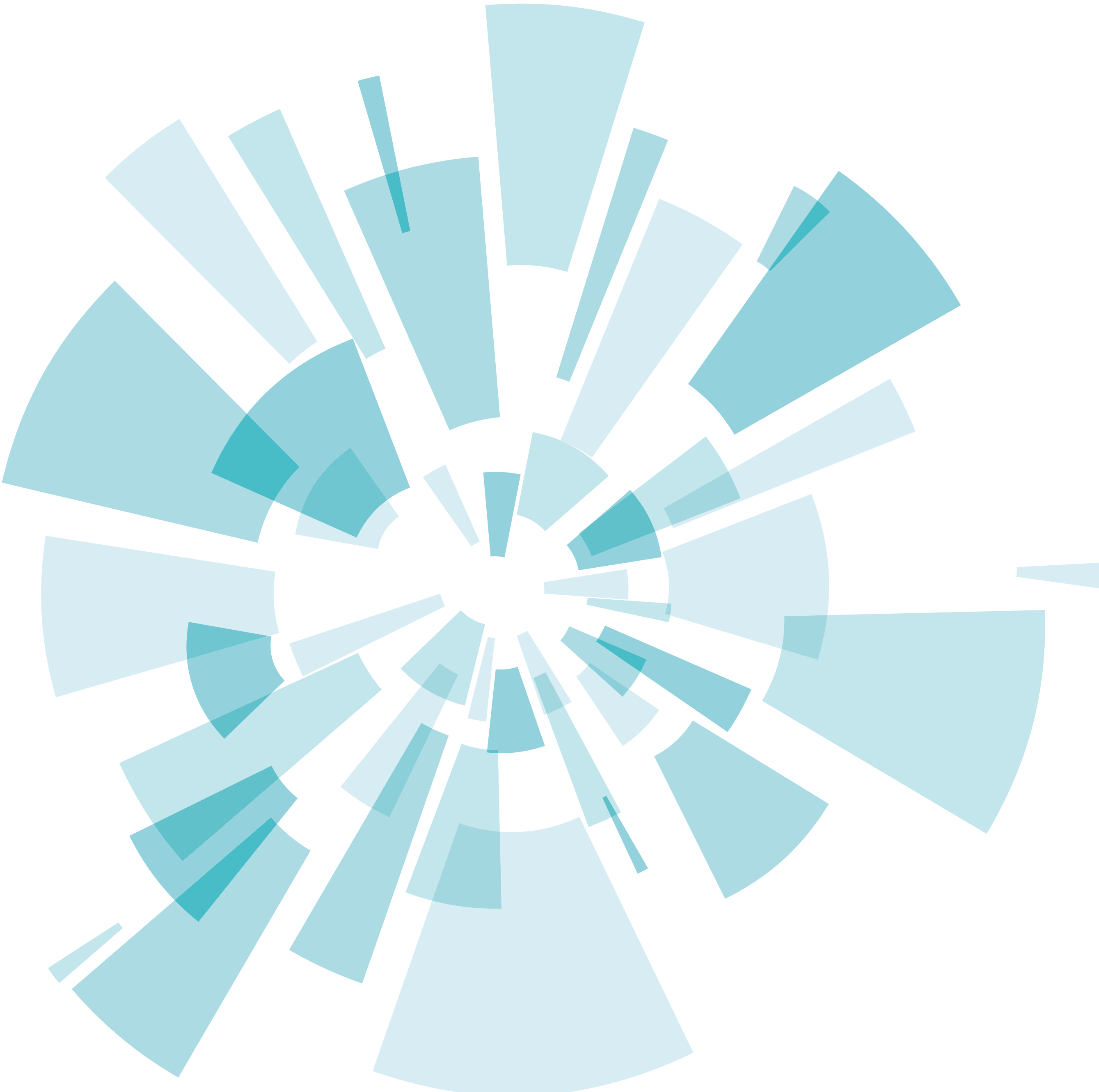
FINANCE FOR TOMORROW by Paris Europlace

PARIS FINANCIAL CENTRE IMPACT TASK FORCE

EXPLANATORY NOTE

OF THE ASSESSMENT SCALE OF A FUND'S POTENTIAL CONTRIBUTION TO THE SUSTAINABLE TRANSFORMATION



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CONTENTS

1. BACKGROUND INFORMATION

2021 – PHASE 1 OF THE WORK OF THE IMPACT PARIS FINANCIAL CENTRE GROUP

The development of this assessment scale is part of the work carried out by the Paris financial centre.

At the request of Minister Olivia Grégoire, Secretary of State to the Minister of Economy, Finance and Recovery, in charge of the Social, Solidarity and Responsible Economy, in March 2021, Finance for Tomorrow launched a Paris financial centre Group dedicated to impact finance.

The aim of the dedicated group on impact was to contribute to the emergence, beyond the traditional ESG approach, of a shared definition of impact finance and, if possible, measurement methodologies.

It initially brought together more than 80 institutions in the Paris financial centre within four working groups on (i) the definition, (ii) the measurement, (iii) the conditions for development and removal of obstacles, and (iv) the international promotion of the French vision of impact finance.

Working Group No. 2 was thus dedicated to the creation of a scale to assess the potential impact of the funds. In the first phase of the work, **the group focused on the financial products covered by the SFDR (UCITS funds, AIFs, etc.)**, but the objective was to extend the methodological framework to other investment and financing vectors (e.g. real assets and bank loans).

This is part of the steps taken by Working Group No. 1, which was charged with *"proposing a vision of impact finance that would allow it to develop its reach, without ever giving up its integrity"* and *"aligning market visions and practices".*

Following the work of Working Group No. 1, Finance for Tomorrow proposed the following definition of impact finance: "Impact finance is an investment or financing strategy that aims to accelerate the just and sustainable transformation of the real economy, by providing evidence of its beneficial effects.

It is based on the pillars of, intentionality, additionality and impact measurement, to demonstrate:

1. *The joint search, over time, for an ecological and social performance and a financial return, while controlling the occurrence of negative externalities;*

2. *The adoption of a clear and transparent methodology describing the causal mechanisms through which the strategy contributes to targeted environmental and social objectives, the relevant period of investment or financing, as well as the measurement methods, according to the concept of theory of change;*

3. *The achievement of environmental and social objectives aligned with frameworks of reference, in particular the Sustainable Development Goals, defined at the international, national and local levels."*

2022 – PHASE 2 OF THE WORK OF THE IMPACT PARIS FINANCIAL CENTRE GROUP

As sign of the dynamism surrounding this co-construction process, new operational pilots from this same Working Group No. 2 took over its management: the calibration of this tool of the "Grid" continued and was rolled out by integrating ever more participants in the ecosystem.

As initially planned, the "bank loans" and "real assets" versions of this "Funds" Grid are being developed.

2. OBJECTIVES OF THE ASSESSMENT SCALE

2.1 Multiple possible uses

The scale and the grid underlying it can be used in multiple ways.

A SELF-ASSESSMENT TOOL

On the one hand, the grid of questions based on the Scale allows management companies to assess their funds' "contribution potential to the sustainable transformation" in-house, to compare it with the results compiled by Finance for Tomorrow for different asset classes, and to identify possible areas for improvement based on the scores obtained on the various questions.

On the other hand, the grid can also be used by management companies to verify that the fund complies with the definition of an impact fund. A successful total score on a subset of questions in the grid called "qualifying questions" that incorporate minimum requirements may be used for this purpose.

We recommend that the self-assessment exercise be repeated on a regular basis as the grid is expected to evolve (through biannual reviews) based on feedback from participants and the state of the art of research.

AN EDUCATIONAL TOOL

The grid also contributes to an objective to disseminate the way of thinking, methods, and the language of impact to financial sector players.

AN INFORMATION TOOL FOR INVESTORS

The scale may be used for information purposes for investors in the funds. The score obtained after completion could make it possible to position the product on a "scale of potential contribution to sustainable transformation" and be communicated to investors in the fund's supporting documents. However, such use would likely require that the assessment not be conducted by the management company itself but by an external auditor accredited by Finance for Tomorrow.

This information should be combined with information included in the KIID. Investors (institutional and retail) would thus have risk/return information on the one hand and an indicator of the level of contribution to sustainable transformation, on the other. These three pieces of information would inform their investment decision.

A TOOL FOR IDENTIFYING IMPACT FUNDS

Finally, the total score obtained and the successful completion of the subset of qualifying questions can serve as a basis for various tools to identify impact funds.

Specifically, they form the basis of Finance for Tomorrow's **Investor Impact Charter.** This charter, which aims to harmonise the practices of funds claiming to be "impact" funds and set demanding market standards, includes as a prerequisite for signatory funds to validate the qualifying questions and obtain a minimum score of 70%.

If a fund does not achieve the required score on the qualifying questions, it cannot be covered by the Charter and could therefore not declare itself an impact fund.

If the minimum requirements are met but the fund does not achieve an overall score of 70 points out of 100 points, the fund must commit to achieving this objective within a period of 12 months via a detailed action plan.

Finally, the total score obtained and a successful score on the qualifying questions could support an audit procedure for funds claiming the "impact" designation by approved auditors or, ultimately, could feed into a possible future Impact Label, which may or may not be backed by the SRI Label.

2.2 A scalable analysis grid by nature

Ultimately, the use that will be made of the grid **depends heavily on its adoption by the financial ecosystem.**

The same applies to the future of the grid, which, if successful, would involve regular maintenance that would allow it to evolve according to user feedback and progress made in research.

To this end, once the grid is distributed, participants are strongly encouraged to provide feedback to Finance for Tomorrow, and **a biannual review of the grid, likely to be adjusted based on such feedback**, by an expert committee is planned.

The first review of the grid is expected to take place at the end of the first quarter of 2023.

3. GRID CONSTRUCTION METHOD

3.1 Sources of inspiration

The first source of inspiration for the grid was the report of Working Group No. 1 on the "Definition of Impact Finance".

The grid is also inspired by several previous work sessions carried out in France and abroad (by professional associations such as the Global Impact Investment Network or the International Finance Corporation or by academic researchers) on impact finance, its definition, its pillars and its mechanisms.

It notably includes:

— **The 6 eligibility criteria for impact investing**, as defined by the iiLab (now FAIR) in the report *"Doter la France d'une culture commune de l'investissement à impact"* (Giving France a common impact investing culture),

— **The 3 key pillars of impact investing** as formalised by the FIR-France Invest,

— **The 9 principles of impact management** (known as OPIM) defined by the International Finance Corporation,

— **The impact mechanisms** formalised by the Impact Management Project and then deepened by various academic work.

3.2 Organisation of the working group

The grid was developed based on the discussions between the 2 pilots of the Impact Pafinancial centre Group, the 3 pilots of the working group, and the 50 participants of the working group. The working group pilots presented their proposals and submitted them for discussion (or even a vote) by participants at regular working meetings. This made it possible to construct several iterations of the grid that could be subjected to real tests with partner funds. The results collected and feedback from the test participants helped to adjust the development of the grid and the formulation of questions and answers.

4. DISCUSSION POINTS AND APPROACH TAKEN

The development of the evaluation scale has been the subject of several discussion points within the working group. The purpose of this section is to respond to these structural points in order to build on a common basis of understanding of the spirit of this grid.

4.1 Impact and ESG approaches

The definition provided by Working Group No. 1 *"explains the difference between responsible finance, which focuses on processes and risk management, and impact finance, which takes the form of the three pillars recognised by the market and rooted in the work of France Invest and the FIR:*

*— **intentionality**, which corresponds both to the financial player's desire to contribute to generating a social and/or environmental benefit and to the desire of the financed company, which has set at the heart of its business model the achievement of one or more sustainable development objectives;*

*— **additionality**, this corresponds to the particular contribution of financial players, allowing the beneficiaries of investments/financing to increase the impact generated by their activities themselves.*

*— **measurement**, which refers to the assessment of environmental and social effects in the real economy on the basis of targets announced as part of intentionality".*

The impact approach is therefore an active process of transforming invested entities that goes beyond the practice of portfolio alignment. As pointed out in WG1, *"all impact finance is constantly growing transformation finance based on financial and extra-financial criteria."*

THE APPROACH USED:

The aim of the grid is to assess the potential impact/contribution of the funds and not the potential impact/contribution of the entities invested in by the fund.

The distinction is important because investing in positive impact entities does not guarantee a positive impact for the investor. If, through its investment, the invested entity does not improve its impact on the environment or society, then the (direct) impact of the investor is zero. The problem is acute, particularly for investments in the secondary market (which do not directly result in financing for invested entities).

The problem also arises for primary investments in sectors where investor demand already exceeds the supply of projects with a positive impact. In this case, the investment is neither additional for the invested company nor for the sector as a whole (rather than adding an investment, it replaces investments by other investors).

The formulation of the questions in the grid therefore emphasises the objective and the potential for social or environmental transformation of the entities invested through the actions deployed by the fund more than the profile (ESG or SDG alignment) of the same invested entities.

4.2 The two paths of impact

To achieve their impact objective, funds can take two paths:

— Active (financial and non-financial) support to entities identified as having a positive impact in order to enable them to increase their positive impact;

— Investment and active engagement with entities identified as having one or more negative impacts in order to reduce their negative impacts.

As the WG1 pointed out in its report, *"impact finance needs to be able to focus on traditional companies in a transition approach because reducing their negative impacts can make a major contribution to improving the situation for the real economy, the environment and society."*

THE APPROACH USED:

The grid also considers the two paths of impact and, to this end, adopts generic formulations for issues that apply to both types of sustainable transformation strategies that can be adopted by funds.

4.3 Impact and externalities

An impact fund can focus on one or more sustainable transformation goals and neglect others. However, the actions deployed by the fund can lead to negative results for these other objectives. In other words, they can generate negative externalities. Should we sum up the positive and negative effects of the fund's actions?

THE APPROACH USED:

The assessment scale distinguishes between the fund's results regarding the targeted sustainable transformation objectives and the negative externalities (other than those that the fund may wish to target) associated with the activities of the entities invested. This is therefore not a net impact approach.

4.4 Impact or contribution?

To measure the impact of a fund, it is necessary to demonstrate a causal link between the actions carried out by the fund and the additional results obtained in the real economy and to measure the share of these additional results attributable to the actions deployed by the fund.

In practice, proof of causality and measurement of additional results would require the use of particularly extensive scientific methods (matching, double differences, randomised controlled trials, etc.) that, for the time, being are not used very often in the financial sector.

THE APPROACH USED:

Due to this structural difficulty of obtaining a "real" impact measurement, the Working Group has shifted the grid towards an "estimate of the potential contribution to sustainable transformation".

The semantic shift from impact to contribution implies a significant change in the object of the grid study. Impact and contribution differ in two ways:

— Impact is an approach that seeks additionality of individual action, while contribution is the participation in a collective action likely to lead to a lasting transformation without research, analysis or management of the additionality of the individual action,

— Impact implies a higher level of evidence than contribution regarding the final effect of the actions deployed by the fund.

Thus, the grid aims in its current form only to bring together a set of indices suggesting the contribution (actual or potential) of the fund to sustainable transformation. The methodology developed is therefore similar to a "backbone" rather than a precise methodology for assessing causality and additionality.

However, the grid also sets a course for impact funds that aim to achieve excellence by showing using white questions (i.e. questions not included in scoring) and maximum requi-rement levels what the best practices could be for the profession.

4.5 Additionality in the grid

Additionality, which is the central pillar of any impact approach, can be analysed and assessed in several ways:

— Additionality can be analysed or assessed at **different levels of the causal chain**: at the level of the actions deployed by the fund and at the level of the results obtained in the real economy,

— Additionality can be analysed or assessed with **different levels of granularity**: at the level of the entities invested (micro) or at the level of the sectors to which they belong (macro). The analysis of the total impact (macro) involves taking into account both the direct impact on the entities invested (micro) and the indirect impacts on other stakeholders (other funds, competitors of invested entities, etc.). Indirect impacts include, among other things, the positive effects of the dissemination of good behaviour and negative displacement effects (i.e. the decrease in positive results among the competitors of the entities invested).

THE APPROACH USED:

The grid analyses additionality at the level of the actions deployed AND the results obtained. The correspondence of one with the other contributes to the set of evidence that suggests the impact.

The relevant level of granularity in the analysis of results is clearly the macro level, which includes direct and indirect impacts. However, we also believe that the assessment of indirect impacts is, in the absence of information on competitors, even farther beyond the scope of the funds (currently) than the precise assessment of direct impacts.

In doing so, it was decided that the consideration of indirect impacts would only be the subject of white questions that do not contribute to the final score.

4.6 Complexity of the grid

It was frequently highlighted by the working group participants that the elements contained in the grid are particularly technical and far removed from the day-to-day practices of managers, both in subject and in language. More specifically, the words mentioned, such as theory of change or causal chains, are often seen as very conceptual and rather obscure.

As a result of these comments, efforts were made to clarify the grid so that each of the questions, and the answers proposed, would be fully understandable, in light of, if necessary, the explanations provided for each of them in this notice (see detailed explanatory note, p. 16). However, we emphasise that the grid is complex by nature due to its purpose: impact/contribution. Impact involves a particular way of thinking and evidence (if not measurement) that is specific to it. In some respects, impact even calls for a reversal in investors' traditional way of thinking, since one way of having an impact is to offer owners of projects with a positive impact financing under preferential terms compared to those prevailing on the market. Maximising the search for profitability can thus preclude maximisation of the impact.

THE APPROACH USED:

We do not believe that it is desirable to simplify the grid by eliminating the problematic dimensions for managers (the search for additionality, in particular) due **to the resulting risk of impact washing**. We therefore opted to keep the difficult questions, while proposing different levels of responses corresponding to different levels of requirements, and using white questions (that are not taken into account in the score) for the areas identified in the working group's feedback as the most inaccessible for current management practices.

Similarly, as the grid also has an educational objective of disseminating impact terminology, we believe it is important to use the dedicated technical terms rather than any substitutes from common language. Instead, we have opted to include a glossary at the end of this explanatory note.

4.7 Scope of the grid

DISTINCTION BETWEEN LISTED AND UNLISTED

The possible distinction between listed and unlisted funds has been a recurring issue within the working group since it has often been reported that listed funds cannot structurally obtain maximum points for certain issues due to their secondary market investment practice.

THE APPROACH USED:

The grid was constructed based on the general definition of impact, a definition that is based on "universal" eligibility criteria and not on specific criteria relating to asset class.

The approach is agnostic. It does not have **any ex ante preference for any asset class** over another. This makes it possible to move beyond the initial debate consisting of opposing the listed market (less able to demonstrate its additionality but likely to have more massive achievements in the real economy in view of the size of the issuers concerned) versus the unlisted market (clearer in terms of its additionality but with a more limited scope of achievements).

The approach based on the definition of impact makes it possible to demonstrate the different potential contributions at the end and allows investors to make comparisons between funds beyond their asset classes.

Finally, a theoretical analysis combined with a massification phase of tests on different listed, unlisted and SSE funds will provide sufficient data to establish (and communicate) score intervals for each asset class (e.g.: "for listed equity UCITS, we consider that a score of X% is achievable, while we observe on our sample contribution potential scores between min Y% and max Z%) allowing investors to visualise a fund's position within its asset class in addition to positioning in comparison with other asset classes.

DISTINCTION BETWEEN NEW AND OLD FUNDS

Another piece of recurring feedback is that a grid that incorporates questions about results obtained in terms of contribution to sustainable transformation is a grid that de facto disadvantages newly created funds (which therefore have no impact history) compared to legacy funds that can rely on past results.

THE APPROACH USED:

We wanted to keep a series of questions about the quality of the results achieved in addition to questions about the follow-up procedures as we believe that a fund that can demonstrate good past results in terms of contributing to sustainable transformation adds additional evidence to the body of evidence aimed at assessing its potential for future contribution.

As a result, funds with an insufficient track record (i.e. those under two years of age) cannot be assessed on the entire grid.

Rather than providing a partial score for these funds which would be limited to Part A alone on the objectives, we recommend that they remain **"pending an initial rating"** until they can be assessed (two years after their launch) and, if they wish to call themselves "impact investment funds", that they indicate via a **disclaimer** in their supporting documents that they could not be assessed using the grid due to a lack of sufficient history.

For these funds, however, **the grid remains useful** when constructing their methodology in order to adopt the best practices from their creation.

Finally, recent funds (less than two years old) that are signatories to the Impact Charter undertake to use the assessment grid to guide them in their impact approach with the aim of answering qualifying questions with the appropriate requirement level and achieving the minimum score of 70/100 two years after their creation.

4.8 Standardisation of the grid

Another question that was asked of the pilots and participants of the working group was to decide whether the grid should be part of a normative approach by setting reference frameworks for the different dimensions assessed (issues addressed, quantitative objectives targeted, mechanisms contributing to sustainable transformation, etc.).

THE APPROACH USED:

The grid offers a framework but is not normative. In other words, it gives examples of what meets the expectations expressed (SDG framework, various examples of actions contributing to sustainable transformation) without being exclusive or exhaustive.

The grid is also expected to evolve as market standards are established for the various dimensions assessed.

5. THE APPROACH OF THE GRID

5.1 Organisation of questions

The 32 core questions are organised around 4 main sections:

— **A - Theory of change** (with two sub-sections: "Definition of general objectives" and "Definition of actions deployed"), which assesses the quality and robustness of the fund's theory of change;

— **B - Operational implementation**, which assesses the adequacy between the fund's theory of change and the actions actually carried out;

— **C - Monitoring of results** (with two sub-sections: "Results monitoring procedure" and "Quality of results obtained");

— **D - Communication and consistency**, which analyses the quality of communication associated with the fund from an impact perspective and the alignment of other practices of the fund and the AMC with the stated objective of contributing to the sustainable transformation.

In addition to these 32 questions and 4 sections, there is **a bonus question** on income sharing.

5.2 Weighting

Each of the 33 questions offers several levels of responses corresponding to different requirements levels, each level being associated with a number of points (between 0 and 3).

The questions are also weighted with a coefficient of 1 or 2, the coefficient 2 being reserved for so-called "robustness" questions that contribute to estimating the strength of statements made in more declarative questions.

The formula for compiling the results is purely additive and results in scores per section and a maximum total score of 100 points.

The first 3 sections A, B and C (Theory of change, Operational Implementation and Results Monitoring) are **equally weighted, each representing 30 points, or 30% of the total maximum score.** Finally, the last section, Communication and Consistency, represents 10 points and 10% of the total maximum score. The Bonus question (out of 3 points) is added to the total obtained in the 4 sections for a maximum score "capped" at 100%.

The table below shows the overall structure of the grid with the breakdown of questions and points between the different sections:

		Number of questions		Number of points	
A	THEORY OF CHANGE	13		30	
A.1	*Definition of general objectives*		*6*		*12*
A.2	*Definition of deployed actions*		*7*		*18*
B	OPERATIONAL IMPLEMENTATION	5		30	
C	MONITORING OF RESULTS	10		30	
C.1	*Procedure for monitoring results*		*6*		*15*
C.2	*Quality of results observed*		*4*		*15*
D	COMMUNICATION AND CONSISTENCY	4		10	
	TOTAL	32		100	
E	BONUS	1		3	

5.3 Interpretation of the final score

The fund gets a final percentage score. **The higher the percentage, the higher the level of contribution to sustainable transformation.**

The assessment scale therefore offers a continuous approach to sustainable transformation and not a binary approach (fund with or without impact).

All funds, **regardless of their maturity level**, can use the grid to self-assess.

For some funds, however, it will not be possible to complete all sections. For example, a fund in the initial marketing phase will have no history and can only be analysed with regard to section A (theory of change). Its intentions in terms of operational implementation (Section B) and the process for monitoring results (Section C.1) may be announced and to some extent be subject to an ex-ante assessment. However, the results obtained (section C.2) cannot be rated.

Everything depends on the fund's positioning in its life cycle and therefore the degree of maturity of this fund. The validation of the application of processes cannot take place before an advanced stage of the investment period or the life of the projects. The same applies to the analysis of impact performance.

Rather than providing a partial score for recent funds which would be limited to Part A alone on the objectives, we recommend that they remain **"pending an initial rating"** until they can be assessed (two years after their launch) and, if they wish to call themselves "impact investment funds", that they indicate via a **disclaimer** in their supporting documents that they could not be assessed using the grid due to a lack of sufficient history.

5.4 Qualifying questions

The grid identifies 12 key issues for which we believe it is necessary to meet minimum requirements for a fund to qualify as "impact fund". This condition is in addition to another condition: achieving a total score of 70% or more.

So, in our view, an impact fund is a fund that...

1. Sets itself an explicit objective to have a positive impact (**intentionality**) > Q5
2. Also aims to reduce any negative externalities linked to its actions or those of selected issuers beyond its sustainable transformation objectives (**intentionality**) > Q6
3. Chooses the vast majority of invested issuers according to a logic of impact (**intentionality**) > Q14
4. Implements relevant actions to achieve positive impact, i.e. to achieve additional results in line with its sustainable transformation objectives (**additionality**) > Q7 and Q9
5. Actively manages negative externalities beyond the desired positive impact (**additionality**) > Q16
6. Measures its positive impact against ex ante targets (**measurement**) > Q20
7. Measures and manages related negative externalities (**measurement**) > Q23
8. Uses control procedures to verify that the strategy and actions deployed are relevant to achieving the expected impact > Q24 (**measurement**)
9. Achieves quantified results in line with its sustainable transformation objectives (**measurement**) > Q26
10. Produces an annual impact report accessible to investors > Q30 (**transparency**)
11. Applies a remuneration policy compatible with impact research (**consistency**) > Q32

6. GENERAL INSTRUCTIONS FOR COMPLETING THE GRID

When looking to answer a given question, always check beforehand that it applies to at least 70% of the fund as a percentage of the total value of the assets under management. On negative externalities (DNSH) questions, the answer must cover the entire fund, i.e. 100% of the fund in terms of asset valuation.

Only one answer is possible per question. It is not possible to enter half points.

Each answer results in a rating of 0 to 3, 3 being the maximum level of contribution to the sustainable transformation (0,1,2,3) – some questions are subject to a simplified rating (for example, with only two degrees of compliance with the requirement).

The questions must be assessed as a whole: it is not an isolated question that makes it possible to conclude the reality of the transformation but rather the accumulation of answers to questions.

7. DETAILED EXPLANATORY NOTE TO THE GRID

A. THEORY OF CHANGE

A.1 DEFINITION OF GENERAL OBJECTIVES

Question 1

Does the fund clearly have sustainable transformation objectives in its supporting documents?

Are the Sustainable Transformation Goals (STGs) clearly indicated in the supporting documents? The expected answer here is binary (0 or 2). The supporting documents are understood in the broadest sense and include marketing and communication documents. Note that for each STG, there is a need to cover.

The number of STGs addressed does not discriminate between thematic or multi-thematic fund. We will focus on the main targets expressed as a percentage of the total valuation of the underlying assets.

Question 2

How is each sustainable transformation objective pursued by the fund described and justified?

In order to legitimise the purpose of the fund, it is necessary to show the existence of uncovered or poorly covered needs.

Examples of needs: access to drinking water in the Sahel; ecological agricultural production in urban areas; etc. This question covers the description and justification of the fund's objective, hence the "Why".

This level of "justification" provides the highest level of requirement, i.e. 2 out of the available 3 (0,1,2), in relation to specific targets from the reference frameworks (e.g. the 164 targets of the 17 SDGs).

Question 3

Does the fund derive specific objectives for each issuer invested in relation to its general objectives of sustainable transformation?

This question allows three levels of responses (0, 1, 2): the idea here is to determine whether the sustainable transformation objectives are broken down into specific objectives for the invested issuers, and the highest requirement corresponds to an alignment of all these underlying objectives with a baseline scenario, where one exists;

Question 4
How do other competing funds cover the need for each sustainable transformation objective pursued by the fund?

This question relates to the main objectives/needs expressed as a percentage of the total valuation of the underlying assets and gives rise to 3 levels of responses (0,1,2) and clearly illustrates the additionality of the fund: "0" for well-covered needs; "1" for partially covered needs and "2" for little or poorly covered needs.

Question 4.1 (white question)
To meet the objectives of sustainable transformation, does the fund propose an original or innovative solution?

Cette question donne lieu à 3 niveaux de réponses (0,1,2) et, tout en complétant notre quête de preuve d'additionnalité, vise à détecter et identifier les solutions originales et innovantes qui ont un potentiel pour mieux répondre aux préférences de certains émetteurs ou de certains investisseurs (« 1 ») ou pour être largement dupliquées et constituer ainsi un nouveau type de stratégie (« 2 »).

Question 5
Does the fund state the explicit objective of having an impact in its supporting documents (i.e. legal and commercial)?

This question allows two levels of responses (0 and 2): level "2" is "qualifying and confirming that the fund is positioned as an impact fund and/or indicates that investing in the fund allows investors to have an impact, emphasising the concepts of intentionality, additionality and measurement, i.e. the three pillars of impact investing.

The supporting documents are understood in the broadest sense and include marketing and communication documents.

Question 6
Does the fund aim to implement actions to limit the negative externalities of selected issuers beyond the targeted sustainable transformation objective(s)?

This question gives rise to two levels of responses (0.2): the expected answer is therefore binary here and affirms the intentionality of the fund: level 2 is a "qualifying" answer.

To achieve a score of 2, it must be possible to detail specific post-investment actions aimed at monitoring and, where appropriate, contributing to reducing the negative externalities associated with investments. Selection of issuers ex ante only is not considered sufficient.

As part of DNSH, the necessary granularity must make it possible to detect significant negative externalities at the issuer level. A negative externality refers to any unintentional negative impact that may have been generated by the issuer.

A.2 DEFINITION OF THE ACTIONS DEPLOYED BY THE IF TO ACHIEVE THE OBJECTIVES (I.E. CAUSE THE DESIRED CHANGES)

Question 7

Are the actions associated with the fund to achieve the sustainable transformation objectives described in the supporting documents?

An action associated with the fund refers to the action taken by the fund to cause the desired changes (see diagram in the glossary concerning the "causal chain").

This question allows three levels of responses (0, 1 and 2) depending on the degree of description of the associated actions and feeds into the evaluation of the additionality of the fund: level "2", which is the maximum level, constitutes the "qualifying" level and indicates that the actions to achieve the objectives set are described in detail.

Question 8

From the following list, please select the planned contribution actions and the assets under management covered (note in column H). 1. Contribution of flexible capital, 2. Development of new capital markets with insufficient supply, 3. Contribution of non-financial support, 4. Shareholder engagement, 5. Signalling the importance of impact (market signs), 6. Signalling the importance of impact (other impacts).

This question allows four levels of responses (0, 1, 2 and 3) depending on the number of actions planned (especially excluding reports). Thus, level "2" indicates that there is more than one planned action, excluding reporting (actions 1 to 4).

In order to recognise an action, the fund must intend to deploy this action on at least 70% of the assets under management.

Source: *The Investor's Guide to Impact*, Florian Heeb, Julian Kölbel

DETAILS OF THE DIFFERENT TYPES OF PLANNED CONTRIBUTION ACTIONS:

Investor Impact Mechanism (based om IMP classification)		Type of Change	Evidence Level	Requirements	Limitations	Typical Asset Classes
Provide flexible capital		Enabling Growth	3	+ Investments in companies with a positive impact. + Companies growth depends on access to flexible capital.	- Not suited for companies that have sufficient access to philanthropic or commercial capital.	**Alternative assets:** private equity, private debt, venture capital
Grow new/undersupplied capital markets			3	+ Investments in companies with a positive impact + Companies growth is limited by external financing conditions. This is more likely: + For small and young companies + For companies with mainly intangible assets + In immature financial markets	- Not suited for investments in large, established companies. These companies usually have sufficient access to external financing.	
Engage Actively	Provide non-financial support		3	+ Investments in companies with a positive impact. + Investors with know-how, reputation or network that helps companies grow faster.	- Only suited for early stage investments, where investors have the possibility to take directly influence the company.	
	Shareholder engagement	Encouraging Improvement	3	+ Focus on meaningful improvements that companies can meet at reasonable cost. + Investor with strong influence on a company. Influence increases with: + The number of shares held by investor + The cultural proximity with the company + Size and reputation of the investor	- Limited to incremental improvements, unlikely to transform industries	**Liquid assets:** public equity, public debt
Signal that impact matters	Market signals		2	+ Transparent ESG criteria that companies can meet at reasonable cost + Substantial portion of the market screening out or underweighting firms that don't meet the ESG criteria	- Effect unlikely for industry exclusion - Disagreement how to measure ESG criteria.	
	Non-market signals	Growth or improvement	1	+ High level of public visibility of signals	- Impact is difficult to evaluate as it is indirect and depends on political action or cultural change	

The first four actions are those that benefit from the strongest academic support, as shown by the colour code used in the above illustration.

Nevertheless, in the current state of scientific knowledge, we are not in a position to assert with total certainty greater effectiveness of one action over another.

It is important to note that all the actions mentioned have an impact/contribution potential that is conditional on different internal or external factors (some more than others).

Question 8.1 (white question)
Does the fund use "impact mechanisms" other than those described above? If so, describe them

This question is a "white" question; in other words, it is not scored. It nevertheless allows the fund to describe any other impact mechanism that it considers applicable.

This question contributes to the constant improvement of the grid. Indeed, if other contribution actions are proposed by funds and defended convincingly, they could be included in the list of contribution actions providing points in a future version of the grid.

Question 9
Does the fund justify the actions envisaged (in questions 7, 8 and 9) by seeking additionality?

This question gives rise to two levels of responses (0.2): the expected answer is therefore binary here and affirms the search for additionality, or not: thus, level "2" corresponds to the fact that, in its supporting documents, the fund justifies the actions deployed by their potential to generate additionality: this level "2" is "qualifying"

The supporting documents are understood in the broadest sense and include marketing and communication documents.

Question 10
How are the expected causal chains between actions and impacts described?

This question allows three levels of responses (0, 1 and 2) depending on the degree of description of these causal chains.

The highest level of response would correspond to a diagram such as the one presented in the definition of "causal chain", in the glossary, explained for each action.

Question 11
How are the external factors on which the success of theory of change depends described?

This question allows three levels of responses (0, 2 and 3) depending on the degree of description of these external factors. Level "3" corresponds to a detailed description for each contribution action put in place.

Theory of change can depend on external factors if, for example, the success of this theory is conditional on the achievement of the same action (e.g. positive screening on listed markets) by a large number of other investors; or if the success of the theory of change is based on the introduction of a supportive public policy; etc.

Question 12
Is there an action plan in place to manage and/ or correct this dependency on external factors?

This question allows three levels of responses (0, 1 and 2) depending on the intensity of the action plan put in place: level "2" corresponds to a systematic action plan, implemented with specific stages and a follow-up schedule.

Question 13
How are the actions taken to detect and avoid the occurrence of negative externalities described?

This question allows three levels of responses (0, 1 and 2) depending on the degree of description of these deployed actions.

An action taken to prevent the occurrence of negative externalities means any action by the fund aimed at ensuring that its investments do not contribute to generating adverse changes in the real world.

Examples: a holistic ESG analysis before investing, shareholder engagement with issuers, etc.

B. OPERATIONAL IMPLEMENTATION

Question 14
How systematically do the selected issuers meet the objectives and strategy pursued by the fund?

For each issuer invested, the fund must be able to justify why the choice is consistent with the targeted sustainable transformation objective(s) and also, possibly, why the selected issuers have been chosen over others.

Question 15
Following on from question 9, choose the most significant actions (up to 3) exercised by the fund to achieve its sustainable transformation objectives and describe the intensity with which they are deployed.

To be taken into account in the rating, the actions deployed must apply to at least 70% of the assets under management at the time of the assessment by the grid.

15.1 In the case of debt securities with conditional coupons (e.g. sustainability-linked bonds), assume that the issuer reaches the target.

15.4 The level of commitment chosen must be able to apply to at least 70% of assets under management

15.5 This is a reporting approach that, in order to be effective, must therefore send a clear signal to issuers encouraging them to significantly adjust their behaviour in order to take advantage of the valuation premiums granted to positively selected issuers. The size of the funds applying this strategy and their coordination are key elements for the strategy to have the desired effect.

This approach applies to exclusion, best-in-class screening and thematic selection strategies.

— Requirement 1: the assets under management of the fund analysed and funds applying the same selection criteria represent less than 10% of the total assets under management of the investment category and less than 10% of the capitalisation of the companies targeted by the selection (for example, the target theme or excluded sectors)

— Level of requirement 2: the assets under management of the fund analysed and funds applying the same selection criteria represent more than 10% of the total assets under management of the investment category or more than 10% of the capitalisation of the companies targeted by the selection (for example, the target theme or excluded sectors)

— Level of requirement 3: the assets under management of the fund analysed and funds applying the same selection criteria represent more than 20% of the total assets under management of the investment category or more than 20% of the capitalisation of the companies targeted by the selection (for example, the target theme or excluded sectors)

Question 16
How intensely is the fund involved in correcting negative externalities of issuers?

If the fund's sustainable development objective is to have an impact by reducing a certain type of negative externalities of issuers (e.g. carbon emissions), these are the procedures for correcting all other potential negative externalities of the selected issuers.

Question 17
Does the fund apply a specific strategy that ensures that its impact/ contribution is materialised and made sustainable (minimum investment period, choice of exit time, buyer selection, etc.)?

THE INVESTMENT PERIOD

The report of Working Group No. 1 noted that the financial player must "assess the most relevant investment or financing horizon with regard to the objectives it seeks to achieve in order to ensure the impact materialises. The idea is to avoid a short-term view and to enable impact management throughout the investment or financing cycle. In this context, the adoption by financial players of a long-term vision, capable of producing lasting beneficial effects, provides a guarantee to their economic partners and supports sustainable economic development."

It seems to us that long-term investment is crucial to realising the impact, regardless of the strategy deployed (signalling by prices, commitment, preferential financing or underfunded sectors, non-financial support, etc.).

EXIT STRATEGIES

Similarly, we believe it is important that exit strategies take into account the expected effect on long-term impact, in line with the 7th principle of OPIMs.

In the case of Private Equity, this can therefore involve:

— The choice of a buyer who shares the same vision and skills to support the company;

— The implementation of conditions in the deed of sale (maintenance of management, setting ESG targets, bans on certain practices, maintaining the impact objective in the corporate purpose, etc.)

In the case of listed funds, this more so involves an exit whose timing that does not invalidate the price signal sent (e.g. via a gradual disposal policy when the valuation relative to peers is high).

Question 18
What resources does the fund allocate to the operational implementation of the strategy?

Use of databases on issuers' ESG or SDG profiles alone is insufficient to get points on this question.

We believe it is essential for the manager to be able to rely on internal human resources to:

1. Perform an ex ante assessment of the impact profile of issuers in its investment universe
2. Determine sustainable transformation objectives relevant to each issuer invested
3. Define the strategy to be deployed for each of the selected issuers
4. Carry out the necessary actions to generate the desired impact (engagement, voting, non-financial support, media communications, etc.)
5. Continuously assess the impact of the actions deployed and possibly redefine the strategy

C. MONITORING OF RESULTS

C.1 PROCEDURE FOR MONITORING RESULTS

Question 19
Are changes in the extra-financial performance of issuers monitored during the fund's holding period?

This question logically calls for a positive response from any fund claiming to be an "SRI" or "impact" fund. The rating obtained depends on the share of assets under management subject to this monitoring of issuers' extra-financial performance (0 below 90%, 2 above).

Question 20
Are changes (to specific objectives set ex ante by the fund) in the non-financial performance of the issuers during the holding period by the fund monitored?

This question makes it possible to characterise the intentionality of the fund concerning the non-financial performance of issuers: have objectives been set, and is non-financial performance assessed against these objectives? Depending on the share of the asset concerned (less than 50%, more than 50%, and more than 70%).

This issue has been identified as one of the qualifying questions to characterise an impact fund.

Question 20.1 (white question)
At what level are the achievements of the companies in the portfolio monitored?

Rigorous measurement of the impacts themselves (see glossary) is operationally very difficult.

As a "second-best", funds are invited to measure the results or outcomes of the actions undertaken by the companies in their portfolios (rating 2), rather than assessing their achievements alone or "outputs" (rating 1), which characterise the effects of the actions taken but not the consequences of these actions on the environment or society.

Question 21
How is the additionality of the fund in achieving the objectives analysed?

Additionality of financing is one of the pillars of impact investing. It is therefore essential that this additionality be demonstrated, or that at least a body of evidence gives credibility to its existence.

A score of 3 requires the highest degree of evidence of scientific quality. To date and to the best of our knowledge, it is rarely achieved by investment funds because of the cumbersome and costly processes necessary to obtain it, which are not very compatible with the economic model of an investment fund. However, it represents a horizon of excellence in the area of demonstrating additionality.

Once a plausible body of evidence for the additionality of the fund is gathered, and the fund questions the possible indirect effects of its financing, it may claim a score of 2.

The sum of the evaluated positions for which the additionality analysis is carried out must represent at least 70% of the assets under management.

Question 21.1 (white question)
In assessing its additionality, does the fund analyse any indirect impacts of its investments (e.g. displacement effects)?

One of the indirect effects of impact financing may be a reduction in the achievements and results generated by the competitors of the financed company, due to the eviction of these competitors from certain markets by the company financed, which is made more efficient by the support provided by the fund. It is difficult in practice to monitor these indirect effects (this is why this question on indirect impacts is "white" in terms of scoring), but only by taking into account these effects is it possible to establish the real impact of the financing provided in a thorough manner. For impact funds that do not perform this type of assessment, this may be an interesting horizon in terms of methodological improvement.

Question 22
Is there a process of continuous improvement of the strategies deployed and actions carried out?

It is essential that the fund management team observes the results obtained to improve the fund's sustainable transformation potential, in particular to adjust the actions it implements in order to increase its additionality (see questions 15).

The existence of a continuous improvement process is therefore assessed in question 22.

Question 23
How are negative externalities monitored by issuers?

Principle: Externality is unintentional and describes the fact that an economic agent creates, through its activity, an external effect by providing others, without monetary consideration, a utility or an advantage free of charge (positive externalities), or, on the contrary, a nuisance or damage without compensation (negative externalities). Impact is not an externality because it is intentional.

Controlling negative externalities is a cornerstone of sustainable finance, in both SRI and impact investing, and is enshrined as such in the definition of impact finance adopted by F4T and in the recent SFDR regulation ("Do No Significant Harm").

The scope of negative externalities monitored is, at least, that of the PAIs of the SFDR regulation.

To be taken into account in the rating, the monitoring of negative externalities of the issuers must apply to the entire portfolio.

Level 2 of the response to this question, the only answer that is considered "qualifying" for a fund claiming impact, consists not only of monitoring the negative externalities at the level of each investment of the fund but also, and above all, setting reduction targets for the main negative externalities identified. Achievement of these objectives will be monitored.

Question 24
Is there an internal or external control process for the sustainable transformation strategy and its results?

In order to support financial players wishing to engage in an impact finance approach, Working Group No. 1 produced a summary table of key operational issues in impact finance in its report. In particular, it highlighted the need for a "critical review by independent third parties, in particular to ensure the consistency of the strategies, results and contribution actions carried out with what was planned in the supporting documents".

C.2 QUALITY OF OBSERVED RESULTS

Question 25
To what extent are the results observed at the issuer level consistent with the sustainable transformation objectives of the fund?

The contribution/impact fund must be able to characterise the reality of its contribution to sustainable transformation, beyond the intentions set out in its contractual documentation and in the methodologies built by the management team.

Question 25 calls for a comparison of the effects measured at the level of each issuer **with the general objectives of the fund.**

The higher the level of consistency observed, by adding together all the positions where the results are in the direction sought (i.e. an improvement), the higher the score (with two levels: 50% / 70% of assets under management).

The scope of observation for this question as well as for other questions on the results obtained is as follows:

— The scope includes **all positions held for at least twelve months** as at 31/12 of the past year (the idea being to exclude positions that are too recent to have achieved sustainable transformation results from the scope).

— For the purposes of representativeness, the sum of the positions valued must represent at least 70% of the assets under management on the observation date (31/12). Otherwise, the fund may add to its analysis the positions closed during the past financial year that were held for at least twelve months.

— If, despite this addition, the positions valued still represent, in value, **less than 70%** of the assets under management on the observation date (31/12), the fund scores a 0 on the question.

Question 26

To what extent do the relative results (i.e., relative to the specific objectives set by the fund) observed at the issuer level correspond to the sustainable transformation objectives of the fund?

This question is similar to question 25 but calls for a comparison between the effects of the fund's action on each of the issuers financed **with the specific objectives set by the fund for each of these issuers.**

It may be considered that observed results are "aligned with the objectives set" if (at the time of observation at the end of each calendar year) they exceed the objectives set ex ante by the fund for the issuer or if they fall within the "margin of error" set at 10% of the targeted sustainable transformation (over the calendar year).

The scope of observation for this question as well as for other questions on the results obtained is as follows:

— The scope includes all positions held for at least twelve months as at 31/12 of the previous year;

— The sum of the positions valued must represent at least 70% of the assets under management on the observation date (31/12). Otherwise, the fund may add to its analysis the positions closed during the past financial year that were held for at least twelve months.

— If, despite this addition, the positions assessed still represent less than 70% of the assets under management on the observation date (31/12), the fund scores a 0 on the question.

Question 27

To what extent is the additionality of the fund in achieving the observed results demonstrated?

This question is an extension of question 21: when the additionality of the fund has been analysed, what is the result of this analysis? Given the difficulty of gathering a body of evidence and even more of establishing a scientific demonstration of the additionality of a fund, the "trigger threshold" of the rating is reduced to 50% of assets under management.

The scope of observation for this question as well as for other questions on the results obtained is as follows:

— The scope includes all positions held for at least twelve months as at 31/12 of the previous year;

— The sum of the positions valued must represent at least 70% of the assets under management on the observation date (31/12). Otherwise, the fund may add to its analysis the positions closed during the past financial year that were held for at least twelve months.

— If, despite this addition, the positions assessed still represent less than 70% of the assets under management on the observation date (31/12), the fund scores a 0 on the question.

Question 27.1
Can the fund demonstrate that by taking into account indirect impacts (such as substitution and displacement effects), the results achieved are positive for the objectives of sustainable transformation?

This question is an extension of question 21, and like that question, is a white question: when the indirect effects in terms of additionality of the fund have been analysed, what are the consequences of this analysis on the fund's overall additionality? Given the difficulty of gathering a body of evidence and even more of establishing the scientific demonstration of the total additionality of a fund (i.e., including direct and indirect effects), the "trigger threshold" for a positive rating is reduced to 50% of assets under management.

The scope of observation for this question as well as for other questions on the results obtained is as follows:

— The scope includes all positions held for at least twelve months as at 31/12 of the previous year;

— The sum of the positions valued must represent at least 70% of the assets under management on the observation date (31/12). Otherwise, the fund may add to its analysis the positions closed during the past financial year that were held for at least twelve months.

— If, despite this addition, the positions assessed still represent less than 70% of the assets under management on the observation date (31/12), the fund scores a 0 on the question.

Question 28
To what extent were the negative externalities of issuers reduced during the fund's holding period?

This question should be seen as an extension of question 23, which asked how negative externalities were monitored. As soon as the evolution of these changes is effectively measured, a fund demonstrating that they have decreased over its investment period in accordance with the objectives set ex ante is assigned a score of 2; if it can also present evidence in favour of its contribution to this reduction (particularly if it has set targets to reduce these externalities at a granular level, with each issuer, and if it then measures the level of achievement of these objectives), it obtains a maximum score of 3.

The scope of observation for this question as well as for other questions on the results obtained is as follows:

— The scope includes all positions held for at least twelve months as at 31/12 of the previous year;

— The sum of the positions valued must represent at least 70% of the assets under management on the observation date (31/12). Otherwise, the fund may add to its analysis the positions closed during the past financial year that were held for at least twelve months.

— If, despite this addition, the positions assessed still represent less than 70% of the assets under management on the observation date (31/12), the fund scores a 0 on the question.

D. COMMUNICATION AND CONSISTENCY

Question 29

How is the fund's potential to contribute to sustainable transformation communicated to savers and investors?

THE GENERAL IDEA

The idea here is to verify that the fund's communication is appropriate. The *Declaration of Support for the Development of Sustainable Finance* therefore states that "clearly and transparently communicating on actions, results and impacts achieved" is one of the best practices necessary to "promote credibility and confidence in impact finance, and to protect against any form of impact washing".

The general principle to be applied in terms of reporting impact/contribution potential is that **any communication must be supported by tangible elements**. In this regard, it is necessary for the fund to use the tangible elements at its disposal to formulate its communication.

USE OF INTERMEDIATE SCORES

The grid allows the fund to assess its strength in the first three sections and suggest appropriate communication. Thus, the number of points obtained in each section legitimises the communication that can be made.

For each section (A, B and C), scores can be interpreted as follows:

— Score > = 90% of points (from 27 points), the fund is very strong in this area and can communicate positively on its very good practice

— Score > = 70% of points (above 21 points), the fund is strong in this area and can communicate positively on its good practice

— Score > =50% (above 15 points), the fund is average in this area and can present its practices in this area in a neutral manner

— Score < 50% (below 15 points), the fund has insufficient results in this area and should not highlight its strengths relating to this area in its communication.

In its communication, the fund must always be careful to clearly distinguish its **objectives** in terms of impact/contribution (section A), the actions deployed to obtain this impact/contribution (section B) and finally the **results** obtained (section C).

A distinction must always be made between "seeking impact" (objectives), "acting for impact" (actions) and "having impact" (results) so as not to create confusion in the investor's mind.

USE OF THE TOTAL SCORE

As for the total score, it measures the overall contribution potential of the fund and also gives the fund the credibility to self-designate as an "impact investment fund".

In our view, the designation "impact investment fund" can be legitimately used by the fund if and only if:

1. **the fund obtained an overall rating of 70% or more (70 points out of 100)**

AND

2. **the fund successfully passed the test of the qualifying questions.**

THE CASE OF RECENT FUNDS

Recent funds (under 2 years of age) cannot be assessed in terms of actions actually deployed (Section B) or actual monitoring of results (Section C) and, more importantly, cannot obtain an overall score. Although it is possible to answer certain questions from these two sections by presenting the intentions of the fund, this does not correspond to the spirit of these two sections of the grid.

As a result, we recommend that recent funds wishing to present their future actions and the planned procedure for monitoring the results emphasise their **purely intentional nature** in their communications at this stage of their existence.

And, if they choose to self-designate as "impact investment funds", they should **indicate** via a **disclaimer** in their supporting documents that they could not be exhaustively assessed using the grid due to a lack of sufficient history, and that they undertake to carry out a **full assessment before their second anniversary.**

Question 30
Does the fund provide an annual impact report that is available to investors?

This is an impact report and not a report on the ESG profile of issuers in portfolios or the consolidated portfolio.

In order to support financial players wishing to engage in an impact finance approach, Working Group No. 1 produced a summary table of key operational issues in impact finance in its report. In particular, it emphasised the need to "*publish an annual, robust and integrated impact report that is useful to all stakeholders and expresses the effectiveness of the actions implemented by the product*".

Question 31
Is the management company's CSR consistent with the fund's sustainable transformation objectives?

Once a management company has embarked on the creation of funds that contribute positively to the sustainable transformation of the economy, it will be reassuring as to the AMC's intentions and the medium to long-term commitment of its action on the fund in question if the requirements and objectives of social and environmental responsibility that it sets itself more broadly, particularly in terms of reducing negative externalities, are consistent with the proactiveness it displays on the fund analysed – both in terms of its internal practices and its other assets under management.

A positive answer to this question therefore provides an additional point.

Question 32
Is the remuneration (or financial incentive scheme) of the fund managers or the management company dependent on the fund's performance in terms of sustainable transformation?

The existence of a variable remuneration component (or a financial incentive mechanism such as carried interest) for fund managers is recognised as a powerful factor in effectively aligning the management policy with the fund's objectives, provided that the determining factors of this variable portion are themselves aligned with the fund's objectives.

This is why it is essential, in the case of an impact fund for which a variable remuneration component (or a financial incentive mechanism) exists, that it is not exclusively indexed to the fund's financial performance (we would then have a powerful factor for potential misalignment with impact objectives), but also to impact performance; and it is important that this alignment with impact performance is likely, in the event of underperformance on the impact obtained, to have significant consequences on variable remuneration. This is the logic behind the 0 to 3 scoring of this question, with a portion of indexing to impact criteria from 0 to more than half of the variable remuneration. A portion of variable remuneration may be considered to be "indexed to impact criteria" when this portion of variable remuneration is likely to fall to 0 if the results in terms of achieving the impact criteria are significantly lower than the objectives set at the fund level.

The scale is adjusted for funds created prior to 2023 (to take into account cases where the remuneration structure decided before the publication of the grid and the Charter is fixed). These "old" funds must be able to justify a level of indexation of variable remuneration that exceeded the qualifying threshold for this question at the time the fund was created.

Year after year, the qualifying rates for this question should be listed and updated in this notice. For this first version of the Grid:

— creation before 1 January 2023: a non-zero portion of variable remuneration (if any) is indexed to impact criteria

— creation after 1 January 2023: at least 25% of the variable component is indexed to impact criteria

In the particular case where the variable remuneration of managers depends on the performance of several funds, the scale presented only applies to the fund covered by this analysis.

Note: we propose assigning a level 2 score also to funds for which the remuneration of the management teams does not involve any variable portion. Some impact funds (particularly solidarity-based funds) believe a lack of variable remuneration allows their management teams (which are reputed to find other motivations in managing impact funds than seeking to maximise their personal gain) to adopt an approach to financial return and impact that corresponds to the thesis of the managed fund.

D. BONUS

Question 33
Does the fund incorporate a mechanism for sharing income or management fees for projects of general interest (associations, foundations, etc.)?

If the given portion is dependent on the fund's performance, then it must be based on a "normal" year, i.e. in line with the historical performance of the asset class.

8. GLOSSARY

Contribution actions

Actions deployed by the fund to cause a change in the behaviour of issuers or to support their growth in the event that they are already 100% virtuous companies. These are the actions deployed by the fund to have an impact and achieve its objectives (e.g. engaging with issuers to improve their performance; offering concessional capital to enable the growth of issuers with a positive impact; the act of banks offering conditional loans, divestments, etc.).

Causal Chain

A series of changes caused by each other linking the contribution actions specific to the financial institution with the desired impact objectives. See the visual below.

Action of Financial Institution		Change in the real world brought about by the action	
Action	**Product (Output)**	**Result (Outcome)**	**Impact**
Specific action of the financial institution to contribute to the desired transformation	Change resulting from the FI's action that impacts the targeted organisation	Measurable change in the activities of the targeted organisation resulting from the output	Consequence of the outcome, reflecting the action's contribution to the sustainable transformation of the economy
Offer of concessional capital to a start-up working for the inclusion of disabled persons	Increased access to capital for the company	Access to capital facilitates the company's growth and allows it to hire more employees	Increased inclusion of disabled persons in society

Contribution

Participation in collective action likely to lead to a lasting transformation without research, analysis or management of the additionality of the individual action

DNSH

"Do No Significant Harm"

The DNSH principle is now the minimum required: no activity or investment can be considered to have a positive impact if it has significant negative impacts on another environmental or social factor.

Externality (negative/positive)

A negative externality refers to any unintentional negative impact that may have been generated by the fund.

A positive externality refers to any unintentional positive impact that may have been generated by the fund.

Impact

Impact is an approach to the sustainable transformation of an agent by seeking additionality of its individual action

Impact at issuer level

The additional effects on the stakeholders of the issuer's activities and its achievements after taking into account a counterfactual scenario (a scenario in which the issuer's activity would not have taken place)

Impact at fund level

The additional impact on the stakeholders of the investee issuers attributable to the fund's actions after taking into account a counterfactual scenario (if the fund had not made its investments)

Sustainable Transformation Goal

Willingness to contribute to sustainable transformation, which is reflected in the statement of a clear and precise objective to be achieved over a given time horizon.

Stakeholders

All parties whose interests will be affected by an issuer's activities.

Sustainable transformation performance of issuers

Degree of achievement of the objectives assigned for each issuer measured via indicators. For a fund, these indicators are either aggregated at the fund level or specific to issuers/groups of issuers.

The KPIs and associated objectives may be taken from an existing or tailor-made database as long as they are precisely defined and this definition is public and verifiable by a third party.

Product (output) at issuer level

The products and services generated by the company's activities

Example: the number of training courses delivered for a company/association offering digital training

Result (outcome) at issuer level

Impacts on the issuer's stakeholders of its activities and achievements

Example: the number of beneficiaries who have increased their digital skills for a company/association offering digital training

Theory of change

Strategy for planning the change process highlighting the causal chain linking the actions of the fund's contribution actions with the desired impact objectives.

According to ISO 14097: "Strategy for planning the change process highlighting the causal chain linking the contribution actions of the financial institution with the desired impact objectives."

Sustainable transformation

The notion that companies' understanding of sustainable development issues must make it possible to anchor this transformation in the company over the long term and to have a real impact on the environment or society through a holistic approach that integrates these issues into all its components at strategic, tactical and operational levels.

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PARIS FINANCIAL CENTRE IMPACT TASK FORCE

EXPLANATORY NOTE OF THE ASSESSMENT SCALE OF A FUND'S POTENTIAL CONTRIBUTION TO THE SUSTAINABLE TRANSFORMATION

December 2022