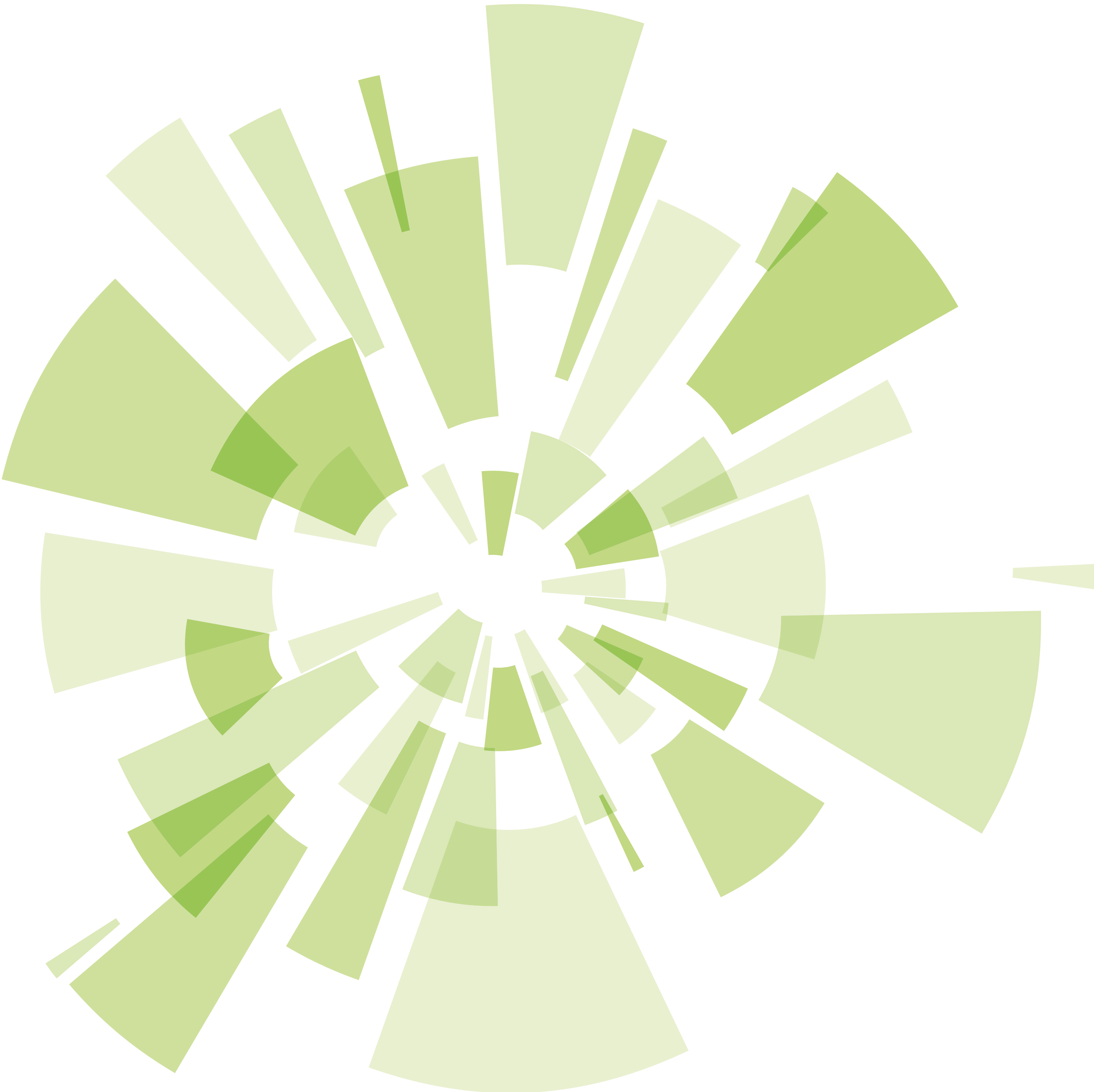
FINANCE FOR TOMORROW by Paris Europlace

PARIS FINANCIAL CENTRE IMPACT TASK FORCE

INVESTOR IMPACT CHARTER



December 2022

INTRODUCTION

The purpose of this Impact Charter is to promote the development of demanding and transparent impact finance and to harmonise practices. The objective is to define a common framework for all asset classes for existing funds or new funds that wish to be designated as "impact funds"[1] in order to:

— affirm the commitment of the signatory investor to compliance with the principles of this Charter;

— ensure a transparent and proven impact approach.

This Charter is in line with the principles and objectives of the definition of impact finance established on 29 September 2021 by the Impact Market Group, whose work was coordinated by Finance For Tomorrow:

"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."*

The Charter's commitments relate to both the assessment of the intensity of the impact and the impact trajectory, with a view to continuous improvement. An operational tool called the Contribution Potential Assessment Evaluation Grid to sustainable transformation is made available to the signatories of the Charter in order to qualify their "impact" financing strategy.

The concept of impact is consistent with a double materiality approach as defined by the European Commission: i.e., taking into account, on the one hand, the risks that may affect the value of the company and, on the other hand, the positive or negative social and/or environmental impacts of the company's activity on its stakeholders.

1 Subject to compliance with any conditions defined by the regulator for qualification as an "impact" fund

PRINCIPLES

All signatory investors undertake to apply the fund's contribution potential to sustainable transformation[2] and to comply with the following principles for all funds indicated in the section "Scope of Application of the Charter":

INTENTIONALITY

Principle 1: Apply intentionality to the entire investment portfolio with a line-by-line demonstration of respect for intentionality in the portfolio's investments.

Principle 2: Realise this intentionality through the ex ante formalisation of one or more social and/or environmental positive impact objectives, specifying the targeted beneficiaries (consumer, employee or citizen).

Principle 3: Specify the level of action of the impact objective by indicating whether it concerns the products and services offered by the companies invested and/or the conduct of their operations for each line of the portfolio.

Principle 4: Incorporate a process for taking into account and limiting negative externalities beyond the formalised positive impact objective.

ADDITIONALITY

Principle 5: Define, for the total scope of the committed investments, the additionality approach of the investor in isolation from the additionality of the underlying investment, specifying the tools chosen.

Principle 6: Concretely illustrate the additionality of the investor, at least by explaining the resources it deploys to maximise the positive impact sought and minimise negative externalities and, progressively, by the results.

MEASUREMENT

Principle 7: Measure the impact on the total scope of investments made and be transparent, where applicable, regarding the coverage rate and the reasons why the measurement does not cover all investments.

Principle 8: Transparently equip themselves with the necessary measurement tools to report on the positive impact, in accordance with the principle of double-materiality.

Principle 9: Report annually, using the medium considered most relevant, on the resources mobilised and the results obtained to maximise the impact, in accordance with this Charter, and with the certification by an external third party of the reality of the approach and the data presented.

ALIGNMENT OF INTERESTS

Principle 10: In the event that a financial incentive or variable remuneration exists, align the financial incentive or remuneration process for the performance of decision-makers/managers with the ex ante impact objectives defined in the funds covered by the scope of this charter.

2 See methods for applying the assessment grid below

SCOPE OF APPLICATION OF THE CHARTER

Management company
undertakes to apply the principles of the Impact Charter to the following funds:

CLASSIFICATION OF THE FUND ACCORDING TO THE EUROPEAN SFDR[3]

All funds to which this Charter applies will endeavour to be classified as "Article 9"[4] within the meaning of the SFDR: if this is not possible, the signatory must first justify it.

APPLICATION OF THE FUND'S CONTRIBUTION TO SUSTAINABLE TRANSFORMATION ASSESSMENT GRID

A grid for assessing the fund's potential contribution to sustainable transformation was developed by the Impact Paris financial centre Group coordinated by Finance For Tomorrow. This grid makes it possible to assess the eligibility of a fund to be defined as an impact fund.

The Grid and its Explanatory Note are available online on the Finance For Tomorrow website.

Each fund to which this Charter applies must assess its potential contribution to sustainable transformation through this grid within six months before signing the Charter and ensure that all qualifying conditions for an impact fund are met:

— Answer the qualifying questions of the grid with the required score;

— **And** obtain an overall fund score of at least 70/100.

If a significant change in the assessment grid is reported by Finance For Tomorrow, the fund undertakes to update its assessment within the year following the publication of these changes.

3 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, known as the SFDR (Sustainable Financial Disclosures Regulation)
4 Financial product with the objective of sustainable investment

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

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

In the specific case of new funds or funds being created (less than two years old), the fund undertakes to use the assessment grid to guide its impact approach with the aim of answering the qualifying questions with the required score and achieving the minimum score of 70/100 two years after its creation.

COMMITMENT RENEWAL CLAUSE

The asset management company will reassess the funds[5] and sign this Charter again at least every three years. The scope of funds covered by this Charter may be updated on an ongoing basis.

By signing this Charter, the management company undertakes to apply all the terms thereof and to report annually on its impact approach and on the application of these principles.

SIGNATURE

DATE

5 Except in the case of a significant change in the grid indicated above, the assessment will be updated in the year following the publication of these changes.

APPENDIX

This appendix supplements the Impact Charter in order to define the terms used but also to propose tools enabling the signatories to implement the Principles.

DEFINITION OF DOUBLE-MATERIALITY

Double materiality is defined using two different approaches to the consideration of non-financial information: an "Outside-In" approach and an "Inside-Out" approach. The "Outside-In" view covers simple materiality, also known as financial materiality. This involves taking into account information about the positive and negative impacts of the environment (economic, social, natural) on the value of the company. This perspective covers both opportunities (positive impacts) and risks (negative impacts).

According to the "Inside-Out" view, information on the company's negative and positive impacts on the environment (economic, social, natural) is also considered significant. In this case, we refer to socio-environmental materiality, or "impact materiality" (EFRAG, 2021).

Double materiality corresponds to the combination of these two types of materiality.

"ARTICLE 9" SFDR CLASSIFICATION REQUIREMENT

An "Article 9" fund corresponds to a "financial product whose objective is sustainable investment".[6] The classification of a fund as "Article 9" within the meaning of the SFDR is a prerequisite for an impact fund but by itself is not sufficient. Indeed, the definition of sustainable investment presented above that any investment in an Article 9 fund must meet does not take into account all the elements that make up the definition of an impact investment and in particular its three dimensions: Intentionality, Additionality and Measurement.

In the event that a fund covered by this Charter is not classified as "Article 9", the management company must justify this. This may, for example, be the case for a fund that chooses to invest in companies in sectors considered to have significant negative environmental or social impacts but whose companies are transitioning and whose objective would be to support this transformation.

TOOLS RELATED TO THE PRINCIPLES

Principle 1:

— To demonstrate compliance with line-by-line intentionality on the portfolio's investments, each fund may endeavour to verify that there is no distortion of intentionality as a whole through the use of other types of financial products, such as derivatives.

— If a 90/10 fund wishes to sign the Charter, it must apply a consistent approach on both segments 90 and 10, i.e. the grid must apply to part 90 in the same way as part 10.

— For funds of funds, they must only invest in impact funds that have signed the Charter. For funds invested in foreign funds, they must at least be signatories to the World Bank's Operating Principles for Impact Management (OPIM).

6 "Sustainable investment" is defined as an investment in an economic activity that contributes to an environmental objective, measured for example by means of key resource efficiency indicators for the use of energy, renewable energy, raw materials, water and land, in the production of waste and greenhouse gas emissions or effects on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to the fight against inequality or which promotes social cohesion, social integration and labour relations, or investment in human capital or economically or socially disadvantaged communities, provided that such investments do not cause significant harm to any of these objectives and that the companies in which the investments are made apply good governance practices, in particular, with regard to sound management structures, staff relations, remuneration of competent staff and compliance with tax obligations. (Article 2, point 17 of the SFDR).

Principles 5 and 6:

Additionality is necessarily made up of the additionality of the investor and that of the underlying assets. The demonstration of the additionality of the investor by proof is still a very complex subject, so it is the only margin accepted for modulation and continuous improvement over time. An obligation of means is therefore acceptable at this stage, while setting the long-term objective of a performance obligation.

Principle 6:

Individual or collective commitment can be used as an additional tool for investors. The commitment policy of the fund in question can therefore be based on the approach of a coalition, which must be specified. In any individual or collective engagement approach, it is important to specify a time horizon on key commitments compared to the fund's search for impact.

Principle 9:

The fund documentation should use the expected terms for the demonstration of impact.

Regarding verification by an external third party, it is possible to combine with other approaches such as the Operating Principles for Impact Management (OPIM) of the World Bank[7]. For example, like certain players who have set up external audits based on the principles of OPIMs, it is possible to plan for the extension of the audit to the principles of the Investor Impact Charter, while remaining vigilant about the differences in requirements levels on the three impact pillars. In addition, the following points concerning the governance of the audit will be specified during the next update of the Charter in March 2023: approval of the third party, scope of the audit, level of assurance of the audit, nature of the assurance report and communication of the assurance report.

Principle 10:

Principle 10 requires a minimum score of 2 on question 32 of the fund's assessment of potential contribution to sustainable transformation grid: this question 32 of the fund's assessment of potential contribution to sustainable transformation grid is indeed one of 12 qualifying questions with a minimum requirement of "2".

This principle 10 applies at the full portfolio level. Nevertheless, significant imbalances must be reported transparently on the details of the lines making up the portfolio.

7 Impact Principles Brochure Revised.pdf / The 9 Principles | Operating Principles for Impact Management (impactprinciples.org)

CONTACTS

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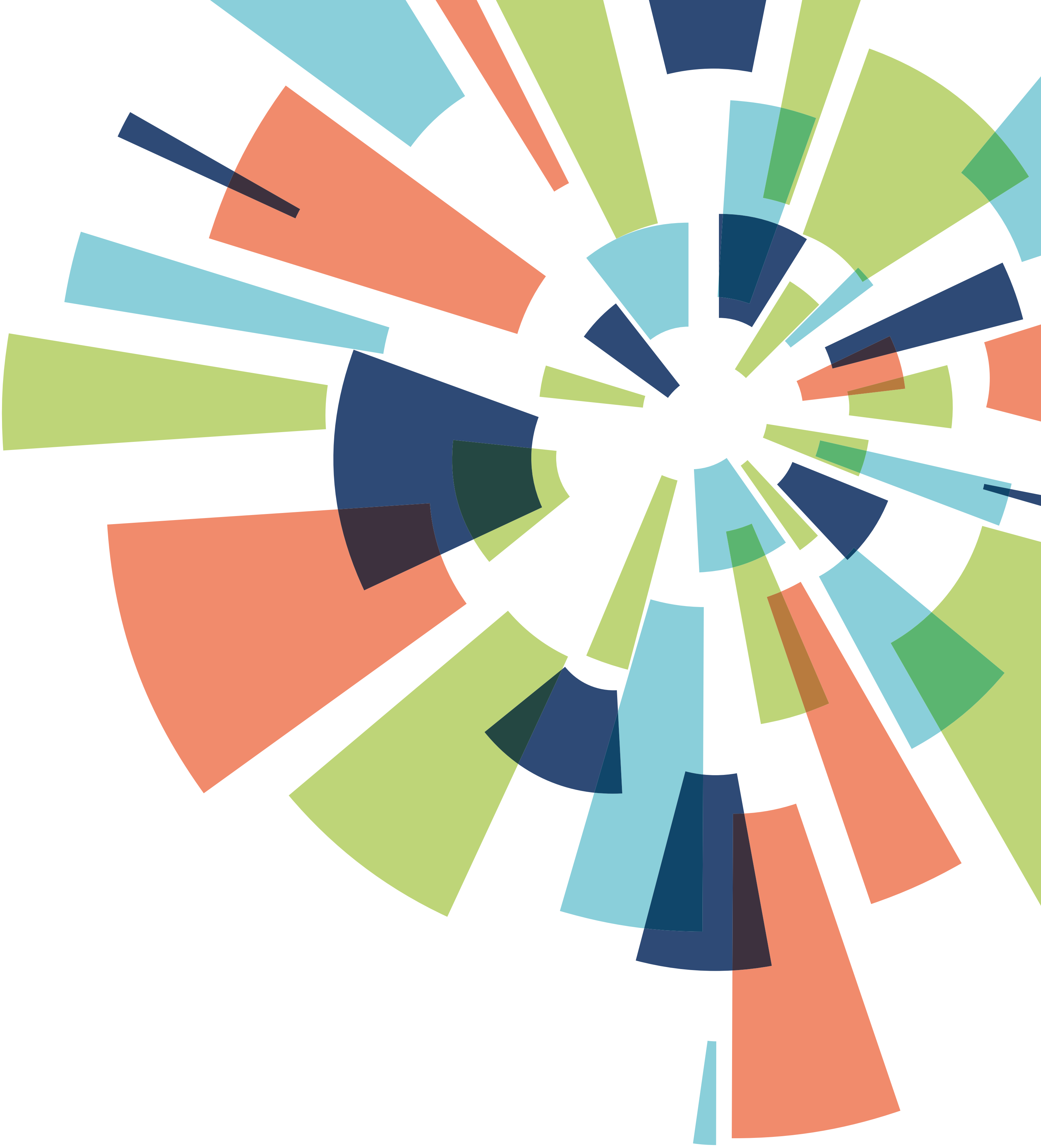

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