INSTITUT DE LA FINANCE DURABLE
PARIS EUROPLACE

TASKFORCE ON IMPACT FINANCE

WHAT ARE THE KEYS TO MEASURING THE IMPACT OF THE UNDERLYING

SITUATION ANALYSIS AND RECOMMENDATIONS

January 2024

PRESENTATION OF THE DELIVERABLE

This document summarises the work by the working group dedicated to indicators and methodologies for measuring impact at the company level.

The working group dedicated to measuring impact and its operationalization brings together companies, management companies, institutional investors, academics, consultants and representatives of civil society (over 140 registered participants) and has been structured in an open manner, including for non-members of the Institut de la Finance Durable (Paris Sustainable Finance Institute), thanks to the support of the **social solidarity economy and impact investment unit of the General Directorate of the French Treasury**.

The need to **separate the two levels of measurement**, i.e. the first level of the company/underlying and the second level of investor/financier, emerged from the initial preparation. During the first session, the working group's members divided themselves in equal proportions between these two subjects according to their perception (what most required input from the market group) and according to their skills and interests.

After preliminary work at the end of 2022, the work sessions were scheduled over the first half of 2023 at a rate of one session per month with the aim of presenting the content of the work during the plenary session of the Taskforce on Impact Finance on 29 June 2023.

This report summarises the work of the sub-group dedicated solely to measuring the impact at the underlying level. At the same time, another sub-working group focused on measuring the impact at the investor level.

Two committed leads were involved in this specific work to coordinate the writing of the deliverable:

- **Capucine Beslay** (TRUSTEAM FINANCE)

- **Thierry Sibieude** (ESSEC Founding Professor of the Innovation and Social Entrepreneurship Chair)

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INTRODUCTION

In the context of impact finance, evaluating the impact of the underlying company is a key issue, one that is still difficult to understand today. While the impact of an investor/financier is not limited to the sum of the impacts of the underlying companies that are the subject of their investment/financing, it is still essential to be able to measure their impact if we want to be able to evaluate their additionality as an investor/financier.

This summary note therefore provides the opportunity for a situation analysis on evaluating the impact of the underlying: since the methodologies used are substantially similar to those presented in the conclusions of the sub-group dedicated to the investor impact, the discussion will be limited to mentioning the obstacles and levers for carrying out this evaluation.

Due to the existence of different levels of impact in a company's financing chain (the underlying company, management company and investor), two types of evaluation of the impact of the company/underlying were observed: that carried out by the underlying itself, most often through self-assessment but sometimes external audits), and that carried out by the investor/financier.

To illustrate the complementary nature and interconnectedness of the two evaluative approaches identified, the selection of the underlying remains, in an initial approach, crucial. However, an investment's impact on an underlying with an "average" embedded impact could ultimately prove greater, precisely because of the investor's impact. Selecting the best underlyings does not necessarily guarantee the best possible impact from the investor (there could even be a "taxonomic bubble" on these over-selected underlyings). By relying solely on an ex-ante selection of the underlying, an impact alignment is guaranteed, although not necessarily a maximum impact. The impact evaluation is therefore made up of **two parts:**

— **Attribution**: The literature lays down four conditions for being able to claim attribution: a well-defined intervention applied to a given population, an observable outcome, a control group to establish a counterfactual (what would have happened without the intervention defined above) and a method for constituting the test and control groups *(Ebrahim. A 2019 "Measuring Social Change: Performance and Accountability in a Complex World", Stanford Business Books pp 35-50).* This is very difficult to establish: for example, it may be the ex-ante selection of the best underlyings, to enable them to maximise their impact with the certainty that the investment is behind this maximisation and that the causal link between the investment and the increase in the impact is clearly established.

— **The contribution** of the investment/financing (capital allocation, non-financial commitment, investment structures, internal practices, etc.): this is easier to establish and aims to observe the desired and generated impact and measure it.

Lastly, it should be noted that measuring the impact of the company/underlying examines, for the time being, **the "micro" level of measurement, i.e. companies considered individually and independently of each other.** It may be interesting and useful to study the measurement conditions with **a more aggregated and "macro" view,** in order to be able to simultaneously manage the impacts of several companies/underlyings at the level of a territory, sector or value chain, for example. This will be referred to as a territorial impact.

This summary note therefore focuses solely on measuring impact at the level of the company/underlying and sets out the conclusions drawn from the Market Group's work.

1. THE OBSTACLES AND LIMITS OBSERVED IN MEASURING THE IMPACT OF THE UNDERLYING

A. THE NEED TO DRAW ON RECOGNISED DEFINITIONS

The notion of impact is still **subject to a great deal of confusion.** Interviews with companies declaring themselves to be impact-driven, conducted by the Taskforce on Impact Finance, reflect this: the terms CSR, impact and even ESG are often poorly differentiated and initiatives referring in turn to these three terms are frequently confused by the players interviewed[1].

The definition of impact thus varies widely from company to company, as well as investor to investor: there is a lack of **uniformity and benchmarks, but there is also a lot of confusion about the term itself.** As such, in our work, the definition and understanding of impact that each of the speakers highlighted **differ from one situation to another.**

The definition of simple, double and/or contextualised materiality also fuels debate. It should be noted, however, that an emphasis has been placed on the following few factors:

— The additionality and intentionality of the company's support, as well as the degree of progress and support;

— The quality of the impact-driven actions implemented and adapted locally in different countries;

— The importance of a balanced methodology between social and environmental aspects, with fairly weighted KPIs.

In this context, it is essential to recall **the definition of impact finance published by the Taskforce on Impact Finance initiated in 2021 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 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;*

1 For more information on the conclusions drawn from the interviews, see the deliverable "Perception and implementation of impact approaches by companies" of the Taskforce on Impact Finance coordinated by the IFD.

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."

While it obviously does not (yet?) have legal force, this definition emerges from a consensus among the Market Group's stakeholders, based on in-depth work combining literature review, a comparative study of market practices and data analysis. With the aim of converging market visions and practices, the publication of this definition is a first step in overcoming the vague and shifting nature of impact, generating obstacles and sometimes a source of inaction, rightly or wrongly. However, we note that this definition has not yet established itself as a reference for players, both investors and underlyings.

B. THE DATA ISSUE

The collection and more broadly availability of data are one of the main obstacles observed in measuring the impact of the underlying in terms of their quality and consistency, but also sometimes their comprehensiveness. These data can be searched for at two levels: the data collected and/or calculated by the investor on the underlying and the data produced by the company itself.

I. THE DATA COLLECTED AND/OR CALCULATED BY THE INVESTOR ON ITS UNDERLYING

The difficulties in collecting and calculating the data sought by the investor on its underlying are linked to two key factors: firstly, the lack of consistency between companies themselves and, secondly, the lack of technical and human resources, particularly for reporting.

The lack of consistency between companies themselves can be detrimental for investors/financiers trying to measure the impact in their portfolios line by line. This may be a problem of engagement by companies to measure their impact at their level. In an attempt to compensate for this lack of interest, investors may use incentive mechanisms. Some investors advocate for a step-by-step gradual approach, acknowledging their lack of maturity in impact evaluation. As such, Tikehau Capital uses logical identification frameworks to first identify inputs, outputs and outcomes. They choose to delay the impact itself (and therefore the change brought about by the underlying), which is much more difficult to measure, but which ultimately remains a stated objective, unspecified and dependent on the regulatory context.

Access to data requires very close and fairly detailed dialogue with each company in order to build a relationship of trust. This dialogue necessarily requires companies to allocate time and internal resources. The question of the resources allocated to dialogue by and for the various stakeholders is therefore of paramount importance. Moreover, when companies provide data, they do not systematically communicate on the methodologies used for their own measurement. This lack of access and transparency to data they ultimately call for different interpretations depending on the context and players, and thus generate variations from one year to the next in information related to an issuer.

In addition to these factors are the **temporal difficulties of measuring impact** for companies: despite a long-term commitment, they may of course implement **changes following the commitment**, but in any event they will only be able to officially communicate on their implementation and more importantly their effects several months later.

II. DATA PRODUCED BY THE COMPANY ON ITSELF

For the company, many obstacles to measuring impact can limit or even hinder the efforts made: the burden of regulatory reporting, the robustness of the data available, the materiality of the subjects with the delicate question of double materiality, the transition from local to global perspectives and the understanding of investors' expectations.

Firstly, **local measurement** can prove complex due to data collection challenges and data quality. The effort invested in obtaining more or less detailed data may seem disproportionate in light of ultimately limited interest. As such, whenever it is necessary to measure a product's impact in terms of energy efficiency and CO_2 reduction, there must be in-depth granularity in order to obtain the most relevant and accurate information possible. **To obtain this local measurement, the company must use an extremely clear, transparent and well-defined methodology, with adaptation and identification by country, as well as external verification beyond performance issues.**

Secondly, **consolidation at the global level is another obstacle to measuring impact, since additionality is intrinsically linked to local needs.** If a multinational company has implemented a global approach, the globalisation of the impact at the Group level becomes complex, since it is necessary to reconcile the different levels of impact observed in the countries where the Group's activity is located. These difficulties may be all the more numerous as local legislation differs widely and physical, economic, social, regulatory, spatial and even cultural realities differ significantly from continent to continent and even from country to country.

These difficulties highlight issues related to **the quality of data and ultimately its relevance**. There is still a fragile balance between reporting that is too standardised, meaning it is not possible to take local realities into account and therefore measure the impact of a specific action, and reporting that is too "cumbersome", in terms of the quantity of data to collect and then process, with numerous figures required and multiple sources (internal, external suppliers, estimates, public data. The risk then lies in carrying out "above ground" reporting (e.g. electricity emission factors differ between the recommendations of the GHG protocol and the reality of the country).

Data accessibility therefore remains a major challenge in terms of the impact of the underlying, as highlighted by the various testimonials from the management companies (see Appendix 2).

C. LACK OF COOPERATION

In addition to the lack of data, there is a lack of cooperation at two levels:

— **Between investors and underlyings:** some companies' comments regarding their measurement methodology revealed that investors' expectations were not always properly grasped and/or understood, leading to the production of data that was not well-suited. This observation shows the need to set up new processes of cooperation with companies/underlyings.

— **Between investors:** the measurement methodologies used are very often in-house and subject to little transparency. Sharing and dialogue between investors could therefore encourage progress in terms of measurement by avoiding redundancies and a heavy workload without any real benefit for the underlyings.

D. LACK OF TRANSPARENCY ON THE METHODOLOGIES USED

Most investors have developed in-house methodologies by building internal processes: as part of our work, only a few investors spoke about their methodologies or certain processes. The approaches are therefore diverse and varied. They are based on:

— **Internal or proprietary** methodologies (Crédit Mutuel proxy methods, Financière de l'Echiquier, Trusteam Finance)

— Methodologies **inspired by modular blocks stemming from market methodologies or initiatives** (IRIS+, GIIN, IMP, etc.)

— The use of **external consultants** (e.g. PwC, which participated in the group's work) that themselves have other methodologies

— A complete lack of methodology in some cases.

In-house methodologies still prevail and are still not very transparent, reflecting **the complexity of measuring the impact of the underlying for the investor.**

E. SKILLS

The teams of the company/underlying and the teams of the investor/financier are not sufficiently equipped and not sufficiently trained to effectively respond to the challenges of measuring the impact at the company/underlying level. The CSR (Corporate Social Responsibility) department of the companies/underlyings speaks to the ESG team of investors/financiers without addressing impacts in an appropriate manner. This lack of training within the fund teams may therefore limit engagement by players, even posing risks of greenwashing.

2 ACCELERATORS

A. THE MISSION-DRIVEN COMPANY STATUS

The « Pacte » Law of the 22nd of May 2019 introduced the mission-driven company status, which involves a company publicly stating its purpose, as well as one or more social and environmental objectives that it sets itself the mission of pursuing as part of its business. These elements are included in the company's articles of association and their execution is verified by an independent third party every two years. **The mission-driven company thus appears to be a way of creating a relevant framework to evaluate impact.** This quality not only allows a company to establish strategic priorities, but also to prioritise clear operational objectives with key impact indicators. It makes the impact evaluation more reliable in the eyes of investors.

In addition, for companies with over 50 employees, specific governance must be put in place to check the alignment between the company's purpose and practices: this is the **mission committee**, separate from the corporate bodies and exclusively responsible for monitoring the mission. It makes it possible to involve all stakeholders to ensure that social and environmental criteria are taken into account.

For more information, please see the joint study by the FIR and the Communauté des Entreprises à Mission entitled "The Mission-Driven Company: what are the opportunities for impact investors?".

B. A COMPANY'S PURPOSE

Before the mission-driven company status was adopted, the « Pacte » Law introduced the ability for a company to specify, in its articles of association, a **purpose** that the company has adopted and for which it intends to allocate resources as part of its activity.

The CSR Observatory (ORSE) interprets purpose as *"an expression of a company's societal utility that will be both a compass and a safeguard for the decisions of the Board of Directors and the Executive Board"* (ORSE, Pacte Act & purpose: what if we moved on to practice?). According to the ORSE, this is a tool for creating a "new horizon" to help companies already committed to enter a new era of CSR. However, the consequences of adopting a purpose are still unclear at the legal level (notably the implications in terms of corporate and executive responsibility).

While purpose does not follow a process as comprehensive as that of a mission-driven company, it can still act as a **compass for the company's strategy** and thus enable the search for impact to be disseminated at all levels of the company: strategy, governance, management and culture, innovation.

C. MANAGEMENT COMPANIES' COMMITMENT ON IMPACT

Among the motivations to stimulate asset managers' commitment on impact, institutional investor clients' expectations are at the forefront. This area is obviously key, since the "end client" (along with the individual investor) can ensure that impact measurements are included in specifications, as these requirements have an effect on management companies, which by their very nature seek to meet them.

CONCLUSION

Measuring the impact of the underlying company remains a complex, highly heterogeneous subject suffering from a lack of transparency regarding the measurement methodologies used. It is clear that sharing a common language and known and recognised measurement methodologies is desirable, along with a need to calibrate existing tools according to the context.

In this regard, several recommendations focused on training in measuring and evaluating impact seem to stem from these findings, whether in relation to internal teams or individual investors. In addition, it seems essential to establish more frequent dialogues between issuers and financiers in order, firstly, to provide issuers with the keys to understanding the expectations of progress and the evaluation criteria of their investors and financiers, and, secondly, for investors, as data users, to obtain the most relevant data according to their needs regarding investors and compliance with regulatory obligations.

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APPENDICES

APPENDIX 1. BUSINESS CASES: EVALUATION OF THE IMPACT OF THE UNDERLYING COMPANY BY THE UNDERLYING

A) SAINT-GOBAIN

Figures summary:

— Over 50 billion in revenue

— Present in 76 countries

— 350 years of history

The Saint-Gobain group provides products for the construction and automotive industry. Present worldwide, Saint-Gobain adapts to each country's specifics and needs (different offering, different portfolio, etc.) and brings together a number of stakeholders with specific needs.

Saint-Gobain's presence in numerous countries has implications for how the group measures its impact, since a sufficiently granular measurement is needed to obtain representative data.

The complexity of reporting is therefore extremely important for the Group since it requires both a clear and transparent methodology common to all, while leaving each subsidiary the possibility and ability to implement adaptations specific to the country in which it operates. These measures also need to be checked externally.

One of the obstacles facing the Group remains the resource and quality of data, as well as the effort required to obtain it. There was also mention of the "burden" of reporting, which is increasing in large part due to current regulations: currently, Saint-Gobain's non-financial reporting covers over 500 published data points.

However, to centralise and evaluate the needs of non-financial reporting, a rule makes the creation of an element of non-financial reporting conditional on one of the following factors:

— It is a regulatory requirement;

— It is a commitment (e.g. net zero, social);

— There is an action plan to improve a performance or impact.

This rule makes it possible to sort all of the Group's reports, thus limiting them to around 100 indicators.

The company's CSR department is not meant to measure to measure, but to drive reporting: **the idea is to align reporting with the company's action plans on the basis that there is no reduction in impact without performance, and that there is no performance without an action plan.**

Although Saint-Gobain has greatly standardised its reporting methods, there is sometimes a preference to work on variable scopes with specific indicators for each of them depending on local legislation (e.g. absenteeism rate, which is not harmonised due to different calculation methods depending on the country). This is therefore an approach to optimise the Group's human, technical and financial resources.

B) SCHNEIDER ELECTRIC

Schneider Electric in figures:

— 30 billion worldwide;

— Present in over 100 countries;

— Around 140,000 employees;

The company operates in two areas of activity: energy management and industrial automation. Schneider Electric provides its services mainly to customers that consume or use energy in industry, buildings, data centres and infrastructure.

Schneider Electric's sustainable development approach is summed up by the term "Impact Company", a definition specific to Schneider. The company's purpose appears in the articles of association: **"enabling all to make the most of our energy and resources to combine progress and sustainable development for all".** It thus expresses an objective that goes beyond the scope of its traditional B2B industrial customers by demonstrating its desire to bring electricity to the billions of people with no access to it worldwide.

The term "Impact Company" covers two aspects: the company's financial soundness to enable it to progress and innovate in order to obtain a better environmental and societal impact and, at the same time, the consideration that having this impact also contributes to the company's growth and resilience through its attractiveness, its innovation and its ability to "mitigate" risks.

The new strategy set by Schneider Electric in 2021 is based on six main pillars, five of which are global: act with determination for the climate, use resources efficiently, act in accordance with our principles of Trust (commitment to high social, ethical and governance standards), ensure equal opportunities and mobilise all generations. The sixth principle is local: support local communities. For the company's climate commitments, the objectives were recently validated based on the new net-zero standards of SBTi. They were already validated in 2019 using the previous methodology (1.5°).

Two indices have been constructed: the **Schneider Sustainability Impact** (SSI) and the **Schneider Sustainability Essentials** (SSE), which translate the six long-term commitments into measurable and auditable programmes, published quarterly and audited by an independent third party every year.

— **SSI:** iterative process implemented in 2006. Every three to five years, the programme is renewed and the indicators updated. These are the company's 11 key transformation indicators.

— **SSE:** complementary long programme with 25 indicators.

The objective of this programme is to position the company as the world's number one in sustainable development and protect it from potential risks, to ensure its resilience in the future.

In concrete terms, reporting is carried out every quarter, with managers for each programme. What makes the approach different is that it measures, in a single score, the company's progress on these various indicators. Thus, a rating system has been developed, making it possible to obtain a full SSI rating for the 11 indicators (all of which have the same weighting, considering that social and environmental issues all have the same importance). Each year, a rating target is set and indexed to the remuneration of all Group managers up to the CEO.

APPENDIX 2. BUSINESS CASES: EVALUATION OF THE IMPACT OF THE UNDERLYING COMPANY BY THE INVESTOR

A) TRUSTEAM FINANCE: THE VIEWPOINT OF AN INVESTOR IN LISTED SECURITIES

Trusteam invests only in listed securities and has implemented a methodology for equity, bond and diversified funds. **Measurement is made ex post**, since ex ante*,* Trusteam uses the non-financial criterion of customer satisfaction, which makes it possible to establish a link between financial performance and non-financial performance. Trusteam's equity funds are SFDR article 9.

Trusteam uses the **Impact Management Project (IMP)** methodology, considered robust, to compare and classify all asset classes. This is used to distinguish between the measurement of the underlying's impact and the measurement of the investor's impact, combined in the matrix proposed by the IMP to position the funds in relation to these two axes.

Trusteam focuses on positive impact ("benefit stakeholders" and "contribute to solutions"), the rest being considered risk management (DNSH in particular). Sustainability risks are taken into account in the exclusion policy.

The SDG framework (international, simple and comparable) is used to evaluate the underlying's impact. Each of the SDGs is used for each line of underlyings: for each SDG, the company's contribution is calculated by distinguishing between the impact of the activity, product or service provided and the impact of the production process.

B) TIKEHAU CAPITAL: THE VIEWPOINT OF AN INVESTOR IN UNLISTED SECURITIES

Given the difficulties in measuring impact itself, Tikehau Capital's impact strategy is based on the **logical framework with identification** (of the impact strategy at the portfolio company level) to identify inputs (i); outputs (ii); and outcomes (iii) (see table below) **but not the impact itself precisely.**

Logical framework with identification

Inputs: *capital injection and operational support to position impact as a transition leader (basic and simple KPI, to meet investor requests/support the company in more effectively controlling its impacts).*

Outputs: *fairly simple KPIs, such as gigawatt hours saved compared to a baseline scenario through projects such as fuel boiler locations using less energy-intensive techniques than heat bombs.*

Outcomes: *measurement of avoided CO_2 emissions compared to the baseline scenario.*

Impact: *Tikehau Capital states that it deliberately limits itself in terms of outcomes.*

As such, impact is not measured in the group's Impact Strategy due to a potential risk of impact washing and the impossibility of **accurately measuring the change caused by the underlying.**

C) CITIZEN CAPITAL: THE MISSION-DRIVEN COMPANY, AN AVENUE FOR EVALUATING IMPACT

Citizen Capital historically finances fledgling companies, start-ups and SMEs, which overall contribute to providing new solutions that often help other industries make their transition. These are companies with a proven impact at the time the investment takes place.

Very quickly, investors realised that having an impact was linked to intentionality and the way in which executives projected themselves: intentionality therefore helped to distinguish companies whose impact was quite weak from companies that were on a trajectory of building an impact strategy with implications in all the operational aspects of the company. Thus, the idea is to build on the corporate purpose, which is reflected in strategic and operational objectives and makes it possible to identify key impact indicators.

Six key dimensions, represented in an impact radar, are considered to analyse impact and added value, and thus validate, or not, Citizen Capital's decision to further study an investor: depth of need, vision & intentionality, additionality, accessibility, alignment and risk management. Measurement is not included in these six questions, as it is considered a means.

For Citizen Capital, the underlying's impact is core business, central to the business plan. The underlying's activity serves a purpose/mission and generates a net positive impact. As such, a mission-driven company seems to be an interesting framework for making impact more reliable and prioritising it, against a backdrop of increasingly stringent regulatory constraints.

D) LA FINANCIÈRE DE L'ECHIQUIER

La Financière de l'Echiquier has **three impact-driven funds invested in listed equities only.** The non-trading investment company only uses **proprietary methodologies** to select companies based on impact. For example, the fund dedicated to healthcare access only selects companies aligned with its proprietary methodology.

The idea is to engage with it on the themes chosen, and on the aspect of measuring the given impact at the portfolio level, based on negative externalities, the impact of commitments and measurement at the level of the underlyings. On this last aspect, the data communicated by the companies (resulting from dialogue with them) is used. La Financière de l'Echiquier uses elements of CIIN, IRIS +, etc. The management company does not focus on a single methodology for SBTi climate funds.

Portfolio-wide measurement (negative externality of the impact of commitments) is necessarily limited at the level of the underlying, since the data comes from dialogue with companies that do not always communicate on the methodologies used for their own measurement.

E) SODERO GESTION

Sodero is a small non-specialised and regional asset management company, offering private equity in seed capital, growth capital and buyout capital. **Sodero has an article 9 transition fund.**

At the level of the article 9 fund, the investment objective is “to support in their environmental transition the region’s SMEs and mid-caps that have strong impact and circular economy drivers”. The fund targets two SMEs: companies that are natively accelerators of solutions with positive impacts and companies that have a negative impact (due to the industry and production cycle) but have an ambitious policy and a serious transition plan to mitigate impact and envisage a more virtuous model.

Regarding the investment evaluation process, upstream and during the holding phase, Sodero verifies the target’s overall ESG consistency and the impact issues. Regarding impact, the impact categories and the SDGs targeted by the activity are identified. Key indicators are identified (three or four) and monitored over time, with trajectories and impact objectives. Sodero has an **impact benchmark based on four major pillars: the fight against global warming, the protection of life, local communities and the human aspect**. The holding director must choose at least three impact categories that appear relevant given the target company’s activity and areas of excellence.

APPENDIX 3. DEVELOPMENT IN IMPACT-DRIVEN FUNDS OF NON-FINANCIAL INDICATOR COMMITTEES / EXAMPLE OF THE IMPACT SENIOR FUND

Among the possible accelerators of impact investing and its measurement, **the development within impact-driven funds of non-financial indicator committees bears mentioning, both at the commercial level, due to the interest it represents for the various stakeholders and in particular for getting investors on board, and for monitoring the impact of companies in which the fund invests.** These committees, already in place in a number of funds, may include members of the fund's management company, investors and external experts to enrich discussions. They can be a forum for discussion and dialogue, particularly defining and monitoring the most relevant indicators and refining them over time (notion of the dynamics of these indicators). They can also serve as an arena to find – again through dialogue between the various stakeholders – target levels for these indicators that are both ambitious and realistic.

The Impact Senior fund was launched in 2019 by the management company 123 IM. It invests in residential establishments for elderly dependent persons in which physical activity of both elderly people and employees is supported by the Siel Bleu association group. 123 IM has specialised in managing unlisted assets since 2001 and supports players in healthcare, accommodation, real estate and sustainable infrastructure. It manages nearly €1.5bn for institutional investors and individuals.

The Siel Bleu Association[2] was founded in 1997 by two physical education teachers, Jean-Michel Ricard and Jean-Daniel Muller, to promote appropriate physical activity among people with visible or invisible vulnerabilities. In 2022, it assisted 200,000 people. It has received numerous awards for its work and has been selected by the French Impact initiative[3].

There are multiple benefits of suitable physical activity. For residents of the residential establishments in which the fund invests, this results in an improvement in their physical and cognitive capacities and ultimately a reduction or at least a lesser increase in their level of dependency and, for the healthcare staff, a more favourable working environment and the prevention of certain occupational diseases (musculoskeletal disorders). The physical activity of both elderly people and employees is therefore part of the investment philosophy. An application called Humani Cura was developed since the fund's launch formalise and digitise patients' weekly progress, thereby providing more accurate quantitative monitoring.

In total, €41.3m was raised for this fund, which invests in 43 residential establishments that can accommodate 2,576 elderly people. More than 1,500 people work in these residential establishments. Note that 30% of the 123 IM team's carried interest is conditional on achieving the performance objectives of the Non-Financial Indicators.

A Non-Financial Indicators (NFI) Monitoring Committee was set up when the fund was launched. Its purpose is to define the NFIs, monitor them at the level of each of the portfolio companies and, if necessary, issue recommendations or adjust them. This committee includes representatives of the fund's four institutional investors – the Council for the Social Protection of Self-Employed Workers (CPSTI), Banque des Territoires, Neuflize-Vie and Caisse d'Assurance Vieillesse des Pharmaciens (CAVP), 123 IM and Siel Bleu. It meets twice a year.

2 https://www.sielbleu.org/
3 https://www.le-frenchimpact.fr/nos-actualites/entraide/activites-sportives-et-culturelles/sielbleu

NFIs have been defined, both for residents (% of residents participating in Siel Bleu activities, attendance rate, deployment of the Humani Cura application, etc.) and employees (completion of at least 24 hours of Siel Bleu activities per residential establishment per year, uptake by at least 50% of employees, evaluation of employee satisfaction following Siel Bleu activities, etc.). Half-yearly meetings provide the opportunity to monitor these indicators over time, and possibly adapt them, after discussions between the various stakeholders, if they are not suited to the reality on the ground.

For example, one of these indicators was initially the number of falls among residents. However, these elderly people, regaining confidence thanks to Siel Bleu's tailored activities, are then more likely to take risks than if they were constantly in their chairs. The indicator was therefore adapted to avoid being counter-productive and now takes into account the number of serious falls instead of just the number of falls.

Lastly, this committee is a forum for discussion that provides the opportunity for further exploration and to see how outputs at the fund level can be extended beyond the structures it finances.

Two possible areas of deployment have been identified:

— residential establishment operators partially financed by the fund have all chosen to deploy Siel Bleu in a large proportion of their group's establishments, beyond those in the Fund's portfolio,

— the deployment of Humani Cura in the other establishments where Siel Bleu operates could eventually total 3,000 establishments and 70,000 people. With improved monitoring, these elderly people will be able to receive even more appropriate care and attention.

This is no longer about additionality but almost about a multiplier effect, multiples obviously being a concept cherished by non-listed structures! This multiplier factor, which takes into account the impact of the Fund's outputs on all the residential establishments of the groups financed, is also monitored.

APPENDIX 4. LIST OF METHODS IDENTIFIED IN THE NOTE “HOW CAN AN INVESTMENT FUND MEASURE ITS IMPACT?”

The note “How can an investment fund measure its impact?” identifies **three main families of methods** for carrying out an impact evaluation: **quantitative, qualitative and logical methods.**

QUANTITATIVE METHODS

These methods aim to numerically evaluate a fund’s impact. **There are two kinds: “basic” quantitative methods and “counterfactual” methods.**

Basic method: These make simple comparisons without seeking to reconstruct a counterfactual scenario using sophisticated econometric procedures. There are three types: sector comparison, trend comparison and objective comparison. Imperfect as they may be, these three methods constitute the first methodological horizon that seems achievable today for impact-driven funds.

Counterfactual method: These are constructed in such a way as to control far more potential biases than basic methods. To do this, they aim to recreate in real life the conditions of a laboratory experiment to very accurately evaluate what the outcomes would have been in a given action. They all require very large samples and are of three kinds: randomised controlled trials, matching and the difference in differences method.

QUALITATIVE METHODS

These methods provide expansive and valuable information that is not available with quantitative methods. While quantitative methods provide an estimate of “how much”, qualitative methods provide valuable detail on “how”, making the two types of approaches highly complementary. Once again, **there are two types of methods: “basic” and “structured”.**

“Basic” qualitative methods: These include surveys or interviews with stakeholders and may involve methodological biases if the processes are not carefully defined.

“Structured” qualitative methods: These organise the collection of responses to eliminate the traditional bias of qualitative interviews. For example, the qualitative impact assessment protocol is an approach that uses a process ensuring that interviewers and respondents do not receive any information on the evaluated impact investment (double-blind procedure) that could influence their analysis.

LOGICAL METHODS

The last family of methods, the logical validation methods of Change Theory, aim to validate each intermediate objective set ex ante. The step-by-step verification of the scenario, when validated, suggests that the action was a factor in the final outcome because all the intermediate stages of this scenario have been successfully completed.

By detailing step by step the scenario that led from actions to outcomes, logical methods provide an accurate view of the processes at work. They are also extremely complementary to quantitative approaches.

For more information, see the report “How can an investment fund measure its impact?".

ACKNOWLEDGEMENTS

This work was initiated as part of the Institut de la Finance Durable (Paris Sustainable Finance Institute) Market Group on impact finance. The writing work was carried out by the co-leads of the sub-group, **Thierry Sibieude**, Professor and Holder of the Impact Entrepreneurship and Innovation Chair at ESSEC, and **Capucine Beslay**, Head of Investments at Trusteam Finance.

The production of this document was made possible by the participation of the IFD's entire Taskforce on Impact Finance, and in particular the mobilisation of the members of the sub-group dedicated to impact measurement, to whom we express our sincere and heartfelt gratitude.

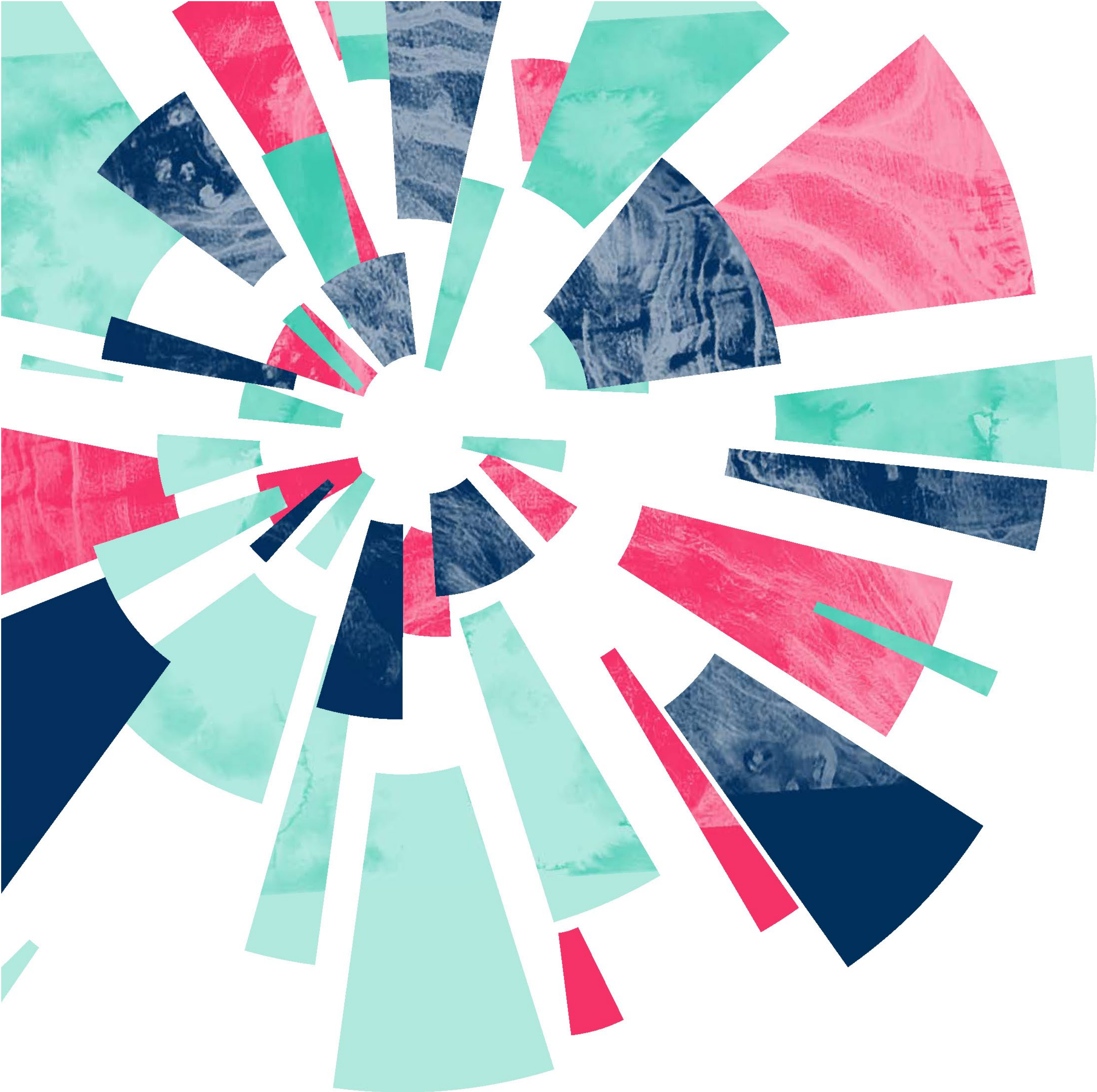
The members of the dedicated working group are: **Amélie André** (Sodero Gestion); **Karen Bonvallet** (123 Investment Managers); **Sandrine Carpenter** (Mixity) **Mathilde des Courtis** (SeaBird); **Antoine Fabre** (La Financière de l'Echiquier); **Fabienne Grall** (Saint Gobain); **Eugénie Gros** (Blue Like an Orange Capital) **Maha Keramane** (BNP Paribas); **Lenny Kessler** (WHYO and CMI Stratégies); **Florentine Mangenot** (BNP Paribas); **Mickaël Mangot** (2DII); **Laurence Mehaignerie** (Citizen Capital); **Eva Meunier** (PwC); **Nathalie Millan** (Tikehau Capital); **Maxime Moujeard** (PwC); **Jean-Bernard Ott** (Caisse d'Assurance Vieillesse des Pharmaciens); **Ophelia Peypoux** (Deloitte); **Youcef Rahmani** (Toum AI); **Maria Ruiz-Melgarejo** (BNP Paribas); **Helene Spira** (Groupama AM); **Laurent Trules** (Dorval AM); **Frederic Pinglot** (Schneider Electric) and **Claire Varret** (EDF).

This document was written by the Institut de la Finance Durable (Paris Sustainable Finance Institute) team, **Philippe Clerc**, Impact Project Manager, and **Camille Buewaert**, Head of Impact, Fintech and ESG Talent Programmes, with the support of **Adrien Guyot, Timothée Quin** and **Raphaëlle Camarcat.**

FOR MORE INFORMATION

INSTITUT DE LA FINANCE DURABLE
CONTACTS

impact@ifd-paris.com



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PARIS EUROPLACE

TASKFORCE ON IMPACT FINANCE

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SITUATION ANALYSIS AND RECOMMENDATIONS

January 2024