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Q&A: BlueMark

BlueMark was founded in January 2020 by Tideline, an impact investment consultant, to meet the impact investing market's growing need for expert, third-party impact verification services. BlueMark has since completed more than 50 verifications of impact management practices and impact performance for a diverse range of impact investors, including private equity firms (Bain, KKR, LeapFrog Investments, Partners Group), impact specialist firms (Big Society Capital, Calvert Impact Capital, Closed Loop Partners, FullCycle) diversified asset managers (BlueOrchard, Nuveen, Prudential Financial, UBS), and development finance institutions (CDC Group, EBRD, FinDev Canada, Finnfund).

Christina Leijonhufvud
CEO
BlueMark

Christina Leijonhufvud is CEO of BlueMark with responsibility for leading business strategy, new product development, and external relations. She has directly led over 50 verification assignments across an array of investor types and asset classes. Christina was previously a Managing Director at J.P. Morgan where she pioneered a first-of-its-kind social finance investment banking business and co-authored seminal research that helped place impact investing on the map for institutional investors.

PitchBook spoke with Christina Leijonhufvud, CEO of BlueMark, about how impact verification works and the role it plays in the future growth and development of the impact investing industry.

What was the lightbulb moment that inspired you and your team to launch BlueMark?

There were a few moments along the way but the real lightbulb moment came in April 2019 when a diverse group of 60 impact investors and the International Finance Corporation (IFC) launched the Operating Principles for Impact Management, establishing a threshold standard for how to integrate impact considerations throughout the investment lifecycle. One of the Principles—Principle 9—specifically required signatories to publicly disclose and independently verify their alignment with the Principles. Many in the impact investing field viewed the introduction of independent impact verification requirements as key to scaling the market with integrity.

At Tideline we had several consulting clients who were founding signatories to the Impact Principles and turned to us for advice on how to conduct an impact verification. We quickly realized that there was a broader need in the market for an impact investing expert that could look under the hood to evaluate the quality of impact investors' practices and performance. Tideline was well-positioned to provide that judgement given its extensive work with asset managers and owners over the years in designing robust impact management and measurement systems. However, it was critical that we set up the verification service to be independent and free of any conflicts with our consulting relationships, so that's why we decided to launch a separate business in January 2020. We have since raised outside funding for the business thanks to our partners at The Rockefeller Foundation, Radicle Impact, and the Tipping Point Fund on Impact Investing, among others.

How does an impact verification work?

Our verification services are structured around what we see as the two key pillars of accountability for impact: Practice and Performance. The Practice verification involves verifying the systems and processes used by an investor or company to manage their impact, while the Performance verification involves verifying an investor's or company's impact results against their stated intentions, as reflected in their performance reporting. We view these two pillars as complementary and part of a well-rounded approach to impact investing.

We designed our approach to impact verification to go well beyond a check-the-box type of exercise. It is critical to us that we are imparting learning value to our clients and contributing to the market's understanding of evolving best practices in impact management and impact performance report. That's why as part of each verification assignment, we evaluate both quantitative and qualitative information, conduct interviews with investment staff and portfolio companies, and analyze transaction-level data to dig into how a business or investor approaches impact based on accepted industry standards, such as the Impact Principles or SDG Impact.

A verification can take between four and eight weeks, depending on the complexity of the strategy, and at the end we deliver a public statement summarizing the verification results and a client-facing report with the full, detailed analysis and recommendations on specific areas of improvement. These documents can then be shared with a variety of stakeholders, including standard-setters and investors. We typically recommend clients go through a Practice verification once every two to three years, while the Performance verification should ideally be annual, in tandem with the impact reporting cadence.

How is an impact verification different or similar to a financial audit?

The goal of any non-financial verification or assurance engagement is generally to provide a third-party opinion on whether an investor or business is doing what it says it is doing to achieve stated non-financial objectives. No sophisticated investor is going to allocate capital to a company or fund manager without some reassurance that the financial statements are accurate and backed up by supporting evidence. The same is increasingly true when it comes to impact. In that sense, financial audits and impact verifications are very similar.

It's important to acknowledge that no audit or assurance engagement is foolproof in that it is possible such an engagement may not capture all the information necessary to protect against inaccuracy or worse, fraud. Misstatements, whether intentional or accidental, are always a possibility. That's part of why we designed our verification methodology to be holistic with a focus on highlighting both strengths and weaknesses rather than a "limited assurance" (which often results in a negative statement that no reasons were found to distrust the client's disclosures). We go to great lengths to make sure that any investor claims, promises or commitments are backed up by evidence and clearly incorporated into decision-making processes. We also make recommendations on how a business or investor can improve.

What has BlueMark learned from completing 50+ impact verifications?

We made a commitment early on to publicly share data from these verifications to spotlight key areas of strength, shared challenges and potential areas of improvement. The Rockefeller Foundation has helped us to achieve this goal with their support. We want to help raise the bar across the industry, and that only happens if all market participants embrace a spirit of ongoing sharing and learning.

We publish an annual 'Making the Mark' report where we share aggregated data and insights from the verifications completed to date. As our sample size has grown, our dataset can tell us more about the state of the impact investing industry.

In our 2021 'Making the Mark' report we introduced the BlueMark Practice Benchmark as a tool that impact investors can use to see how they stack up against their peers. The Benchmark specifically differentiates between Practice Leaders (those in the top quartile according to our data) and Practice Learners (those in the bottom quartile) across a range of industry best practices. While there will always be more room for improvement, we are beginning to see a clear segmentation between Leaders and Learners in the impact investing field. For instance, we found that while 93% of the investors of our research sample align their investments with the Sustainable Development Goals (SDGs), just 48% go a step further to align their impact objectives with the 169 targets underlying the SDGs. This added layer of specificity and intention offers an important lesson for impact investors that want to improve.

What does the future hold for BlueMark and the impact verification market?

We are encouraged by how quickly this new market is developing. There is a growing recognition across the industry that impact verification is valuable for all market participants. For asset managers, an independent verification exercise is essential to impact achievement, risk mitigation, and credibility with investors. For asset allocators, independent verification serves as a reliable and efficient input to robust due diligence and investment selection. And for the impact investing market at large, verification enables increased confidence that impact claims will turn into impact outcomes.

We are already seeing other standard-setters, in particular the SDG Impact initiative started by the UNDP, embrace impact verification by introducing independent assurance requirements for members and signatories. Financial regulators are also paying attention to the verification market, and we have engaged in several consultation processes around what independent verification requirements should look like in a regulatory setting. Taken together, we are optimistic that impact verifications will become as commonplace as financial audits or credit ratings within the next decade. And we are excited about leading that charge.