



# CFA UK LEVEL 4 CERTIFICATE IN IMPACT INVESTING SPECIMEN PAPER

## Version 1: Tested from 01 March 2024

Key Information	
<b>Number of questions</b>	65. 1 mark per question.
<b>Time allowed</b>	1 hours 30 minutes
<b>Target pass mark</b>	The pass mark of the exam seldom varies between 65% and 75%.
<b>Types of questions used</b>	Standard multiple choice – candidates select 1 option of 4.
<p>The specimen paper should NOT be viewed as a primary source of learning. By its nature, a specimen paper will only cover a proportion of the learning outcomes. Candidates are strongly advised to develop a fundamental understanding of the curriculum in order to demonstrate the competence required to pass the examination.</p> <p>Please click here for all <a href="#">Terms and Conditions</a> pertaining to the CFA UK Level 4 Certificate in Impact Investing.</p>	

## SPECIMEN PAPER: QUESTIONS

1. A General Partner of an early-stage climate innovation fund invests in small companies located in Southeast Asia that are developing emerging decarbonisation technologies.

Which strategy **best** describes how the investors are driving positive impact?

- A. Grow new or undersupplied capital markets by anchoring or participating in new or previously overlooked opportunities.
  - B. Engage actively by proactively supporting or advocating for investees to increase positive and reduce negative impacts.
  - C. Signal that impact matters through a strategy that proactively and systematically considers measurable positive and negative impacts in decision making which is communicated widely.
  - D. Provide flexibility on risk adjusted financial returns, where the investor is growing new or undersupplied capital markets, by accepting a lower financial return to generate impact than could be obtained by a comparable investment.
2. An impact enterprise launches an exciting new software that aims to generate revenue alongside digital access to underserved communities. An impact investor considers making an offer to them, but first wants to hear more about what data they plan to use to track their impacts and how the company will measure and manage its effects on society.

Which type of risk is the investor concerned about?

- A. Execution risk.
  - B. External risk.
  - C. Evidence risk.
  - D. Endurance risk.
3. Which of the following is an example of additionality within the context of investor contribution?
- A. Quantifying the impact multiple at exit.
  - B. Seeking extra equity in a firm with a solid track record.
  - C. Promoting the potential of a company to raise more capital.
  - D. Making a cornerstone investment in a first-time fund manager.

4. Which of the following pioneered approaches in impact investing for private market investments?
- A. Multilateral Development Banks.
  - B. Wealth and Asset Managers.
  - C. Venture Capital Investors.
  - D. Multinational Charities.
5. Which type of stewardship is **most** common in public equities markets?
- A. Voting.
  - B. Joining the board.
  - C. Regulatory compliance.
  - D. Investment term contingencies.
6. Which of the following **best** describes the Operating Principles for Impact Management?
- A. A framework of principles to aid investors in designing and implementing their impact management systems.
  - B. A protocol requiring all impact investors to apply a uniform approach to impact management.
  - C. A framework that offers tools for calculating the return on investment for impact investments.
  - D. A set of principles which determines the financial performance of impact investments.
7. According to the GIIN's estimate, what was the global size of the impact investing market at the end of December 2021?
- A. 1.16 trillion.
  - B. 3.16 trillion.
  - C. 5.16 trillion.
  - D. 7.16 trillion.

8. At which stage of investment selection is it important for an investor to further test their initial hypothesis on whether an investment can be suitable for their impact investment strategy?

- A. Sourcing.
- B. Assessment or Due Diligence.
- C. Decision.
- D. Execution or Implementation.

9. An organisation runs a profitable tutoring service for high-income students, in order to fund a free tutoring program for low-income students.

Which impact enterprise model is this an example of?

- A. Impact through operations.
- B. Impact centred.
- C. Cross subsidy.
- D. Profit donation.

10. An impact investor is comparing two potential investments with similar financial returns.

**Investment 1** - Focuses on providing affordable loans to low-income individuals.

**Investment 2** - Concentrates on reducing deforestation.

Which approach would be **most** appropriate to effectively compare the two investments' quality and quantity of intended impacts?

- A. Use an impact valuation methodology, such as an impact score or monetisation.
- B. Assess the projects against the United Nations Sustainable Development Goals.
- C. Focus on the number of people reached by each investment.
- D. Utilise a Theory of Change framework for both investments.

11. An impact investor is evaluating four investment opportunities with different impact risks:

Opportunity A - Has a high drop-off risk.

Opportunity B - Has a high execution risk.

Opportunity C - Has a high alignment risk.

Opportunity D - Has a high stakeholder participation risk.

Which investment opportunity is **more** likely to experience difficulties in delivering activities as planned?

A. Opportunity A.

B. Opportunity B.

C. Opportunity C.

D. Opportunity D.

12. The theory of change for an affordable housing construction business includes enabling the delivery of safe shelter for families struggling to find adequate housing on low-income budgets.

Which aspect of the theory of change is this an example of?

A. Activities.

B. Short-term outcome.

C. Outputs.

D. Longer-term outcome.

13. Which of the following investors will **most** likely have direct contact with impact enterprises?

A. Venture capital fund manager.

B. Listed equity fund manager.

C. Listed bond fund manager.

D. Pension fund manager.

14. What is **most** important for an impact-motivated investor in primary public equities markets to understand?

- A. Link between capital provision and investor contribution.
- B. Aggregate result of trades.
- C. The use of proceeds.
- D. Cost of capital.

15. Which of the following actions by an impact investor could be considered as a form of investor contribution to additionality?

- A. Providing favourable cost or terms.
- B. Serving as a lead lender for a syndicated debt transaction.
- C. Accepting a subordinated role or component of a larger financing package.
- D. Acting as a cornerstone investor in a new fund run by a first time manager.

16. A company generates positive outcomes with each unit of product or service sold.

What impact business model is this categorised as?

- A. Impact through operations.
- B. Impact centred.
- C. Cross subsidy.
- D. Profit donation.

17. Which type of asset owner is expected to record the **highest** growth rate in impact capital invested in future years?

- A. Pension funds.
- B. Family offices.
- C. Endowed foundations.
- D. Insurance companies.

18. Which of the following describes the **main** challenge in estimating the size of the impact investing market?

- A. Definitions of impact investment vary.
- B. The market is growing too rapidly to size.
- C. Investors are unwilling to share data.
- D. Nobody has attempted to size the market.

19. A local government pension fund has decided to adopt a 'carve out' strategy, allocating an initial 2% of assets towards impact investing.

Which of the following is the **most** likely reason for this?

- A. To achieve a market rate risk-adjusted return.
- B. To allow for a focus on a particular impact theme.
- C. To avoid creating new investment processes and policies.
- D. To align investments with the values of pension fund members.

20. Which of the following investor contribution efforts primarily applies to public equity investors?

- A. Legally structuring the company as an impact certified organisation.
- B. Adding impact considerations and targets into side letters.
- C. Restructuring debt seniority allows for more 'patient' repayment.
- D. Signalling and engagement are the main levers of investor contribution.

21. Which statement **most** accurately describes the key aims of impact investments?

- A. Generate positive, social, and environmental outputs, outcomes and impact.
- B. Generate positive, measurable, social, and environmental impact alongside financial returns.
- C. Generate positive, social, and environmental impact alongside market rate risk-adjusted returns.
- D. Generate positive, measurable impact by financing companies that have limited access to capital.

- 22.** The Hope Future Fund is making high-risk, long-term investments in underdeveloped clean energy technologies. It takes much higher and earlier stage risk than conventional investors but expects high financial returns.

Does it operate as catalytic capital according to the characteristics set out by the Catalytic Capital Consortium?

- A. Yes, it meets the characteristics of catalytic capital.
- B. No, it fails to meet any characteristic of catalytic capital.
- C. Yes, but only partially because it fails to meet the requirement of concessionary financial returns.
- D. Yes, but only partially because it fails to meet the requirement of a long operational track record.

- 23.** A small firm that specialises in renewable energy technologies has obtained investment from a catalytic capital fund.

Which of the following outcomes is **least** likely to be associated with this catalytic capital investment?

- A. The firm is expected to generate high financial returns within a short period of receiving the investment.
- B. The firm requires investment capital over a longer period to fully realise its potential impact.
- C. The firm is part of a new market that is currently undersupplied with capital.
- D. The firm requires not only capital but also technical assistance.



24. Which of the following statements accurately describes sustainability-related financial disclosures as compared to sustainability reporting?
- A. The former provides information about the organisation's sustainability performance to a wide range of users; the latter provides material information that could influence investors' assessment of the organisation's enterprise value.
  - B. The former provides material information that could influence investors' assessment of the organisation's enterprise value; the latter provides information about the organisation's sustainability performance to a wide range of users.
  - C. The Global Reporting Initiative Standards were developed to communicate the former, whilst the International Sustainability Standards Board was founded to communicate the disclosure requirements of the latter.
  - D. The former provides information about the organisation's sustainability performance to a wide range of users and the International Sustainability Standards Board was founded to communicate the disclosure requirements of the latter.

25. An impact investor looking to achieve market level returns is considering a loan to a pre-seed stage enterprise that is currently not generating profits but has high potential for impact and return.

Which instrument is **most** suitable?

- A. Term loan.
  - B. Quasi equity.
  - C. Recoverable grant.
  - D. Variable payment obligation.
26. In which instrument of blended finance structures would catalytic investors typically **not** participate?
- A. Technical assistance facility.
  - B. First loss capital.
  - C. Senior equity.
  - D. Guarantee.
27. 500 households each year complete training on digital literacy provided by a social enterprise.

Where should this result be accounted for in the organisation's Theory of Change?

- A. Inputs.
- B. Outputs.
- C. Outcomes.
- D. Impact.

**28.** Some impacts experienced by stakeholders do not create or erode enterprise value for an organisation.

Where would these impacts **most** likely be reported?'

- A. Sustainability-related financial disclosure.
- B. Corporate Sustainability Report.
- C. Annual financial statements.
- D. Sustainability Accounting Standards Board aligned report.

**29.** What is the **primary** purpose of an Investment Policy Statement (IPS) for institutional asset owners?

- A. To establish a clear understanding of the objectives, investment policies and governance oversight for the investment portfolio.
- B. To establish a clear understanding and provide a blueprint for executing investment strategies during periods of uncertainty.
- C. To document the investment manager's philosophy and approach to investing.
- D. To establish the asset owner's financial targets, goals, and risk tolerance.

**30.** Signatories to the Operating Principles for Impact Management are required to

- A. Provide regular, independent verification of their impact and financial performance.
- B. Adopt the UN Sustainable Development Goals (SDGs) as their primary framework.
- C. Commit to include analysis on both positive and negative impacts of each investment.
- D. Publish an annual Disclosure Statement to describe their impact management system.

**31.** Which of the following is **not** one of the proposed labels under the UK's Sustainability Disclosure Requirements (SDR)?

- A. Sustainable Focus.
- B. Sustainable Growth.
- C. Sustainable Improvers.
- D. Sustainable Impact.

**32.** ABC Impact Investing Management is working with asset owner clients to devise their investing strategy and execute on their investment objectives.

Why is it critical to ground decisions relating to sustainable and impact investing products on the client's overall investment objective?

- A. To avoid greenwashing in the articulation of sustainable investment objectives.
- B. To fulfill fiduciary and governance duties in pursuit of sustainable investments.
- C. To align sustainability preferences with the client's investment strategy.
- D. To comply with regulatory standards for impact investing practices.

**33.** How are ESG factors integrated alongside impact goals in constructing an impact investment product?

- A. By integrating the investee's employee and stakeholder feedback.
- B. By assessing the governance and management structure of the investee.
- C. By analysing the company's net zero goals and plan of action to reach those goals.
- D. By evaluating how an investee's operations affect the impact of its products and services.

**34.** Why is the design of the impact investment selection approach important?

- A. To ensure it meets minimum legal and regulatory requirements.
- B. To align the process with the investor's impact strategy and objectives.
- C. To enable better identification of finance-first investment opportunities.
- D. To act as a reference for sourcing, due diligence and the decision making process.

35. ImpactRN makes impact investments in enterprises developing clean energy technology solutions. The fund's high-level theory of change is:

- **Input:** Impact capital.
- **Activities:** Invest in clean technology impact enterprises.
- **Outputs:** Diversity of clean technology products.
- **Outcomes:** Improved access to and use of clean energy.
- **Impact:** Climate change reduced.

Which of the following metrics is **most** likely to be adopted by ImpactRN to assess whether an enterprise is likely to achieve its target outcomes as outlined in the fund's theory of change?

- A. The number of clean energy products the enterprise is expected to sell.
- B. The level of emissions the clean energy product is expected to avoid.
- C. The increase in energy efficiency from the enterprise's operations.
- D. The existing use of clean energy in the target geography.

36. An impact investor has a strategy to contribute to meeting Sustainable Development Goal (SDG) 1 to end poverty and wants to adopt the SDG Impact Standards in its decision making. The Board of the impact investor asks the portfolio manager to explain why Standard 3 (Transparency) is beneficial for the impact investor.

What explanation is the portfolio manager **most** likely to give?

- A. It will inform future investors about the extent to which its impact strategy is being delivered.
- B. It will provide greater clarity for the fund to make progress towards its SDG goal.
- C. It will help establish clearer governance frameworks for the fund.
- D. It will allow the fund to claim compliance to the standards.

37. FoundationXYZ is considering making an impact investment and is considering how each investment aligns with its impact management goals.

These include:

- Understanding the target impact at the point of investment.
- The ability to influence the delivery of impact throughout the investment.
- The ability to aggregate impact across similar investments.

Based only on FoundationXYZ's impact management preferences, which of the following investments would be **most** suitable?

- A. Investment in an impact private debt fund.
- B. Investment in a publicly issued green bond.
- C. Investment to an impact enterprise through equity.
- D. Investment in an impact private debt fund of funds.

38. A family office is analysing the impact management approach of two listed equity impact fund managers.

- **Fund 1** has a well-established portfolio and strategy. The fund invests in shares on the secondary market.
- **Fund 2** has yet to launch and has a new strategy. The fund would be investing in primary issuances.

When considering the two funds' impact management approaches based only on this information, what conclusion is the family office **most** likely to reach?

- A. There is greater certainty about the expected impact of Fund 1 relative to Fund 2.
- B. There is greater certainty about the expected impact of Fund 2 relative to Fund 1.
- C. There is equal certainty about the expected impact of Fund 1 and Fund 2.
- D. There is no ability to understand the expected impact of Fund 1 and Fund 2.

**39.** WaterXYZ is establishing a new impact investment fund and is considering how it will set its impact goals to measure progress. The fund is targeting a market rate return for its portfolio and has broad target health outcomes.

Which of the following approaches is WaterXYZ **most** likely to use when setting impact goals?

- A. Set the impact goal at the portfolio level and maximise financial performance at the investment level, subject to attaining the impact goal.
- B. Set the financial goal at portfolio level and optimise impact at the investment level, subject to achieving the financial goal.
- C. Set the impact goal at the investment level and accept the best financial risk-adjusted return at the portfolio level.
- D. Set the financial goal at the investment level and accept the best impact performance possible at the portfolio level.

**40.** An asset owner is analysing the quality of reporting at the individual holdings level from one of its listed impact investment funds based in France.

Currently the fund only discloses:

- Its impact management policies and practices.
- Its impact risk framework for decision making.
- Impact outcomes for 90 per cent of investments.

Which of the following is the asset owner **most** likely to request the fund to report on in its impact disclosures to meet best practice?

- A. Its theory of change.
- B. Its impact selection criteria.
- C. Impact outcomes for the whole portfolio.
- D. Compliance with the EU Sustainable Finance Disclosure Regulation.

41. An asset owner is considering an impact investment into a bond issued by a multilateral development bank to lend to low-income countries to fund infrastructure. The asset owner is concerned about the potential for a regional crisis in one of the target countries triggering large loan losses.

This risk is **most** likely mitigated by which of the following?

- A. The development bank can call subscribed capital from member countries to restore its balance sheet to enable repayment of bonds.
- B. The development bank will charge relatively higher interest rates to target countries when compared to financial markets.
- C. The bond is expected to trade on secondary markets after a set period allowing the asset owner to sell its investment.
- D. The development bank will be in a senior position relative to other debt investors in the infrastructure projects.

42. An impact venture capital fund manager is assessing three impact ventures in mobile phone / tablet apps for a potential investment:

- **Venture 1** - A mental health app targeting the general population but with the potential to reach very underserved groups. The investment would result in a 10% equity stake and voting board seat.
- **Venture 2** - An education app targeting disadvantaged young people to improve reading attainment. The investment would result in a 20% equity stake and attendance at annual investor meetings.
- **Venture 3** - A physical wellbeing app targeting people with diabetes but with wider appeal to the general population. The investment would result in a 50% equity stake and an observer board seat.

The fund manager's core strategy is focused on its ability to control and oversee the targeting of impact outcomes for more vulnerable groups.

Based only on the information provided, which venture(s) is the fund manager **most** likely to invest in that align(s) most with its core strategy?

- A. Venture 1 only.
- B. Ventures 1 and 2.
- C. Venture 3 only.
- D. Ventures 2 and 3.

43. What is the **main** reason for the UK's Financial Conduct Authority in developing the Sustainability Disclosure Requirements (SDR)?
- A. To seek to combat greenwashing and the related negative effects.
  - B. To help investors determine which are the most sustainable investment products.
  - C. To provide fund managers with a guide as to what funds to label as sustainable or impact.
  - D. To differentiate the UK as a jurisdiction for sustainability by setting a higher standard than the EU Sustainable Finance Disclosure Regulation (SFDR).

44. Which of the following is the **least** likely approach for asset managers looking to integrate ESG factors alongside impact in constructing a client portfolio?
- A. Use Sustainability Accounting Standards Board (SASB) standards to assess material ESG factors.
  - B. Set up alerts for new exposures to positive or negative ESG factors.
  - C. Include Fair Trade Certified companies in the ESG screen.
  - D. Develop a proprietary toolkit to rank ESG materiality.

45. ImpactY is a multi-manager, impact fund of funds investing globally in both public and private market funds that focus on the transition to Net Zero and reducing inequalities.

Which of the following investors is **most** likely to invest in the ImpactY fund of funds?

- A. A high net worth individual new to impact investing who wants to allocate a small portion of their wealth to impact.
- B. An experienced Family Office with dedicated investment professionals and impact specialists around the world.
- C. A professional high net worth individual investor keen to retain a high degree of control in their investments.
- D. An endowed foundation carve-out focused on health inequalities in the north of England.



46. What is the **main** purpose of impact data assurance?

- A. To satisfy the requirements of the Operating Principles for Impact Management.
- B. To increase confidence in the information used in decision making.
- C. To verify information is true, fair, and not misleading.
- D. As a key mechanism to prevent impact washing.

47. Good Jobs is focused on helping disadvantaged people who are mostly unemployed to improve their skills, confidence and find employment that pays the Living Wage or better.

After 18 months of support and intervention, 53% of the people Good Jobs supported found jobs that pay the Living Wage at £11.95. Good Jobs had identified the baseline at £9.50, the UK's national minimum wage. The Good Jobs team also found that more than 85% of those earning the Living Wage had been supported by another social enterprise that helped them secure stable and long-term accommodation.'

Based on the above information only, which of the following is the **most** likely conclusion Good Jobs' management team will draw using the Five Dimensions of Impact framework?

- A. The degree of change for most of the cohort is better.
- B. There may be other drivers affecting the positive outcomes.
- C. The positive impact has mostly been caused by their intervention alone.
- D. They are prioritising delivery of the outcome that is most important to their stakeholders.

**48.** Multi-Family Office XYZ is a dedicated sustainability and impact investor. It has created a carve out for Next Gens in the families who wish to align the management of their wealth with Sustainable Development Goal 5, Gender Equality.

Multi-Family Office XYZ is considering bonds or bond funds for this carve out. Their priorities are to link the capital they provide to the outcomes achieved and to incentivise issuers to contribute to female empowerment goals.

Based on the above information alone, which of the following is the **best** option?

- A. A social bond fund managed by an all-female management team.
- B. A microfinance fund where most of the borrowers are female.
- C. Bonds issued in line with the Orange Bond principles.
- D. Sustainability-linked bond linked to female participation.

**49.** According to Principle 4 of the Operating Principles for Impact Management, which characteristics should an impact investor **most** likely consider when developing a portfolio approach?

- A. Expected financial return, impact outcomes and portfolio breadth of intended impact.
- B. Expected impact outcomes, measurement approach and operational risks.
- C. Expected financial return, portfolio breadth and depth of intended impact.
- D. Expected financial return, impact outcomes and ESG risk factors.

**50.** Which of the following is **least** likely a general principle common to emerging impact portfolio construction tools?

- A. Provide a framework to consider how ESG factors in emerging markets are managed for the investment.
- B. Provide a framework to balance impact, ESG and financial considerations to support decision making.
- C. Provide a framework to define and measure impact through quantitative and qualitative methods.
- D. Provide a framework to articulate and evaluate impact risk.

51. When considering an impact enterprise that has the characteristics of an 'impact through operations' business model, which of the following business model drivers is an impact investor **most** likely to assess?

- A. Customer loyalty of the target customers.
- B. The marginal additional cost of its impact activities.
- C. The extent to which there is collinearity between the product and impact.
- D. The degree of cross subsidy between consumer groups to achieve impact.

52. Which of the following challenges in aligning impact intent and the selection process does the Operating Principles for Impact Management **most** likely seek to address in its framework?

- A. The potential mismatch between the investible universe and an investor's impact goals.
- B. The misalignment of incentives between financial returns and impact outcomes.
- C. The flexibility available to impact asset managers in private markets.
- D. The limited impact evidence available in some asset classes.

53. An endowed foundation is developing a Theory of Change to articulate its impact investment strategy. Key points to be included are:

- Its endowment is £300 million.
- Its charitable objective is focused on education outcomes.
- It plans to invest in funds and pooled vehicles.
- It wants to align with globally recognised goals.

Based only on the information above, which of the following is the asset owner **most** likely to identify as an outcome in its Theory of Change?

- A. The extent to which its £300 million is invested in education enterprises.
- B. The improvement of literacy skills for the portfolio enterprises' customers.
- C. The range of enterprises its fund managers invest in to support education impacts.
- D. The number of impact services it helps to support that align with the Sustainable Development Goals.

**54.** An impact enterprise that provides affordable housing to low-income families living in the UK wants to identify a set of Key Performance Indicators (KPIs) to measure the success of its business model.

The KPIs it is considering include:

- **KPI 1:** The number of people housed who would otherwise be homeless.
- **KPI 2:** The improvement in living standards for those people who are housed.

Which of the following statements is **most** accurate when considering the benefits and limitations of the potential KPIs?

- A. KPI 1 is more likely to indicate the level of impact achieved relative to KPI 2.
- B. KPI 2 is easier to measure accurately relative to KPI 1.
- C. KPI 1 enables the enterprise to better understand its target stakeholders relative to KPI 2.
- D. KPI 2 enables the enterprise to compare the results to relevant thresholds unlike KPI 1.

55. A private debt impact fund manager is considering an investment into an early stage enterprise focused on water solutions in the Global South. The key information they are considering includes:

- Each member of the enterprise's management team has experience in water solutions but they have not worked together before.
- There is strong collinearity between the enterprise's product and its target impact but it is unclear how long impact will be sustained for.
- There is demonstrable support from customers for its core business-to-consumer (B2C) business and interest from local government to enter into contracts.

Using only the information provided, what conclusion is the impact fund manager **most** likely to reach about the relationship between impact risk and financial risk for this potential investment?

- A. Alignment risk is the most important risk that affects both impact outcomes and financial returns.
- B. External risks are the most important risk that affect both impact outcomes and financial returns.
- C. Drop off risk is the most important risk that affects both impact outcomes and financial returns.
- D. Execution risk is the most important risk that affects both impact outcomes and financial returns.

56. A private equity fund manager is launching a new impact fund aimed at improving water, sanitation and hygiene (WASH) outcomes in Southeast Asia. The fund manager has successfully delivered similar impact funds in other regions, but they are concerned they will not be able to raise enough capital to make the fund viable because of the perceived relatively higher risk in the fund's target region.

What type of structuring approach is **best** suited for this new fund to raise return-seeking capital at scale?

- A. Syndicated lending fund.
- B. Blended finance fund.
- C. Impact equity fund.
- D. Quasi-equity fund.

57. An impact venture capital fund manager is establishing a new, environmentally focused impact fund in Europe. Given the early-stage nature of the enterprises the fund will be investing into, the fund manager has the following key criteria when assessing the enterprise:

- The founder's commitment to achieving positive environmental impact.
- There is a clear link between the enterprise's product or service and the generation of positive environmental impact.

The fund manager wishes to ensure these initial criteria are maintained once the investment has been made, given they will have a material ownership stake in the investee enterprises.

Which of the following investment terms are **least** likely to be used by the fund manager when investing in the impact enterprise linked to these initial criteria?

- A. Alignment with the Sustainable Development Goals.
- B. Annual environmental impact targets.
- C. Impact-aligned financial incentives.
- D. A voting board seat.

58. BlueImpactABC is an impact fund manager that invests in enterprises delivering ocean-based interventions to generate positive environmental impact. BlueImpactABC wants to improve its impact management approach to better measure outcomes and report its impact to investors. It plans to introduce Key Performance Indicators (KPIs) as a first step.

Which of the following reasons **best** explains why KPIs are a suitable tool for BlueImpactABC to measure its outcomes?

- A. KPIs enable the most accurate understanding of aspects of stakeholders' wellbeing or environmental condition.
- B. KPIs don't require comparison to social or environmental thresholds, which are difficult to determine.
- C. KPIs are often available within an enterprise's own business so can be accurately measured.
- D. KPIs decrease the risk of not achieving the target impact.

59. Impact investor RedLMN is developing its portfolio construction approach to improve decision making and is considering how it can best balance its financial risk and return objectives, while optimising impact outcomes. It wants to implement a consistent method to consider each individual investment in relation to its portfolio.

Which method of analysis is RedLMN **most** likely to use as part of its portfolio construction approach?

- A. Impact-Weighted Accounts.
- B. Efficient Impact Frontier.
- C. Impact Rate of Return.
- D. Impact Monetisation.

60. The General Partners (GPs) at Impactful Private Equity manage a bespoke mandate on behalf of an impact-first investor who is particularly concerned that impact endures beyond the life of the investment at exit.

The GPs are considering the following options for a health technology company that has a cross subsidy model where some customers are subsidising those who cannot afford the full subscription model. They know their Limited Partners are particularly concerned that the underserved customers continue to have access to this technology.

Using only the above information, which of the following exits are the GPs **most** likely to consider?

- A. An initial public offering exit and, as part of its Corporate Social Responsibility strategy, underserved customers will continue to get access to the service.
- B. An exit that enables employee ownership of the company where they will strongly influence the governance and strategic choices of the firm.
- C. Ensure the company becomes B Corp certified before sold to a competitor.
- D. Sell to a privately owned company in a complementary business sector, with synergies, that is keen to include covenants linked to impact.

**61.** Wealth Management XYZ is an established firm with 80 years' track record of managing client funds. In the last 10 years, the firm has evolved to managing all its funds through an ESG lens and it has increasingly invested in developing a range of impact investment products in public and private markets.

Which of the following are they **least** likely to adopt to reconcile the tension between marketing and fundraising versus providing an unbiased assessment of the impact of the firm?

- A. Ensure the Head of Impact is an individual of high integrity and has a reporting line into Legal and Compliance, not Marketing.
- B. Become a signatory to the Operating Principles for Impact Management where independent verification statements are required.
- C. Adopt the International Sustainability Standards Board's standards to integrate impact management into the decision making process.
- D. Appoint an external audit firm with experience in impact to examine its claim before publishing its impact report.

**62.** An investor wants to make debt impact investments focused on the energy transition to a low-carbon economy at scale.

Which of the following is the investor **most** likely to pursue given this strategy?

- A. Identify a range of companies operating in energy transition and pursue strategic bondholder engagement against environmental outcomes.
- B. Participate in a range of syndicated debt opportunities into very early, but potentially promising, scalable innovations in the energy transition.
- C. Build a portfolio of term loans to early stage companies operating in solar and wind technologies that have outcome linked interest rates.
- D. Invest in a range of investment grade green bonds issued by the most polluting companies in oil and gas.



63. ABC Family office is an impact investor. They established a Theory of Change to ground their investment strategy which includes the following:

- **Inputs:** £20 million capital and impact investment team time.
- **Activities:** Invest in impact enterprises that help contribute to Sustainable Development Goal 2, Zero Hunger, and engage with investees to improve impact management.
- **Outputs:** Invest in up to 20 start-up impact enterprises delivering products and services to people who are, or at risk of being, malnourished, and clear impact reporting of this impact.
- **Outcomes:** Improved health outcomes due to improved nutrition for the target group.
- **Impact:** Improved life chances due to improved health outcomes for the target group.

Based on its Theory of Change, what is the **least** likely impact criterion that ABC Family office would adopt to assess new opportunities into impact enterprises?

- A. The extent to which the founders are open to improving their impact management approach.
- B. The extent to which the impact enterprise can evidence how the intervention improves nutrition.
- C. The extent to which the impact enterprise has a long track record of delivery to improve nutrition.
- D. The extent to which the impact enterprise will target those people who are currently malnourished.

64. A multi-family office gives equal importance to both impact and financial returns. It is evaluating different analytical tools to help assess the potential results on its impact investments.

If it applied the Efficient Impact Frontier to its impact investments, which of following would the multi-family office be able to assess?

- A. The maximum possible level of financial return for a given level of risk-adjusted impact.
- B. The greatest possible level of impact for a given level of risk-adjusted financial return.
- C. The corresponding financial return and unit of impact for a given unit of risk.
- D. The maximum possible level of financial return for a given level of impact.

65. Which of the following impact business models are **most** likely to work best in a luxury goods market with high profit margins?

- A. Impact centred and impact through operations.
- B. Cross subsidy and impact centred.
- C. Profit donation and impact through operations.
- D. Cross subsidy and profit donation.

**END OF EXAM**

<b>Sequence Number</b>	<b>Learning Outcome</b>	<b>Correct Answer</b>
1	1.1.3	A
2	4.2.3	C
3	6.1.1	D
4	6.1.1	A
5	6.2.1	A
6	1.1.4	A
7	1.2.2	A
8	4.1.1	B
9	4.2.2	C
10	4.2.2	A
11	4.2.3	B
12	5.1.3	B
13	5.3.1	A
14	6.1.2	C
15	6.1.1	D
16	1.1.2	B
17	1.2.1	B
18	1.2.2	A
19	1.3.1	B
20	3.1.3	D
21	1.1.1	B

22	3.1.6	A
23	3.1.6	A
24	5.2.5	B
25	3.1.4	B
26	3.1.6	C
27	5.1.3	B
28	5.2.1	B
29	2.1.1	A
30	2.1.3	D
31	2.2.1	B
32	2.2.3	C
33	2.3.2	D
34	4.1.1	B
35	2.1.4	B
36	2.1.5	A
37	5.3.1	C
38	5.3.2	A
39	5.3.3	B
40	5.3.6	C
41	3.1.2	A
42	3.1.3	A
43	2.2.1	A

44	2.3.2	C
45	3.1.5	A
46	5.2.5	B
47	5.2.3	B
48	5.3.1	D
49	2.3.1	A
50	2.3.1	A
51	3.1.1	B
52	4.1.1	B
53	5.1.3	B
54	5.2.2	D
55	5.3.5	D
56	3.1.6	B
57	4.2.2	A
58	5.2.2	A
59	2.1.5	B
60	5.3.6	D
61	5.1.1	C
62	3.1.2	A
63	2.1.4	C
64	2.1.5	B
65	3.1.1	D

