

Tideline and Impact Capital Managers Publish Research on Cutting Edge Approaches to Investor Value Creation, Showing How Impact Can Drive Financial Outperformance

“New Frontiers in Value Creation” represents latest in “Alpha in Impact” series on opportunities to generate alpha via impact investing

February 7, 2024 – Impact Capital Managers (ICM) and Tideline today published new research that explores how a committed approach to impact value creation can drive both financial and impact performance. This report is the latest in the “Alpha in Impact” series, which was launched by ICM in 2018 to explore the various ways in which impact objectives enhance financial value for investors throughout the investment management lifecycle. The full report, “New Frontiers in Value Creation,” is available at <https://tideline.com/NewFrontiersinValueCreation>.

The key concept introduced in the report, **impact value creation**, is defined as the actions that investors take as owners, lenders, and influencers to enhance impact efficacy (i.e., the degree of scale, depth, or duration of the measurable social or environmental benefit). This commitment to impact efficacy is often pursued by investors with the goal of driving a commensurate improvement in the financial return of their investments. However, both fund managers (GPs) and institutional allocators (LPs) have historically lacked a clear framework for determining the unique value add of different investment activities.

To address this gap in the market, the research identified four key considerations that are foundational to impact value creation and can help private market impact managers develop, communicate, and execute their value creation approaches with greater rigor, consistency, and results.

- *Financial materiality of impact (FMI)*: the extent to which impact efficacy affects financial performance
- *Sources of impact value creation*: the foundational capabilities and characteristics from which impact value creation activities are drawn, which are: Intentionality, Stakeholder Focus, Impact Networks, and Impact Expertise and Data
- *Impact value creation modalities*: three distinct pathways (e.g., Growth, Systems, Transformation) that can describe how impact is achieved in a particular investment opportunity, ideally in alignment with an investor’s impact thesis
- *Visibility of impact opportunities*: the degree to which impact opportunities, viewed from the perspective of investors, sit along the spectrum of visibility from more apparent to more obscured, suggesting the potential for managers to contribute a unique value-add

The research also highlighted seven distinct levers of action frequently utilized by impact capital managers as part of their impact management playbooks, typically in pursuit of specific impact and financial objectives. These **impact value creation levers** help provide investors with a structured approach to determine their value creation activities within the context of investor capabilities, enabling conditions, and investee needs.

1. *Impact positioning*: strengthening market presence through positioning the brand as impact-focused
2. *Product/service development*: enhancing product and service offerings with impact expertise, networks, and stakeholder engagement
3. *Market building*: creating or expanding the addressable market for impactful products and services
4. *Workforce initiatives*: enhancing employee productivity and commitment through workforce-related improvements
5. *Impact incentives*: aligning management and financial incentives with impact goals
6. *Access to aligned capital*: attracting and securing mission-aligned investors
7. *Impact risk management*: managing impact risks to avoid unintended consequences

Ben Thornley, Co-Founder and Managing Partner at Tideline: “Our focus with this research was to look beyond the noise about what impact investments are or aren’t, and instead spotlight the specific investor actions that are integral to improved business performance. Not only do we show that an impact edge can enhance financial performance, but we reveal the proven strategies impact investors are using to achieve those impact and financial performance uplifts.”

Marieke Spence, Executive Director of ICM: “Impact investors in the private market are uniquely positioned to deliver meaningful environmental and social impact alongside superior financial returns by scaling companies focused on solving our most pressing challenges. This research will enhance investors’ value creation efforts by identifying specific ways that fund managers are managing impact and using it as a key differentiator of business success. To fully cement impact as a necessary dimension of best-practice investment analysis, it’s important to showcase its efficacy as a driver of financial performance.”

The report also includes 13 case studies to help bring to life the key considerations for impact value creation with concrete examples of the types of activities frequently used today by leading impact managers. The featured impact investors include: Bain Capital Double Impact, Citi Impact Fund, EQT Partners, Franklin Templeton, HCAP Partners, KKR Global Impact, LeapFrog Investments, Nuveen Investment Management, Rethink Capital Partners, S2G Ventures, Trill Impact, Two Sigma Impact, and a collaboration between the W.K. Kellogg Foundation, BlackRock and the Builders Fund.

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findings and conclusions presented in this report are those of the author(s) alone, and do not necessarily reflect the opinions of these organizations.

Note to editors: ICM's "Alpha in Impact" series explores different aspects of impact investing and how an impact-focused approach can generate alpha for investors. The first "[Alpha in Impact](#)" report, published in December 2018 in collaboration with Tideline, showed that a social and environmental focus on investment management can boost financial returns and proposed 10 unique drivers of "impact alpha," defined as impact objectives that can enhance or add financial value for fund managers, investors, and the firms in which they invest. ICM also published a related [report](#) with law firm Morrison Foerster in April 2021 that explored the growing variety of legal tools and processes used by private capital investors to protect and enhance impact during the investment lifecycle. The second "Alpha in Impact" report – also published with Morrison Foerster and released in 2023 – was titled "[Strengthening Outcomes: Impact and Financial Value at Exit](#)." The first-of-its-kind study examined 230 exits from approximately 30 ICM member funds, finding that 65% of exits met or exceeded financial return targets.

About Tideline

Tideline is a women-owned, specialist consulting firm that provides tailored advice to clients developing impact investing strategies, products, and solutions. Since 2014, Tideline has provided a wide range of advisory services, including business and investment strategy design, product development, due diligence, customized research, and impact management to allocators deploying over \$200 billion in impact investing strategies and solutions. Tideline's clients include large institutional foundations, wealth management firms, large family offices, mainstream investment managers, community and international development finance institutions, and non-governmental organizations. Learn more at www.tideline.com.

About Impact Capital Managers

The Impact Capital Managers mission is to accelerate the performance of its members and to scale the private capital impact investing marketplace with integrity and authenticity. The organization accomplishes this through its membership association—over 115 private capital funds representing more than \$100B in impact-focused capital, deployed across more than 2,500 portfolio companies—and through collaborating on field-building initiatives, partnerships, and research with the affiliated ICM Institute. The ICM Institute is also a proud organizer of the Mosaic Fellowship and with Achieve Partners, producer of the Better Money, Better World podcast. For more information and a complete list of members, visit www.impactcapitalmanagers.com.