

# SARONA ASSET MANAGEMENT

## DRIVING STANDARDISATION IN IMPACT MEASUREMENT

Sarona Asset Management (Sarona) is a pioneer. It is a private equity fund of funds with a 60 year history of investing not only for financial returns but also for positive environmental and social outcomes in emerging and frontier markets. Since 2011, Sarona has been able to demonstrate these outcomes by including environmental and social indicators in its due diligence and reporting systems.

In 2010, when Sarona started the process of identifying environmental and social indicators to include in its processes, impact investing was gaining increasing attention.<sup>1</sup> Due to its long history of making investments for environmental and social impact, Sarona felt the need to develop a robust and scalable way of assessing, monitoring and reporting on its impact to its stakeholders and internally to its own team.

This case study looks at the process Sarona went through to enhance its due diligence and reporting systems with environmental and social performance indicators, particularly focusing on Sarona's efforts to engage with its fund managers and promote standardisation in impact measurement. It complements PRI's 'Understanding the impact of your investments – Measuring environmental and social performance'.<sup>2</sup>

### TAKEAWAYS FOR INDIRECT INVESTORS

- Inform and engage fund managers. If the fund managers you work with do not see the relevance or are not able to collect the data requested, the quality of reporting will suffer.

- Consult standardised indicators. This can help speed up the process of identifying which indicators to track. Using standardised indicators also allows for comparability across funds and facilitates data collection.

### SELECTING INDICATORS

Sarona began by reviewing the environmental and social performance indicators that were being used in the industry, to establish a first set of indicators relevant to its investment objectives. Sarona had an idea of what indicators their investee funds were already using and was mindful of the opportunity cost relating to the time and effort for investees to report on additional indicators. Sarona also sought to use indicators from the Impact Investing and Reporting Standards (IRIS)<sup>3</sup> catalogue as far as possible and encouraged adoption of these among their investors and investees.

These then went through several iterations in consultation with Sarona's limited partners, co-investors, investee funds and companies as well as representatives from industry initiatives.<sup>4</sup> Buy-in from fund managers was particularly important, as data quality would suffer if they did not see the relevance of all that they were being asked to collect.

Sarona piloted the finalised set of indicators in its due diligence and reporting processes in 2012. Many investee funds found the process too difficult, so Sarona revised the indicators, taking out indicators tracking sector-specific outcomes<sup>5</sup> as data on these were not commonly collected by fund managers. As a result, Sarona mainly

<sup>1</sup> See for example the establishment of the Global Impact Investing Network in 2009, which now includes over 150 members from the global investment community [www.thegiin.org](http://www.thegiin.org)

<sup>2</sup> [PRI 2013](#)

<sup>3</sup> The Impact Reporting and Investment Standards (IRIS) is a catalogue of environmental and social performance indicators used by investors. <http://iris.thegiin.org/>

<sup>4</sup> World Bank's Consultative Group to Assist the Poor, International Association of Microfinance Investors, Aspen Network of Development Entrepreneurs, Global Impact Investing Rating System (GIIRS), Global Impact Investing Network (GIIN) and the PRI Initiative.

<sup>5</sup> For definitions of inputs, outputs and outcomes indicators, please see '[Understanding the impact of your investments – measuring environmental and social impacts](#)', PRI 2013

collects data on inputs and outputs (see Figure 1). As impact measurement develops in the industry, however, Sarona expects to include more outputs and outcomes indicators.

Sarona applies certain core indicators across its investments (e.g. number of clients) to allow for comparability across funds; others are applied depending on the nature of the investment (e.g. environment management system).

In addition to gathering information about the expected and actual environmental and social outputs of its investments, Sarona also requests data on the policies and processes the fund manager has in place to track and improve the impact of their portfolio companies.

Figure 1: Examples of indicators (references to IRIS indicators in brackets). Source: Sarona

OUTPUTS - PRODUCT IMPACT
<ul style="list-style-type: none"> <li>Number of clients (PI4060)</li> <li>Number of clients who were female (PI8330)</li> <li>Number of companies that sold to the organisation (PI9566)</li> </ul>
OUTPUTS - OPERATIONAL IMPACT
<ul style="list-style-type: none"> <li>Number of full-time and part-time employees (OI3160) (OI8864)</li> <li>Number of female full-time and part-time employees (OI3216) (OI8838)</li> <li>Number of full-time female managers (OI1571)</li> <li>Number of employees that were trained (OI4229)</li> </ul>
INPUTS - ESG POLICIES AND PROCESSES
<ul style="list-style-type: none"> <li>Whether the organisation has a client protection policy (OI4753)</li> <li>Whether the organisation consider social and environmental performance when evaluating suppliers (OI4739)</li> <li>Environment Management System e.g. Internal or external assessment undertaken of the environmental impact of the organisation's business activities (OI1254)</li> <li>Water Management e.g. The use of inputs as well as release of wastewater is properly managed in order to preserve surrounding water sources (OI7365)</li> </ul>

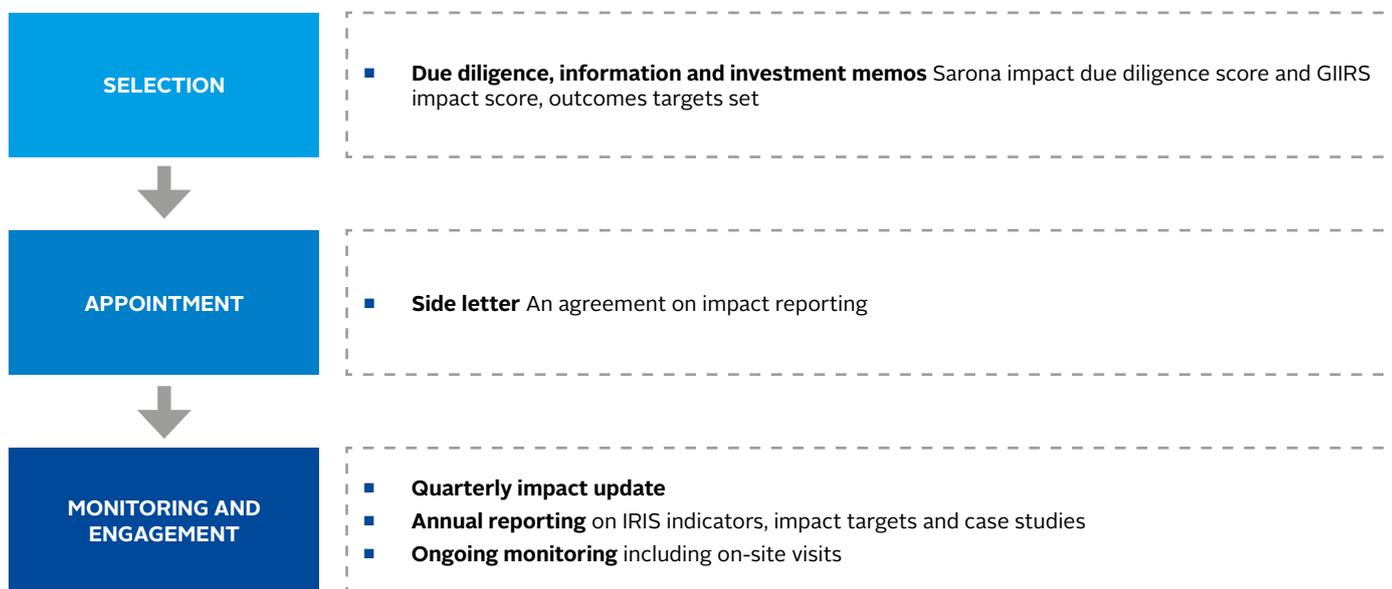
## USING INDICATORS IN THE INVESTMENT PROCESS

At the pre-investment stage Sarona includes a social and environmental due diligence questionnaire. Since 2013, Sarona also includes GIIRS Fund Manager Assessments in the selection process. B Analytics<sup>6</sup> completes this assessment, 90% of which is calculated by aggregating assessment scores of the underlying companies. The rest is made up of indicators relating to the fund's own policies and processes. Working with GIIRS reduces costs for Sarona and allows for comparability. The scores from Sarona's own impact questionnaire makes up 10% of the final due diligence score.

All funds are asked to agree to impact reporting, as set out in the side letters. This reporting contributes to Sarona's Annual Values Report which is distributed to clients and other stakeholders. In addition to aggregate impact data, the reports include qualitative data and case studies. This process is illustrated in Figure 2.

<sup>6</sup> <http://giirs.org/for-investors/investors/305>

Figure 2: Using indicators throughout the investment process.



## MOVING TOWARDS FURTHER STANDARDISATION

To arrive at the set of indicators it uses today, Sarona had to go through a lengthy consultative process and several iterations of the indicators. This was necessary due to the current lack of common practice in the industry.

Sarona believes that further standardisation of indicators, through initiatives such as IRIS, will make common and best practices more visible. This can help indirect investors select appropriate indicators to match their investment objectives. Standardisation should also help improve impact reporting. Sarona has observed that reporting on the same

indicators by investee funds improves year by year as they set up systems to collect this data. With further consistency in reporting requirements from different investors, the quality of data collection should therefore improve. Finally, standardised ways of measuring impact allows for better comparability across funds.

Standardisation of indicators is a slow process, however. Sarona is attempting to speed it up by engaging with its LPs and co-investors, investee funds and actors across the industry. It is actively involved with several initiatives<sup>7</sup> and speaks to the industry on the importance of measuring impact at conferences and individual meetings.

<sup>7</sup> For example, Sarona's COO sits on the advisory board of GIIRS; the managing partner on GIIN's Investor Council; and the European Managing Director and Senior Partner on the ImpactBase advisory board.

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