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Impact Investing

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Creating momentum

How PE is putting its impact capital to work

KEYNOTE INTERVIEW

Putting data at the heart of impact

Reliable and relevant data is vital for impact investors to demonstrate accountability and to make better decisions, says KPMG's Tania Carnegie

The mantra of 'you can't manage what you don't measure' sits at the very heart of the private equity industry – and this adage becomes even more important when investors promise to deliver meaningful impact alongside financial returns.

Tania Carnegie, practice lead in ESG and impact investing services for KPMG's private equity and asset management clients, argues that high quality impact data is essential for GPs to satisfy investors and regulators.

Carnegie discusses why better data ultimately leads to better investment decisions, and explains how technology is beginning to revolutionise the data landscape for impact investors.

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Q Why does data matter for impact investors?

Data matters because it indicates progress, and informs investment decisions and opportunities to create value during ownership. The better quality data you have, and the more relevant the data, the better decisions that result. A big theme that cuts across everything is accountability.

It is important for GPs to demonstrate to stakeholders – including investors, portfolio companies and their customers – that they are holding true to their impact approach. Data that is assured by a third party is crucial to provide a more objective perspective.

Q How do ESG and impact data complement each other?

ESG and impact have a very important complementary relationship. ESG tends to be more focused on matters related to the operations of a business, such as carbon footprint, diversity, equity and inclusion, and human capital management practices. Meanwhile, impact is focused on the business model and on the impact that is being generated through the products or services that are offered by that company.

According to that definition, ESG and impact are hand in glove. We see an increased focus and awareness of ESG among impact investors, especially with increased regulatory focus on climate. Also, ESG performance, impact performance and financial performance are all interrelated.

Q When it comes to data, what are the priorities for impact investors?

We see GPs focusing on building confidence in data starting with obtaining reliable information from portfolio companies. Part of this process involves streamlining data requests – which has become a little more challenging as ESG and impact become more of a regulatory imperative than purely about meeting self-imposed targets. Nonetheless, there is a big focus from GPs on collecting data points most relevant to their investment thesis, and to driving performance in their portfolio companies.

We also see GPs taking an interest in more timely information and going beyond the quarterly or annual reporting cycles. We are seeing a shift to developing ad hoc or on-demand reporting mechanisms, especially for the more experienced GPs. Timely and insightful data enables better decisions during ownership and keeps investors informed.

At the same time, there is a huge focus on demonstrating accountability. Part of this is being brought on by regulatory action. There is a tremendous amount of scrutiny and sometimes scepticism inherent in this space, and GPs are aware of that. We see impact-focused GPs focused on demonstrating authenticity and being proactive in telling the story of 'why', 'what' and 'how', and also providing more transparency around what is working and what is not.

In the past there has been reluctance to acknowledge when things aren't working according to plan. Yet investors are saying they want to know what isn't working, and they want to know how the investment approach is being adapted as a result. It is critical to demonstrate progress.

"ESG performance, impact performance and financial performance are all interrelated"

Q How can technology help with impact and ESG data?

There is almost universal recognition that collecting, managing and reporting on impact and ESG data has reached a level of complexity beyond Excel spreadsheets. The good news is, over the past two years, there have been a plethora of new solutions on offer.

With so many options, many GPs are trying to assess what solutions are best aligned to their needs and are cost-effective. We are assisting a number of clients to navigate this area, starting with an assessment of their needs and priorities, then providing our observations and recommendations.

Q How are impact investors responding to the challenges that they face around data?

We are seeing a lot more attention to establishing rigorous processes and controls associated with data collection embedded as part of the overall investment process.

Also, we are helping many of our clients with assurance readiness of their impact reporting, in anticipation that assurance will be required for regulators or investors.

For information to be useful in making decisions, it needs to be reliable and relevant. We recently surveyed a group of global GPs and found that 75 percent are collecting ESG data from portfolio companies. However, more than half of those GPs are not disclosing the data to potential buyers at exit. This strongly indicates that a lot of data isn't reliable or relevant enough to be reported on and used to demonstrate enhanced value. That is a huge concern, and we see investors focused on narrowing this gap.

Q How do data requirements affect the portfolio companies of impact investors?

We have observed an important shift in the market. Not too long ago, it was one-way travel, with GPs requesting information from portfolio companies. Now, we see a lot of portfolio companies embracing impact reporting and taking a more rigorous approach to data collection, as they see it as critical to their long-term success. It helps them to tell their story more effectively and objectively, which can be a key differentiator in the market.

GPs are recognising that their portfolio companies need help. Reporting on impact or ESG metrics is a lot of work, particularly if you are in the early stages of growth and developing your approach. Many GPs are proactively providing support to portfolio companies, for example by helping them access advisers.

> *"Data that is assured by a third party is crucial to provide a more objective perspective"*

> *"We provide the investor with an indication of the lift required to establish processes to effectively collect and report impact data"*

We have also seen an increase in the tools and training that are being provided for portfolio companies. Our survey found that 57 percent of GPs are providing some form of tools or training around greenhouse gas accounting. That is a big indicator of the significance of climate to portfolio companies across the board.

Q Can you share some examples of how you are helping clients with impact data?

We assist clients in a variety of ways, including impact diligence. This includes an initial assessment of their reporting capability and the maturity of their approach. We provide the investor with an indication of the lift required to establish processes to effectively collect and report impact data.

We work with our colleagues in our assurance practice to give an assessment early on around the objectivity, the quality and the reliability of the metrics and of the data. We take a cross-functional approach to provide unique perspectives to our clients.

We also assist funds and portfolio companies to set targets and manage the process of data collection and reporting. Again, we leverage our strengths as a firm to develop right-sized and rigorous processes and controls that will stand up to scrutiny, and are reflective of leading investment management practices.

Q How do you see the role of data in impact investing evolving in the next few years?

There will be continued growth and momentum in impact investing along with the further evolution of investor expectations and regulations. GPs will assess more intensely the positive and negative impacts of the companies in their portfolio, as they've become more aware of unintended consequences. Access to quality data in a timely manner is critical. ■