



**INSTITUT
DE LA FINANCE
DURABLE**

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FINANCE A IMPACT

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

ASSET CLASS: PRIVATE DEBT



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1. CONTEXTUAL INFORMATION

This assessment scale was developed as part of the ongoing work of the Paris financial centre.

At the request of Minister Olivia Grégoire, Secretary of State to the Minister of Economy, Finance and Recovery, responsible for the Social, Solidarity and Responsible Economy, the Institut de la Finance Durable (IFD, *Paris Sustainable Finance Institute*) launched a Place group dedicated to impact finance in March 2021. This market group has since been internalised by the IFD to form the Impact Commission.

The market group dedicated to impact, which ended in June 2023, set itself the objective of contributing to the emergence, beyond the traditional ESG approach, of a shared definition of impact finance and, if possible, measurement methodologies.

It has now brought together more than 150 institutions from the Paris financial centre for an initial phase consisting of four working groups focusing on (i) definition, (ii) measurement, (iii) conditions for development and removal of barriers, and (iv) international promotion of the French vision of impact finance, followed by a second phase dedicated to operationalising impact.

One working group was dedicated to creating a scale to assess the potential impact of funds. In the first phase of the work, **the group focused on financial products covered by the SFDR regulation (UCITS funds, AIFs, etc.)**, but the objective was to extend the methodological framework to other investment and financing vehicles (e.g. real assets and bank loans).

It followed in the footsteps of the working group tasked with «*proposing a vision of impact finance that would enable its scope to be developed without ever compromising its integrity*» and «*bringing together the visions and practices of the financial markets*».

Following the working group's deliberations, the IFD proposed the following definition of impact finance:

«an investment or financing strategy that aims to accelerate the fair and sustainable transformation of the real economy by providing evidence of its beneficial effects.

It draws on three key principles of the approach – intentionality, additionality and impact measurement – to demonstrate:

- 1. The joint pursuit, over time, of 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 predefined environmental and social objectives, the relevant investment or financing period, and the measurement methods, in accordance with the theory of change framework;*
- 3. The achievement of these environmental and social objectives within reference frameworks, in particular the Sustainable Development Goals, at international, national and local levels.»*

2. THE OBJECTIVES OF THE EVALUATION SCALE

MULTIPLE POSSIBLE USES

The scale and the matrix on which it is based can be used in a variety of ways.

→ A self-assessment tool

On the one hand, the matrix of questions underlying the Scale enables management companies to internally assess their fund's "potential contribution to sustainable transformation", compare it with the results compiled by the IFD for different asset classes and identify areas for improvement based on the scores obtained for the various questions.

On the other hand, the matrix can also be used by management companies to verify that the fund complies with the definition of an impact fund. The total score achieved by successfully completing a subset of questions in the matrix called "qualifying questions", which incorporate minimum requirements, can be used for this purpose.

We recommend repeating the self-assessment exercise regularly, as the matrix is subject to change (based on biannual reviews) depending on participant feedback and the state of the art in research.

→ An educational tool

The matrix also serves to disseminate the thinking, methods and language of impact to players in the financial sector.

→ An information tool for investors

The Scale can be used to provide information to fund investors. The score obtained after completion could be used to position the product on an "impact potential scale" (see *disclaimer* on page 8, section "Impact or contribution?") and communicated to investors in the fund's supporting documents. However, such use would likely require that the assessment be conducted not by the management company itself but by an external auditor accredited by the IFD.

This information would be presented alongside the information contained in the KIID. Investors (institutional and retail) would thus have access to risk/return information on the one hand and an indicator of the level of contribution to sustainable transformation on the other. These three pieces of information would inform their investment decisions.

→ A tool for identifying impact funds

The total score obtained and the success rate for the qualifying sub-set of questions can ultimately be used as a basis for various tools designed to identify impact funds.

Specifically, they form the basis of the IFD **Impact Charter**. This charter, which aims to harmonise the practices of funds claiming to be “impact” funds and to 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 matrix, however, an interim minimum score of 55 points was set. This will 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 meet the qualifying questions with the required level of compliance, it cannot be covered by the Charter and therefore cannot claim to be an impact fund within the meaning of the definition and tools developed as part of the work of the Groupe de Place Impact coordinated by the IFD.

The total score obtained and the successful completion of the qualifying questions could ultimately support an audit procedure for funds claiming the “impact” designation by approved auditors or, in the long term, contribute to a possible future Impact Label, whether or not it is backed by the SRI Label.

AN EVOLVING ANALYSIS MATRIX

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

The same applies to the future of the matrix, which, if successful, would require regular maintenance to enable it to evolve in line with user feedback and research advances.

To this end, participants are strongly encouraged to provide feedback to the IFD once the matrix has been published, and a **biannual review of the matrix, which may be adjusted based on this feedback**, is planned by a committee of experts.

The first review of the matrix took place at the end of the first quarter of 2023.

A MATRIX ADAPTED TO DIFFERENT ASSET CLASSES

The first review of the matrix revealed the need to adapt the “generic” matrix to the specific characteristics of the different asset classes (listed equities, listed debt, unlisted equities, unlisted debt). It is with this in mind that the specific matrix for private debt, attached to this explanatory note, was constructed.

3. THE METHOD USED TO CONSTRUCT THE MATRIX

SOURCES OF INSPIRATION

The primary source of inspiration for the matrix is the working group's report on the "Definition of impact finance".

The matrix also draws on several previous studies conducted in France and abroad (by professional associations such as the Global Impact Investment Network and the International Finance Corporation, and by academic researchers) on impact finance, its definition, pillars and mechanisms.

In particular, it incorporates:

- **The six eligibility criteria for impact investing**, as defined by iiLab (now FAIR) in the report "Doter la France d'une culture commune de l'investissement à impact" (Giving France a common culture of impact investing).
- **The three key principles of impact investing** as formalised by FIR-France Invest,
- **The nine principles of impact management** (known as OPIM) defined by the International Finance Corporation,
- **The impact mechanisms** formalised by the Impact Management Project and further developed in various academic works.

ORGANISATION OF THE WORKING GROUP

The "generic" matrix was developed based on discussions between the two leaders of the Place Group, the three leaders of the working group, and the 50 participants in the working group. The working group leaders presented their proposals and submitted them for discussion (and even voting) by the participants at regular working meetings. This enabled several iterations of the matrix to be produced, which were then tested in real-life situations with partner funds. The results collected and the feedback from the test participants were used to adjust the structure of the matrix and the wording of the questions and answers.

Based on the "generic" matrix, the "Private Debt" version was developed through discussions between the AFC, its members and the IFD. Changes to the generic matrix were submitted to and approved by the Impact Commission's Expert Committee. They were then presented to the Impact Commission in September 2025.

4. POINTS OF DEBATE AND APPROACH ADOPTED

The development of the assessment scale was the subject of several points of discussion within the working group. The aim of this section is to address these structural points in order to establish a common understanding of the spirit of this matrix.

ESG IMPACT AND 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 is embodied by the three pillars recognised by the market and anchored by the work of France Invest and the FIR:

- **intentionality**, which corresponds both to the financial actor’s desire to contribute to generating social and/or environmental benefits and to the desire of the financed company, which has made the achievement of one or more sustainable development objectives central to its business model;
- **additionality**, which corresponds to the specific contribution of financial players enabling the beneficiaries of investments/financing to increase the impact generated by their activities themselves.
- **measurement**, which refers to the assessment of environmental and social effects in the real economy based on the objectives announced in the context of intentionality.

The impact approach is therefore an active process of transforming the entities invested in, which goes beyond the practice of portfolio alignment. As stated in the IFD’s report on the definition of impact finance, “all impact finance is transformative finance, constantly evolving in terms of financial and non-financial criteria.”

The approach adopted:

The matrix aims to assess the impact/contribution potential of the funds and not the impact/contribution potential of the entities invested in by the fund.

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

The problem also arises for primary investments in sectors where demand from investors willing to offer equivalent terms already exceeds supply from project developers with a positive impact. In this case, the investment is neither additional for the investee company nor for the sector as a whole (rather than adding investment, it replaces investments by other investors).

The wording of the questions in the matrix therefore emphasises the objective and potential for social or environmental transformation of the investee entities through the actions taken by the fund, rather than the profile (ESG or alignment with the SDGs) of those same investee entities.

THE TWO PATHS TO IMPACT

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

- Active (financial and non-financial) support for entities identified as having a positive impact, with the aim of enabling them to increase their positive impact;
- Investing in and actively engaging with entities identified as having one or more negative impacts with the aim of encouraging them to reduce their negative impacts.

As stated in the IFD's report on the definition of impact finance, *"it is necessary for impact finance to be able to focus on traditional companies undergoing transition, as reducing their negative impacts can contribute significantly to improving the situation for the real economy, the environment and society."*

The approach adopted:

The matrix also considers both paths to impact and, to this end, adopts generic wording for questions that apply to both types of sustainable transformation strategies that funds may adopt.

IMPACT AND EXTERNALITIES

An impact fund may focus on one or more sustainable transformation objectives and neglect others. However, the actions taken by the fund may lead to negative outcomes for these other objectives, in other words, generate negative externalities. Should the positive and negative effects of the fund's actions be added together?

The approach adopted:

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

IMPACT OR CONTRIBUTION?

To measure a fund's impact, it is necessary to prove a causal link between the fund's actions and the additional results achieved in the real economy, and to measure the share of these additional results attributable to the fund's actions.

In practice, proving causality and measuring additional results would require the use of particularly cumbersome scientific methods (matching, double differences, randomised controlled trials, etc.), which are currently little used in the financial sector.

The approach adopted:

Due to this structural difficulty in measuring “true” impact, the Working Group has decided to shift the matrix towards “estimating the potential contribution to sustainable transformation”.

This shift from impact to contribution implies a significant change in the subject of the matrix. Impact and contribution differ in two ways:

- Impact is an approach that seeks to identify the additionality of individual actions, whereas contribution is participation in a collective action likely to bring about sustainable transformation without seeking, analysing or managing the additionality of individual actions.
- Impact requires a higher level of evidence than contribution regarding the final effect of the actions carried out by the fund.

Thus, **in its current form, the matrix aims only to bring together a set of indicators suggesting the fund's contribution (actual or potential) to sustainable transformation.** The methodology developed is therefore more like a “backbone” than a precise methodology for assessing causality and additionality.

For impact funds striving for excellence, the matrix also provides guidance by showing what could be best practices for the profession, using maximum requirements and blank questions (i.e., not included in the scoring).

Disclaimer

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

ADDITIONALITY IN THE MATRIX

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

- Additionality can be analysed or assessed at **different levels of the causal chain**: at the level of the actions deployed by the fund and at the level of the results obtained in the real economy.
- Additionality can be analysed or assessed at **different levels of granularity**: at the level of the invested entities alone (micro) or at the level of the sectors to which they belong (macro). Total impact analysis (macro) involves taking into account both the direct impact on the invested entities (micro) and the indirect impacts on other stakeholders (other funds, competitors of the invested entities, etc.). Indirect impacts include, among other things, the positive effects of spreading good behaviour and the negative effects of displacement (i.e., the decline in positive results among competitors of the invested entities).

The approach adopted:

The matrix analyses additionality in terms of both the actions taken AND the results obtained. The correspondence between the two contributes to the body of evidence suggesting impact.

The relevant level of granularity in the analysis of results is clearly the macro level, which includes direct and indirect impacts. However, it also appears to us that, in the absence of information on competitors, the assessment of indirect impacts is (at present) even more out of reach for funds than the precise assessment of direct impacts.

As a result, it was decided that indirect impacts would only be considered in open-ended questions that do not contribute to the final score.

THE COMPLEXITY OF THE MATRIX

Participants in the working group frequently pointed out that the elements contained in the matrix are particularly technical and far removed, both in terms of subject matter and language, from the daily practices of fund managers. More specifically, terms such as the theory-of-change and causal chains are often perceived as being highly conceptual and rather abstruse.

Following these comments, an effort was made to clarify the matrix so that each of the questions and proposed answers would be perfectly understandable, drawing on the explanations provided for each of them in this explanatory note where necessary (see detailed explanatory note, p. 16). However, we would like to emphasise that the matrix is complex by nature due to its subject matter: impact/contribution. Impact involves a particular way of thinking and specific evidence (if not measurement). In some respects, impact even requires a reversal of traditional investor thinking, since one way to have an impact is to offer project leaders with a positive impact financing on preferential terms compared to those prevailing on the market. Maximising profitability can therefore hinder maximising impact.

The approach adopted:

We believe it is undesirable to simplify the matrix by removing the dimensions that are problematic for managers (particularly the search for additionality) due to **the risk of impact washing that this would entail**. We have therefore opted to retain difficult questions, offering different levels of response corresponding to different levels of requirement, and using blank questions (not taken into account in the scoring) for areas identified in the working group's feedback as the most inaccessible to current management practices.

Similarly, as the matrix also has an educational objective of disseminating impact terminology, we consider it important to use established technical terms rather than possible substitutes from everyday language. Instead, we have opted to include a glossary at the end of this explanatory note.

THE SCOPE OF THE MATRIX

→ Distinction between new and existing funds

Another recurring comment is that a matrix that incorporates questions on results achieved in terms of contribution to sustainable transformation is one that de facto disadvantages newly created funds (i.e. those without a track record of impact) compared to older funds that can point to past results.

The approach adopted:

We wanted to retain a series of questions on the quality of results achieved in addition to questions on results monitoring procedures, as we believe that a fund that can demonstrate a good track record in terms of contributing to sustainable transformation adds further evidence to the body of evidence used to assess its potential future contribution.

Consequently, funds with an insufficient track record (i.e. less than two years old) cannot be assessed on the entire matrix.

Rather than providing a partial score for these funds that would be limited to Part A on objectives alone, we recommend that they remain **“pending initial rating”** until they can be assessed (two years after their launch) and, if they wish to self-designate themselves as “impact investment funds”, that they indicate via a **disclaimer** in their supporting documents that they could not be assessed using the matrix due to insufficient history.

For these funds, **the matrix is nevertheless useful** for building their methodology so that they adopt best practices from the outset.

Finally, recent funds (less than two years old) that have signed the Impact Charter undertake to use the assessment matrix to guide them in their impact approach with the aim of answering the qualifying questions with the required level of rigour and achieving the minimum score required to be classified as an “Impact Investment Fund” within the meaning of the IFD market group two years after their creation.

THE NORMATIVITY OF THE MATRIX

Another question that arose for the working group leaders and participants was whether the matrix should take a normative approach by setting reference frameworks for the various dimensions assessed (the issues addressed, the quantitative objectives targeted, the mechanisms contributing to sustainable transformation, etc.).

The approach adopted:

The matrix provides a reference framework without being normative. In other words, it gives examples of what meets the expressed expectation (SDG framework, various examples of actions contributing to sustainable transformation) without being exclusive or limiting.

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

5. THE MATRIX'S APPROACH

ORGANISATION OF QUESTIONS

The 32 core questions are organised into four main sections:

A - Theory of change (with two subsections: “Definition of general objectives” and “Definition of actions taken”), which assesses the quality and robustness of the fund’s theory of change;

B - Operational implementation, which assesses the alignment between the fund’s theory of change and the actions actually carried out;

C - Monitoring of results (with two sub-sections: “Procedure for monitoring results” and “Quality of results obtained”);

D - Communication and consistency, which analyses the quality of communication associated with the fund in terms of impact and the alignment of other fund and asset management company practices with the stated objective of contributing to sustainable transformation.

In addition to these 32 questions and 4 sections, there are **two bonus questions** on revenue sharing and impact awareness initiatives.

WEIGHTING

Each of the 34 questions offers several response options corresponding to different levels of requirement, with each level associated with a number of points (between 0 and 3).

The questions are also weighted with a coefficient of 1 or 2, with the coefficient 2 reserved for so-called “robustness” questions that help to assess the strength of the statements made in more declarative questions.

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

The first three sections, A, B and C (Theory of Change, Operational Implementation and Results Monitoring) are almost **equally weighted, each representing approximately 30 points, or about 30% of the maximum total score**. Finally, the last section, Communication and Consistency, represents 10 points and 10% of the maximum total score. The bonus question (worth 3 points) is added to the total obtained in the four sections for a maximum score capped at 100 points, or 100%.

The table below shows the overall structure of the “private debt” matrix with the distribution of questions and points between the different sections:

		Nombre de questions		Nombre de points	
A	THEORIE DU CHANGEMENT	13		30	
A.1	Définition des objectifs généraux		6		12
A.2	Définition des actions déployées		7		18
B	MISE EN CEUVRE OPERATIONNELLE	5		30	
C	SUIVI DES RÉSULTATS	10		30	
C.1	Procédure de suivi des résultats		6		15
C.2	Qualité des résultats observés		4		15
D	COMMUNICATION ET CREDIBILITE	4		10	
	TOTAL	32		100	
E	BONUS	1		3	

INTERPRETATION OF THE FINAL SCORE

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

The assessment scale therefore offers a continuous approach to sustainable transformation rather than a binary approach (funds with or without impact).

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

However, for some funds, it will not be possible to complete all sections. A fund in its initial marketing phase, for example, will have no track record and can only really be analysed in relation to section A (theory of change). Its intentions in terms of operational implementation (section B) and results monitoring procedures (section C.1) can be announced and, to a certain extent, be subject to ex ante assessment. However, the results obtained (section C.2) cannot be rated.

Everything depends on the fund’s position in its life cycle and therefore on its degree of maturity. The validation of the application of processes cannot be carried out until 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 that would be limited to Part A on objectives alone, we recommend that they remain **“pending an initial rating”** until they can be assessed (two years after launch) and, if they wish to self-designate themselves as “impact investment funds”, that they indicate via a **disclaimer** in their supporting documents that they could not be assessed using the matrix due to insufficient history.

QUALIFYING QUESTIONS

The matrix has identified 12 essential questions which, in our view, must meet minimum requirements in order to qualify as an “impact fund”. This condition is in addition to another condition: achieving the minimum score set on the date of the assessment.

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

- » Has the explicit objective of having a positive impact (**intentionality**) > Q5
- » Also aspires to reduce any negative externalities associated with its actions or those of the selected issuers beyond its sustainable transformation objectives (**intentionality**) > Q6
- » Selects the vast majority of issuers in which it invests based on an impact approach (**intentionality**) > Q14
- » Implements relevant actions to achieve positive impact, i.e. to achieve additional results in line with its sustainable transformation objectives (**additionality**) > Q7 and Q9
- » Actively manages negative externalities beyond the desired positive impact (**additionality**) > Q16
- » Measures its positive impact against ex ante targets (**measurement**) > Q20
- » Measures and manages associated negative externalities (**measurement**) > Q23
- » Uses control procedures to verify that the strategy and actions deployed are relevant to achieving the expected impact > Q24 (**measurement**)
- » Achieves positive quantified results in relation to its sustainable transformation objectives (**measurement**) > Q25
- » Produces annual impact reports accessible to investors > Q30 (**transparency**)
- » Applies a remuneration policy consistent with the pursuit of impact (**consistency**) > Q32

6. GENERAL GUIDELINES FOR COMPLETING THE MATRIX

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

Only one answer is possible per question. Half points are not allowed.

Each response is scored from 0 to 3, with 3 being the maximum level of contribution to sustainable transformation (0,1,2,3) – some questions are subject to simplified scoring (e.g. with only two degrees of compliance with the requirement).

The questions must be assessed as a whole: it is not an isolated question that allows us to conclude that the transformation has taken place, but rather the cumulative responses to the questions.

7. DETAILED EXPLANATORY NOTES ON THE MATRIX

A. THEORY OF CHANGE

→ A.1. Definition of general objectives

Question 1: Does the fund clearly set out its sustainable transformation objectives in its supporting documents?

Are the sustainable transformation objectives (STOs) clearly stated in the supporting documents? The expected answer here is binary (0 or 2). Supporting documents are understood in the broad sense and include marketing and communication documents. It should be noted that for each STO, there is a need to be met.

The criterion of the number of STGs addressed is not discriminatory, whether it is a thematic or multi-thematic fund. We will focus primarily on the main objectives 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?

To legitimise the fund's purpose, it is necessary to demonstrate the existence of needs that are poorly or inadequately met.

Examples of needs include access to drinking water in the Sahel and environmentally friendly agricultural production in urban areas. This question covers the description and justification of the fund's objective, i.e. the "why".

This level of "justification" provides the highest degree of requirement, namely 2 out of the three available (0, 1, 2), in line with 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 of the issuers invested in, in line with its overall sustainable transformation objectives?

This question allows for three levels of response (0, 1, 2): The idea here is to determine whether the sustainable transformation objectives are broken down into specific objectives for the issuers invested in, with the highest requirement corresponding to the alignment of all these underlying objectives with a reference scenario, where one exists.

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

The aim of this question is to encourage and reward innovative or distinctive approaches by funds. It focuses on the intentionality of the fund's sustainable transformation objectives.

This question is considered for the main objectives/needs expressed as a percentage of the total valuation of the underlying assets, and gives rise to three levels of response (0, 1, 2), which clearly illustrates the additionality of the fund's actions: "0" for well-covered needs; "1" for partially covered needs; and "2" for poorly or inadequately covered needs.

Question 4.1 (open-ended question): Does the fund offer an original or innovative solution to meet its sustainable transformation objectives?

This question, which is an open-ended question (and therefore does not contribute to the total score), has three possible answers (0, 1, 2) and, while complementing our quest for evidence of additionality, aims to detect and identify original and innovative solutions that have the potential to better meet the preferences of certain issuers or investors ("1") or to be widely replicated and thus constitute a new type of strategy ("2").

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

This qualifying question allows for two levels of response (0 and 2): level "2" is qualifying and confirms that the fund positions itself as an impact fund and/or indicates that investing in the fund allows investors to have an impact, emphasising the concepts of intentionality, additionality and measurement, which are the three pillars of impact investing.

Supporting documents are understood in the broad sense and include marketing and communication documents.

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

This qualifying question has two possible responses (0,2): the expected response is therefore binary, and affirms the fund's intentionality. Level "2" is the "qualifying" level.

To obtain a score of 2, it is necessary to be able to detail the specific post-investment actions aimed at monitoring and, where appropriate, helping to reduce the negative externalities associated with the investments.

Within the DNSH framework, the necessary granularity must allow for the detection of significant (or material) negative externalities at the issuer level. Negative externalities are defined as any unintended negative impact that may have been generated by the issuer.

Negative externalities can be controlled before and/or after investment, depending on the type of asset.

Controlling negative externalities in the case of private debt involves detecting them in the pre-investment phase (through ESG and DNSH questionnaires, or by implementing impact clauses linking the interest rate to a trajectory of improvement, for example) and monitoring them in the post-investment phase (e.g. dialogue with the invested asset, the threat of future non-financing, etc.).

→ A.2. Definition of the actions taken by the financial institution to achieve the objectives (i.e. bring about the desired changes)

Question 7 (qualifying question): Are the actions associated with the fund to achieve sustainable transformation objectives described in the supporting documents?

An action associated with the fund is an action implemented by the fund to bring about the desired changes (see the diagram in the glossary concerning the "causal chain").

This qualifying question allows for three levels of response (0, 1 and 2) depending on the degree of description of the associated actions and contributes to the assessment of the fund's additionality: level "2", which is the maximum level, is the "qualifying" level and indicates that the actions to achieve the set objectives are described in detail.

Question 8: From the following list, please select the planned contribution actions and assets under management covered (to be noted 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/ Integration of sustainability objectives into financing conditions, 5/ Signalling the importance of impact (other signals).

This question aims to highlight the adequacy of the impact strategy of the fund being assessed in relation to the six major impact mechanisms documented by academic research for investors across all asset classes. By their very nature, not all mechanisms are suitable for every asset class. Depending on the fund's asset class, some mechanisms are more easily actionable than others.




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

To count an action, the fund must intend to deploy it on at least 70% of the assets under management.

Details of the different types of planned contribution actions:

In simple terms, the six impact mechanisms (or contribution actions) can be described as follows:

- 1. Provision of flexible capital (changes in maturity terms, guarantees or financing costs):** this involves providing capital on preferential terms for beneficiaries compared to existing market conditions.
- 2. Development of new capital markets where supply is insufficient:** this involves providing capital to market segments that are traditionally under-financed due to their specific characteristics (small size, low profitability, insufficient track record, specific risk, etc.) – particularly private debt solution companies.
- 3. Provision of non-financial support:** this refers to non-financial assistance offered to companies invested in by the fund that is likely to improve their impact through growth or transformation (technical assistance, provision of an expert, training, networking, etc.).
- 4. Commitment through the integration of sustainability objectives into financing conditions** (sustainability-linked loans or bonds – varying the interest rate depending on whether or not sustainability objectives are achieved).
- 5. Signalling the importance of impact (other signals):** this refers to the influence on other stakeholders (who may in turn influence issuers) due to the fund's actions, excluding the influence on market prices. This includes, among other things, communication actions (stigmatisation or endorsement of certain issuers) and the dissemination of tools that can be used by other investors (e.g. exclusion lists).

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

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 coding used in the illustration above.

Nevertheless, given the current state of scientific knowledge, we are not in a position to precisely rank the various actions or to assert with complete certainty that one action is more effective than another. It is important to note that all the actions mentioned have the potential to have an impact/contribution, depending on various internal or external factors (some more than others).

Question 8.1 (open question): Does the fund use impact mechanisms other than those described above? If so, please describe them.

This is an “open” question, meaning that it does not earn any points. However, it allows funds that wish to do so to describe any other impact mechanisms they consider to be applying.

This question contributes to the continuous improvement of the matrix. If other contribution actions are proposed by funds and defended in a convincing manner, they could be added to the list of contribution actions eligible for points in a future version of the matrix.

Question 9 (qualifying question): Does the fund justify the actions envisaged (in questions 7 and 8) by the pursuit of additionality?

This qualifying question has two possible answers (0,2): the expected answer is therefore binary and confirms or denies the pursuit of additionality in the actions undertaken with a view to generating additionality in the results obtained. Thus, level “2” corresponds to the fact that, in its supporting documents, the fund justifies the actions taken by their potential to generate additionality. This level “2” is “qualifying”.

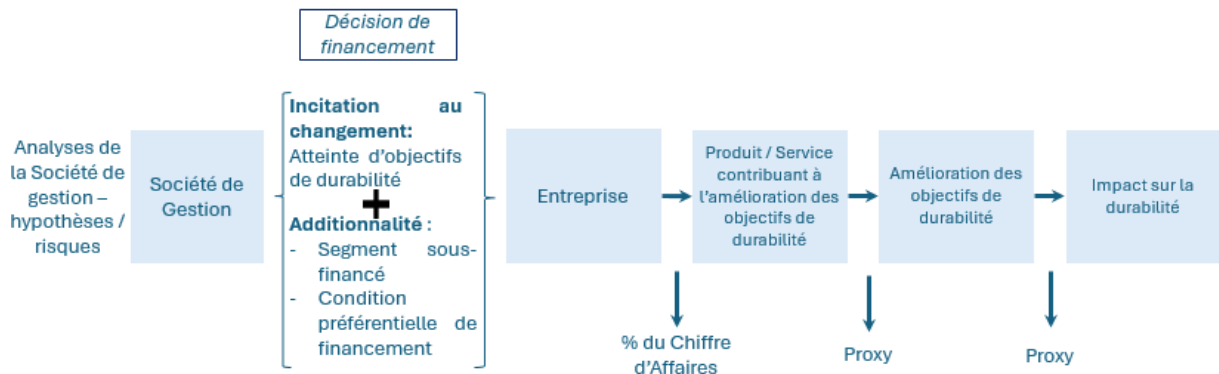
Supporting documents are understood in the broad sense and include marketing and communication documents.

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

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

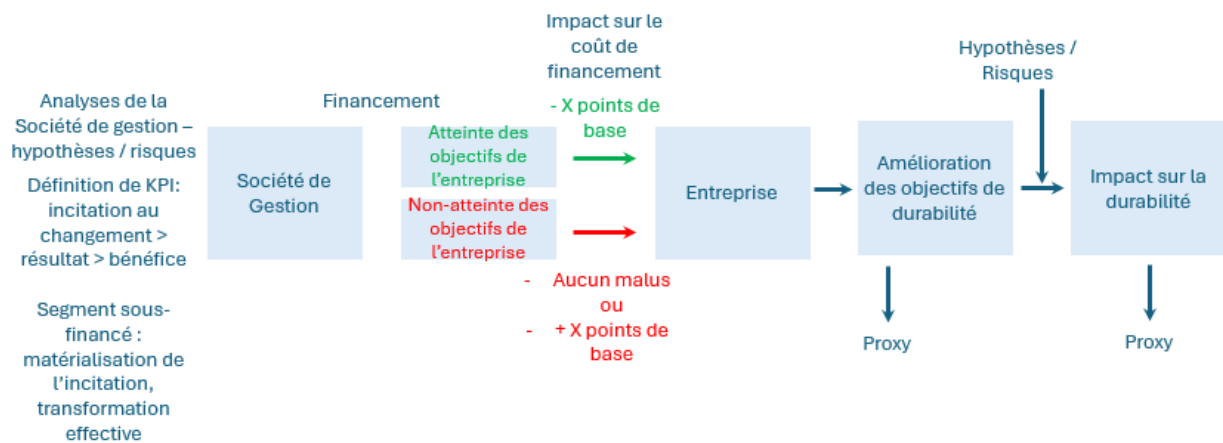
The highest level of response would correspond to a diagram such as the one presented in the definition of “causal chain” in the glossary, explained (when the fund follows several different strategies) for different, clearly identified pockets of the portfolio.

Chaine Causale - Financement d'une entreprise Solution			
Activité	Changement	Résultat	Bénéfice / Impact



Chaine Causale – Financement assorti de clauses incitatives et / ou punitives visant des objectifs de durabilité

Financement	Entreprise	Résultat	Bénéfice / Impact
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Source: Groupe de travail impact dette privée AFG - IFD

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

This question allows for three levels of response (0, 2 and 3) depending on the degree of description of these external factors, with level “3” corresponding to a detailed description for each contribution action implemented.

The theory of change may indeed depend on external factors (key success factors or limiting factors in terms of the operational implementation of changes).

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

This question allows for three levels of response (0, 1 and 2) depending on the intensity of the action plan put in place: level “2” corresponds to a systematic action plan, put in place with specific steps and a follow-up schedule.

Question 13: How are the actions taken to detect, prioritise and control negative externalities described?

This question allows for three levels of response (0, 1 and 2) depending on the degree of detail provided in the description of these actions.

Action refers to any action taken by the fund to identify potential negative externalities associated with its investments, assess their significance (materiality), and control them once the investment has been made.

This therefore includes, for example:

- Pre-investment: ESG audits, application of materiality matrixes or matrices, etc.
- Post-investment: dialogue with the company, ESG questionnaire, monitoring of the trajectory defined by the SLL or SLB, other covenants related to the fund’s objective.

B. OPERATIONAL IMPLEMENTATION

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

This question is qualifying. What is being assessed here is the fund's ability to justify, for each issuer invested in, why the choice is consistent with the targeted sustainable transformation objective(s) and, where applicable, why the selected issuers were chosen over others.

Only levels "2" and "3" are qualifying.

This question does not apply to liquidity lines and is asked at the end of the investment period.

Question 15: How intensively does the fund use the impact mechanisms most relevant to its asset class?

To be taken into account in the rating, the actions taken must apply to at least 70% of the portfolio at the time of assessment by the matrix.

15.1 Moderate, difficult or very difficult access to financing is characterised with reference to the following table:

Moderate access	Difficult access	Very difficult access
Profitable medium-sized companies	Medium-sized loss-making companies	Micro-enterprises
Profitable or high-growth start-ups	Profitable small enterprises	Loss-making small enterprises
	Start-ups with sustained losses or low growth	Start-ups with sustained losses and low growth
	Profitable medium-sized social enterprises	Medium-sized loss-making or small social enterprises
		Niche market enterprises
		Companies undergoing restructuring
		Enterprises with discriminatory status (cooperative, non-profit, etc.)

15.2 Favourable conditions are quantified in relation to external practices where possible or, where applicable, in relation to internal practices.

For each criterion in the table, the average financing across all lines of the fund is used.

	Financing cost	Maturity	Guarantees
Threshold 1	Yes, the fund provides financing on terms more favourable than the market for issuers or projects with the same level of risk AND explicitly states these terms		
Threshold 2	At least 10% compared to the initial margin or at least 40 basis points	Grants a maturity at least 20% longer than market practices	Unsecured or low-security financing
Threshold 3	At least 20% compared to the initial margin or at least 80 basis points	Grants a maturity at least 30% longer than the market	Subordinated financing

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

15.3 Support measures may include carbon assessments, social audits, awareness-raising initiatives, training initiatives, etc.

15.4 Financing with an interest rate indexed to ESG criteria requires the company to define key performance indicators (KPIs) and sustainable performance targets (SPTs) in accordance with the following recommendations (from the France Invest working group):

1. Quality criteria for KPIs

KPIs must be rigorously selected and have the following characteristics:

- **Comparability:** indicators must be objectively assessable, using precise definitions, recognised external benchmarks (standards, sector trajectories, regulatory targets) and a calculation method that remains stable over time.
- **Precise definition:** KPIs must be clearly formulated, with a complete description of the scope of application (including the entire group, subsidiaries included) and the calculation method, and without the use of composite, qualitative or ambiguous indicators.
- **Transparency and verifiability:** performance levels must be auditable by an independent third party, through an ESG compliance certificate or any other recognised verification mechanism.
- **Limited number:** it is recommended to focus on a limited number of KPIs (ideally one to three) to ensure clarity and avoid diluting commitments. It is not necessary to systematically include an indicator for each of the three pillars E, S and G: a meaningful, well-constructed KPI may suffice.

2. Requirements for SPTs (Sustainability Performance Targets)

The targets associated with KPIs, or SPTs, must be defined according to the following criteria:

- **Ambition:** SPTs must reflect a significant improvement, measurable over time, demonstrating a real effort to progress beyond the regulatory or operational status quo.
- **Reference to historical performance:** they must be based on past data to ensure their relevance and enable a credible assessment of the expected trajectory.
- **Clear methodology:** targets must be calculated using a stable method based on recognised ESG benchmarks. The company must be able to demonstrate the credibility of its trajectory by specifying the concrete measures planned to achieve the targets set.
- **Appropriate timing:**
 - The first test period (reporting and verification) must take place within a reasonable period of time after the financing has been put in place (often within a year).
 - The final deadline must be consistent with the maturity of the financing. For long-term financing, interim reviews may be provided for via rendezvous clauses.

3. Contractual framework

KPIs and associated impact covenants must be defined before the financing is put in place to ensure their seamless integration into the contractual documentation.

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 is a qualifying question. If the fund's sustainable development objective is to have an impact by reducing certain types of negative externalities from the issuers in which it invests (e.g. carbon emissions), this question addresses other potential negative externalities from the selected issuers. Where appropriate, clauses may be put in place to vary the cost of financing depending on whether the issuer achieves its objectives.

Negative externalities can be controlled before and/or after investment, depending on the type of asset.

Controlling negative externalities in the case of private debt involves detecting them in the pre-investment phase (e.g. through ESG and DNSH questionnaires) and monitoring them in the post-investment phase.

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

Question 17: Does the fund apply a specific strategy to ensure that its impact/contribution is realised and sustained (minimum investment or loan duration)?

Investment duration

The report of the working group on the definition of impact finance stated that financial actors must “*assess the most appropriate investment or financing horizon in relation to the objectives they are seeking to achieve in order to ensure that the impact materialises. The idea is to avoid a short-term vision and to enable impact management throughout the investment or financing cycle. In this context, the adoption by financial actors of a long-term vision, capable of producing lasting beneficial effects, provides a guarantee to their economic partners and supports sustainable economic development.*”

We believe that long-term investment is crucial to achieving impact, regardless of the strategy deployed (price signalling, commitment, preferential financing or financing of underfunded sectors, non-financial support, etc.).

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

Simply using internal databases/expertise on issuers’ ESG or SDG profiles is insufficient to score points on this question without allocating internal resources dedicated to the operational implementation of the strategy.

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

1. Assess ex ante the impact profile of issuers in their investment universe
2. Determine relevant sustainable transformation objectives for each issuer invested in
3. Define the strategy to be deployed with regard to each of the selected issuers in order to help increase their impact
4. Take the necessary actions to generate the desired impact (engagement, non-financial support, media communications, etc.)
5. Continuously assess the impact of the actions taken and, if necessary, redefine the strategy

To obtain a score of “2”, the fund must provide in its supporting documents a precise quantification 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 RESULTS

→ C.1. Results monitoring procedure

Question 19: Is the sustainability performance of issuers monitored during the period of ownership by the fund?

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

Question 20 (qualifying question): Is the relative performance (compared to specific targets set ex ante by the fund, to comparables or to a past trend) of issuers’ sustainability performance monitored during the fund’s holding period?

This qualifying question makes it possible to characterise the fund’s intentions with regard to the non-financial performance of issuers: have targets or benchmarks been set for each issuer, and is non-financial performance assessed against these targets?

Question 20.1 (open-ended question): At what level are the consequences of the actions of portfolio companies monitored?

Rigorous measurement of the impact of the companies invested in and, subsequently, of the fund through its investments is operationally difficult and requires the use of more or less sophisticated quantitative methods.

This is because impacts are the effects on society or the environment compared to a counterfactual scenario. The counterfactual scenario must therefore first be identified, which is not without difficulty.

As a “second-best” option, funds are encouraged 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 achievements or outputs alone (rating 1).

In the case of a car manufacturer, for example, a measure of outputs would be the number of electric cars sold, while a measure of environmental outcomes would be the total CO₂ emissions avoided.

Question 21: How is the fund's additionality in achieving its objectives analysed?

Positive additionality in the social or environmental results achieved is one of the pillars characterising an impact investment. It is therefore essential that this additionality be demonstrated, or at least that a body of evidence credibly substantiates its existence.

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

The methods used to answer the question were developed on this basis. A score of 1 is achieved when the fund seeks to assess its additionality in the results obtained using a level 1 approach, i.e. using a single quantitative method known as "basic" (sector comparison, trend comparison, or comparison with a pre-set target) or a single qualitative method known as "basic" (survey or interview of investee companies). A score of 2 implies a level 2 approach, which is a combination of a "basic" quantitative method with a "basic" qualitative method. Finally, a score of 3 requires combinations of levels 3, 4 or 5 using more sophisticated (and therefore more accurate) techniques. For private debt, the fund will need to combine a "basic" quantitative approach with a logical method.

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

Niveau 1	Niveau 2	Niveau 3	Niveau 4	Niveau 5
Une méthode quantitative «basique»	Une méthode quantitative «basique» + une méthode qualitative «basique»	Une méthode quantitative «contrefactuelle» OU Une méthode quantitative «basique» + une méthode qualitative «structurée» OU Une méthode quantitative «basique» + une méthode logique	Une méthode quantitative «contrefactuelle» + une méthode qualitative «basique»	Une méthode quantitative «contrefactuelle» + une méthode qualitative «structurée» OU Une méthode quantitative «contrefactuelle» + une méthode «logique»

It should be noted that the sum of the positions assessed for which the additionality analysis is carried out must represent at least 70% of the assets under management.

Question 21.1 (open question): When assessing its additionality, does the fund analyse the potential indirect impacts of its investments (e.g. displacement effects)?

The effects of a fund's investments are not limited to transforming the impact of the companies in which it invests. Investments can also have positive or negative effects on other companies in which it does not invest, for example through substitution or imitation effects.

For example, one of the indirect effects of impact financing may be a decrease in the achievements and results generated by the competitors of the financed company, due to the exclusion of these competitors from certain markets by the financed company, which has become more efficient thanks to the support provided by the fund. In practice, it is difficult to track and quantify these indirect effects (which is why this question on indirect impacts is “blank” and therefore does not contribute to the rating), yet only by taking them into account can the real impact of the financing provided be accurately determined. For impact funds that do not carry out this type of assessment, this could be an interesting area for methodological improvement.

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

It is essential that the fund management team uses the results obtained to improve the fund's potential for sustainable transformation, 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 highlighted in question 22.

Question 23 (qualifying question): How are issuers' negative externalities (beyond the fund's sustainable transformation objectives) monitored?

Principle: An externality is unintentional and characterises the fact that an economic agent, through its activity, creates an external effect by providing others, without monetary compensation, with a utility or benefit free of charge (positive externalities), or, conversely, 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, both in SRI and impact investing, as enshrined in the definition of impact finance adopted by the IFD and in the recent SFDR regulation ("Do not Significant Harm").

The scope of negative externalities monitored is, at a minimum, that of the PAI in the SFDR regulation. **To be taken into account in the rating, the monitoring of issuers' negative externalities must apply to the entire portfolio.**

If systematic monitoring is not possible (due to constraints specific to the fund's asset class), the fund provides explanations, following a "comply or explain" approach. This provision may apply, for example, 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 required monitoring ().

This question is qualifying.

Level 2 response to this question, the only one considered "qualifying" for a fund claiming to have an impact, consists not only of monitoring negative externalities at the level of each fund investment, but also, and above all, of setting reduction targets for the main negative externalities identified, the achievement of which will be monitored.

Question 24 (qualifying question): Is there an internal or external control process for the sustainable transformation strategy and its results?

In order to support financial actors wishing to engage in impact finance, the working group produced a summary table of the key operational challenges of impact finance in its report on the definition of impact finance. In particular, it emphasised the need for *"critical review by independent third parties, ensuring in particular that the strategies, results and actions taken are consistent with what was planned in the supporting documents"*.

The control process used to validate level "2", which is qualifying, involves a specific mention in a document, with the option of using:

- I. internal controllers;
- II. external auditors;
- III. or an impact committee made up of independent members (independent of the management teams).

→ C.2. Quality of observed results

Question 25 (qualifying question): To what extent do the absolute results (i.e., progress or regression) observed at the issuer level correspond to the sustainable transformation objectives targeted by 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 stated in its contractual documentation and in the methodologies developed by the management team.

Question 25 asks for a comparison of the effects measured at the level of each issuer **with the fund's overall objectives.**

For private debt, line-by-line reporting is required as part of the impact report.

The higher the level of adequacy observed, by adding up all the positions where the results are moving in the desired direction (in other words, improving), the higher the score obtained (with two levels: 50%/70% of assets under management).

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

- The scope includes all positions held for at least twelve months as at 31 December of the previous year;
- The sum of the positions evaluated must represent at least 70% of assets under management on the observation date (31 December). If this is not the case, the fund may add to its analysis any 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 December), the fund scores 0 for this question.

We have introduced a “*comply or explain*” exception clause for various scenarios:

- 1.** where the fund has been unable to achieve the expected results or has been unable to observe the results obtained due to major external events beyond its control (e.g. an international crisis such as the COVID epidemic). In this case, the fund must explain in detail why these external events prevented it from achieving the expected results, or what prevented it from measuring the results obtained (i.e., issuers stopped reporting information to it), and commit to resuming measurement as soon as possible. It will then be provisionally awarded a score of 2 for this question.
- 2.** The case where the fund was unable to implement the planned contribution actions (e.g. coordinated engagement) due to unexpected external events beyond its control (e.g. the refusal of other investors to participate in a coordinated engagement process). In this case, the fund may, for a maximum of one year, remove the issuers concerned from the scope of observation.
- 3.** Where the fund has been unable to monitor the results obtained due to unexpected external events beyond its control (e.g. where 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 results (i.e., compared to sector peers, past trends or specific targets set by the fund) observed at the issuer level correspond to the sustainable transformation objectives targeted by the fund?

This question is similar to question 25, but asks 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 for comparison.**

Observed results may be considered to be “aligned with the objectives set” if they exceed the objectives (at the time of recognition at the end of each calendar year) 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 for the other questions on the results obtained, is as follows:

- The scope includes all positions held for at least twelve months as at 31 December of the previous year;
- The sum of the positions evaluated must represent at least 70% of the assets under management on the observation date (31 December). Failing this, 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 December), the fund scores 0 for the question.

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

- 1.** where the fund was unable to achieve the expected results or observe the results obtained due to major external events beyond its control (e.g. an international crisis such as the COVID epidemic). In this case, the fund must explain in detail why these external events prevented it from achieving the expected results, or what prevented it from measuring the results obtained (i.e., issuers stopped reporting information to it), and commit to resuming measurement as soon as possible. It will then be provisionally awarded a score of 2 for this question.
- 2.** The case where the fund was unable to implement the planned contribution actions (e.g. coordinated engagement) due to unexpected external events beyond its control (e.g. the refusal of other investors to participate in a coordinated engagement process). In this case, the fund may, for a maximum of one year, remove the issuers concerned from the scope of observation.
- 3.** Where the fund has been unable to monitor the results achieved due to unexpected external events beyond its control (e.g. where 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 has the fund's additionality in achieving the observed results been demonstrated?

This question is a follow-up to question 21: once the fund's additionality has been analysed, what is the result of this analysis? Given the difficulty of gathering evidence and, even more so, of scientifically demonstrating the additionality of a fund, the "trigger threshold" for the rating is reduced to 50% of assets under management.

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

- The scope includes all positions held for at least twelve months as at 31 December of the previous year;
- The sum of the positions evaluated must represent at least 70% of assets under management on the observation date (31 December). If this is not the case, the fund may add to its analysis any positions closed during the past financial year that were held for at least twelve months.
- If, despite this addition, the positions assessed still represent less than 70% of the assets under management on the observation date (31 December), the fund scores 0 for this question.

Question 27.1 (open question): Can the fund demonstrate that, taking into account indirect impacts (such as substitution and displacement effects), the results obtained are indeed positive for the sustainable transformation objectives targeted?

This question is an extension of question 21.1, and like that question, it is a blank question: once the indirect effects in terms of the fund's additionality 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 so, of establishing scientific proof of a fund's total additionality (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 for the other questions on the results obtained, is as follows:

- The scope includes all positions held for at least twelve months as at 31 December of the previous year;
- The sum of the positions evaluated must represent at least 70% of assets under management on the observation date (31 December). Otherwise, the fund may add to its analysis positions closed during the past financial year that were held for at least twelve months.
- If, despite this addition, the positions assessed still represent less than 70% of the assets under management on the observation date (31/12), the fund scores 0 for this question.

Question 28: To what extent have the negative externalities of issuers identified by the fund (beyond the sustainable transformation objectives targeted by the fund) been reduced during the fund's holding period?

This question should be considered as an extension of question 23, which asked how negative externalities were monitored and managed. Once the evolution of these externalities has been effectively measured, a fund that demonstrates that they have decreased over its investment period in accordance with the objectives set ex ante is awarded a score between 1 and 3, depending on the success rate.

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

- The scope includes all positions held for at least twelve months as at 31 December of the previous year;
- The sum of the positions evaluated must represent at least 70% of the assets under management on the observation date (31 December). Failing this, the fund may add to its analysis the positions closed during the past financial year that were held for at least twelve months.
- If, despite this addition, the positions assessed still represent less than 70% of the assets under management on the observation date (31 December), the fund scores 0 for this question.

For private debt, the measurement of issuers' negative externalities can only be carried out two years after the investment.

D. COMMUNICATION AND CREDIBILITY

Question 29: How is the Fund's potential impact 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* considers that “communicating clearly and transparently on the actions taken, the results and impacts achieved” is one of the good practices necessary to “promote credibility and confidence in impact finance and guard against any form of *impact washing*”.

The general principle that should apply when communicating potential impact/contribution is that **all communication must be supported by tangible evidence**. In this respect, the fund must base its communication on the tangible evidence at its disposal.

The use of intermediate scores

The matrix enables the fund to assess its strength in the first three sections and suggest appropriate communication. The number of points obtained in each section thus legitimises the communication that can be made.

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

- Score $\geq 90\%$ of possible points: the fund is very strong in this area and can communicate positively about its very good practice.
- Score $\geq 70\%$ of points: the fund is sound in this dimension and can communicate positively about its good practice.
- Score $\geq 50\%$: the fund is average in this dimension and can present its practices in this dimension in a neutral manner.
- Score $< 50\%$: the fund has insufficient results in this dimension and should not highlight its strengths in this dimension in its communications.

In its communications, the fund must therefore always take care to clearly distinguish between its **objectives** in terms of impact/contribution (section A), the **actions** taken to achieve this impact/contribution (section B) and, finally, the **results** obtained (section C).

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

Use of the total score

The total score measures the fund's overall potential contribution and also supports the credibility of a fund to self-designate itself as an "impact investment fund".

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

1. the fund has obtained an overall score greater than or equal to the minimum threshold set on the date of the assessment

AND

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

The case of recent funds

Recent funds (less than two years old) cannot be assessed on the basis of the actions actually taken (section B) and the effective monitoring of results (section C) and, a fortiori, cannot obtain an overall score. Even if it is possible to answer certain questions in these two sections by presenting the fund's intentions, this does not correspond to the spirit of these two sections of the matrix.

Consequently, we recommend that recent funds wishing to present their future actions and the planned procedure for monitoring results emphasise in their communications that **these are purely intentions** at this stage of their existence.

And, if they choose to self-designate themselves as "impact investment funds", to indicate via a **disclaimer** in their supporting documents that they could not be comprehensively assessed using the matrix due to insufficient history, and that they undertake to carry out a **full assessment within six months of their second anniversary**.

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

This is a qualifying question. It refers specifically to 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 impact finance, the working group produced a summary table of the key operational issues in impact finance in its report on the definition of impact finance. In particular, it emphasised the need to *"publish a robust and accurate annual impact report that is useful to all stakeholders and demonstrates the effectiveness of the actions implemented by the product"*.

A score of "2" is achieved when the report, in addition to highlighting the results of issuers, provides an aggregate view of the contribution actions implemented by the fund.

A score of "3" is achieved when the report, in addition to highlighting the results of issuers, explains the contribution actions implemented by the fund issuer by issuer and the role they may have played in the results 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 in terms of the management company's intentions and its medium- to long-term commitment to the fund in question if the social and environmental responsibility requirements and objectives it sets for itself more broadly, particularly in terms of reducing negative externalities, are consistent with the commitment it demonstrates in relation to the fund being analysed – both in terms of its internal practices and its other assets under management.

A positive response to this question therefore earns an additional point.

Question 32 (qualifying question): Is the remuneration of fund managers dependent on the fund's impact performance?

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

This is why it is essential, in the case of an impact fund for which a variable portion of remuneration (or a financial incentive mechanism) exists, that this remuneration is not exclusively indexed to the fund's financial performance (which would create a powerful potential misalignment with the impact objectives), but also to its impact performance. and it is important that this alignment with impact performance is likely, in the event of underperformance in terms of the impact achieved, to have a significant impact on variable remuneration. This is the logic behind the 0 to 3 rating for this question, with a portion of remuneration indexed to impact criteria ranging from 0 to more than half of variable remuneration. A portion of variable remuneration can be considered to be "indexed to impact criteria" when that portion of variable remuneration is likely to fall to 0 if the impact objectives are not met.

The indexation of the manager's variable remuneration to any financial performance (at fund or management company level) must be balanced with the indexation of this remuneration to impact criteria.

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

Please note: we propose to also assign a level 2 rating to funds for which the remuneration of the management teams does not include any variable component. Some impact funds (particularly solidarity funds) consider that the absence of a variable component indexed to the fund's performance allows their management teams to adopt an approach to financial return and impact that is consistent with the fund's investment thesis.

E. BONUS

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

If the share given depends on the fund's performance, then a "normal" year should be used as a basis, i.e. one that is consistent with the historical performance of the asset class.

Question 34: Does the fund organise events to raise awareness of the impact or impact reporting of the companies in which it invests?

The initiatives assessed here can take various forms: training courses, webinars, sending experts to companies, providing consultants, etc.

Question 34.1 (blank question): Does the fund organise events to raise awareness of impact or impact reporting for its ecosystem?

The initiatives assessed here can take various forms: training courses, webinars, sending experts to companies, providing consultants, etc.

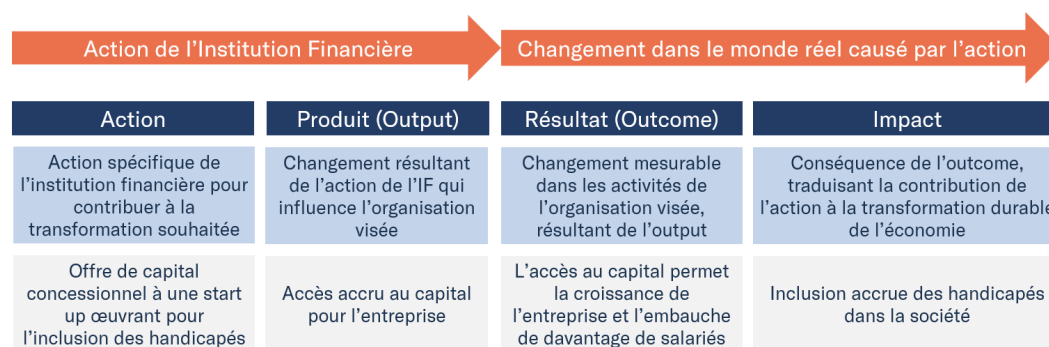
8. GLOSSARY

CONTRIBUTION ACTIONS

Actions taken by the fund to bring about a change in the behaviour of issuers, or to support their growth in cases where they are already 100% virtuous companies. These are actions taken by the fund to have an impact and achieve its objectives (examples: engaging with issuers to encourage them to improve their performance; offering concessional capital to enable the growth of issuers with a positive impact; banks offering conditional rate loans; divestments, etc.).

CAUSAL CHAIN

A series of interlinked changes connecting the financial institution's own contribution actions and the desired impact objectives. See the visual below.



CONTRIBUTION

Participation in a collective action likely to bring about sustainable change without researching, analysing or managing the additionality of the individual action.

DNSH

"Do Not Significantly Harm"

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

EXTERNALITIES (NEGATIVE/POSITIVE)

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

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

IMPACT

Impact is a process of sustainable transformation by an agent seeking to add value to their individual actions.

IMPACT AT ISSUER LEVEL

The additional effects on stakeholders of the issuer's activities and 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

Additional effects on stakeholders of issuers invested in attributable to the fund's actions after taking into account a counterfactual scenario (if the fund had not made its investments)

SUSTAINABLE TRANSFORMATION OBJECTIVE

The desire to contribute to sustainable transformation, which is reflected in the statement of a clear and precise objective to be achieved within a given time frame.

STAKEHOLDERS

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

ISSUERS' SUSTAINABLE TRANSFORMATION PERFORMANCE

The degree to which each issuer has achieved its assigned objectives, as measured by indicators. In the context of a fund, these indicators are either aggregated at the fund level or specific to issuers/groups of issuers.

KPIs and associated objectives may be taken from an existing database or tailored to specific needs, provided that they are precisely defined and that 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

The effects of the issuer's activities and outputs on its stakeholders

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

SLL/SLB (SUSTAINABILITY LINKED LOAN OR SUSTAINABILITY LINKED BOND)

These bonds are debt securities whose financial and/or structural characteristics may vary depending on whether or not predefined sustainability/ESG performance targets are met by the issuer.

THEORY OF CHANGE

A strategy for planning the change process, highlighting the causal chain linking the fund's own contribution actions and the desired impact objectives.

According to ISO 14097: "A strategy for planning the change process that highlights the causal chain linking the financial institution's own contribution actions and the desired impact objectives."

SUSTAINABLE TRANSFORMATION

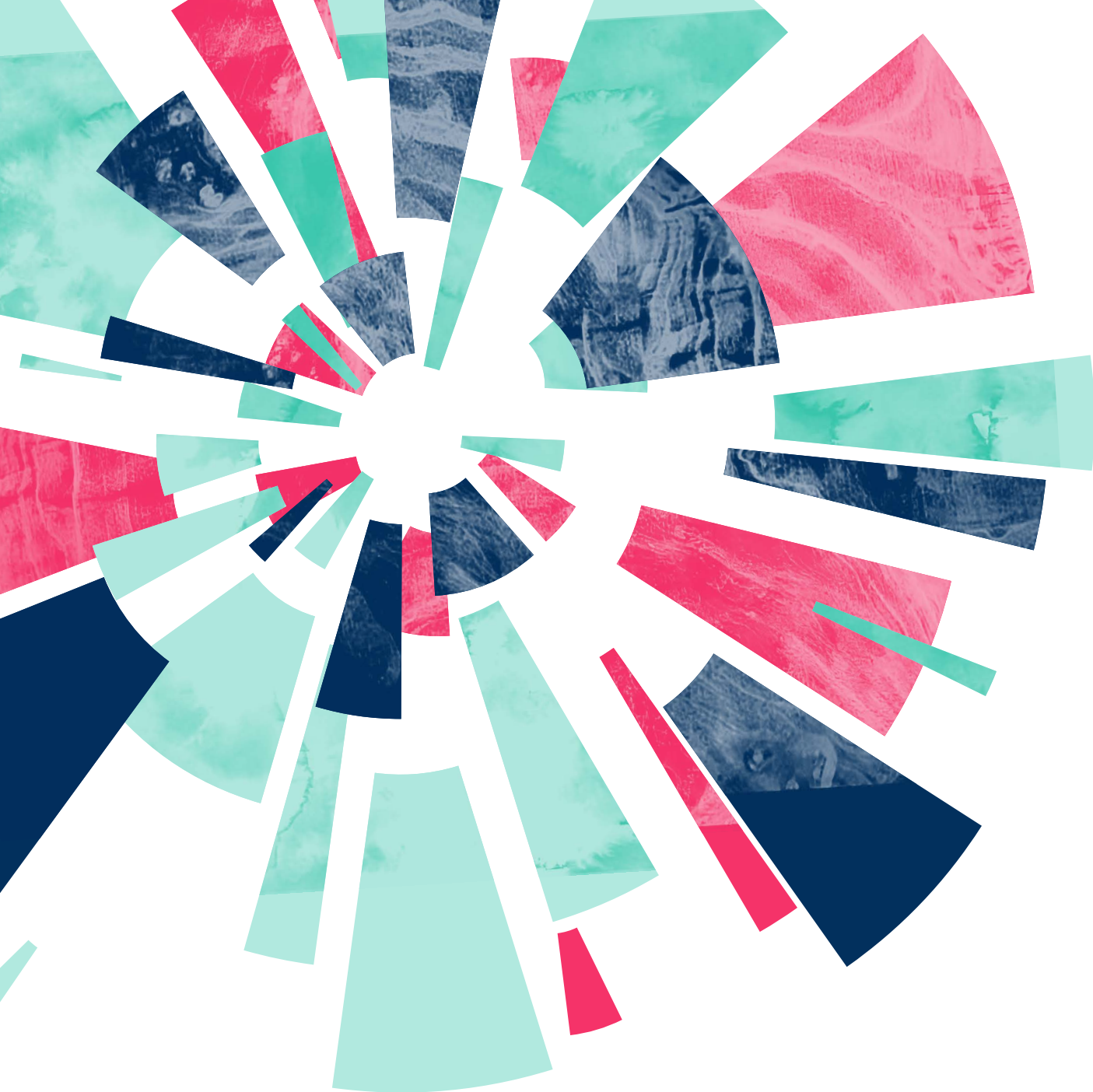
The notion that companies' understanding of sustainable development issues should enable them to embed this transformation in the long term and have a real impact on the environment or society through a holistic approach that integrates these issues into all of its components at the strategic, tactical and operational levels.

FOR MORE INFORMATIONS

CONTACT

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PARIS EUROPLACE

GROUPE DE PLACE IMPACT

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

ASSET CLASS: PRIVATE DEBT

November 2025