INSTITUT DE LA FINANCE DURABLE
PARIS EUROPLACE

TASKFORCE ON IMPACT FINANCE

EXPLANATORY NOTE ON THE EVALUATION SCALE FOR A FUND'S IMPACT POTENTIAL

GENERIC GRID

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CONTENTS

1. BACKGROUND INFORMATION

The development of this evaluation 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, the Paris Sustainable Finance Institute (*Institut de la Finance Durable* – IFD) launched a Taskforce dedicated to impact finance.

The aim of this dedicated group on impact, which ended in June 2023, was to contribute to the emergence, beyond the traditional ESG approach, of a shared definition of impact finance and, if possible, measurement methodologies.

It has brought together more than 150 institutions in the Paris financial centre during an initial phase comprised of 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, followed by a second phase dedicated to the operationalisation of impact.

A working group was thus dedicated to the creation of a scale to evaluate the potential of impact of 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 the working group, which was tasked 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 by the working group, the IFD proposed the following definition:

> *“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 uses three key principles of the approach, intentionality, additionality and impact measurement, to demonstrate:*
>
> *1. The long-term joint search for environmental and social performance and financial profitability, 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 pre-defined environmental and social objectives, the relevant investment or financing period, as well as the measurement methods, according to the so-called change theory framework;*
>
> *3. The achievement of these environmental and social objectives within reference frameworks, in particular the Sustainable Development Goals, implemented at international, national and local levels.”*

2. OBJECTIVES OF THE EVALUATION SCALE

MULTIPLE POSSIBLE USES

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

→ A self-assessment tool

Firstly, the grid of questions based on the Scale enables management companies to internally evaluate their funds' "contribution potential to the sustainable transformation", compare it with the results compiled by the IFD for different asset classes and identify possible areas for improvement based on the scores obtained on the various questions.

Secondly, the grid can also be used by management companies to verify that the fund complies with the definition of an impact-driven 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 an "impact potential scale" (see disclaimer on page 8, section "Impact or contribution?") and be communicated to investors in the fund's supporting documents. However, such use would likely require that the evaluation not be conducted by the management company itself but by an external auditor accredited by the IFD.

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

→ A tool for identifying impact-driven funds

Lastly, 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-driven funds.

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

The minimum target score is 70 points.

For the first iteration of the grid, however, **an interim minimum score** is set at **55 points**. This is set to **increase over time** according to the following trajectory:

– 60 points from 1 January 2025

– 65 points from 1 January 2026

– 70 points from 1 January 2027

If a fund does not achieve the required score on the qualifying questions, it cannot be covered by the Charter and therefore cannot claim to be an impact-driven fund as per the definition and the tools developed as part of the Taskforce on Impact Finance's work coordinated by the IFD.

Lastly, the total score obtained and a successful score on the qualifying questions could support an audit procedure for funds claiming the "impact-driven" 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.

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 the IFD, 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 took place at the end of the first quarter of 2023.

A GRID ADAPTED TO THE DIFFERENT ASSET CLASSES

The need to adapt the "generic" grid to the specifics of the different asset classes arose following the first review of the grid. The following subsets are available on the IFD website: listed equities and unlisted equities. However, the "generic" grid and this note remain available for assets that do not yet have a specific subset.

3. GRID CONSTRUCTION METHOD

SOURCES OF INSPIRATION

The first source of inspiration for the grid was the report by the working group 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 and 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 principles of impact investing** as formalised by 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 further explored in various academic work.

ORGANISATION OF THE WORKING GROUP

The "generic" grid was developed based on the discussions between the two leads of the Market Group, the three leads of the working group and the 50 participants of the working group. The working group leads 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.

IMPACT AND ESG APPROACHES

The definition provided by the working group *"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, which corresponds to the specific contribution of financial players, enabling the beneficiaries of the investments/financing to increase the impact generated by their activities themselves.*

— *measurement, which refers to the evaluation of the 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 investee entities that goes beyond the practice of portfolio alignment. As indicated in the report on the IFD's definition of impact finance, "all impact finance is constantly growing transformation finance based on financial and non-financial criteria".

The approach used:

The aim of the grid is to evaluate 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, as investing in positive-impact entities does not guarantee a positive impact for the investor. If, through its investment, the investee 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 demand from investors prepared to offer equivalent conditions 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 investee entities through the actions deployed by the fund more than the profile (ESG or SDG alignment) of the same investee entities.

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 indicated in the report on the IFD's definition of impact finance, *"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.

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 outcomes for these other objectives. In other words, they can generate negative externalities. Should the positive and negative effects of the fund's actions be summed?

The approach used:

The evaluation scale distinguishes between the fund's outcomes 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 investee entities. This is therefore not a net impact approach.

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 outcomes obtained in the real economy and to measure the share of these additional outcomes attributable to the actions deployed by the fund.

In practice, proof of causality and measurement of additional outcomes would require the use of particularly extensive scientific methods (matching, difference in 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”.

This 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 evaluating causality and additionality.

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

Disclaimer

However, from a semantic viewpoint and despite these considerations, we have chosen to use the term “impact potential” instead of “contribution potential to sustainable transformation” for reasons of linguistic fluidity.

ADDITIONALITY IN THE GRID

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

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

— Additionality can be analysed or evaluated with **different levels of granularity:** at the level of the investee entities (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 investee entities (micro) and the indirect impacts on other stakeholders (other funds, competitors of investee 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 outcomes among the competitors of the investee entities).

The approach used:

The grid analyses additionality at the level of the actions deployed AND the outcomes 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 outcomes is clearly the macro level, which includes direct and indirect impacts. However, we also believe that the evaluation of indirect impacts is, in the absence of information on competitors, even farther beyond the scope of the funds (currently) than the precise evaluation 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.

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 change theory 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 note (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.

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 "generic" 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 was therefore agnostic. It did not have **any ex-ante preference for any asset class** over another. This made 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 and funds concerned) versus the unlisted market (clearer in terms of its additionality but with a more limited scope of achievements).

While adopting appropriate phrasing and response methods, the variations by asset class recorded after the first review of the grid do not contradict the initial spirit. It was decided that the structure of the grid would remain the same for all asset classes so as to be able to maintain a form of comparability.

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.

Lastly, 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 points is achievable, while we observe on our sample contribution potential scores between min Y points and max Z points), 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 outcomes 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 outcomes.

The approach used:

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

As a result, funds with an insufficient track record (i.e. those under two years of age) cannot be evaluated 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 evaluated (two years after their launch) and, if they wish to call themselves "impact-driven investment funds", that they indicate via a **disclaimer** in their supporting documents that they could not be evaluated 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.

Lastly, recent funds (less than two years old) that are signatories to "the Impact Charter undertake to use the evaluation 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 required to be categorised as an "impact-driven investment fund" as defined by the IFD's Taskforce on Impact Finance two years after their creation.

STANDARDISATION OF THE GRID

Another question that was asked of the leads 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 evaluated (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 evaluated.

5. THE APPROACH OF THE GRID

ORGANISATION OF QUESTIONS

The 32 core questions are organised around four main sections:

A – Change Theory (with two sub-sections: “Definition of general objectives” and “Definition of actions deployed”), which evaluates the quality and robustness of the fund’s change theory;

B – Operational implementation, which evaluates the alignment between the fund’s change theory and the actions actually carried out;

C – Monitoring of outcomes (with two sub-sections: “Outcomes monitoring procedure” and “Quality of outcomes 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 four sections, there are **two bonus questions** on socially responsible income sharing and impact awareness actions.

WEIGHTING

Each of the 34 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 “robustness” questions that contribute to estimating the strength of statements made in more declarative questions.

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

The first three sections A, B and C (Change Theory, Operational Implementation and Outcome Monitoring) are virtually **equally weighted, each representing around 30 points, or around 30% of the total maximum score.** Lastly, the last section, Communication and Consistency, represents 10 points and 10% of the total maximum score. The bonus questions (out of 5 points) are added to the total obtained in the four sections for a maximum score “capped” at 100 points and therefore 100%.

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

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

INTERPRETATION OF THE FINAL SCORE

The fund obtains a final points score. **The higher the number of points, the higher the impact potential is considered to be.**

The evaluation scale therefore provides a continuous approach to sustainable transformation rather than 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 (change theory). Its intentions in terms of operational implementation (Section B) and the process for monitoring outcomes (Section C.1) may be announced and to some extent be subject to an ex-ante evaluation. However, the outcomes 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 evaluated (two years after their launch) and, if they wish to call themselves "impact-driven investment funds", that they indicate via a **disclaimer** in their supporting documents that they could not be evaluated using the grid due to a lack of sufficient history.

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-driven fund". This condition comes alongside another condition: achieving the minimum score set on the date of the evaluation.

So, in our view, an impact-driven fund is a fund that…

- Sets itself an explicit objective of having a positive impact (**intentionality**) ➔ Question 5
- Also aims to reduce any negative externalities linked to its actions or those of selected issuers beyond its sustainable transformation objectives (**intentionality**) ➔ Question 6
- Chooses the vast majority of invested issuers according to a logic of impact (**intentionality**) ➔ Question 14
- Implements relevant actions to achieve positive impact, i.e. to achieve additional outcomes in line with its sustainable transformation objectives (**additionality**) ➔ Questions 7 & 9
- Actively manages negative externalities beyond the desired positive impact (**additionality**) ➔ Question 16
- Measures its positive impact against ex-ante targets (**measurement**) ➔ Question 20
- Measures and manages related negative externalities (**measurement**) ➔ Question 23
- Uses control procedures to verify that the strategy and actions deployed are relevant to achieving the expected impact (**measurement**) ➔ Question 24
- Achieves quantified outcomes in line with its sustainable transformation objectives (**measurement**) ➔ Question 25
- Produces an annual impact report accessible to investors (**transparency**) ➔ Question 30
- Applies a remuneration policy compatible with the search for impact (**consistency**) ➔ Question 32

Questions 24 and 32 are subject to an enhanced due diligence period to ensure compliance by the players involved. These questions will become qualifying in January 2025.

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 (e.g. with only two degrees of compliance with the requirement).

The questions must be evaluated as a whole: the accumulation of answers to questions, rather than any isolated question, is what makes it possible to draw a conclusion on the reality of the transformation.

7. DETAILED EXPLANATORY NOTE ON THE GRID

A. CHANGE THEORY

→ 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 investee issuer 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 investee 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 three levels of responses (0, 1, 2) and clearly illustrates the additionality of the fund's actions: "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?

This question, which is a white question (and therefore does not contribute to the total score), gives rise to three levels of responses (0, 1, 2) and, while complementing our search for proof of additionality, aims to detect and identify original and innovative solutions that have the potential to better respond to the preferences of certain issuers or certain investors ("1") or to be widely duplicated and thus constitute a new type of strategy ("2").

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

This question, which is qualifying, allows two levels of responses (0 and 2): level "2" is qualifying and confirming that the fund is positioned as an impact-driven 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 (qualifying question): Does the fund aim to implement actions to limit the negative externalities of selected issuers beyond the targeted sustainable transformation objective(s)?

This question, which is qualifying, 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 the "qualifying" level.

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 (or material) 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 financial institution to achieve the objectives (i.e. cause the desired changes)

Question 7 (qualifying question): 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, which is qualifying, 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 N). 1/ Provision of flexible capital, 2/ Development of new capital markets where supply is insufficient, 3/ Provision of non-financial support, 4/ Shareholder engagement, 5/ Reporting the significance of the impact (market signs), 6/ Reporting the significance of the impact (other impacts).

This question aims to highlight the alignment of the evaluated fund's impact strategy with the six main impact mechanisms documented by academic research for investors across all asset classes. By nature, not all mechanisms are suited to each asset class. Depending on the fund's asset class, some mechanisms are more easily actionable than others.

This question allows four levels of responses (0, 1, 2 and 3) depending on the number of actions planned (especially excluding reporting). 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.

Details of the different types of planned contribution actions:

Put simply, the six impact mechanisms (or contribution actions) can be described as follows:

1. Provision of flexible capital: this is the provision of capital on preferential terms for beneficiaries over existing market conditions

2. Development of new capital markets where supply is insufficient: this is the provision of capital to market segments that are traditionally under-financed due to their specific characteristics (small size, low profitability, insufficient history, specific risk, etc.)

3. Provision of non-financial support: this is non-financial assistance provided to investee companies by the fund likely to improve their impact through growth or transformation (technical assistance, provision of an expert, training, leads, etc.)

4. Shareholder engagement: these are the engagement practices that shareholders (or lenders) can put in place to influence the decisions of investee companies in a way that fosters impact (dialogue, voting at GMs, proposal of resolutions at GMs, participation in governance bodies, etc.)

5. Reporting the significance of the impact (market signs): this is the influence on market prices and ultimately on the future financing costs generated by the fund's actions (purchase and sale of securities). As a reporting approach, actions, 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.

6. Reporting the significance of the impact (other impacts): this is the influence on other stakeholders (who may in turn influence issuers) due to the fund's actions, excluding the impact on market prices. This includes, among other things, communication actions (stigmatisation or endorsement of certain issuers) and the dissemination of tools for use by other investors (e.g. exclusion lists).

Investor Impact Mechanism (based on IMP classification)		Type of Change	Evidence Level	Requirements	Limitation#	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 suitable for companies that have sufficient access to philanthropic or commercial capital	**Alternative assets: Private equity, private debt, venture capital**
Grow new/undersupplied capital markets		Enabling **Growth**	3	+ Investments in companies with a positive impact + Companies' growth is limited by external financial conditions. This is more likely: † For small and young companies † For companies with mainly intangible assets † In immature financial markets	– Not suitable for investments in large, established companies. These companies usually have sufficient access to external financing.	**Alternative assets: Private equity, private debt, venture capital**
Engage Actively	Provide non-financial support	Enabling **Growth**	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 directly influence the company.	**Alternative assets: Private equity, private debt, venture capital**
Engage Actively	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 the 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	Encouraging **Improvement**	2	+ Transparent ESG criteria that companies can meet at reasonable cost + Substantial portion of the market screening out or underweighting firms that do not meet the ESG criteria	– Unlikely effect for industry exclusion – Disagreement how to measure ESG criteria.	**Liquid assets: Public equity, public debt**
Signal that impact matters	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	**Liquid assets: Public equity, public debt**

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

The first four actions are those that receive 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 yes, 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 (qualifying question): Does the fund justify the actions envisaged (in questions 7, 8) by seeking additionality?

This question, which is qualifying, gives rise to two levels of answers (0, 2): the expected answer is therefore binary here and affirms or otherwise the search for additionality in the actions undertaken with a view to generating additionality in the outcomes obtained. As such, level "2" indicates 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 (if the fund adopts several different strategies) for different, clearly identify segments of the portfolio.

Question 11: How are the external factors on which the success of change theory 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.

Change theory 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 change theory 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, prioritise and control 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 deployed is any action by the fund aimed at identifying possible negative externalities associated with its investments, evaluating their importance (materiality), and managing them once the investment has been made.

This therefore includes:

— Pre-investment: ESG audits, application of materiality grids or matrices, etc.

— Post-investment: shareholder engagement (dialogue, voting as part of participation in governance bodies, voting at GMs, threats of divestment, etc.) with investee companies around material negative externalities identified.

A. OPERATIONAL IMPLEMENTATION

Question 14 (qualifying question): How systematically do the selected issuers meet the objectives and strategy pursued by the fund?

This question is qualifying. What is evaluated here is the fund's ability to justify, at the level of each invested the issuer, why the choice is consistent with the targeted sustainable transformation objective(s) and also, possibly, why the selected issuers have been chosen over others.

Only levels “2” and “3” are qualifying.

Question 15: With what intensity does the fund activate the most relevant impact mechanisms for its asset class?

To be taken into account in the rating, the actions deployed must apply to at least 70% of the portfolio, at the time of the evaluation using 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 the portfolio

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.

— Level of 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 (qualifying question): What actions does the fund take to control the negative externalities associated with its investments (beyond the fund's sustainable transformation objectives)?

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

To identify the "material" negative externalities specific to each investment, the user may refer to the sector materiality matrices, e.g. those proposed by SASB.

This question calls for a binary score: "0" or "2". Only level 2 is qualifying.

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 by the working group on the definition of impact finance noted that the financial player must *"evaluate 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 (reporting 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 that 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 obtain points on this question, as the selection of "positive-impact" issuers alone cannot be an impact strategy.

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

1. Perform an ex-ante evaluation of the impact profile of issuers in its investment universe

2. Determine sustainable transformation objectives relevant to each investee issuer

3. Define the strategy to be deployed for each of the selected issuers in order to help increase their impact

4. Carry out the necessary actions to generate the desired impact (engagement, voting, non-financial support, media communications, etc.)

5. Continuously evaluate the impact of the actions deployed and possibly redefine the strategy

To obtain a score of "2", the fund must provide in its supporting documents a precise estimate of the resources committed in one form or another (number of people involved, total annual cost, % of management fees allocated to the operational implementation of the impact strategy, etc.).

C. MONITORING OF OUTCOMES

→ C.1. Procedure for monitoring outcomes

Question 19: Are changes in the non-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-driven" fund. The rating obtained depends on the share of assets under management subject to this monitoring of issuers' non-financial performance (0 below 90%, 2 above).

Question 20 (qualifying question): Are changes (relative to specific objectives set ex ante by the fund, to comparables or to a past trend) in the non-financial performance of the issuers during the fund holding period monitored?

This question, which is qualifying, makes it possible to characterise the intentionality of the fund concerning the non-financial performance of issuers: have objectives or points of comparison been set issuer by issuer, and is non-financial performance evaluated against these objectives? The rating scale is similar to that of the previous question, depending on the share of the portfolio concerned (less than 50%, 50% to 70%, and above).

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

Rigorously measuring the impacts of investee companies and, subsequently, of the fund through its investments is operationally difficult and requires the use of quantitative methods with varying degrees of sophistication.

The impacts are the effects on society or the environment compared to a counterfactual scenario. It is therefore necessary to first identify the counterfactual scenario, which is fairly challenging.

As "second-best", funds are invited to measure the environmental or social outcomes of the activities of the companies in their portfolios (rating 2) without resorting to a counterfactual scenario, rather than evaluating their outputs alone (rating 1).

In the case of an automobile manufacturer, a measurement of outputs would be, for example, the number of electric cars sold, while a measurement of environmental outcomes would be the total CO_2 emissions avoided.

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

Positive additionality in social or environmental outcomes 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.

In another deliverable from the work of the IFD's Taskforce on Impact Finance, entitled "How can an investment fund measure its impact?", several methods or combinations of methods were presented.

On this basis, the methods of answering the question were constructed. Score 1 is achieved when the fund seeks to evaluate its additionality in the outcomes obtained by a level 1 approach, i.e. by using a single "basic" quantitative method (sector, trend or ex-ante set objective comparison) or a single "basic" qualitative method (survey of or interview with investee companies). Score 2 involves a level 2 approach, which is a combination of a "basic" quantitative method with a "basic" qualitative method. Lastly, score 3 requires combinations of levels 3, 4 or 5 using more sophisticated (and therefore more accurate) techniques.

The table below, taken from the guide "How can an investment fund measure its impact?", presents the hierarchy of possible combinations.

Level 1	Level 2	Level 3	Level 4	Level 5
A "basic" quantitative method	A "basic" quantitative method + a "basic" qualitative method	A "counterfactual" quantitative method **OR** A "basic" quantitative method + a "structured" qualitative method **OR** A "basic" quantitative method + a logical method	A "counterfactual" quantitative method + a "basic" qualitative method	A "counterfactual" quantitative method + a "structured" qualitative method **OR** A "counterfactual" quantitative method + a "logical" method

Note that 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 evaluating its additionality, does the fund analyse any indirect impacts of its investments (e.g. displacement effects)?

The effects of a fund's investments are not limited to the conversion of investee companies' impact. Investments may also lead to positive or negative effects on other non-investee companies, for example through substitution or imitation effects.

One of the indirect effects of impact finance may be a reduction in the outcomes and outputs generated by the competitors of the financed company, due to the eviction of these competitors from certain markets by the financed company, which is made more efficient by the support provided by the fund. It is difficult in practice to monitor and quantify these indirect effects (this is why this question on indirect impacts is "white" and therefore does not contribute to the scoring, but only by taking into account these effects it is possible to establish the real impact of the financing provided in a thorough manner. For impact-driven funds that do not perform this type of evaluation, 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 outcomes 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 evaluated in question 22.

Question 23 (qualifying question): How are negative externalities (beyond the fund's sustainable transformation objectives) 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 the IFD 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 issuers' negative externalities must apply to the entire portfolio.**

If it is not possible to carry out systematic monitoring (due to the constraints specific to the fund's asset class), the fund provides explanations, under a "comply or explain" logic. This provision may, for example, apply to funds invested in emerging countries where the lack of regulations in place may not allow easy access to the data necessary to carry out the requested monitoring.

This question is qualifying.

Level 2 of the response to this question, the only answer that is considered "qualifying" for a fund claiming to be impact-driven, 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 (qualifying question in 2025): Is there an internal or external control process for the sustainable transformation strategy and its outcomes?

In order to support financial players wishing to engage in an impact finance approach, the working group produced a summary table of key operational issues in impact finance in its report on the definition of Impact Finance. In particular, it highlighted the need for a "critical review by independent third parties, in particular to ensure the consistency of the strategies, outcomes and contribution actions carried out with what was planned in the supporting documents".

The control process used to validate level "2", which is qualifying, involves the use of either:

I. internal controllers;

II. external auditors;

III. or an impact committee made up of independent members

This question will be qualifying from 2025. In the meantime, we encourage financial institutions to prepare for this by putting in place the appropriate measurement systems and taking the appropriate measures to deal with cases of impossibility.

→ C.2. Quality of observed outcomes

Question 24 (qualifying question): To what extent are the absolute outcomes (i.e. progression or regression) observed at the issuer level consistent with the sustainable transformation objectives of the fund?

It is obviously preferable for the contribution/impact fund to 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 outcomes 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 outcomes 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 evaluated still represent less than 70% of the assets under management on the observation date (31/12), the fund scores a 0 on the question.

We have introduced a “comply or explain” exception clause for different cases:

1. *The case in which the fund was unable to achieve the expected outcomes or was unable to observe the outcomes obtained due to major external events beyond its control (e.g. an international crisis such as the COVID pandemic). In this case, the fund must explain in detail the reasons why these external events prevented the achievement of the expected outcomes, or what prevented it from measuring the outcomes obtained (i.e. issuers stopped reporting to it), and undertake to resume the measurement as soon as possible. It then temporarily obtains a score of 2 for this question.*

2. *The case in which the fund was unable to implement the envisaged contribution actions (e.g. coordinated commitment) due to unexpected external events beyond its control (e.g. refusal by other investors to participate in a coordinated commitment procedure). In this case, the fund may, for a maximum of one year, remove the issuers concerned from the scope of observation.*

3. *The case in which the fund has been unable to monitor the outcomes obtained due to unexpected external events beyond its control (e.g. when an issuer has stopped reporting the requested information). In this case, the fund may, for a maximum of one year, remove the issuers concerned from the scope of observation.*

Question 26: To what extent do the relative outcomes (i.e. relative to sector comparables, the past trend or 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 or with a basis of comparison.**

It may be considered that observed outcomes 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 outcomes 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 evaluated still represent less than 70% of the assets under management on the observation date (31/12), the fund scores a 0 on the question.

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3. *The case in which the fund has been unable to monitor the outcomes obtained due to unexpected external events beyond its control (e.g. when an issuer has stopped reporting the requested information). In this case, the fund may, for a maximum of one year, remove the issuers concerned from the scope of observation.*

Question 27: To what extent is the additionality of the fund in achieving the observed outcomes demonstrated?

This question is an extension of question 21: when the additionality of the fund has been analysed, what is the outcome 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 outcomes 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 evaluated 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 (white question): Can the fund demonstrate that by taking into account indirect impacts (such as substitution and displacement effects), the outcomes achieved are positive for the objectives of sustainable transformation?

This question is an extension of question 21.1, 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 outcomes 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 evaluated 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 (beyond the sustainable transformation objectives targeted by the fund) 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 and managed. Once the trend in these 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 between 1 and 3 according to the success rate.

The scope of observation for this question as well as for other questions on the outcomes 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 evaluated 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 CREDIBILITY

Question 29: How is the fund's impact potential 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, outcomes 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 evaluate 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 possible points, the fund is very strong in this area and can communicate positively on its very good practice,

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

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

— Score < 50%, the fund has insufficient outcomes 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 **outcomes** obtained (section C).

A distinction must always be made between "seeking impact" (objectives), "acting for impact" (actions) and "having impact" (outcomes) 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-driven investment fund".

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

1. the fund has obtained an overall score greater than or equal to the minimum threshold set at the valuation date

AND

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

<u>**The case of recent funds**</u>

Recent funds (under 2 years of age) cannot be evaluated in terms of actions actually deployed (Section B) or actual monitoring of outcomes (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 outcomes emphasise their **purely intentional nature** in their communications at this stage of their existence.

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

Question 30 (qualifying question): Does the fund provide an annual impact/contribution report that is available to investors?

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

In order to support financial players wishing to engage in an impact finance approach, the working group produced a summary table of key operational issues in impact finance in its report on the definition of Impact Finance. 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"*.

The score "2" is achieved when the report, in addition to highlighting issuer outcomes, provides an aggregated view of the contribution actions implemented by the fund.

The score of "3" is achieved when the report, in addition to highlighting issuer outcomes, explains the contribution actions implemented by the fund issuer by issuer and the role they may have played in the outcomes obtained.

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 proactivity 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 (qualifying question in 2025): Is the remuneration of the fund’s managers dependent on the fund’s impact performance?

The existence of a variable remuneration component (or a financial incentive mechanism such as carried interest in the case of private equity) 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-driven 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 impact objectives have not been achieved.

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-driven 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.

The question will be qualifying from 2025 and the score “2” is considered qualifying.

E. 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.

Question 34: Does the fund organise impact awareness events or impact reporting for investee companies?

The initiatives evaluated here can take different forms: training, webinars, sending experts to companies, provision of consultants, etc.

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 by the Financial Institution		Change in the real world caused by action	
Action	**Output**	**Outcome**	**Impact**
Specific action by the financial institution to contribute to the desired transformation	Change resulting from the FI's action influencing the target organisation	Measurable change in the activities of the target organisation, resulting from the output	Consequence of the outcome, reflecting the action's contribution to the sustainable transformation of the economy
Concessional capital offer to a start-up working for the inclusion of people with a disability	Increased access to capital for the company	Access to capital enables the company to grow and hire more employees	Increased inclusion of people with a disability 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.

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

OUTCOME AT ISSUER LEVEL

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

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

CHANGE THEORY

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

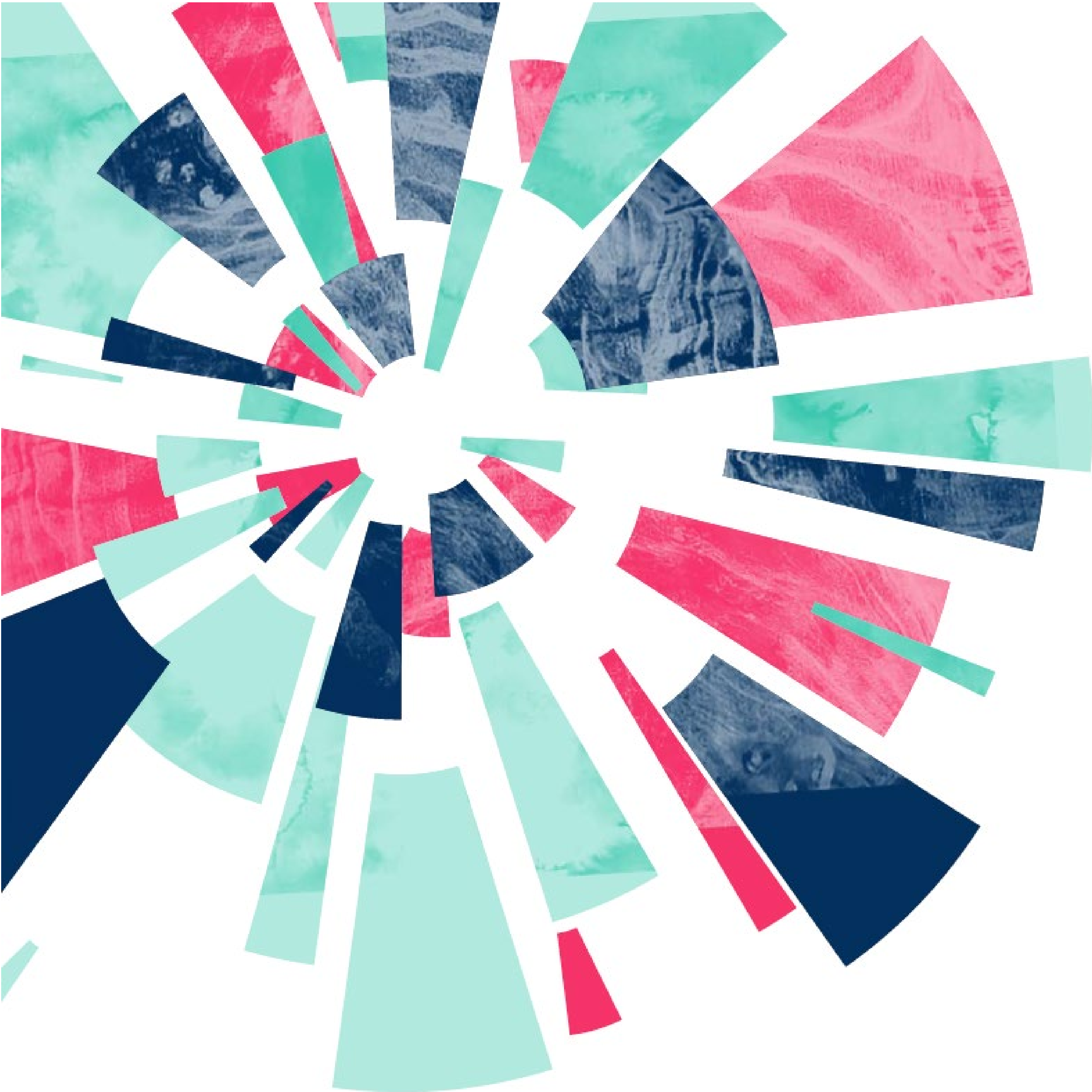
The notion that companies' understanding of sustainable development issues must make it possible to anchor this transformation in the company over the long term and to have a real impact on the environment or society through a holistic approach that integrates these issues into all its components at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

FOR MORE INFORMATION

INSTITUT DE LA FINANCE DURABLE

CONTACTS

impact@ifd-paris.com



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PARIS EUROPLACE

TASKFORCE ON IMPACT FINANCE

EXPLANATORY NOTE ON THE EVALUATION SCALE FOR A FUND'S IMPACT POTENTIAL
GENERIC GRID

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