DEUTSCHE ASSET MANAGEMENT GLOBAL SOCIAL FINANCE GROUP'S USE OF IMPACT DATA[1]

IMPACT MEASUREMENT & MANAGEMENT CASE

Deutsche Asset Management

Deutsche Asset Management is one of the world's leading investment management organizations. Deutsche Asset Management offers individuals and institutions traditional and alternative investments across all major asset classes.

Within Deutsche Asset Management, Sustainable Investments is a platform that mobilizes public and private capital for positive environmental, social, and financial returns through entrepreneurial solutions. The Global Social Finance group (GSF), within Sustainable Investments, employs a series of emerging-market-focused microfinance and social enterprise private debt strategies that finance the working capital needs of socially motivated investees, while offering investors an opportunity to place "impact capital" into new and innovative business models providing access to goods and services for low-income populations. The mission of GSF is to mobilize impact capital to finance enterprises and projects that directly benefit the poor and underserved communities.

THE CHALLENGE

As a socially-focused asset manager, GSF recognizes that expanded access to high-quality products and services can improve quality of life for under-served populations.

GSF'S APPROACH

Through its impact investing activities, GSF supports expanded access to capital in geographies, industries, and enterprises often under-served by traditional market actors.

GLOBAL SOCIAL FINANCE: THE FUNDAMENTALS

Asset Class of Investments	Private debt
Stage of Investments	Early stage and growth stage
Target Returns	Target returns vary, from more concessionary returns from philanthropic capital to risk-adjusted market rates
Target Geography	Developing markets globally
Year Founded	The GSF group started its first microfinance fund in 1997
Sectors of Focus	Microfinance, energy, health, and other alternative financial services

1 Note that GSF refers to this data as social performance data, due to the fact that "impact" data requires attribution according to standard monitoring and evaluation practices. GSF's approach also focuses on collecting output data, as opposed to outcome data, from borrowers. For the purpose of this use case, the term "impact data" has been used throughout the document, where "impact" is used to refer to the broader concept of the positive and negative social and environmental results that accrue to target beneficiaries associated with the investment or business activities. See the full *The Business Value of Impact Measurement* report section on "Terms Used" for additional detail.

This case highlights some elements of GSF's impact measurement approach and explains how the group, investors, and borrowers benefit from the approach. For GSF, collecting impact data from investees is important not only for delivering against the group's and investees' social mission (a central purpose of impact investing), but also for supporting the business value of borrowers (see box for definition of 'business value'). Internally, GSF's socially-focused measurement approach generates data that helps achieve strategic alignment, mitigate risks, market to investors, and make follow-on investment decisions. While some impact investors have historically considered impact measurement to be costly and overly burdensome, many have found that it provides tangible and intangible benefits. This case helps explain why impact measurement and management should not be viewed as a necessary cost, but rather as a practice that can inform or improve many aspects of business performance. Understanding this lesson is vital to the practice of impact investing—an investment approach that relies on the integration of traditional business considerations with social and environmental factors to achieve both financial and social and/or environmental returns.

Business value is defined as factors that are advantageous to the overall strength of an investor's or investee's organization, including both direct economic value (whether from improved sales or operations) and strategic benefits that indirectly influence an organization's long-term viability.

Source: *The Business Value of Impact Measurement*, Global Impact Investing Network (GIIN), August 16, 2016, https://thegiin.org/knowledge/publication/businesst-value-im

BACKGROUND ON GLOBAL SOCIAL FINANCE'S IMPACT MEASUREMENT PROCESS

IMPACT-EMBEDDED INVESTMENT STRATEGY

GSF targets microfinance institutions (MFIs) and social enterprises that align with the group's mission, ideally displaying some or all of the following characteristics:

- **Client base that lacks access to essential products/services:** products/services designed for and specifically targeting vulnerable populations (e.g., poor/low-income populations, women, rural populations, or others).
- **High-quality products/services:** products/services that are high in quality (reliable, durable, and well-made) and provided in a responsible manner, resulting in an improvement in quality of life for the end client.
- **Transformative products/services:** products/services that have a directly transformational, positive impact on their end users.
- **Innovative business model:** business models that leverage new or proprietary technology, or apply the technology in a new way, to solve an identified social and/or environmental problem.
- **Scalable business model:** business models with the potential to be scaled in their existing contexts, or replicated in other contexts, geographies, or sectors, to increase social benefits.
- **Sustainable business model:** business models with the potential to operate with limited or no subsidies and government support.
- **ESG practices:** organizations that are currently implementing, or have a clear path toward implementing, standard Environmental, Social and Governance (ESG) best practices.

BACKGROUND ON GLOBAL SOCIAL FINANCE'S IMPACT MEASUREMENT PROCESS

Due diligence focuses on understanding the extent to which these criteria are met. To understand more fully the extent to which a potential investee has built out internal infrastructure to support achievement of its social mission, GSF investment officers complete a social scorecard assessment during due diligence. The scorecard, with one version that targets MFIs and another version that targets social enterprises, comprises a total of 43 simple, multiple-choice questions covering topics such as social performance management and reporting, governance, client protection practices, employee treatment, outreach, responsible financial performance, and environmental protection policies. While developed as a proprietary internal tool, GSF has followed industry standards within microfinance, such as the Universal Standards for Social Performance Management, as well as the Client Protection Principles articulated by the Smart Campaign. GSF is in the process of examining a move to a new industry-created scorecard tool, based on the SPI4 social performance assessment tool, in order to align more fully with industry standards.

While the social scorecard provides some confidence in an investee's ability to deliver on its mission based on the processes, policies, and procedures it has built, in order to get an insight into the company's progress in achieving its mission, GSF collects impact data on both cross-fund, standardized metrics and on company-specific, individualized metrics. The standardized metrics help the group analyze meaningful trends across a set of similar investments (e.g., portfolio companies in the energy sector), whereas the individualized metrics help the investment officers manage the impact and business performance of particular borrowers. Accordingly, the group implements and analyzes metrics along three distinct levels:

- **Level I—Cross-Fund:** GSF has developed a theory of change that applies across all of its funds. The data collected at this group-wide level help assess whether the group is likely to be achieving its intended impact.
- **Level II—Fund-Specific:** More specific impact goals are also set on a fund-by-fund level, tracking one metric per target to manage toward the goal. For example, GSF's team has defined five key impact targets for one of its funds, which are outlined in the upcoming *Sample of Metrics Tracked* section. For that fund, attainment of these targets is tied to a portion of the fund's management fee.
- **Level III—Individualized by Portfolio Company:** Finally, GSF also collects data on borrower-level metrics that are intended to benefit both GSF and the borrower. The investment officer works directly with the portfolio company to lay out how it plans to measure progress against its social performance goals. Based on these iterative conversations, GSF then agrees upon a set of metrics that the borrower believes would be meaningful for its own organization to track.

IMPACT MEASUREMENT STAFFING STRUCTURE

Impact measurement is led by the investment officer responsible for an investment's origination and ongoing monitoring. Additionally, several GSF team members are responsible for managing the data collection and consolidation process, as well as formalizing its cross-fund theory of change and fund-specific goals.

BACKGROUND ON GLOBAL SOCIAL FINANCE'S IMPACT MEASUREMENT PROCESS

SAMPLE OF METRICS TRACKED

View the Global Social Finance IRIS User Registry Page   Browse the IRIS metrics online

The social and environmental performance metrics, listed below, align with GSF's impact measurement process described on the previous page. These metrics are only a representative sample of the full set of metrics that GSF intends to track (GSF is currently working on standardizing the metrics across the team and all borrowers). Where possible, GSF uses IRIS metrics (see last page of this use case for a description of IRIS); where a GSF metric below aligns with an IRIS metric, the relevant metric and its corresponding IRIS identification code have been listed.

LEVEL I: CROSS-FUND, GROUP-WIDE LEVEL METRICS*

METRIC	RATIONALE	SAMPLE IRIS METRICS
Number of clients, by client characteristic	To assess customer outreach and access	Client Individuals: Total (**PI4060**) Client Individuals: New (**PI8732**) Client Individuals: Rural (**PI1190**) Client Individuals: Female (**PI8330**)
Number and types of employees	To assess direct employment creation	Full-time Employees: Total (**OI3160**) Full-time Employees: Managers (**OI8251**) Full-time Employees: Female Managers (**OI1571**)
Number and types of people involved in governance	To assess governance quality and diversity	Board of Directors: Total (**OI1075**) Board of Directors: Female (**OI8118**)
Number of countries in which company operates	To approximate breadth of outreach	Location of Organization's Operating Facilities (**OD1777**)
Number of company offices	To approximate breadth of outreach	N/A

* Several of the metrics in this Level I category overlap with the metrics found in other Levels (e.g., number of clients). This is due to the fact that they are aggregated up from the lower levels.

LEVEL II: FUND-SPECIFIC METRICS**

METRIC	RATIONALE	SAMPLE IRIS METRICS
Number of client loans in new/ innovative product segments	A scale target	N/A
Number of clients	A scale target	Client Individuals: Total (**PI4060**)
Percent of portfolio companies that have attracted new funding during the life of GSF's loan	A crowding-in target (GSF's investment attracting other lenders / shareholders)	N/A
New jobs at portfolio companies	An employment creation target	Permanent Employees: Hired (**OI3547**)
Percent of portfolio companies adopting Smart Assessment/ Certification, or adopting alternative code of conduct (for non-MFI social enterprises)	A target to ensure protection of clients; to improve quality of service for low-income customers	Operational Certifications (**OI1120**)

** The fund metrics and targets listed here are the targets outlined for one of the vehicles managed by GSF and do not apply to all GSF-managed funds. Specific fund-level targets are reflective of each fund's theme, and accordingly, will vary across other funds. This is not an offer to sell or solicit an investment fund or vehicle, and some investments may not be available to certain investors in certain regions.

BACKGROUND ON GLOBAL SOCIAL FINANCE'S IMPACT MEASUREMENT PROCESS

LEVEL III: INDIVIDUALIZED PORTFOLIO COMPANY METRICS***		
METRIC	**RATIONALE**	**SAMPLE IRIS METRICS**
VARIOUS SECTORS		
Client savings premium	To assess affordability	Client Savings Premium **(PI1748)**
Number of units sold with payment plan	To assess affordability	Units/Volume Sold: Total **(PI1263)** *Note: IRIS metric not specific to units/volume sold with payment plan.*
Number of complaints registered per quarter	To assess quality of products/ services and responsible business	Number of Complaints Registered **(PI2197)**
Number of total employees receiving training	To assess quality of products/ services	Employees Trained **(OI4229)**
Employee training hours: total per quarter	To assess quality of products/ services	Employee Training Hours **(OI7877)**
FINANCIAL SERVICES		
Number of voluntary savings accounts	To assess savings creation	Number of Voluntary Savings Accounts **(PI6439)**
Value of voluntary savings account	To assess savings creation	Value of Voluntary Savings Accounts **(PI3240)**
Average loan size/ per-capita GDP	To analyze product offering in the company's context	Average Loan Size Disbursed **(PI5160)**
HEALTH		
Number of healthcare facilities	To approximate scale and access	Healthcare Facilities **(PI1017)**
Number of outpatient treatments	To track treatment volume, which typically lead to surgeries	Units/Volume Sold: Total **(PI1263)**. *Note: IRIS metric not specific to treatments units/volume sold.*
Percent of surgeries performed at below-market prices (either below-market or at no cost to patient)	To assess affordability and access for low income customers *Note: Market prices are context-specific and based on GSF analysis.*	N/A *Note: The data required to calculate the IRIS metric Client Savings Premium (PI1748) may be helpful in reporting against this GSF metric.*
Number of procedures/surgeries conducted	To gauge access to safe surgeries, and to track primary revenue source for hospitals *Note: This information is sometimes collected by sub-type of surgery.*	Units/Volume Sold: Total **(PI1263)**. *Note: IRIS metric not specific to surgeries units/volume sold.*

"Many 'impact' metrics are also business metrics with real business value. For example, the number of surgeries conducted is both an access metric (access to safe surgery is rare and has a very high impact on preservation and quality of life); it is also the primary revenue source for hospitals."

—GSF Team Member

(table continued on next page)

BACKGROUND ON GLOBAL SOCIAL FINANCE'S IMPACT MEASUREMENT PROCESS

Percent of outpatient treatments and percent of surgeries covered by public health insurance	To assess access for low income customers, who often rely on public health insurance	Units/Volume Sold: No Direct Payment (**PI8454**) Units/Volume Sold: Total (**PI1263**)
Percent of eye-care surgeries with high-quality, acceptable-quality, or low-quality outcomes, respectively (%)	To monitor quality of service *Note: This metric is called Best Corrected Vision. GSF uses WHO standards for high-quality, acceptable-quality, and low-quality outcomes. This data can be analyzed on customer income segment.*	N/A
Number of post-surgical infections	To monitor quality of service *Note: This data can be analyzed on customer income segment.*	N/A
ENERGY		
Energy savings from products sold	To monitor positive environmental effects of products sold	Energy Savings from Products Sold (**PI7623**)
Reduction or avoidance of GHG emissions due to products or services sold	To monitor positive environmental effects of products/services sold	Greenhouse Gas Reductions due to Products Sold (**PI5376**)
Increased income resulting from higher productivity or additional income-generating opportunities	To assess economic benefits of off-grid solar and clean cookstove usage	N/A
Reduction in deaths and disability-adjusted life years (DALYs)	To assess health benefits of clean cookstove usage	N/A

*** These metrics vary by portfolio company based on the company's areas of focus. The metrics listed here are a representative sample and are not comprehensive. The typical number of metrics that GSF requests its borrowers track are 3-6.

FREQUENCY OF DATA COLLECTION

Data collection from, and general check-ins with, portfolio companies are dependent on their respective funds' monitoring methodology. GSF hosts quarterly calls and receives monthly reports from MFI and social enterprise borrowers, and also has more frequent engagement with earlier-stage social enterprise investees. The GSF group also aims to conduct an annual in-person company review with its borrowers.

Because GSF is a debt provider, its ability to effect change at borrower's management, governance, and shareholder levels is more limited than for investors in other asset classes. The primary purpose of data collection from its investees is to assess the health of the company and, if necessary, provide support or advice for improvement.

DATA MANAGEMENT SYSTEM

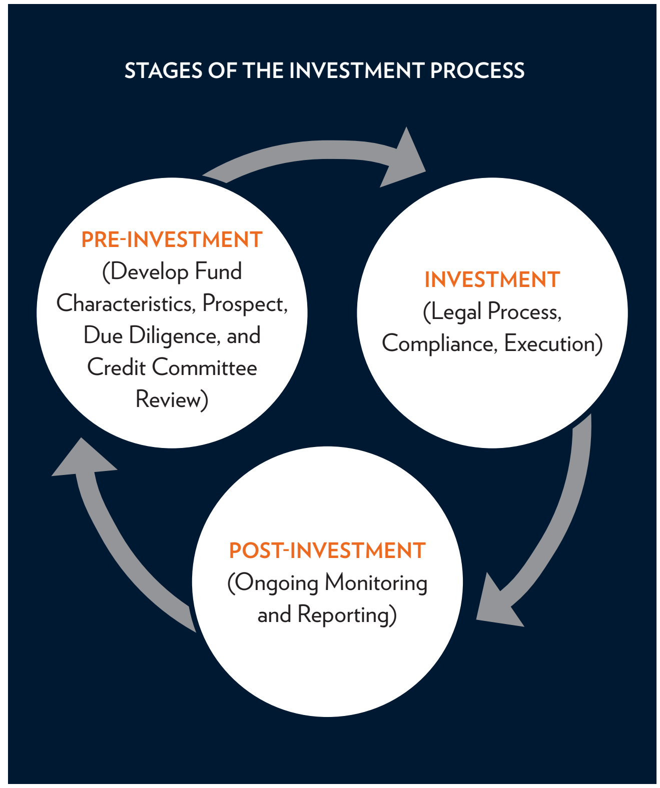
GSF uses Excel-based tools for the management of its impact data.

IMPACT REPORTING PRACTICES

GSF reports some impact metrics to its investors on a quarterly basis, with a fuller set of metrics reported annually by fund.

DERIVING BUSINESS VALUE FROM IMPACT MEASUREMENT: THE GLOBAL SOCIAL FINANCE CASE

In addition to using social and environmental data to improve *impact* performance, which is of course integral to the practice of impact investing, many investors also apply this data in other ways. As described in the full The Business Value of Impact Measurement report, impact investors frequently use social performance and impact data to make decisions and take actions that drive business value. Building on findings from the GIIN's Annual Impact Investor Survey 2016 and based on interviews with 30 practitioners, *The Business Value of Impact Measurement* outlines five drivers of business value that impact investors can gain along various stages of the impact measurement and management process. These drivers are: revenue growth, operational effectiveness and efficiency, investment decisions, marketing and reputation building, and strategic alignment and risk mitigation. The examples below, which are unique to GSF, are categorized along these same drivers. They are also arranged by stage of the investment process to demonstrate how impact data can be utilized throughout the investment cycle.



Pre-Investment (Develop Fund Characteristics, Prospect, Due Diligence, and Credit Committee Review)

Driver: Investment Decisions. As mentioned previously, GSF's social scorecard is used during the due diligence phase to ensure that the prospective borrowers' business strategies and practices are sufficiently developed to deliver against their social missions. The scorecard facilitates the investment officer's assessment, posing questions such as: "Does the company design products and delivery channels in such a way to ensure that they do not cause clients harm? (Y/N)." GSF posits that it can mitigate some social and financial risks by assessing the company's commitment to fair and respectful treatment of its clients (among many other social and financial factors). For example, if GSF lends to a MFI, and the MFI has policies and practices in place to ensure that its clients avoid over-indebtedness, the MFI is not only protecting its clients—a social motivation—but it is also maintaining its financial stability by mitigating future asset quality deterioration. As such, the scorecard helps screen for organizations with exposure to social risks that could translate into financial risks. In this way, the social scorecard assessment influences investment decisions.

Driver: Marketing and Reputation Building. For GSF as a fund manager, the impact measurement process has helped it build its own brand in the impact investing space, and by doing so, attract investors into the fund "that may already be acting within the impact investing sector, or may be coming into this sector for the first time," as a GSF representative explained. GSF created a theory of change to be clear about the group's investment thesis from an impact perspective, which is used in external communications for brand-building purposes. This theory of change exercise has helped GSF define its role within the sector and firmly identify itself as an impact investor.

Investment (Legal Process, Compliance, Execution)

Driver: Strategic Alignment and Risk Mitigation. Beyond its use of the social scorecard, GSF investment officers also set social performance goals with each borrower at the onset of a loan, which include a discussion on which impact metrics the borrower intends to track in order to manage against those goals. For example, if the social enterprise's mission is to increase access to financial services for women in rural areas, the organization will commit to reporting on the percentage of clients who are women and who live in rural areas. These metrics help confirm that the borrower's activities remain strategically aligned to its mission during the course of the investment.

Driver: Investment Decisions. Beyond deciding upon social performance indicators and goals at the time of loan origination, as described in the example above, GSF investment officers will also monitor performance against certain impact metrics prior to providing any follow-on funding. In other words, performance against impact metrics can sometimes influence the group's investment decisions. Specifically, for some transactions, milestones related to ESG requirements are tracked in order to decide whether to disburse follow-on tranches. These milestones in the past have included the obtainment of a conflict of interest policy or increased diversity on the company's governance board.

Post-Investment (Ongoing Monitoring and Reporting)

Driver: Strategic Alignment and Risk Mitigation. GSF also uses impact data to monitor the quality of investees' services as a means to ensure end-clients are being treated safely and to protect the reputation of investees, which is essential for continued business success. For example, for several of its health-related investments, the group tracks and manages against certain outcome measurements, including the number of post-surgical infections and the percentages of eye-care surgeries with various quality outcomes (high-quality, acceptable-quality, or low-quality outcomes). GSF primarily measures these outcome metrics to optimize impact. For example, the metric *number of post-surgical infections* is monitored because infections put a patient's life at risk; since surgical infection rates tend to be high in emerging markets, particularly in government hospitals, GSF posits that private providers with lower post-surgery rates of infection provide significant social value. But tracking this metric also has a value beyond managing the impact performance–it also helps ensure that the investee is delivering consistently high-quality services with low infection rates, which in turn, builds the company's reputation, driving higher volumes of patients from various income segments (low, middle, even high). According to GSF, a health company's reputation for quality in the market "is a key driver of financial success." Further, GSF has found it useful to segment this data along client income brackets. A GSF investment officer focused on health-related investments explains: "It has become clear to us that it is important to start tracking these outcome metrics for different classes of patients if a healthcare provider is using a cross-subsidization model. Many healthcare delivery companies that impact investors are interested in are treating low-income and middle-income people, and everyone in between. And to some degree, there's a sliding pricing scale with some services in our investments. If there's a risk that lower-income people get lower-quality service that should be tracked to ensure poor clients do not get a lower standard of medical care." By tracking these metrics and conducting this analysis, GSF both ensures that the lower-income clients can access the same quality of services as the higher-income clients, and protects the company's brand against financial and impact risks.

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THE IMPACT PROGRAMME

GIIN GLOBAL IMPACT INVESTING NETWORK

IRIS

The Global Impact Investing Network (GIIN®) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing around the world. IRIS is an initiative of the GIIN. It is the catalog of generally accepted performance metrics used to measure and manage the social, environmental, and financial performance of impact investments. While investors' impact measurement practices typically consist of multiple components, the IRIS catalog can help investors at a key phase in the process—the metric selection phase. For more information, please visit www.thegiin.org and www.iris.thegiin.org.

This case is part of a series that highlights the impact measurement practices of select fund managers, focusing in particular on the business value that they derive from these practices. The information found in these use cases is principally sourced from the investors' participation in the full *The Business Value of Impact Measurement* study, available on the GIIN's website: https://thegiin.org/knowledge/publication/business-value-im.