

The LP Impact Primer

Evaluating Impact Funds

An actionable guide providing LPs with a framework and specific questions to identify high-quality impact investment opportunities with the additional goal of promoting greater comparability and consistency in the data requested from GPs during diligence.

Introducing the LP Impact Primer on Evaluating Impact Funds

- This resource is intended to provide Limited Partners (LPs) with a core framework and questions for assessing impact investments with greater confidence, precision and consistency.
- As a growing number of LPs look to make investments that tackle critical social and environmental issues, there is a corollary need for practical tools to support their analysis of GPs' impact strategies and competencies.
- Traditional financial due diligence is designed to assess financial and operational competencies and risks – but is insufficient when making an impact investment. Investing for impact requires LPs to evaluate not just whether a GP can generate financial returns – but whether they can also deliver meaningful, measurable positive social and/or environmental returns. This requires introducing an additional and different evaluative lens focused on the GP's impact objectives and capabilities.
- The questions laid out in this resource are designed to help LPs gather the key information needed to assess the depth and substance behind a manager's stated objectives, ultimately enabling them to make more informed investment decisions in line with their impact strategy, in a standardized, comparable way.



IN COLLABORATION WITH:



This piece is part of the partnership series ("Exploring Institutional Impact") aimed at providing practical guidance, research insights, and tools related to impact and sustainable investing for the ILPA member community.

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The opportunity for more standardized impact due diligence

- The impact investing ecosystem is experiencing growing pains as it matures from a niche sector into a mainstream investment approach. As many LPs are still in the early stages of building experience with impact investing, evaluation practices are evolving and often tailored to individual institutional priorities. While this customization reflects LPs' diverse needs, the lack of widely adopted standards can make it harder to consistently assess a manager's credibility, create additional work for GPs, and limit comparability across the market. The diverse nature of LP mandates introduces additional complexity during due diligence, with different institutions subject to distinct requirements based on their specific mandates – such as development finance institutions that must demonstrate additionality, foundations focused on mission alignment, and regulated entities that must meet compliance requirements like SFDR classifications.
- However, beneath these varied institutional needs lies a set of common fundamental information requirements that all LPs share when they evaluate impact investments, which presents a clear opportunity for greater harmonisation and standardisation in the due diligence process.
- The questions in this resource center on the key competencies and capabilities that credible impact GPs are expected to demonstrate. They are grounded in the established practices of experienced impact LPs and draw from prior research, including the [A Field Guide: Impact Due Diligence and Management for Asset Allocators](#), as well as industry standards (e.g., Operating Principles for Impact Management, Impact Performance Reporting Norms, the Impact Management Project, among others) and BlueMark's verification frameworks. Our goal is to support/encourage greater consistency in LP due diligence processes.

Core Due Diligence Questions



Most LPs that invest for impact include specific steps in their diligence process to evaluate a manager's strategy, governance, impact management and reporting capabilities. Understanding these aspects of a manager's approach are key to gauging how well the fund is set up to deliver on its impact plans.

However, the presence, feasibility and relevance of certain practices and capabilities may vary based on the fund's experience, size, geography, asset class and thematic focus. As such, it is important that LPs are able to tailor their expectations accordingly and are clear about their willingness/appetite to engage with managers with less sophisticated approaches (e.g., is the LP only open to partnering with managers with robust and established practices OR are they open to supporting a GPs development of its impact capabilities over time).

Impact Strategy

A GP's impact strategy is inextricable from its investment strategy and guides how it intends to drive impact through its investment approach and processes. Key questions to pose related to a manager's impact strategy include:

Impact thesis: Do you have an impact thesis or theory of change that describes the impact objectives you seek to achieve? Is it backed up with evidence about the challenges you seek to address and the solutions you are targeting?

- **What to look for:** Clear, well-documented impact objectives; thesis rooted in evidence related to the problems addressed and solutions targeted; clear articulation of the outputs and outcomes sought; alignment with industry standards/global goals

Contribution: How do you see the fund's role in contributing to the achievement of its impact objectives?

- ▶ **What to look for:** Ability to describe specific financial or non-financial value-add approaches (e.g., addressing existing funding gap, provision of thematic and/or impact measurement expertise); ability to provide data and/or examples of when value-add support has been provided and the associated results

Impact Governance

A GP's governance structures ensure the successful execution of its impact strategy. A fund's impact-related oversight, resourcing, and accountability structures clarify the extent to which impact considerations will be incorporated into the fund's operations. Key topics to explore related to a manager's impact governance include:

Oversight: What governance structures do you have in place to ensure that impact is considered as part of investment decision-making and management?

- ▶ **What to look for:** Internal impact professionals with voting rights on the investment committee and/or an external impact advisory board, impact criteria evaluated as part of investment approval processes and used to inform investment terms

Team and resources: What impact expertise does your team have and how are impact management activities resourced?

- ▶ **What to look for:** Dedicated impact professionals (including, as relevant, the GPs rationale for leveraging external consultants vs. internal team members); depth of impact experience of the investment team; adequate resourcing relative to fund and portfolio size; relevant impact knowledge across seniority levels

Accountability: Are impact considerations embedded into your team's compensation structures, promotion criteria, and/or performance evaluations?

- ▶ **What to look for:** Mechanisms incentivising impact performance, such as assessing performance against impact KPIs as part of individual performance reviews, annual bonuses tied to impact performance, or carried interest linked to impact performance. As relevant, ability to articulate risks and mitigation strategies associated with linking pay to impact metrics

Impact Management

A GP's management of impact encompasses its approach to evaluating, monitoring, and managing investments in line with the fund's impact strategy. Key topics to explore related to a GP's impact management include:

Impact assessment: Do you have a standardized impact due diligence framework that is aligned with your impact thesis?

- ▶ **What to look for:** Clear methodology for evaluating a prospective investment's impact potential that considers multiple dimensions of impact; consistent, standardized approach to assessing impact potential across different investment opportunities; clear impact KPIs identified to facilitate measurement

of ongoing impact; alignment of assessment criteria to the GP's impact thesis; evidence that impact assessment influences investment decisions; ability to describe deals that didn't make the "impact" cut and why processes and used to inform investment terms

Impact measurement and monitoring: Do you have processes and systems in place to collect and monitor impact KPIs for your investments on a regular basis over the life of those investments?

- ▶ **What to look for:** Robust data collection practices; protocols for analyzing and reviewing impact performance at the investment and portfolio level; mechanisms for engagement with portfolio companies based on impact performance; use of KPIs that are consistent, comparable and aligned with GP's stated objectives

Investor contribution: Do you have processes to monitor the effectiveness of your value-add / value-creation efforts?

- ▶ **What to look for:** Evidence of ongoing monitoring of value-add activities; periodic review of the effectiveness of these activities

Risk management: How do you identify and manage impact risks or negative outcomes?

- ▶ **What to look for:** Processes to identify and monitor potential impact risks (threats to achieving intended impact) and negative outcomes or incidents in portfolio companies, including escalation processes and/or resolution plans for those incidents; clearly defined thresholds where impact risks or negative impacts would preclude an investment from being made

Exit: Do you have an approach to manage for mission-aligned exits?

- ▶ **What to look for:** Evidence of a policy or framework to guide exits that accounts for the effects of the timing, structure and process on the sustainability of impact. Examples of previous exits that have been managed to sustain impact

Review and learning: Do you have a regular practice of reflecting on and adapting your impact practices?

- ▶ **What to look for:** Evidence of regular impact strategy reviews; changes to impact templates and/or practices based on lessons learned; external validation through regular independent verification of impact management and reporting practices

Impact Reporting

A GP's approach to impact reporting is a reflection of its commitment to transparency and accountability when communicating the social and/or environmental performance of its investments. Key topics to explore related to a GP's impact reporting include:

Reporting: How do you report on your impact performance to stakeholders and what standards guide your approach?

- ▶ **What to look for:** Regular, transparent reporting; alignment with recognised frameworks (e.g., Impact Frontiers norms); clearly defined reporting frequency; impact performance reporting inclusive of all

portfolio companies, presented in a standardized, comparable format for each investment; disclosure of data sources and methodologies used to calculate or extrapolate impact data; communication of successes and challenges occurring during the reporting period; regular reporting shared with LPs

Assessing Strategic Alignment



The previous set of questions focus on essential impact competencies and capabilities. However, for an LP to fully assess a GP's strategic alignment with its mandate, additional, more tailored questions may be necessary. These supplemental questions can help an LP determine whether the GP's investment thesis aligns with its impact strategy and whether the GP is well-positioned to leverage the LP's strengths and support to enhance its impact outcomes, among other considerations.

Potential additional targeted questions to help LPs identify managers that best align with their institutional mandates and can maximise their impact potential include:

- Does the GP have deep expertise in our target impact area?
- Does the GP have a proven track record in our geographic regions of interest?
- Can the GP report against our required measurement frameworks?
- What is the GP's local presence and network in our target markets?

Combining the baseline questions with mandate-specific questions enables LPs to identify GPs that are well-positioned to serve as strategic partners in achieving specific impact outcomes and maximising the LP's contribution to positive change.



Key terms

TERM	DEFINITION
Investor contribution/ additionality	Engagement by investors and managers in changing the desired outcomes of an investment beyond what might have happened without them.
Impact-linked carried interest or “carry”	The percentage of an asset manager’s remuneration that is tied to the performance of the fund relative to established impact KPIs.
Impact key performance indicators (KPIs)	Quantitative or qualitative metrics and thresholds that an organization uses to measure performance against their impact thesis.
Impact risk	One of the IMP Five Dimensions of Impact. “The ‘Risk’ dimension of impact assesses the likelihood that impact will be different than expected, and that the difference will be material from the perspective of people or the planet who experience impact.” (IMP)
Impact strategy	An impact strategy (or strategy) defines how a fund systematically creates positive change through its investment activities. It encompasses the fund’s approach, methodologies, and processes for generating measurable social or environmental outcomes alongside financial returns. The impact strategy is formally documented in key investment materials such as the Private Placement Memorandum, impact policies, and ESG frameworks, and is supported by foundational research including theory of change models and impact studies that demonstrate the fund’s pathway to creating intended outcomes. (The Fund ID by BlueMark)
Impact thesis (or theory of change)	An outcomes-based hypothesis of how an enterprise, fund, issuer, investment, or investee is expected to contribute positively to sustainable development and the Sustainable Development Goals (SDGs). The impact thesis may be separate to, but ideally is integrated into strategy, business models or investment thesis, as applicable. Relating to funds, typically the fund will develop its overall impact thesis with respect to the fund, and then develop an impact thesis for each of its investments or investees. However, some investees may have already developed their own impact thesis (or theory of change) that the fund reviews as part of its pre-screening and due diligence process. (SDG Impact Standards Glossary)
Output	“The direct result of organizations’ activities, including their products, services and any by-products.” (IMP)
Outcome	“The change in level of well-being experienced by people or condition of the natural environment that results from the actions of the organization, as well as from external factors.” (IMP)
Mission-aligned exit	An exit strategy in impact investing where the investor prioritizes selling to buyers who will preserve or enhance the investment’s social and environmental mission, alongside maximizing financial returns.

References

- [*The Fund ID by BlueMark: Introducing a Fund-Level Impact Rating*](#) (BlueMark)
- [*A Field Guide: Impact Due Diligence and Management for Asset Allocators*](#) (BlueMark and CASE at Duke University)
- [*Impact Management Project Key Terms and Concepts*](#) (IMP)
- [*Operating Principles for Impact Management*](#) (OPIM)
- [*SDG Impact Standards Glossary*](#)

Our Partner

[BlueMark](#) provides independent verifications, ratings, and market intelligence to help investors validate and improve their impact investing approach