS AND ORGANISATION'S NATURE

The LIIN team identified that organisations perceive and applied impact investing skills differently[41]. For example, some private equity firms have a systemic approach to integrate impact factors in the organisation's investment processes, while some large asset managers take a more surgical approach on impact investment, focusing on integrating impact factors into specific funds or internal practices[42]. Based on this initial data, we asked the survey participants:

Do you agree that impact investing skills can be operationalised differently depending on the organisation's nature, size and investment focus?

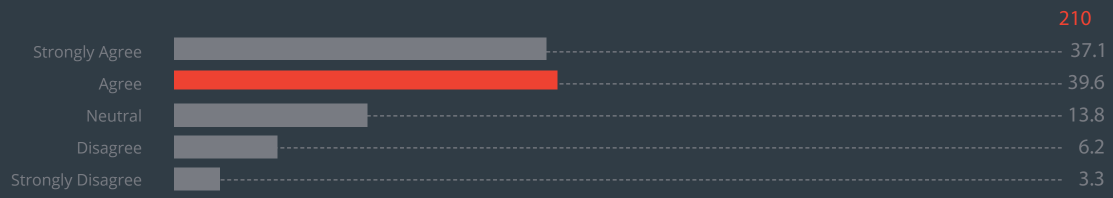
Many participants agreed or strongly agreed with this statement, with those two answers catching

76%

of all answers.

DO YOU AGREE THAT IMPACT INVESTING SKILLS CAN BE OPERATIONALISED DIFFERENTLY DEPENDING ON THE ORGANISATION'S NATURE, SIZE AND INVESTMENT FOCUS?

Fig. 7



An observation here is that experience levels make a difference regarding the answer choice to this question. If we look at the number of respondents that agreed or strongly agreed with the statement above, we find that the group "just started" represented the smallest demographic with 11.5%, while respondents with more than 5 years of experience agreed and strongly agreed at minimum to 50%.

LOOKING AT EXPERIENCE OF THE RESPONDENTS THAT 'AGREE' AND 'STRONGLY AGREE'

The groups that disagree or strongly disagree with the statement above represent 17 (8%) of the total survey participants and predominantly work in financial services and consultancy (35%).

When looking at the same question from the perspective of a professional background, roughly the same answering trends could be observed but with a broader range of levels of agreement:

Fig. 9

Respondents:	*Asset Owners*	*Asset Managers*	*Private Equity*	*Financial Services*	*Non-Profit*	*Academia*	*Students*
Strongly Agree	61.11%	34.15%	38.64%	41.18%	12.50%	80.00%	15.00%
Agree	27.78%	58.54%	29.55%	45.10%	37.50%	0.00%	35.00%
Neutral	5.56%	7.32%	18.18%	3.92%	43.75%	0.00%	30.00%
Disagree	5.5.6%	0.00%	11.36%	3.92%	6.25%	20.00%	5.00%
Strongly Disagree	0.00%	0.00%	2.27%	5.88%	0.00%	0.00%	15..00%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

IMPACT
OPPORTUNITIES & STRATEGIES

Aggregating results based on profiles

This section focused on core attributions of impact investments when assessing investment opportunities and designing impact strategies. Respondents are organised and aggregated into specific groups/profiles.

The LIIN asked the survey respondents two questions:

What type of skill is more relevant when assessing an impact investment opportunity?

And

Which skills are more relevant to support organisations with their impact proposition and sustainable strategy (e.g. impact and SDG factors)?

To assess both questions, the LIIN team used a scale (from 1 to 100) to help rank skills based on two extremes of the importance:

0 100 points (skills relevance)
investment skils

0 100 points (skills relevance)
non-financial skills

Then, the LIIN Team organised the responses into five equal parts to categorise respondents' views on impact investments skills and/or knowledge.

For the purpose of the study, the LIIN team did not work on a qualitative assessment of the skills points, but focus on respondent's objectuve perceptions on the most valuable skills to impact investing practitioners.

Additional work on these categories is covered in the following sections of the report, including a profile of impact investing practitioners

1. Impact first: individuals that ranked 80 points or more in **non-financial skills as the most relevant factors to assess an impact investment opportunity.**

2. Finance first: individuals that ranked 80 points or more in **financial skills as the most relevant factors to assess an impact investment opportunity.**

3. Impact more important than finance: respondents that ranked 61 to 79 points on a scale of **impact being more important than investment skills.** This category highlights that individuals understand the value of financial skills, but it is a secondary skill to be applied when assessing an impact investing opportunity.

4. Finance more important than impact: respondents that ranked 61 to 79 points on a scale of **financial skills being more important than non-financial skills.** This suggests that non-financial skills are important, but financial skills are the main driver and skill to be used when assessing an impact investment opportunity.

5. Harmonisation of skills: respondents that ranked 40 to 60 points on a scale of **impact and financial skills set are equally important to assess investment opportunities.** This category demonstrates no hierarchy between financial and non-financial skills but an alignment to assess investment opportunities using different skillsets.

ASSESSING IMPACT OPPORTUNITIES

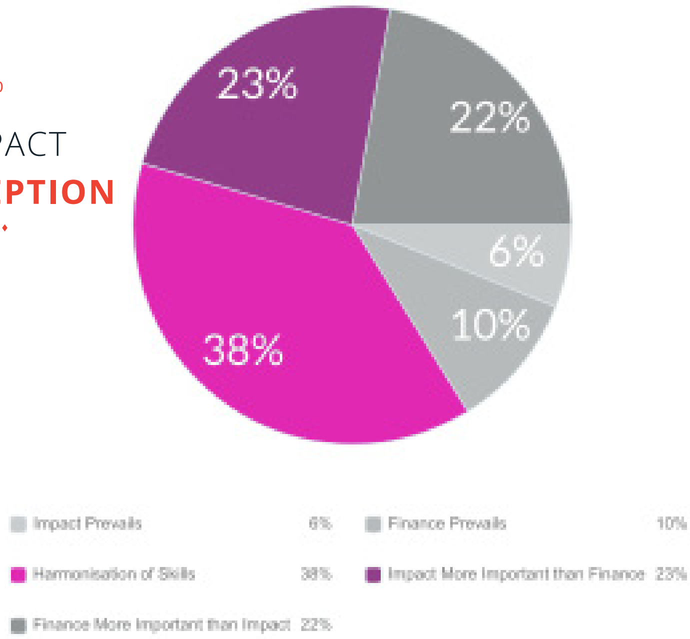
Contrary to mainstream investments, impact investments demand to investment practitioners a certain expertise in non-financial skills to assess investment opportunities. This section of the report focuses on professionals' perceptions on this matter when assessing investment opportunities.

The LIIN team first examine what impact practitioners perceive as the most valuable skills to identify investment opportunities. The next charts and illustrations are organised using the five categories highlighted in the previous page:

i) impact first,
ii) financial first,
iii) harmonisation of skills,
iv) impact more important than finance, and
v) finance more important than impact.

Fig. 10

IMPACT
PERCEPTION



The initial results show that most survey participants advocate the harmonisation of independent and complementary skills (both financial and non-financial skills). This means that impact and financial skills do not have defined hierarchical importance when assessing investments.

As seen in figure 10, about 38% of the respondents agree that impact and financial skills should be equally aligned when assessing an investment opportunity, where 23% of the participants agree that impact skills (non-financial skills) should be slightly more critical when evaluating impact investments.

Also, the figure 10 shows that the concept of "impact first Vs finance first" is outdated and does not resonate with the majority of the impact practitioners of the LIIN survey[43].

In that sense, the LIIN team did a deep-dive analysis to understand and contextualise results based on different backgrounds, experience levels and other impact conditions[44].

When we break down the data on backgrounds, we found interesting patterns. For instance, financial services and venture capital/private equity professionals are more inclined to focus exclusively on financial skills to assess impact investing opportunities.

For example, **57% of PE/VC professionals agree that finance skills should be the primary driver or be more important than impact skills to assess opportunities.** On the flip side, 38% of asset managers and 28% of asset owners agree that impact non-financial skills are more important and the key criteria when looking for impact investments.

Fig. 11

Respondents:	*Asset Owners*	*Asset Managers*	*Private Equity*	*Financial Services*	*Non-Profit*	*Academia*	*Students*
Finance First	0.00%	5.00%	25.00%	10.00%	00.00%	0.00%	5.00%
Impact First	4.00%	8.00%	2.00%	8.00%	18.00%	20.00%	10.00%
Harmonisation of Skills	44.00%	40.00%	30.00%	37.00%	20.00%	40.00%	50.00%
Impact More Important than Finance	24.00%	30.00%	11.00%	27.00%	16.00%	40.00%	20.00%
Finance More Important than Impact	28.00%	5.00%	32.00%	18.00%	2.00%	0.00%	15..00%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

“

The report represents the first worldwide study of the complex and broad set of core skills required to scale the impact investment market. It uncovers the sheer breadth of capabilities that are needed in order to succeed as an impact investment professional and, in doing so, it should serve as an important tool for investors, HR professionals and anyone looking for a point of entry into this rapidly expanding industry.

Rebecca Perlman
LIIN Advisory Board Member and Co-Chair of Impact Investment at Herbert Smith Freehills LLP

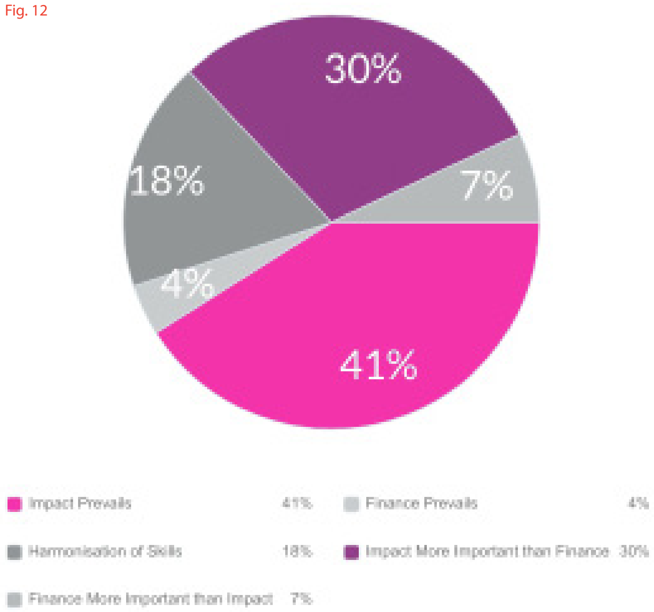
ASSESSING IMPACT STRATEGIES

In the recent past, many have seen impact investing strategy as an ad-hoc approach to align financial and non-financial criteria in the investment decision. However, new investment trends and the rise of non-financial regulation and compliance (e.g. SFDR, EU Taxonomy, TCDF) impose a different interpretation of how impact strategies are integrated into investment decisions and businesses.

Regarding the most relevant skills to support organisations with their impact proposition and sustainable strategy The data shows that 71% of the respondents agree that impact skills (non-financial skills) are more important than financial skills to support organisations with their impact proposition and sustainable strategy.

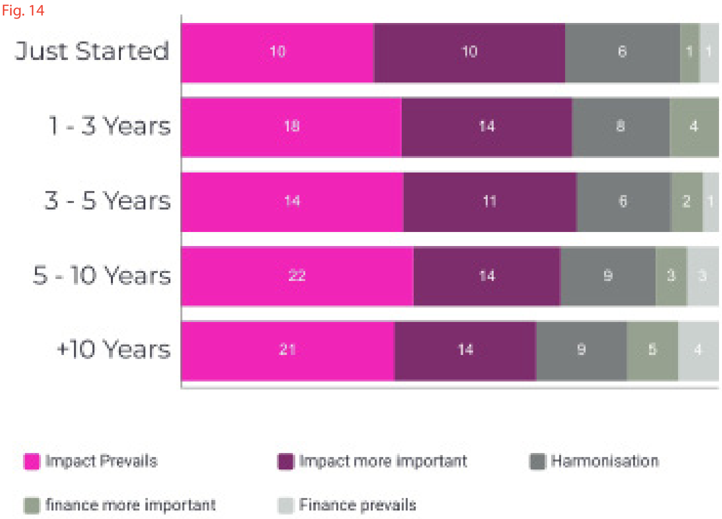
IMPACT **PERCEPTION**

Fig. 12



We looked at the data based on different backgrounds and professional experience. The next figures (14 and 15) provide detailed information on the profile of impact practitoners based on their views about impact strategy.

Fig. 14



The figure 14 reinforces previous data regarding harmonisation of skills and backgrounds. For instance, seniority matches the perception that non-financial skills are required to formulate sustainably and impact investing propositions.

Fig. 13

Respondents:	*Asset Owners*	*Asset Managers*	*Private Equity*	*Financial Services*	*Non-Profit*	*Academia*	*Students*
Finance First	0.00%	0.00%	14.00%	8.00%	0.00%	0.00%	0.00%
Impact First	44.00%	55.00%	27.00%	37.00%	60.00%	60.00%	35.00%
Harmonisation of Skills	24.00%	15.00%	16.00%	18.00%	36.00%	20.00%	30.00%
Impact More Important than Finance	20.00%	20.00%	30.00%	27.00%	0.00%	0.00%	35.00%
Finance More Important than Impact	12.00%	10.00%	14.00%	10.00%	4.00%	20.00%	0..00%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

IMPACT SKILLS

APPLIED IN ASSET CLASSES

Assessing perceptions on specialised impact skills in asset classes

It is commonly known that specialisation skills lead to increased productivity and organisations' output. The LIIN survey asked impact-aligned professionals about their views on specialised impact skills (non-financial) to work with specific asset classes.

The investment industry is highly specialised. It is common to see organisations with teams that operate in specific sectors, themes, industries, regions and asset classes.

Asset classes, like private debt and private equity, have been around since the beginning of the impact investing industry. And other types are becoming popular (e.g. impact bonds) and more accessible to impact investors[45]. Based on these factors (skill specialisation and expansion of impact investments in different asset classes), we asked:

Do you think a particular asset class requires specialised non-financial skills?

Responses varied across backgrounds and experience levels. Overall, 65% of the survey participants agree that impact skills are equally applied in all asset classes. The remaining respondents (35%) disagree about the uniformization of impact skills.

Looking at the data of the respondents that disagree with the statement above (35% of the respondents), we found that:

66% of the respondents agree that impact investing approaches and skills need to be customised depending on the organisation's nature, size and investment focus.

36% of the respondents agree that impact skills and financial skills should be specialised and harmonised when assessing investment opportunities; and

60% of the respondents believe that impact investment skills need to adapt and be customised to different countries and regions.

The results show that about a third of the survey participants recognise that impact skills are highly customised, and specialised skills need to be in place when assessing opportunities based on asset classes, regional conditions, organisations' nature, etc.

It is important to say that the data does not indicate that the respondents are against the standardisation of impact skills. Instead, that impact skills need to be operationalised (know-how) and put in place (know-where) depending on external and internal factors.

That might be the case of impact practitioners that have experience in emerging economies, where external factors like political risk, cultural differences, and economic conditions play an enormous influence on how investments are assessed and made[46].

The data gives us a lot of food for thought, and further work needs to be done to assess assumptions and understanding of impact practitioners' perceptions on customised skills.

IMPACT SKILLS AND **GEOGRAPHIC FACTORS**

Applying impact investing skills in different countries and regions

It is fair to say that each country has its own culture, independent regulatory system, economic dynamics, social and political factors and geographic conditions. Hence, many corporations need to adapt their products and services to regional factors.

Based on the context above, we asked the survey participants:

Do you agree that impact skills (non-financial skills) can be applied differently when investing in different countries and regions (especially in emerging economies)?

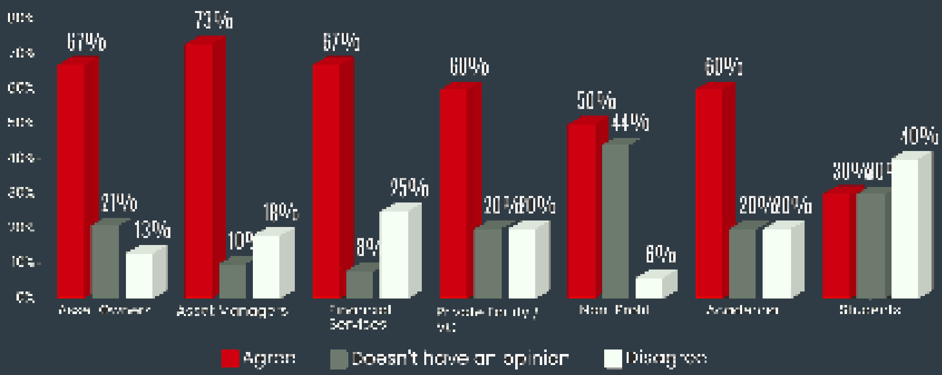
For example, can impact investing approaches (e.g. due diligence processes, data collection, impact measurement) that work in the UK be successfully replicated in other countries?

The results provide a good picture of the industry. For instance, 63% of the survey participants agree that regional factors influence how impact investing skills are applied.

When looking at the profile of the respondents, we see great alignment across different backgrounds.

DO YOU AGREE THAT IMPACT SKILLS NEED TO BE CUSTOMISED AND APPLIED DIFFERENTLY WHEN INVESTING IN DIFFERENT COUNTRIES AND REGIONS?

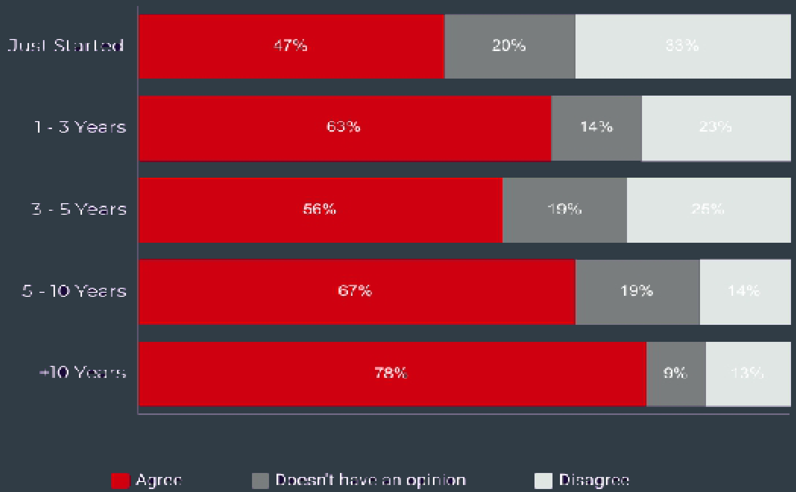
Fig. 15



The figure 15 shows similar responses among asset owners, asset managers and financial service providers. However, the data highlights that private equity professionals and academia (40%), students (70%) and non-profit professionals (50%) do not have an opinion or disagree that impact skills can be customised to address specific country and regional conditions.

LOOKING AT RESPONDENTS'S VIEWS BASED ON THEIR PROFESSIONAL EXPERIENCE

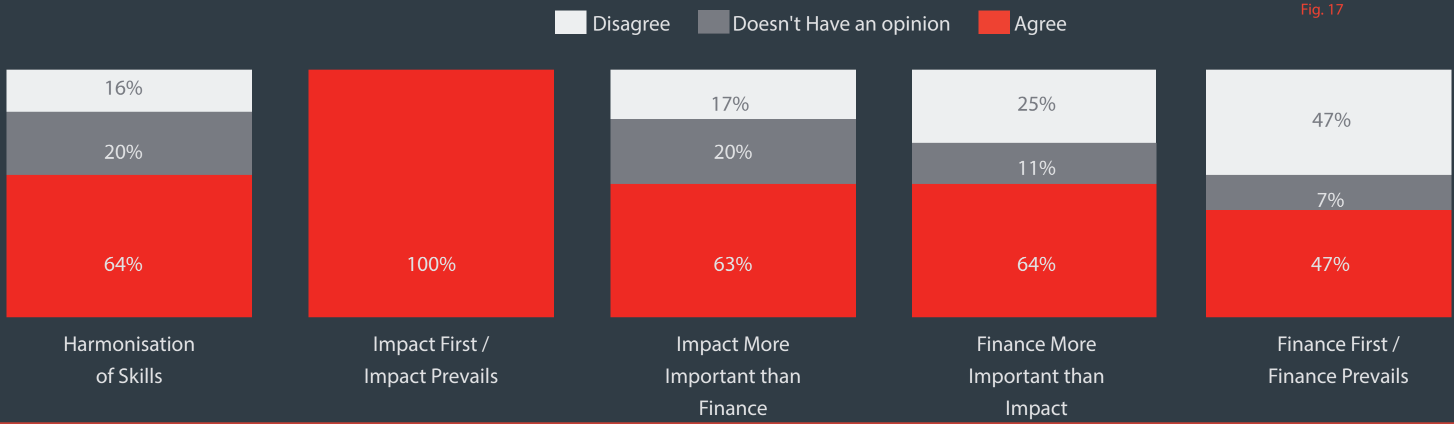
Fig. 16



The illustration (figure 16) on the left provides additional insights into the topic. We see a correlation between professional experience in impact investments and the perception that impact skills need to be customised to regional and external factors. Also, we see a positive alignment between impact investing skills customisation with those survey respondents that advocate for harmonisation of impact skills (see references in previous sections). For more information on the categories below, please see LIIN's classification on page 28.

RESPONDENTS VIEWS ON IMPACT CUSTOMISATIONS (GEOGRAFIC CONDITIONS) BASED ON RESPONDENTS IMPACT INVESTING PERCEPTIONS

Fig. 17



KEY INSIGHTS

For better or worse, impact skills customisation is a piece of essential knowledge for investment professionals that operate and invest in emerging markets. We reviewed several studies and reports about thematic investments in emerging economies and the applicability of impact-aligned frameworks in different countries. This exercise helped to identify three external factors that can influence and shape impact skills:

THE POWER OF COLLECTIVE PERCEPTIONS

Some countries have a systemic approach to defining and working with impact investments, ESG, green finance, etc. However, not all these views are equally shared with other countries. Hence, the diversity of perceptions on impact investments (and consequently, their skills) are highly volatile depending on the country's collective perceptions on impact investing[47].

IMPACT SKILLS BEYOND MEASUREMENT SKILLS

Impact-aligned regulations and government policies can influence the development or requirement of new impact skills. For example, recent developments in Europe (at EU level) demonstrate great alignment between impact principles and regulatory frameworks: the new EU rules on what can be considered a sustainable investment fund could become the global standard[48]; this includes the EU Taxonomy, the EU Green Deal, reporting requirements such as Sustainable Finance Disclosure Regulation (SFDR) and specific policies in thematic investments, such as sustainable forestry[49].

ADAPTING THEMATIC INVESTMENTS TO COUNTRY'S CONTEXTS

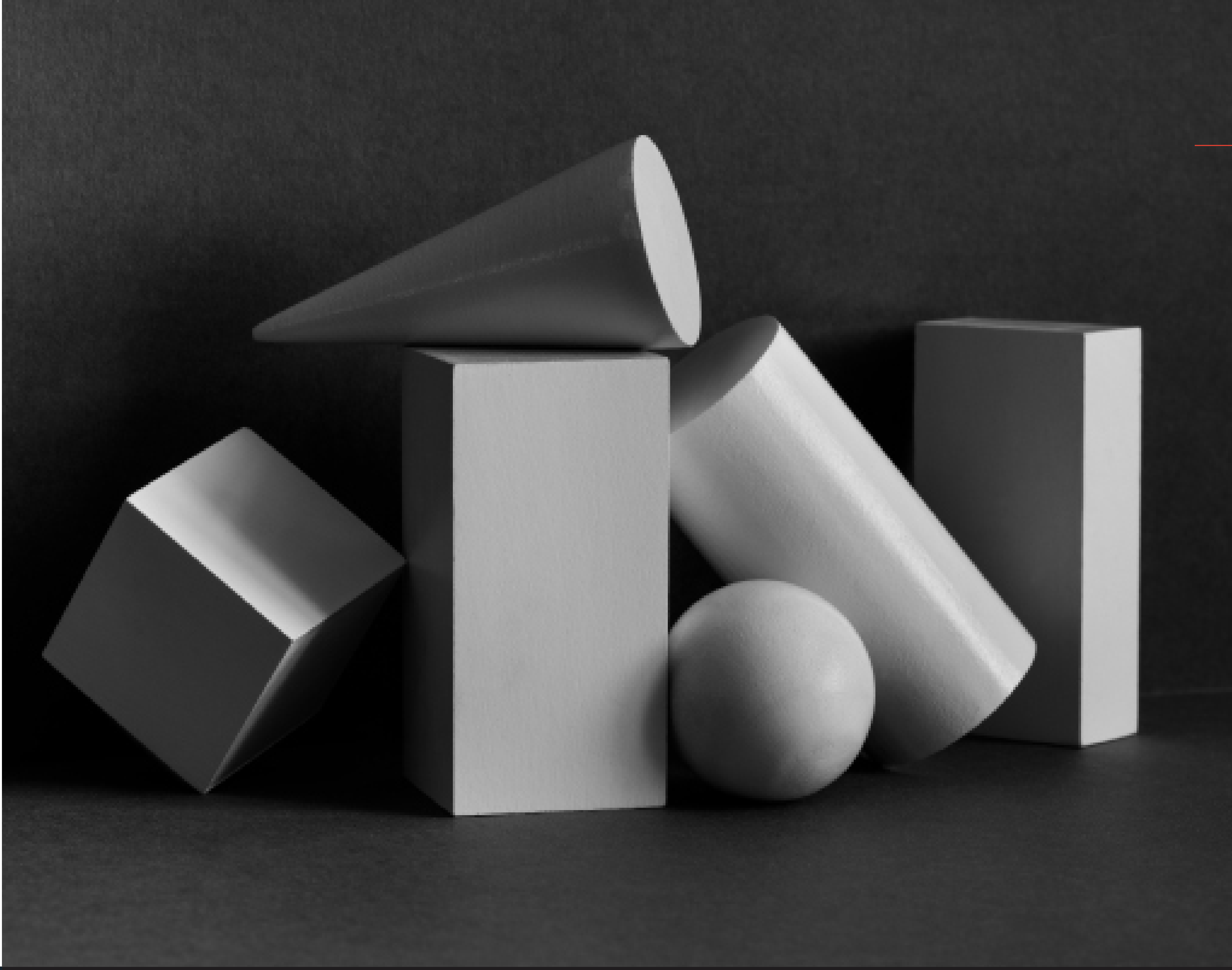
Microfinance is an excellent example of how investments adapt to local realities and externalities. Over the past decades, the microfinance industry (or inclusive finance) developed principles and approaches to minimise its risk exposure (both financial and non-financial risks). Examples of frameworks like the PIIF[50] and SPTF[51] define standards and best practices to embed external factors in investments and operations.

Oscar
Farfan

Senior Investment Officer

Inter-American Development Bank

> “The LIIN Impact Skills Report is truly a landmark study that will help shape the impact investing market going forward. It is probably the first organized effort to understand, classify and determine gaps in impact skills across multiple asset classes.



“

I have been a social entrepreneur at heart for many years and I truly enjoy the fact of more and more private capital flowing into the impact sector. Nonetheless, it is crucial that we uphold the standards that define the core of impact investing. In doing so, we require increasing numbers of qualified professionals understanding both sides of the story – impact and financials - and I believe the reports highlights this fact very strongly.

Dr. Andreas Rickert
CEO Phineo / Co-CEO Nixdorf Kapital

MAPPING THE MOST **RELEVANT IMPACT SKILLS TO PROFESSIONALS**

Identifying key skills to impact practitioners

Until now, the LIIN survey took a journey to identify respondents' views based on how impact skills are applied in different contexts (e.g. geographic conditions) and conditions (e.g. asset classes). The following pages explore and discuss specific impact skills (non-financial skills) considered the cornerstone to impact investing practitioners[52].

As part of a broader exercise to shape the LIIN survey and accommodate a more inclusive debate on impact investing skills, the LIIN team developed a series of thematic meetings with experts in the impact investing field.

At first, the LIIN team, together with an external moderator[53], organised specific working sessions where impact practitioners discussed the practical knowledge and the required skills to work in the impact industry.

As a result, we identified and validated with working group members 10 impact skills that are considered crucial to practitioners who work in this field.

These skills were organised into two groups:

- **Theoretical knowledge or broad knowledge** (e.g. impact concepts, theories)
- **Applied knowledge** (i.e. impact measurement).

For the survey, respondents could rank one or more skills based on five levels of importance, from 'not important' to 'very important'.

Next page provides information and a short description of the 10 impact skills (applied knowledge) used in this report:

International Frameworks and Guidelines

The UN-SDGs, the UNEP-FI Sustainable Insurance Principles and other guidelines and international frameworks result from multistakeholder governance that can impact investment decisions, processes and engagement between investment organisations and governments, companies and society.

Stewardship

A practical and strategic knowledge to engage with public companies to promote corporate governance practices consistent with encouraging long-term value creation for shareholders in the company.

Impact Reporting

Practice that focuses on communicating non-financial data to targeted audiences (both internal and external). Impact reporting can be used for corporate compliance, marketing purposes, clients' engagement and other strategic communication plans.

Impact Thematic Investments

It is a specialised knowledge on thematic areas such as sustainable forestry, microfinance, renewables. Practitioners of impact themes understand the requirements, best practices, guidelines and frameworks to invest in specific sectors, industries and areas.

Impact Evaluation (auditing)

Also known as impact verification. It is a strategic knowledge to assess and verify impact claims and practices developed by investors, companies and investment vehicles. Impact evaluation provides an independent view (auditing) of targeted impact claims, improving investment practice transparency.

Impact Measurement

Practice to identify, track, monitor and report non-financial performance of investments and operations. Practitioners can use various tools, metrics and frameworks to measure the impact of investments both at portfolio and company levels.

Impact Due Diligence

A complementary activity to assess the impact conditions and factors of a specific investment opportunity. Impact Due diligence is a dynamic process where practitioners assess a variety of non-financial factors such as direct and indirect impacts and primary and secondary impact of investments, companies, and projects.

Non-Financial Risk Management

It is a practice of identifying, assessing and controlling threats to an organisation's impacts and operations. Also, it requires strategic knowledge on how to avoid, minimise or mitigate specific non-financial risks to help investments be more resilient and sustainable.

Standards from Independent Organisations

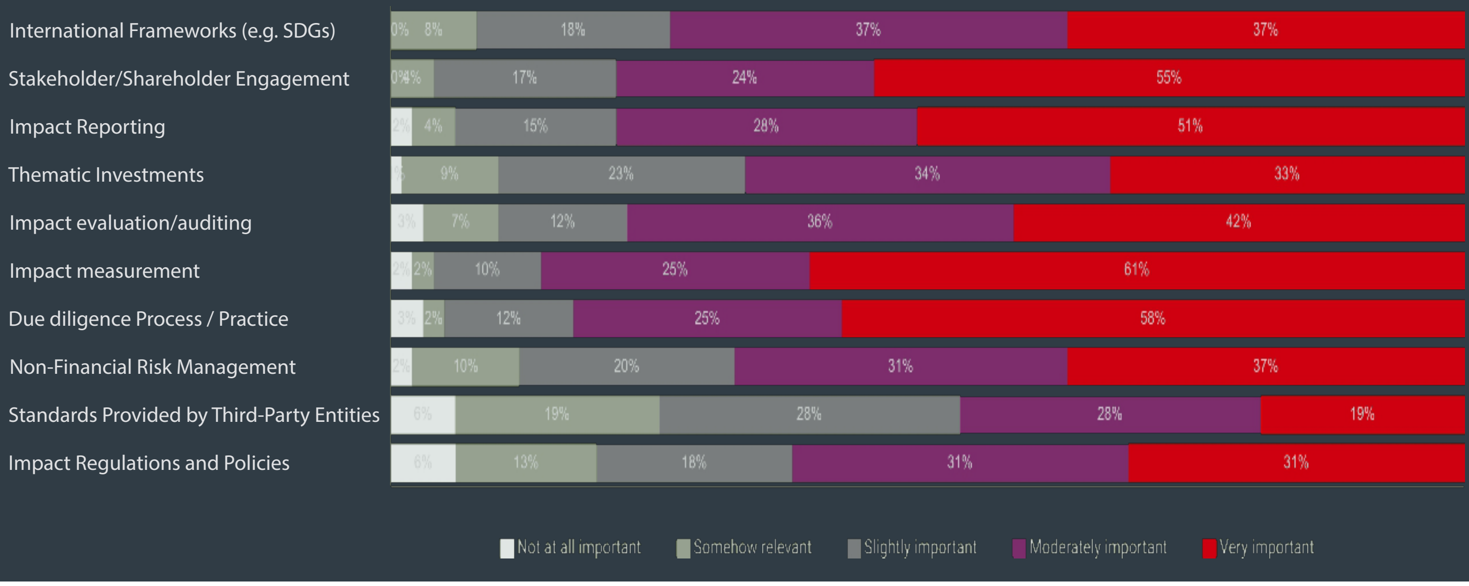
A sub-section of international frameworks and thematic investments. The knowledge of standards, such as ISO, REED+ are critical to some thematic investments or complementary knowledge to international frameworks.

Impact-Aligned Policies and Regulations

A specialised knowledge on policies developed by international organisations, governments and supranational-governments (European Union). Impact-aligned regulations may require investors to comply with reporting exercises, standardise communication and processes (e.g. EU Taxonomy).

Fig. 18

NON-FINANCIAL SKILLS: RESPONDENTS'S PERCEPTIONS AND IMPORTANCE



The figure 18 shows similar results between the two surveys, mainly on the three most essential impact skills (very important and moderately important):

- impact measurement (86%),
- due diligence process (83%)
- shareholder engagement or stewardship (79%)

Also, we see a great alignment between the lack of impact skills (identified in the first survey) and the skills required to "do the impact job" (identified in the second survey and highlighted on the figure 18.

Another interesting piece of data is that the majority of the respondents (62%) agree that regulation and impact-aligned policies are relevant to impact skills. We may assume that the remaining respondents are not aware of regulatory trends and their impact on the investment industry[54].

A similar pattern surrounds 'market standards skills'; where only half of the respondents (47%) agree that such a skill is critical to assess impact opportunities. It is possible to argue that many respondents are not aware of impact principles and standards required in operate in climate-aligned bonds[55] and thematic investments[56].

DETAILED VIEW ON IMPACT SKILLS

The previous section gives us the big picture of the most valuable skills for impact practitioners. But it is essential to allocate and rank these skills in the right audience and with the right professional groups. As such, the LIIN team disaggregated the results into groups, focusing on backgrounds and experience levels.

To present meaningful data, Information is organised into three categories:

- Low importance (aggregated categories 'not important' and 'somehow important')
- Average importance or slightly important
- High importance (aggregated categories 'moderately important' and 'very important')

The following charts provide more granular data on impact skills in specific sectors of work.

I was encouraged by the findings and fully agree that the perspective of impact first v finance first is outdated. Hence, I am pleased to see that some high quality business schools and universities are currently allocating increased resources into new programmes of Impact Education. The research shows where the industry perceived skills gaps are located and is therefore a useful resource for educators to know what teaching materials are required.

Karl Richter
Lecturer, Frankfurt School of Finance and Management & Executive Director, EngagedX

HIGHLY RANKED SKILLS

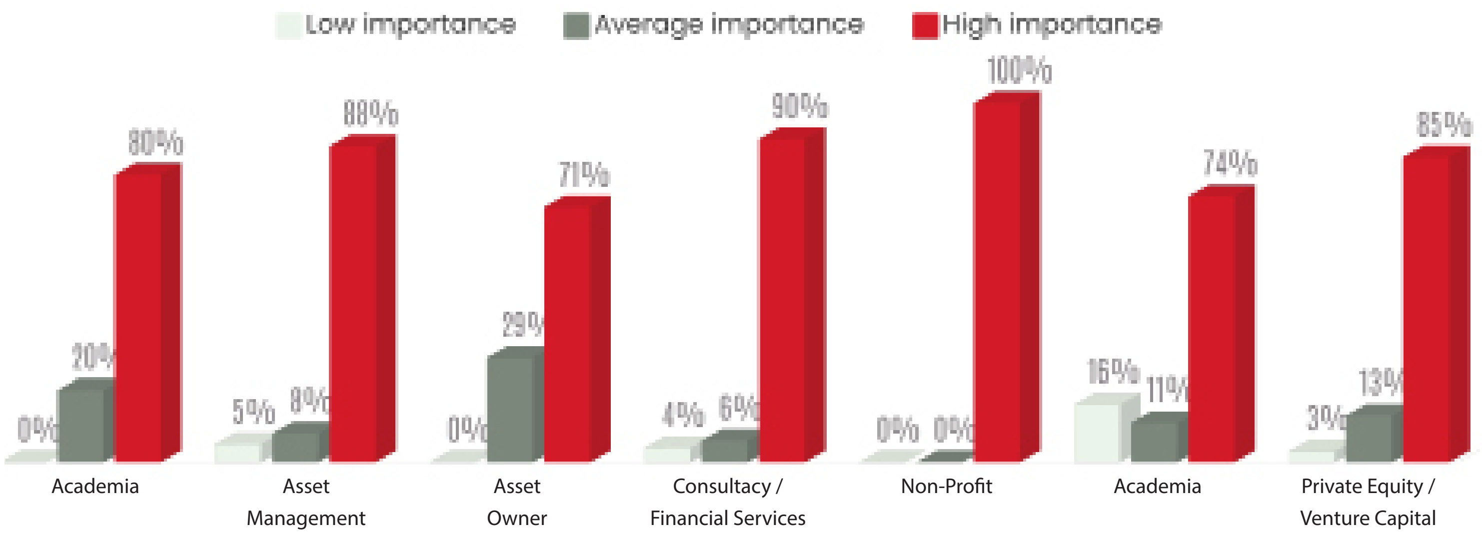
This section covers impact skills that are similarly ranked by various groups of impact practitioners. There are four key skills identified regardless of groups, backgrounds and experience levels:

- Impact measurement
- Impact due diligence
- Impact reporting
- Stewardship / Shareholder Engagement / Investee engagement

The majority of the skills highlighted in previous pages are aligned with previous reports from the GIIN and other impact-aligned organisations. It is interesting to see that 'impact due diligence' is included as one of the most important skills for practitioners and an information that is not identified as relevant by previous impact reports. The figures below highlight the value-add of the targeted skills to the broad impact practitioner community.

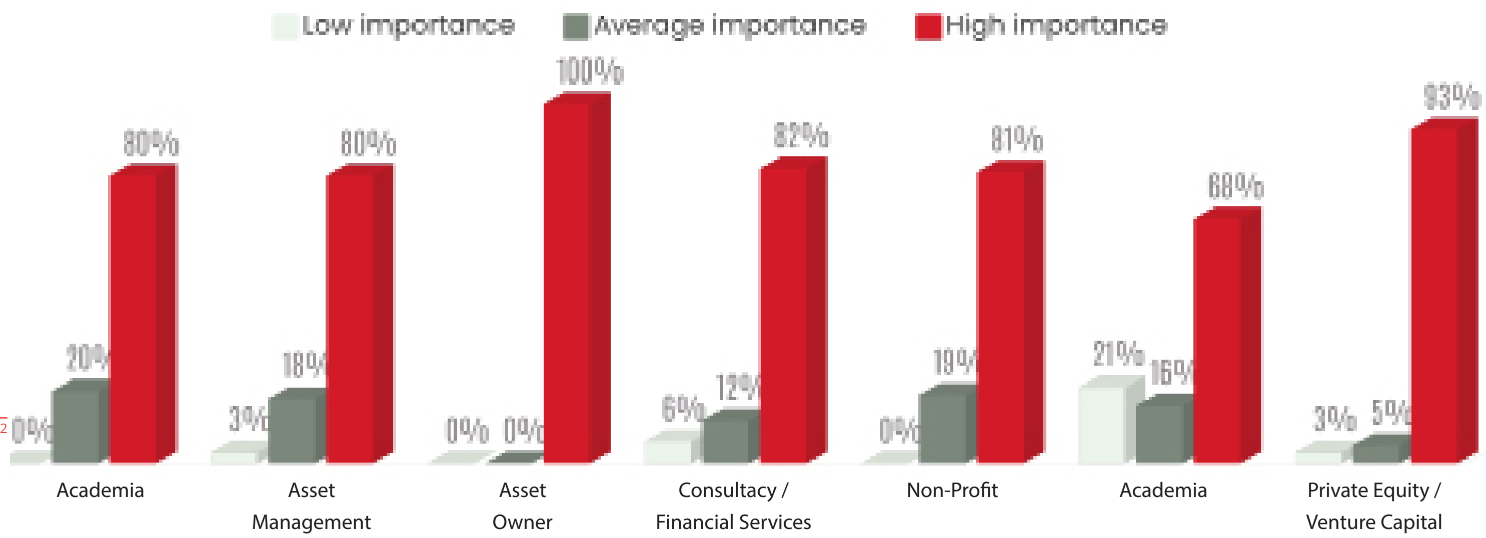
IMPACT MEASUREMENT

Fig. 19



IMPACT DUE DILIGENCE

Fig. 20



Don Gerritsen

Regional Director
Principles for Responsible Investment (PRI)

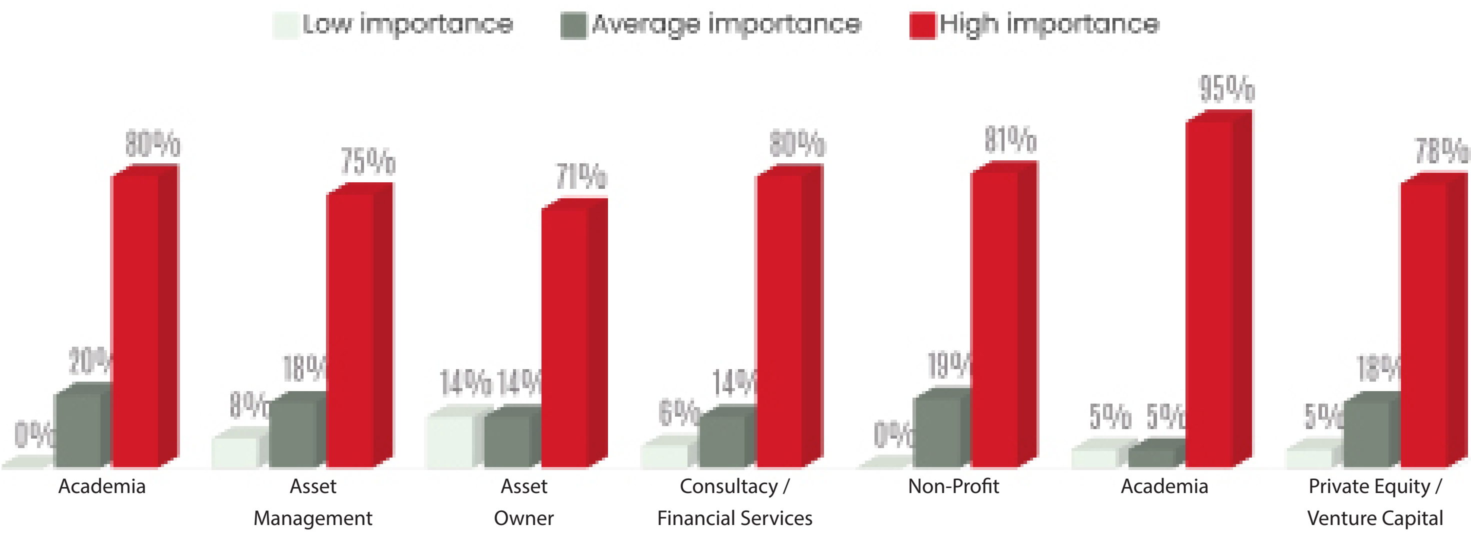
“

As this report shows, there’s a fierce competition for leaders with strong financial and impact skills.

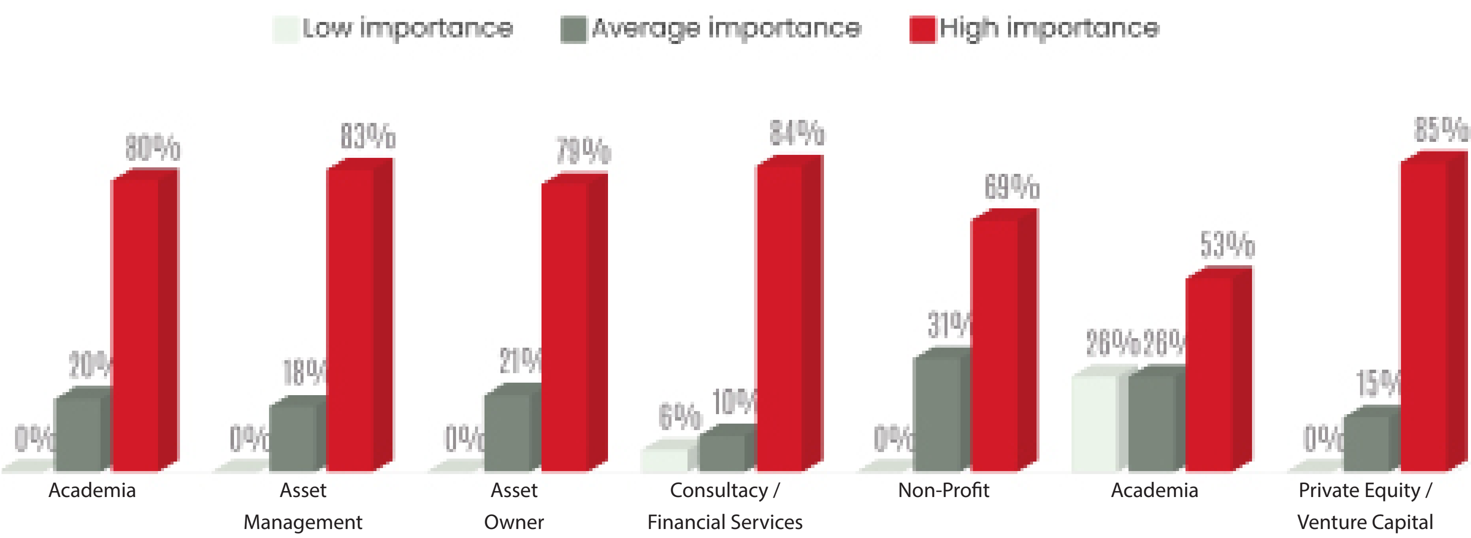
And for a good reason: those are the leaders with the ability to turn global systemic drivers into sustainable business opportunities.

Fig. 21

IMPACT REPORTING



STEWARDSHIP / SHAREHOLDER ENGAGEMENT

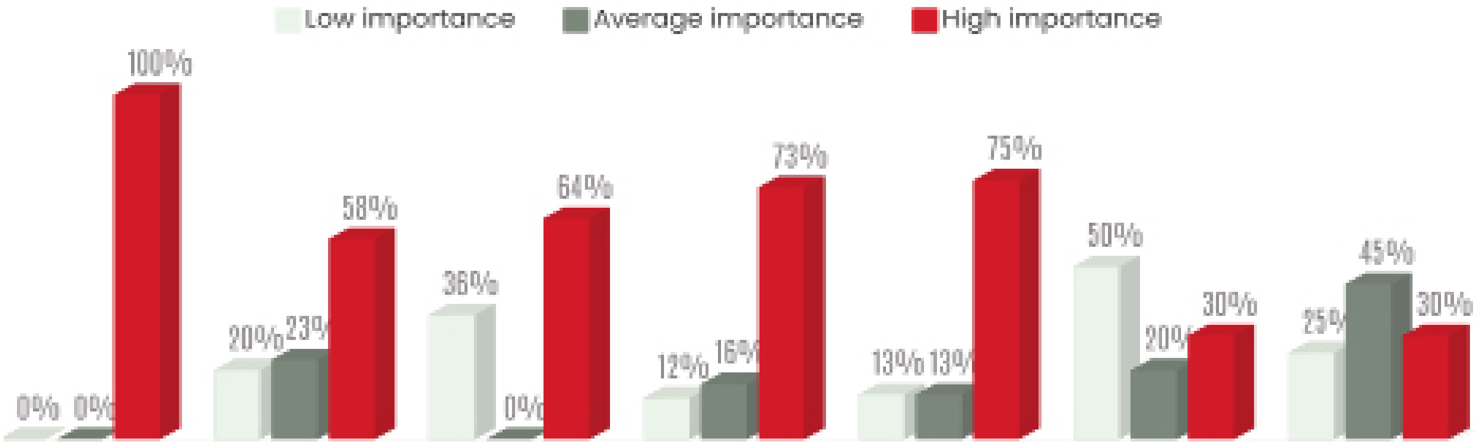


TRENDING IMPACT SKILLS

The LIIN survey identified a series of skills were not equally or similarly ranked by impact practitioners, but based on current trends (e.g. EU Taxonomy, SFDR), it represents a new set of skills and practices for impact strategies, operations and compliance.

IMPACT-ALIGNED REGULATIONS AND POLICIES

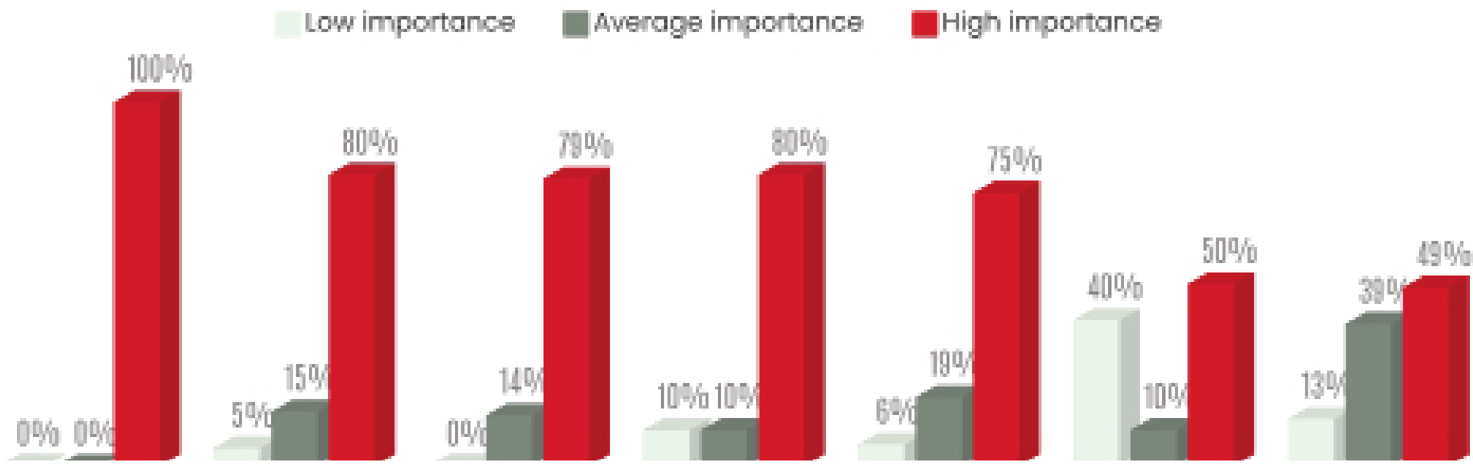
Fig. 23



Academia | Asset Management | Asset Owner | Consultancy / Financial Services | Non-Profit | Academia | Private Equity / Venture Capital

IMPACT EVALUATION / AUDITING

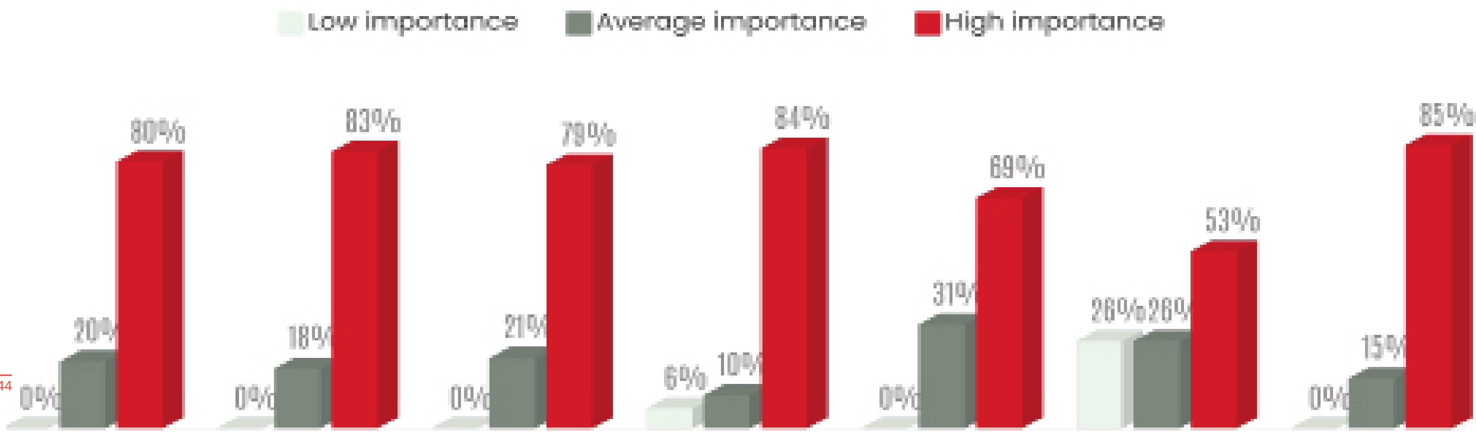
Fig. 24



Academia | Asset Management | Asset Owner | Consultancy / Financial Services | Non-Profit | Academia | Private Equity / Venture Capital

THEMATIC INVESTMENTS

Fig. 25



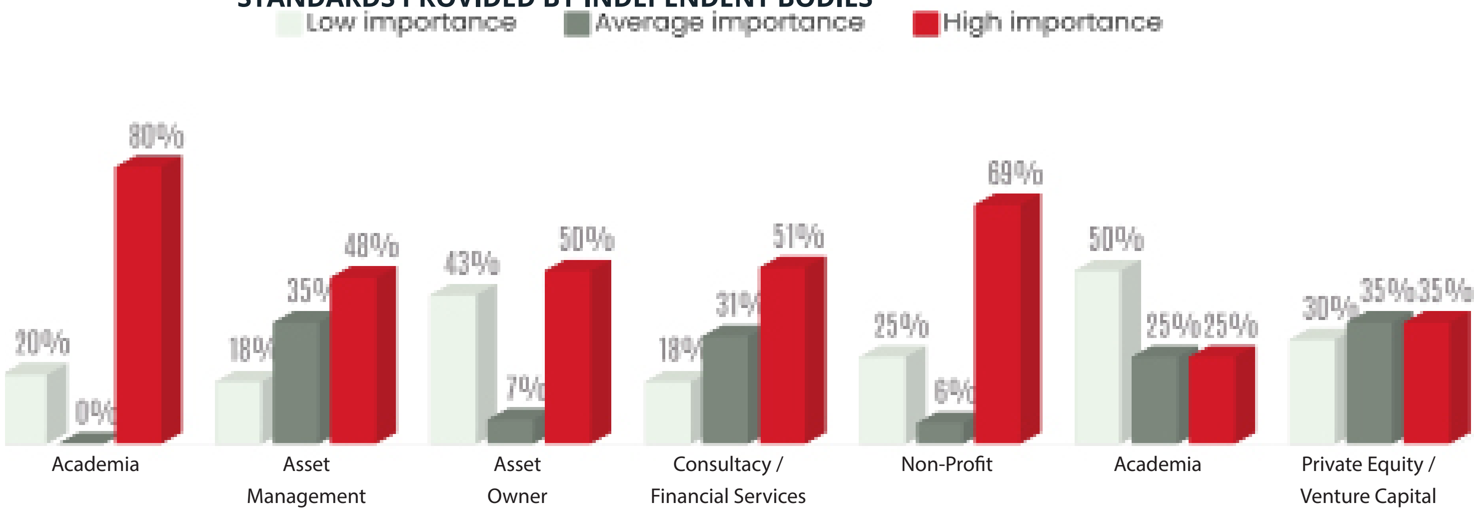
Academia | Asset Management | Asset Owner | Consultancy / Financial Services | Non-Profit | Academia | Private Equity /

SPECIALISED SKILLS

This last session provides an interesting view of impact skills that are not fully aligned or harmonised across different groups. However, it is important to say that it is not because there is data discrepancy that the following skills are less or more relevant to the impact investing industry, but to demonstrate the challenges of perceptions and the complexity to align skills to different strategies and operational purposes.

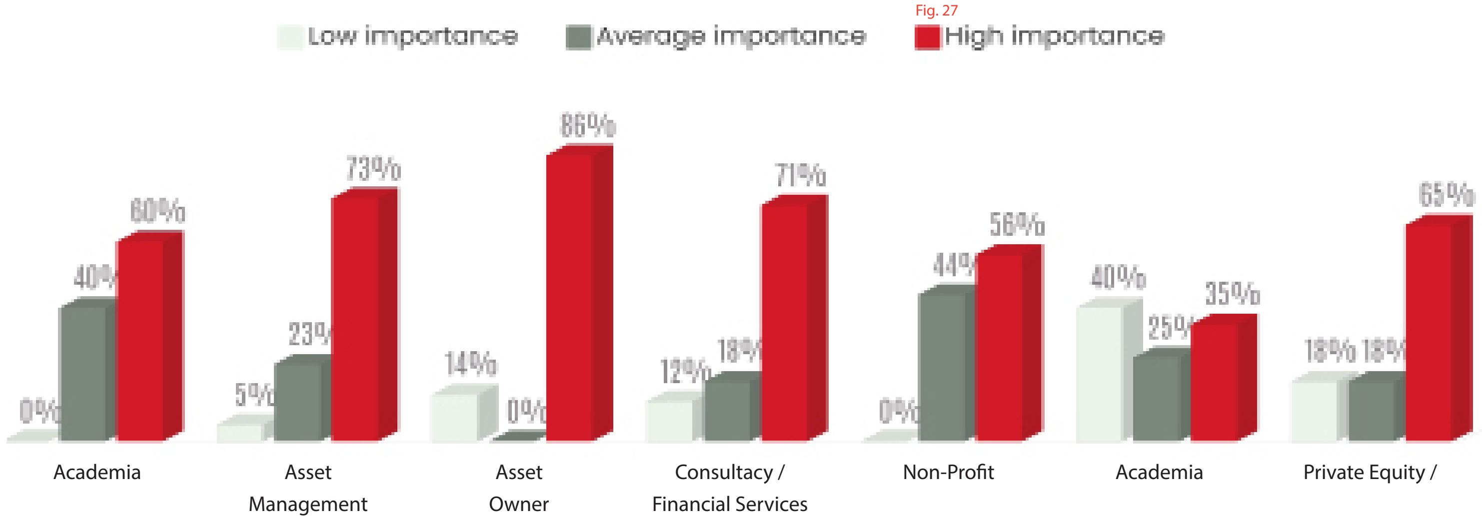
STANDARDS PROVIDED BY INDEPENDENT BODIES

Fig. 26



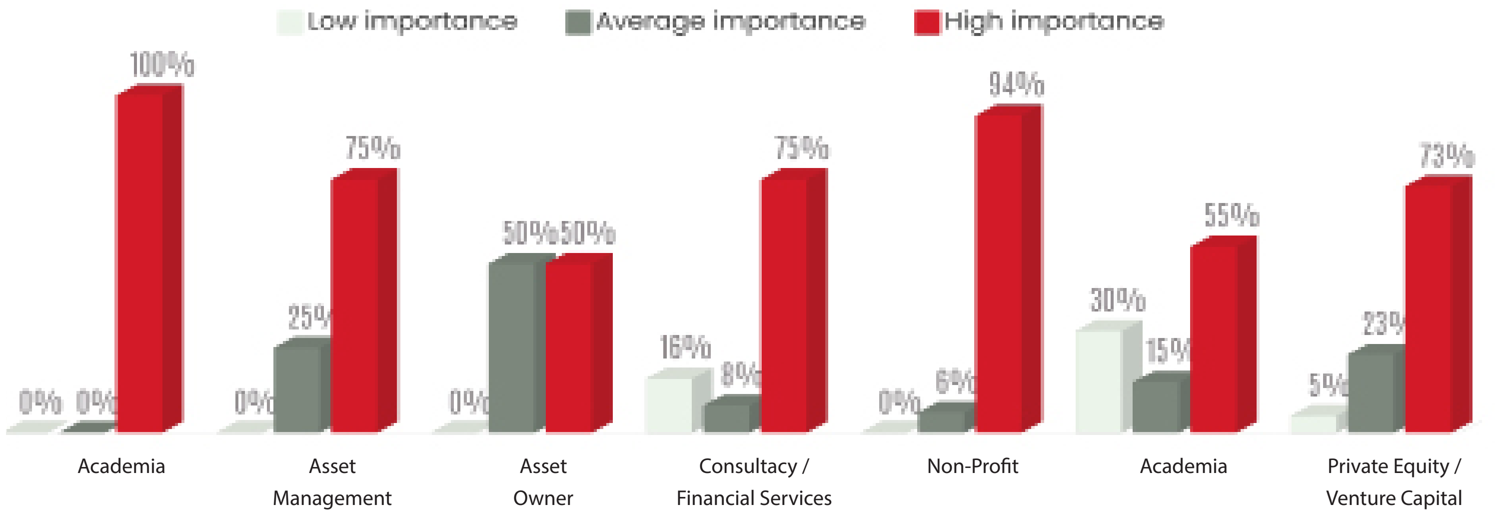
NON-FINANCIAL RISK MANAGEMENT

Fig. 27



INTERNATIONAL FRAMEWORKS (UN-SDGS, UNEP-FI)

Fig. 28



“The investment world has evolved into a more holistic, accountable, transparent industry - not only is risk and return important, but a 3rd dimension of impact has finally arrived. With this new dimension comes a new, necessary skillset.”

Andrea Curran, Stifel

Richard
Brass

Head of Wealth and Asset Management

Berenberg Bank

“This report showcases the importance of having consistent and comparable methods of investing in ESG and Impact.

KEY INSIGHTS

Overall, we see great alignment of impact skills with experienced professionals (+5 years): asset managers, asset owners, and financial advisors/service providers.

It is intersting to see that private equity practitioners are less aligned in impact areas like regulations, impact verification, thematic investments and international frameworks, suggesting that about half a half of the private equity respondents perceive impact skills differently from other peers. Also, the data shows a major outlier: the 'student group'.

We see that this group is responsible for data distortion on impact policies and market standards skills.

The data suggests that it might be the case that students are not exposed to a broad set of impact skills in their academic courses. However, this assumption needs to be verified.

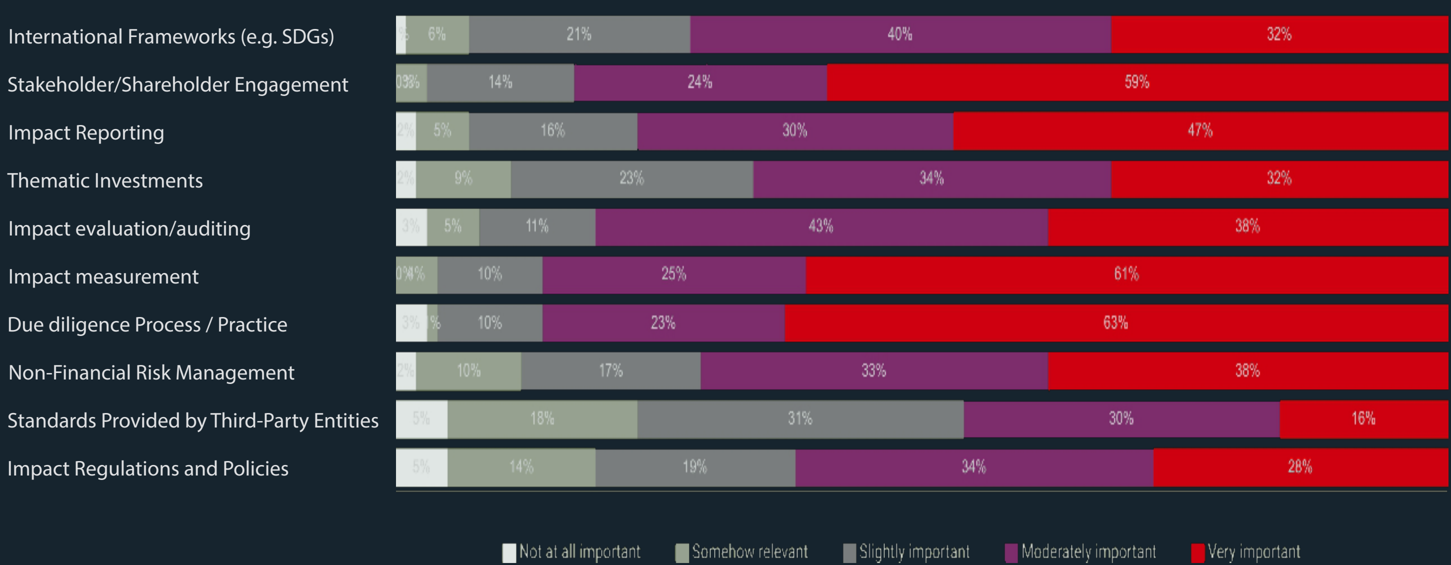
Lastly, the results show that representatives of the NGO and academia sectors behave similarly in skills related to risk management, due diligence process and impact reporting.

That being said, we decided to remove certain groups ('student group', 'academia' and 'NGOs') and focus on investment professionals exclusively.

The chart below provides a good picture of the most important skills for impact practitioners.

The figure below provides information on relevant impact skills using data from targeted respondents from organisations:

- Asset Owners
- Asset Managers
- Private Equity and Venture Capital
- Financial Services



From the figure 29, we see that 'due diligence process' skills (63%) are more important than 'impact measurement skills' (61%). Also, we noticed that impact reporting skills (47%) are less relevant than shareholder/stakeholder engagement skills (59%). This is quite revealing data. Also, the figure provives a good direction about the most relevant skills for impact professionals.

APPLYING DATA PATTERNS & IMPACT PRACTITIONER PROFILES

Applying data model to identify and design impact practitioners profiles

Peter Brock

Managing Director
4L Capital LG (Family Office)

“

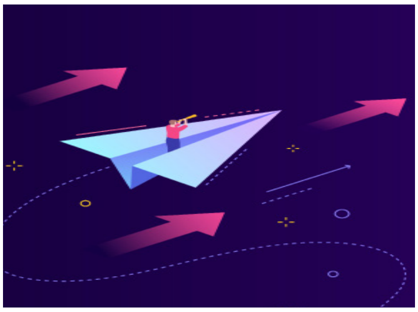
The Report rightly talks about a lack of impact skills; and highlights the complexity inherent in impact investing, which calls for practical tools to help investors identify, develop, and upgrade impact skills.

THE 5 TYPES OF
IMPACT INVESTING PRACTITIONERS

The LIIN survey provides valuable information to design and develop data patterns that take into account respondents' perceptions and aggregate relevant data to create impact investing practitioners profiles or personas. This section is designed to help organisations and individuals explore the most common types of impact practitioners/ professionals.

When looking at the disaggregated data, we can identify some data patterns based on respondents' backgrounds, professional experience and views on impact skills.

The following sections of the report consolidate data patterns and present a narrative of five types of impact investing practitioners. Most of the narrative illustrates the data available and presents some natural assumptions concerning the data patterns.



IMPACT FIRST

Impact-first professionals are concerned about the 'purity' of impact investments and advocate for universal concepts and approaches to apply and replicate impact criteria in businesses, investments and organisations. The vast majority of impact-first professionals are against impact investing customisation (i.e. accounting for regional differences, thematic investments' uniqueness, etc.).

Most importantly, impact-first investors see impact as the main driver in assessing any investment opportunity, regardless of its financial feasibility. These professionals are very conservative about what they view as impact investing skills, focusing exclusively on measurability and reporting skills. Impact-first professionals represent a small percentage of the survey participants (7%), and the majority are students or professionals working for non-governmental organisations or in academia.

HARMONISERS

Harmonisers form the largest group of respondents (32%), and they are generally in more senior roles – more than 65% of the harmonisers have >5 years of experience.

These professionals care about the customisation of skills at all levels, including in asset classes. They also focus more on operational skills (due diligence, stewardship, impact evaluation and risk management) than other impact professionals' archetypes.

Overall, harmonisers see non-financial skills as specialised and mutually dependent when assessing impact investments.

FINANCE FIRST

Finance-first professionals are the antagonists of the impact-first professionals. The vast majority of these professionals (70%) perceive impact principles, theories and approaches to be auxiliary tools, meaning that they view impact factors/skills as having minimal or no influence on how investment strategies are designed and how investments are made.

Similar, to impact-first professionals, finance-first professionals take quite a narrow view of impact investing skills, focusing exclusively on measurability and reporting skills.

Finance-first professionals (80%) are big advocators of impact metrics, but the data suggests that they do not pay attention to impact metrics and key performance indicators (KPI) in their work on engagement and due diligence processes. Also, around 70% of this group is not interested in the customisation of impact skills, and half of the finance-first professionals do not agree on the relevance of specific impact skills in thematic investments. Some 18% of the total respondents fit into this category, and around 40% work in the private equity and venture capital industry.

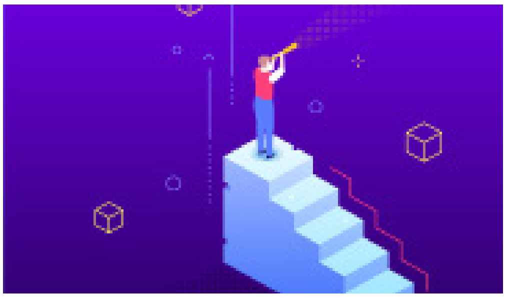
IMPACT STREAMLINERS

Impact streamliners are characterised by their commitment to rank impact factors above financial criteria, without diluting or ignoring financial criteria when assessing investment opportunities.

Impact streamliners are more flexible than impact-first professionals, and they value impact customisation (68%) in different environments (e.g. organisational culture, regions and countries) and approaches (e.g. asset classes, thematic investments).

The key difference between impact streamliners and harmonisers is how they perceive international frameworks, regulatory conditions and market standards. For instance, impact streamliners are less inclined to see the value of impact regulation (37%) than harmonisers (55%).

About 27% of all respondents fit into this category, and they tend to have >5 years of experience (40%).



IMPACT AGNOSTICS

These professionals understand the value of impact factors in investments, but they look for clear proof of impact.

They are interested in measurability (80%), due diligence processes (about 75%) and reporting tools (90%). They have varying views on impact customisation. On the one hand, two-thirds of the impact agnostic group supports impact customisation in thematic investments and asset classes; on the other hand, more than 60% rejected the importance of customisation of impact in organisations and regional impact adaptation.

Impact agnostics agree that both financial and non-financial skills are needed to assess investments; however, they give priority to financial skills and criteria over non-financial skills.

DEEP DIVE INTO
LACK OF IMPACT SKILLS

As highlighted in previous sections of the LIIN Survey, impact practitioners could have contrasting and contradictory views on what impact skills are and how they can be applied in different circumstances. Unfortunately, the diversity of perceptions[57] on this issue doesn't help the impact investing industry harmonise[58] and scale up impact skills across organisations and education programmes. Therefore, this section of the report focuses on framing the key issues to boost impact skills.

PLACING SKILLS IN THE RIGHT FIELD

The survey results show that a third of the participants do not distinguish between impact skills and do not agree on the customisation of skills depending on different contexts, themes and external factors. This particular view of impact skills suggests that geographical conditions, regulatory differences, asset classes and themes do not influence how impact investments are assessed or managed. However, this approach is not supported in the literature review[59 60] nor in best practices in impact investment[61 62]. For example, for obvious reasons there are differences between investing in solar energy projects in South Africa and Finland, just as there are differences between investing in highly regulated businesses (water) and those in other fields (i.e. fintech).

The results of the report show a critical problem that is hidden in plain sight and has not been discussed before by the impact investing community:

The problem of knowledge process

The knowledge process dilemma

Knowledge is not a static 'object'; rather a dynamic process that is obtained and perfected over time. It is fair to say that some organisations advocate for strict views on what constitutes impact knowledge; on the flip side, we see others promoting fluid concepts of impact knowledge and skills.

The difficulty in aligning these extremes views is exemplified with the five types of impact practitioners (see the previous section), where individuals' perceptions on impact knowledge can be quite antagonistic.

One way to improve the dialogue and discussion around skills is to organise the impact knowledge into three levels of applicability.

Knowing what impact is	**Knowing how** to apply impact skills	**Knowing where** to apply impact skills
This level of knowledge focuses on understanding the concepts, impact frameworks and a variety of tools. It is conceptual knowledge that can be acquired by reviewing studies, learning from courses and so on.antagonistic.	Applied knowledge focuses on understanding how impact skills can be used, how impact assessment exercises are performed, and how data and methodology can be used in the investment cycle and in engagement with investees.	The applicability of knowledge is context-dependent and depends upon situation-specific conditions. This level of knowledge lies in understanding the contexts in which skills can be applied. For example, a successful inclusive finance programme in the UK may fail when set up in a different country. In this case, the skills needed to succeed in both projects are the same, but how these skills are used may be different.

THE BOTTOM LINE

The report's results suggest that the vast majority of the respondents have a theoretical knowledge of impact skills but that fewer understand how to use impact skills appropriately in different contexts and circumstances. The lesson learned here is that in the same way that investment professionals need time to create an investment track record, impact practitioners need time and opportunities to improve their knowledge and skills in the industry.

CONCLUSION

If we look back to five years ago, the impact investing industry was characterised as a 'KPI-driven market', where organisations focused on impact-measurement approaches and impact-reporting practices.

The market was packed with impact frameworks that enabled investors to easily align their regular investments with practical impact tools.

Impact materiality [63] (e.g. primary versus secondary impact, direct and indirect impacts [64]), transitional risks (both physical [65] and transitional [66]), voluntary reporting versus external review [67], shareholder engagement and impact creation were topics that were not yet fully understood by many impact investors or assimilated into company operations [68].

As a result, impact investing skills concentrated on impact measurement management and on reporting the impact metrics predetermined by responsible and impact investing groups and associations.

As the market grew bigger and more popular it became more crowded and complex. The industry witnessed changes to how impact investing approaches were applied in different asset classes and managed in different regions and business sectors.

Today the industry looks different and the LIIN study suggests that this view of a 'KPI-driven market' seems to have disappeared among impact practitioners, instuitional investors and, importantly, policymakers. Several factors have contributed to changes in the impact industry and the development of new impact skills.

The most prominent driver is the rise of impact and ESG-aligned regulations, which has supported a tectonic shift in the investment industry. Impact investing professionals are now required to have a deep understanding of thematic investments and compliance mechanisms (e.g. TCDF and SFRD), including scenario planning to assess the environmental impact of investments (e.g. impact modeling).

Second, recent developments in the ESG/impact investing industry have demonstrated the need to integrate non-financial skills into shareholder engagement (stewardship) and due diligence processes, as well as a need to develop qualitative skills in impact benchmarking.

Third, institutional investors and policymakers are committed to tackling greenwashing practices. In this sense, impact investors are being pressured to demonstrate, in detail, the materiality of their investments and need to have the expertise to design credible and transparent impact strategies that can be verified and assessed by external parties (impact auditors).

Today, more than ever, financial institutions are aware of the challenges and risks of not having specialised teams and experts working in the areas of ESG integration, impact investing, transitional finance and the fulfilment of the UN-SDGs. However, the critical issue is that there are too few references and guidelines available to assist investors and organisations in identifying the skills needed to respond to these new market demands.

The LIIN report notes the existence of skills shortages and where future demand for impact skills will arise. Most importantly, the report highlights the critical skills that are needed to help organisations in their journey to integrate non-financial factors into their businesses and investments.

REPORT **CONTRIBUTORS**

The LIIN Survey Report was a result of a collective effort from more than 250 survey respondents, 20 external peer reviewers and LIIN Advisory Committee members and many other volunteers that helped to strategise, organise and shape relevant information to the industry.

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40. The last section of the LIIN report provides more information on the different levels of impact knowledge and the challenges to understand and apply impact skills and knowledge in investments.

41. Based on the literature review of PRI public reports, GIIN references. For more information see references in the annex.

42. Part of this work included: i) review of PRI members' report (public reports), ii) GIIN data, and iii) information on companies' website.

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