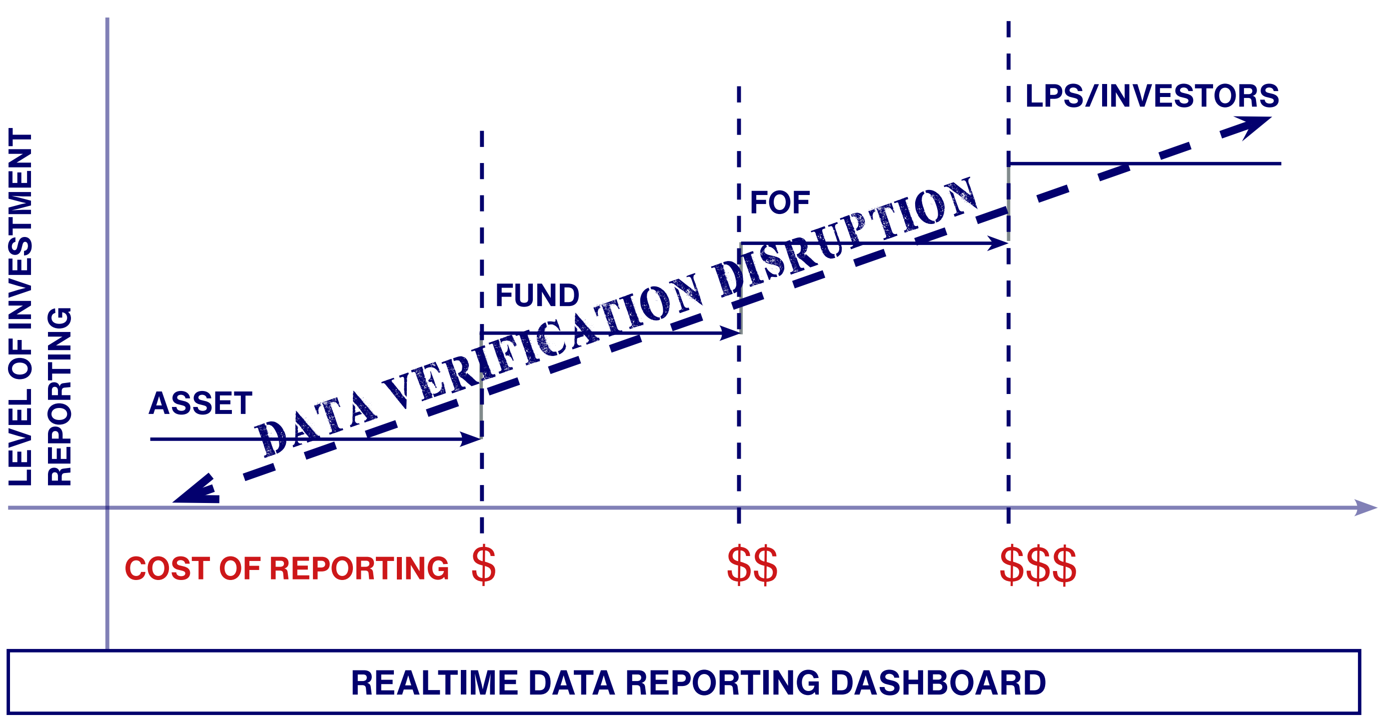
ARTICLE 003: EFFECTIVE IMPACT DATA REPORTING FOR INVESTMENT FUND MANAGERS

THIS IS THE THIRD ARTICLE IN A SERIES ON THE USE OF EXPONENTIAL TECHNOLOGIES TO TRACK AND VERIFY ENVIRONMENTAL AND SOCIAL OUTPUTS IN ENERGY TRANSITION. THE FIRST ARTICLE PRESENTED THE POTENTIAL FOR NON-FINANCIAL KPIS PACKAGED AS IMPACT DATA TO ATTRACT MAINSTREAM INVESTMENT CAPITAL FOR ENERGY TRANSITION COMPANIES. THE SECOND ARTICLE PROVIDED A PRACTICAL USE CASE OF THE VALUE THAT IMPACT DATA CAN UNLOCK FOR COMPANIES AND INVESTORS.

This article addresses the unique impact data reporting challenges faced by the private infrastructure investment market. Organised in a 'capital stack' that typically leads from asset to fund managers (i.e. general partners or "GPs") to fund-of-funds managers to limited partners ("LPs") and eventually capital owners, the investment market is characterised by a complex web of stakeholders navigating unique reporting requirements. Given these complexities, investment fund managers at the forefront of the inclusive energy transition are asking the following question: ***How do we verify energy transition data at the asset and/or company level and harmonize this data consistently across the capital stack, in order to meet all stakeholders' needs while protecting data integrity and reducing costs?***



Impact Data Verification Disruption:

Asset level, real-time integrity-protected impact data available 247 is also cost effective as it interupts the expensive consulting modal.

Measuring the environmental or social impact of their investments is not ordinarily a task that an Asset Manager cares about; not only is it expensive, but it consumes multiple internal resources for an outcome that has not traditionally added investor value either.

Environmental concerns and regulatory pressure to report on LPs investment impact is increasing while verified impact data reporting is made complex as a result of intricate investment chains.

Furthermore, since no standard impact data reporting methodology exists, every investment lawyer practices their own particular view, standard, or metric.

CASE STUDY: ADIANT CAPITAL

Adiant Capital, a private market impact investment company based in Switzerland, invests in private assets and companies that mitigate climate change, protect natural resources, and preserve biodiversity. While Adiant Capital's impact investments align with the Paris Agreement's objective to limit warming potential to below two degrees Celsius by end of the century, Adiant Capital currently focuses on forward-thinking environmental investments in areas such as renewable energy infrastructure, low-carbon transport and digital infrastructure. Pierre-Loïc Caïjo, founder of Adiant Capital, says:

> *In terms of sustainability, our principles of action are truly ambitious and go beyond traditional environmental, social, and governance (ESG) criteria. While listed companies are now required to identify and report on the ESG risks they are exposed to, it is far from adequate and does not interrogate its true impact or challenge the company's business model and activities.*

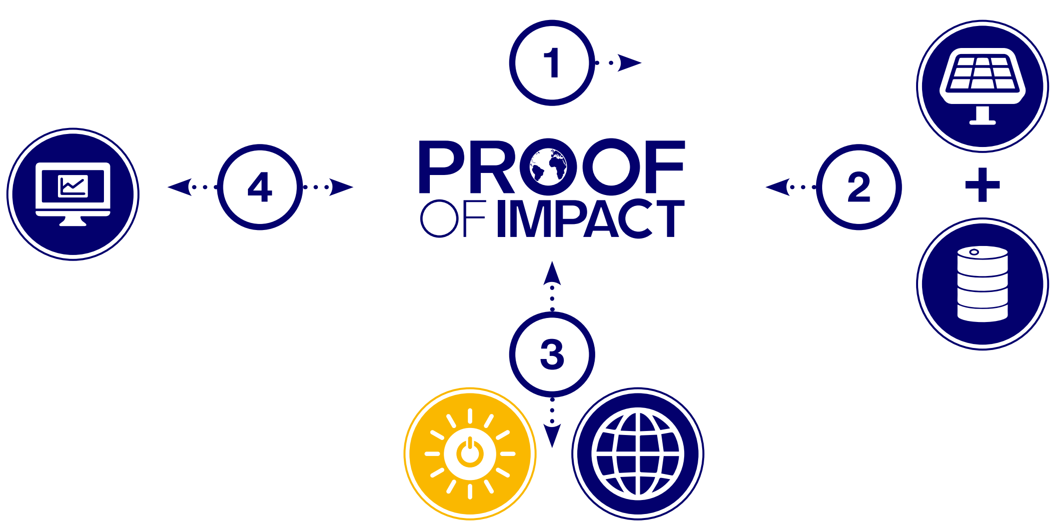
According to Pierre-Loïc, the regulatory landscape presents a complex set of frameworks to understand and apply to investment activities – such as the Paris Agreements (2015) and the 2030 Agenda for Sustainable Development (2015). Those milestones have given new impetus to regulators and their objectives are being translated into a set of complex regulatory pieces such as the Sustainable Finance Disclosure Regulation, the EU Taxonomy and the Benchmark Regulation, and also affect existing regulation (e.g. MiFiD2, UCITS, AIFM). This set of rules apply to any public or private financial products to be distributed to European investors. Other jurisdictions appear to be following the same trend to promote more transparency in the sustainable investments area, aiming at eliminating "greenwashing" and redirecting private capital flows towards sustainable investments.

In the infrastructure industry, a standardised and widely accepted methodology that meets the upcoming EU regulatory obligations does not exist yet and only a handful of specialised asset managers have anticipated the regulatory move. Similarly, in the existing ESG reporting area there is no standard methodology, resulting in a plurality of standards and providers. More importantly, access to quality and reliable data at the asset level is inconsistent. Collecting and maintaining the data's integrity is a hurdle, especially if the portfolio company controls the data and it is only in analogue form like a published print report. If the data must be collected manually or by means of questionnaires, the cost starts to rise at every level of the investment stack. Finally, Pierre-Loic also sees the future in digital platforms where once the data is captured in digital form (on a blockchain) it can function as collateral for future digital tokenised investment products, which will, thanks to their liquidity, increase the mobilisation of capital to those assets that are more impactful.

THE PROBLEM

Limited partners are under increased pressure – environmental, social (beneficiaries) and regulatory – to report on impact or sustainability in their investment portfolios. However, the market currently lacks a verified impact reporting infrastructure that can be applied efficiently across the entire capital stack. Since no standard impact data reporting methodology exists, every member of the capital stack relies on their own particular view, standard, or metric, resulting in non-standard reporting, a lack of transparency, and no single source of truth.

Adiant Capital
PRIVATE MARKETS IMPACT INVESTING



1. Adiant invests in energy infrastructure assets
2. POI streams and verifies data on renewable energy production, effieciency and sales are managed from asset management information system
3. POI leverages objective data sources to analyse Adiant's cpntribution to the percent change to the share of renewables in primary energy supply, grid-level emissions factors, carbon intensity and air quality
4. Data is aggregated for transparent metric calculation and visualisation on Performance Management dashboard

Obtaining impact data is expensive, time-consuming and resource-intensive, especially for a task that has not historically added clear value. Since impact data collection has not traditionally added value for portfolio managers, it is seen as an additional cost centre rather than a source of growth potential. As a result, measuring investments' environmental or social impact is simply not a task that an asset manager ordinarily prioritizes.

What if a real-time, verified, integrity-protected impact data footprint existed at the asset level, which could:

- be passed along the investment chain by every stakeholder, fund manager or impact data metric official any time it is required;
- provide the collateral to perform independent risk-adjusted return analyses; and
- be the "source of truth" for future securitisation into tokenised investment products with embedded impact and ESG data?

Compared to the conventional burdensome impact data collection practices, the potential time, cost, and integrity benefits of such a harmonized impact data model span the entire capital stack, ranging from increased efficiency and improved decision making to enhanced risk evaluation and more accurate asset valuation.

THE SOLUTION: VERIFICATION AT THE SOURCE

In response to the challenges faced by investment fund managers, Proof of Impact ("POI") has developed a technology platform that allows for digital verification of product, operational, environmental and societal metrics at their source. Due to the integration of operating systems and IoT, the data is current and real-time, rather than driven by field visits and consultants. Every interested party in the investment chain can be provided with unrestricted access to the data and analytics, resulting in greater transparency and decreased duplicity. The benefits of this approach to fund managers and portfolio companies management include:

1. **HARMONISED DATA ACROSS THE CAPITAL STACK**

   Data is verified at the source, resulting in one centrally managed "source of truth" for all impact data required for reporting. Each stakeholder can derive their required metrics from the original verified data set, and investors can work collaboratively with portfolio companies to understand trends, track investment outcomes, and mitigate risks. Since all stakeholders – from investors to funders to regulators – have access to the same integrity-protected verified data, it leads to consistent and transparent information and communication about high-impact metrics that truly matter and are harmonised industry wide.

2. **PROTECTED DATA INTEGRITY FOR IMMEDIATE OR FUTURE SECURITISATION**

   POI has developed its own blockchain and integrates with other main chains to protect the integrity of the data as it is passed from one investor category to the next in the chain, and the data is visualised on a POI dashboard. This allows for simpler calculations of the contribution of each investor, funder, or client to the asset's impact results, so that the attribution of each investor contribution is clear, defined, and not overlapping or double counting. This tokenised data will become the tokenised investment product with embedded ESG and impact data.

3. **ENHANCED DECISION-MAKING CAPABILITIES AND CAPITAL EFFICIENCY**

   The real-time nature of impact data means that decision makers at each level of the capital stack can make an immediate investment or allocation decision based on the data, saving time and shortening the timeline to investment. Data may also have predictive capabilities. Over time, investors can identify which impact or sustainability data factors could be an indicator of future cash flow, resulting in higher cost efficiency, stronger market positioning of products and greater revenue streams. Next-generation investors are demanding assets that are transparent and that report on their holistic performance in real-time; this could let early adopters of verified impact reporting capture higher environmental and financial performance over time.

4. **INCREASED COST EFFECTIVENESS OF DATA CAPTURE, VERIFICATION, MONITORING, AND REPORTING**

   The costs to capture, verify, monitor, and report on the data are one-off at the asset level. The access to decision-making data reduces expensive financial, intermediary and due diligence costs at the time of investment. Furthermore, analysis and reporting at different levels in the stack all become more cost effective. The POI platform is the most valuable impact and ESG measurement solution per dollar, due to its potential to make investment decisions ex-ante and track the performance of the asset or portfolio ex-post:

   - Prior to entering into a deal, investors can request an ex-ante impact or sustainability due diligence, via the POI Digital Assessment, to identify the environmental and sustainability targets the company has set, the data sources that provide evidence of tangible contribution to these goals and qualitative analysis of the return on investment based on these goals being achieved
   - After the initial investment is made and during the lifetime of the investment, investors can track the data of the asset and/or company and pass this "digital footprint" and data stream on to their LPs without any further interventions. This data can be sliced and diced according to each investor's needs, whether it is meeting their regulatory and performance requirements or creating benchmarks and peer-to-peer comparisons

   The GIIN's recently published "*Methodology for Comparing and Assessing Impact*" lays out in detail how investors can leverage impact data to make more informed and effective investment decisions, and enhance their overall fund's performance. Examples of decision points that can be enhanced with impact data include:

   1. Portfolio construction, including which investments most closely align with the fund's and LPs' impact and financial risk and return goals
   2. Due diligence, including where to invest based on investees' projected impact achievement
   3. Investment management, including how investees are performing relative to the portfolio's impact and financial goals
   4. Exit or realization, including decisions on when and how to exit, and whether or not to reinvest
   5. Reporting and disclosures, including the use of impact data to fulfill reporting requirements and build the fund's brand as a leader in data-driven measurement

This GIIN publication provides a baseline methodology for investors, but it's important to remember that no matter how good the IMM methodologies are, they can only be as good as underlying data collected.

In the upcoming fourth article of this series, we will focus on the ability of the Proof of Impact impact data performance platform to assist companies and investors to operate an efficient and meaningful impact management strategy that lays the groundwork for reliable impact data collection and analysis.