INSTITUT DE LA FINANCE DURABLE
PARIS EUROPLACE

IMPACT FINANCE

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

ASSET CLASS: REAL ESTATE ASSETS

May 2025

SUMMARY

1. BACKGROUND

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 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 the subject of impact, which ended in June 2023, had 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.

This has now brought together more than 150 institutions in 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.

A working group was therefore 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 Sustainable Finance Institute proposed the following definition:

> "*Impact finance is 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 is part of a broader framework, notably the Sustainable Development Goals, which have been adopted at the international, national and local levels.*

2. THE OBJECTIVES OF THE EVALUATION SCALE

THE MULTIPLE POSSIBLE USES

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

6 A self-assessment tool

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

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

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

6 An educational tool

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

6 An information tool for investors

The Scale may be used for informational purposes for fund investors. The rating 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 Sustainable Finance Institute.

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.

6 A tool for identifying impact funds

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

Specifically, they form the basis of the **Impact Charter** of the Sustainable Finance Institute. This charter, which aims to harmonise the practices of funds claiming to be "impact" 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 grid, however, a minimum interim score of 55% 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 criteria at the required level, 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" label by approved auditors and, in the long term, contribute to a possible future Impact Label, whether or not it is backed by the SRI Label.

AN ANALYSIS GRID BY EVOLVING NATURE

Ultimately, how the grid will be used **depends heavily on its adoption by the financial ecosystem**.

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

To this end, feedback from participants to the Sustainable Finance Institute once the grid has been released is strongly encouraged**,** and **a biannual review of the grid** by a committee of experts is planned**, which is likely to be adjusted based on this feedback**.

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

A GRID ADAPTED TO DIFFERENT ASSET CLASSES

The initial review of the grid revealed the need to adapt the "generic" grid to the specific characteristics of the various asset classes (listed equities, listed debt, unlisted equities, unlisted debt). It was with this in mind that the grid specific to active real estate funds, attached to this notice, was developed.

3. THE METHOD OF THE METHOD USED TO CONSTRUCT THE GRID

SOURCES OF INSPIRATION

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

The grid is also inspired by several previous studies conducted in France and abroad (by professional associations such as the Global Impact Investment Network or the International Finance Corporation, or by academic researchers) on impact finance, its definition, 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 m 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" grid was developed based on discussions between the two leaders of the Market 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 during regular working meetings. This enabled several iterations of the grid to be produced, which were then submitted for real-life testing with partner funds. The results collected and the feedback from the test participants were used to adjust the structure of the grid and the wording of the questions and answers.

Based on the "Unlisted Shares" grid, the "Real Estate Assets" version was developed through discussions between ASPIM, its members and IFD. Its changes compared to the unlisted shares grid were presented in October 2024 to the IFD Impact Commission. They were then submitted to the Impact Commission's Expert Committee and validated by it.

4. POINTS OF DEBATE AND APPROACH ADOPTED

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

IMPACT AND ESG APPROACHES

The definition provided by the working group "*explains the difference between responsible finance, which focuses on processes and risk management, and impact finance, which is embodied by the three pillars recognised by the market and anchored by the work of France Invest and the FIR*:

— ***inĒgnĒionnaliĒé**, which corresponds both to the desire of the financial actor to contribute to generating social and/or environmental benefits and to the desire of the financed company, which has placed the achievement of one or more sustainable development objectives at the heart of its business model;*
— ***l*addiĒionnaliĒé**, which corresponds to the specific contribution made by financial actors enabling the beneficiaries of investments/financing to increase themselves the impact generated by their activities.*
— ***MGSURG**, 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, going beyond the practice of portfolio alignment. As stated in the report on the definition of impact finance by the Sustainable Finance Institute, "*all impact finance is transformative finance, constantly evolving in terms of financial and non-financial criteria.*"

The approach adopted:

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

The distinction is important because investing in entities with a positive impact does not guarantee a positive impact for the investor. If, as a result of the investment, the investee 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 conditions already exceeds supply from project promoters 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 substitutes for investments by other investors).

The wording of the questions in the grid 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 getting them to reduce their negative impacts.

As stated in the report on the definition of impact finance by the Institut de la Finance Durable (Institute for Sustainable Finance) in its report, "*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 grid 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 results for these other objectives, in other words, generate negative externalities. Should the positive and negative effects of the fund's actions be weighed up?

The approach adopted:

The assessment scale distinguishes between the fund's results in relation to the targeted sustainable transformation goals and the negative externalities (other than those that the fund may wish to target) associated with the activities of the entities in which it invests. 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 actions taken by the fund and the additional results achieved in the real economy, and to measure the share of these additional results attributable to the actions taken by the fund.

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 rarely 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 grid towards "estimating the potential contribution to sustainable transformation".

This shift from impact to contribution implies a significant change in the grid's scope of study. 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 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 with regard to the final effect of the actions carried out by the fund.

Thus, **in its current form**, **the grid is only intended to enable me to gather 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 aiming for excellence, the grid 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, on a semantic level and despite these considerations, we have chosen to use the term "impact potential" rather than "potential for sustainable transformation" for reasons of linguistic fluidity.

ADDITIONALITY IN THE GRID

Additionality, which is the central pillar of any impact-based approach, can be analysed and assessed in a number of 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 entities invested in (micro) and the indirect impacts on other stakeholders (other funds, competitors of the entities invested in, 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 grid 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 analysing the results is clearly the macro level, which includes both direct and indirect impacts. However, it also appears to us that, in the absence of information on competitors, assessing indirect impacts is (at present) even more beyond the scope of the funds than accurately assessing direct impacts.

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

THE COMPLEXITY OF THE GRID

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

Following these comments, an effort was made to clarify the grid so that each of the questions and proposed answers would be perfectly understandable, drawing on the explanations provided for each of them in this notice where necessary (see detailed explanatory note, p. 16). However, we would like to emphasise that the grid 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 grid by removing the dimensions that are problematic for managers (particularly the search for additionality) due to **the risk *of impact washing* that would result**. We have therefore opted to retain difficult questions, offering different response levels 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 being the most inaccessible to current management practices.

Similarly, as the grid 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 GRID

6 Distinction between new funds and old funds

Another recurring comment is that a grid 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 existing funds that can point to past results.

The approach adopted:

We wanted to retain a series of questions on the quality of the results obtained in addition to questions on the procedures for monitoring results, 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 grid.

Rather than providing a partial score for these funds, which would be limited to Part A on objectives, 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 grid due to insufficient history.

For these funds, **however, the grid remains useful** for developing 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 grid 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
"Impact Investment Fund" within the meaning of the IFD's "Impact" market group two years after their creation.

THE NORMATIVITY OF THE GRID

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

The approach adopted:

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

5. THE APPROACH OF THE GRID

THE 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 SGP 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 actions.

WEIGHTING

Each of the 34 questions offers several response options corresponding to different levels of difficulty, 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 soundness 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 Coherence, represents 10 points and 10% of the maximum total score. The Bonus question (worth 3 points) is added to the total obtained in the 4 sections for a maximum "capped" score of 100 points and therefore 100%.

The table below shows the overall structure of the Real Estate Assets grid, with the distribution of questions and points between the different sections:

		Number of questions		Number of points	
A	**THEORY OF CHANGE**	**13**		**30**	
A.1	Definition of general objectives		6		12
A.2	Definition of actions taken		7		18
B	**OPERATIONAL IMPLEMENTATION**	**5**		**27**	
C	**RESULTS MONITORING**	**10**		**30**	
C.1	Procedure for monitoring results		6		15
C.2	Quality of observed results		4		15
D	**COMMUNICATION AND CREDIBILITY**	**4**		**10**	
	TOTAL	**32**		**97**	
E	**BONUS**	**2**		**5**	

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 grid 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 of the objectives, 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 grid due to insufficient history.

QUALIFYING QUESTIONS

The grid has identified 13 essential questions which, in our opinion, 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 aims to reduce any negative externalities associated with its actions or those of selected issuers beyond its sustainable transformation objectives (**intentionality**)> Q6

» Selects the vast majority of issuers invested in 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

» Communicates appropriately on the fund's potential contribution (**transparency**)> Q29

» Produces an annual impact report accessible to investors> Q30 (**transparency**)

» Applies a remuneration policy consistent with the pursuit of impact (**consistency**)> Q32

6. GENERAL INSTRUCTIONS FOR COMPLETING THE GRID

When answering a given question, always check beforehand that it applies to at least 70% of the fund as a percentage of the total valuation 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 valuation.

In the case of real estate funds, these asset percentages, like all those mentioned in the table, should be understood as referring to assets excluding the liquidity reserve, where this is imposed on the fund manager by the regulator (and only up to the minimum reserve imposed by the regulator).

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

Each answer 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 levels of compliance with the requirement).

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

7. DETAILED EXPLANATORY NOTE ON THE GRID

A. THEORY OF CHANGE

6 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 covered.

The transformation objectives mentioned here refer to those of the fund and not to the sustainable investment objectives of Article 9 of the SFDR.

The criterion of the number of OTDs 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: access to drinking water in the Sahel; eco-friendly agricultural production in urban areas; etc. 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, i.e. 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 property asset invested 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 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.

Examples of reference scenarios could include: 1.5°C alignment of all underlying assets in the fund, alignment of all assets with international and/or European biodiversity objectives, etc.

Question 4: Is the need addressed by each sustainable transformation objective pursued by the fund covered by existing funds?

This question is considered for the main objectives/needs expressed as a percentage of the total value of the underlying assets and gives rise to three levels of response (0, 1, 2), clearly illustrating 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.

The objective pursued by the fund must meet a specific need and/or provide a solution to a problem that has been clearly identified at the outset. To this end, several sources and/or media may be used: scientific studies, international agreements, benchmarks, surveys, etc.

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

This question, which is an open question (and therefore does not contribute to the total score), allows for three levels of response (0, 1, 2) and, while complementing our quest for proof 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").

For example, an original or innovative solution could be: a legal mechanism, a technological solution, stakeholder engagement, an economic model, etc.

Question 5 (qualifying question): Does the fund set itself the explicit objective of having an impact in its 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 real estate assets beyond the targeted sustainable transformation objective(s)?

This qualifying question has two possible answers (0.2): the expected answer is therefore binary and confirms the fund's intention. 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 applicable, helping to reduce the negative externalities associated with the investments. The selection of issuers ex ante alone is not considered sufficient.

Under the DNSH framework, the necessary granularity must enable the detection of significant (or material) negative externalities at the issuer level. Negative externalities refer to any unintended negative impact that may have been generated by the issuer. In the case of real estate assets, negative externalities correspond to PAI. However, in order to meet the requirements, it is necessary to define a quantified threshold (e.g. a maximum proportion of inefficient assets to be complied with).

6 A.2. Definition of 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 refers to 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 feeds into 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/ Stakeholder engagement, 5/ Signalling the importance of impact (other signals).

This question aims to highlight the suitability of the impact strategy of the fund being evaluated 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 that action on at least 70% of the assets under management.

Details of the different types of planned contribution actions:

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

1. **Provision of flexible capital:** this involves providing capital on preferential terms for beneficiaries compared to existing market conditions. For real estate funds, this may involve applying financial terms to tenants, residents or users that are below market prices. For example, the m impact fund decides to apply rents that are below market prices.

2. **Development of new capital markets where supply is insufficient:** this involves providing capital to market segments that are traditionally underfunded due to their specific characteristics (small size, low profitability, insufficient track record, specific risk, etc.). For real estate funds, for example, investment addresses the issue of vulnerability (of the target population or the asset itself) or responds to insufficient supply, enabling significant social, societal and/or environmental challenges to be met. An example relating to the environment: the amount allocated to energy-efficient renovation of buildings is insufficient. It will be necessary to go beyond the regulations currently in force.

3. **Provision of non-financial support:** this refers to non-financial assistance offered by the fund that is likely to improve impact through the growth or transformation of the real estate asset (technical assistance, provision of an expert, training, networking, etc.). For real estate funds, initiatives may involve one or more stakeholders. For example: a commitment to use service providers from the social and solidarity economy, exclusion of tenants, specifications for developments/works imposed on developers, general contractors, sharing of spaces with local associations, etc. However, the commitments made must have a transformative impact on the functioning of the stakeholders.

4. Stakeholder engagement: these are engagement practices that shareholders can implement to influence stakeholder decisions in a way that is favourable to the impact. For real estate funds, the engagement policy may consist of initiatives promoting the energy and/or social transition of tenants that are likely to improve their impact (and go beyond regulations). Social transition includes both measures to improve access to real estate assets for so-called "vulnerable" populations, but also covers issues of comfort, health and safety for the occupants of the asset(s) invested in.

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 impact 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 om IMP classification)		Type of Change	Evidence Level	Requirements	Limitations	Typical Asset Classes
Provide flexible capital		Enabling **Growth**	3	+ Investments in companies with a positive impact. + Companies growth depends on access to flexible capital.	- Not suited for companies that have sufficient access to philanthropic or commercial capital.	**Alternative assets:** private equity, private debt, venture capital

Grow new/undersupplied capital markets			3	+ Investments in companies with a positive impact
				+ Companies growth is limited by external financing conditions. This is more likely:
				    + For small and young companies
				    + For companies with mainly intangible assets
				    + In immature financial markets
					- Not suited for investments in large, established companies. These companies usually have sufficient access to external financing.	

Engage Actively	Provide non-financial support		3	+ Investments in companies with a positive impact. + Investors with know-how, reputation or network that helps companies grow faster.	- Only suited for early stage investments, where investors have the possibility to take directly influence the company.	

	Shareholder engagement	Encouraging **Improvement**	3	+ Focus on meaningful improvements that companies can meet at reasonable cost.
				+ Investor with strong influence on a company. Influence increases with:
				    + The number of shares held by investor
				    + The cultural proximity with the company
				    + Size and reputation of the investor
					- Limited to incremental improvements, unlikely to transform industries	**Liquid assets:** public equity, public debt

Signal that impact matters	Market signals		2	+ Transparent ESG criteria that companies can meet at reasonable cost + Substantial portion of the market screening out or underweighting firms that don't meet the ESG criteria	- Effect unlikely for industry exclusion - Disagreement how to measure ESG criteria.	
	Non-market signals	Growth or improvement	1	+ High level of public visibility of signals	- Impact is difficult to evaluate as it is indirect and depends on political action or cultural change	

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 unable to precisely rank the various actions or assert with complete certainty that one action is more effective than another. It is important to note that all of 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 (blank question): Does the fund use impact mechanisms other than those described above? If so, please describe them.

This question is an "open-ended" 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 ongoing improvement of the grid. 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 grid.

To answer this question, empirical evidence is required: the impact mechanism not listed in question 8 and used by the fund must be demonstrated by quantified results.

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

This qualifying question gives rise to two levels of response (0.2): the expected response 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".

To illustrate the search for additionality, here are two examples:

— A fund investing in student residences:

- ESG: consideration of ESG characteristics during the acquisition and/or management phase
- SRI: in addition, definition of an environmental objective, monitoring of performance indicators, improvement of ESG performance over several years
- Impact: in addition, definition of an impact thesis aimed at improving student well-being through housing

— A fund investing in obsolete office assets to be converted into housing

- ESG: consideration of ESG characteristics during the acquisition and/or management phase
- SRI: in addition, definition of an environmental objective to improve energy/carbon performance, monitoring of performance indicators, improvement of ESG performance over several years
- Impact: in addition, facilitating access to housing for a population that is distant from the market while renovating energy-inefficient buildings

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

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

This question allows 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.

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 if, for example, the success of this theory is conditional on the same action being taken (e.g. positive screening on listed markets) by a large number of other investors; or if the success of the theory of change depends on the introduction of a supportive public policy; etc.

For example, for real estate funds, achieving the fund's transformation objective depends on the mobilisation of tenants, the effective completion of works, changes in regulations, etc.

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.

A measure is defined as any action taken by the fund to identify possible negative externalities associated with its investments, assess their significance (materiality), and control them once the investment has been made.

This therefore includes:

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

— Post-investment: stakeholder engagement (ESG charter, contract incorporating ESG clauses, financial incentive or variable remuneration mechanism, meeting clauses, etc.) with real estate assets providing responses to identified material negative externalities.

B. OPERATIONAL IMPLEMENTATION

Question 14 (qualifying question): How systematically do the selected assets under management 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 chosen issuers were selected over others.

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

Question 15: How intensively does the fund use the impact mechanisms most relevant to its asset class (real estate assets)?

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

15.1. Examples of flexible capital contributions could include:

— A more affordable rent compared to a comparable offer (e.g. nursing home assets);

— A high ratio of works in relation to the asset's VVHD (higher than market ratios) with no compensation in terms of rental conditions (no franchise, no lease extension);

— The addition of exemptions subject to social or environmental performance conditions;

— An assessment of end-user satisfaction (e.g. patients, customers, residents) conducted by the lessor, enabling a continuous improvement process to be initiated (e.g. for operators of managed healthcare/residential assets) as stipulated in the lease.

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

Moderate access	**Difficult access**	**Very difficult access**
Real estate asset generating income long-term rental or with a tenant of high quality (with no risk of immediate default)	Real estate assets on which the rental risk exists but medium-term	Real estate asset on which the rental risk exists in the short term
Real estate assets virtuous (e.g. energy performance certificate A/B, certification environmental at the highest level)	Non-performing real estate asset virtuous but whose plan of works enabling make it virtuous does not does not risk the balance of the asset	Non-performing real estate assets virtuous and whose of works enabling make it virtuous puts the economic balance economic value of the asset

NB: the term financing refers both to the investment and to the amount spent on works once the asset is in the portfolio.

An example of this practice could be an impact lease between tenant and landlord with bonus mechanisms based on energy performance achieved.

15.3 The intensity of the non-financial support provided by the Fund to the real estate assets in its portfolio is assessed on the basis of the number of annual interactions (not quantified at level 1, 1 interaction/year/stakeholder at level 2, more than 2 interactions/year/stakeholder at level 3).

Please note: these interactions must go beyond standard best practices (and, of course, European, national or local regulations). For example, regulatory green committees in France and meetings with service providers or property managers cannot be counted as interactions.

Examples that could be considered valuable include:

— Training sessions for tenants or service providers, if these are duly formalised (support, attendance sheet, knowledge assessment);

— Supporting tenants in their CSR strategy (putting them in touch with service providers/tools, presenting a reference framework/standard, etc.).

15.4 : for real estate funds, stakeholder commitment refers, for example, to m a lease incorporating variable rent clauses based on the achievement of energy performance targets over a year, or m a *property management* contract incorporating variable remuneration triggered by the achievement of targets for works that improve energy/carbon performance in a quantitatively monitored manner.

Question 16 (qualifying question): What actions does the fund take to control the negative externalities associated with its investments (beyond the fund's sustainable transformation objectives)?

This question is qualifying. If the fund's sustainable development objective is to have an impact by reducing certain types of negative externalities from the issuers invested in (e.g. carbon emissions), here we are concerned with procedures for correcting other potential negative externalities from the issuers selected.

To identify the "material" negative externalities specific to each investment, users can refer to sectoral materiality matrices, such as those proposed by SASB, the DNSH of the Taxonomy or the PAI of the SFDR.

Level 1 is qualifying.

Question 17: Does the fund apply a specific strategy to ensure that its impact/contribution is realised and sustained?

Investment duration

The report by 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 signals, preferential financing or financing for underfunded sectors, non-financial support, etc.).

Exit strategies

Similarly, we believe it is important for exit strategies to take into account the expected effect on long-term impact, in accordance with OPIM principle 7[e].

In the case of real estate assets, this involves, for example, analysing the virtuous nature of the project proposed by the buyer of an asset put up for sale, analysing the virtuous nature of the tenant when taking out a lease, or analysing the virtuous nature of construction companies, for example.

This criterion must be maintained over time.

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

Simply using databases on issuers' ESG or SDG profiles is not sufficient to obtain points for this question. Indeed, the selection of issuers
"Positive impact" alone cannot constitute an impact strategy.

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

1. Assess the impact profile of issuers in their investment universe ex ante

2. Determine relevant sustainable transformation objectives for each issuer invested in

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

4. Take the necessary actions to generate the desired impact (engagement, voting, 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

6 C.1. Results monitoring procedure

Question 19: Is the non-financial performance of real estate assets 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". The rating obtained depends on the proportion of assets under management subject to this monitoring of issuers' non-financial performance (0 for less than 90%, 2 for more than 90%).

For real estate funds, the liquidity pocket should be excluded, and the grid should be applied to each pocket (excluding liquidity) and each underlying asset.

Question 20 (qualifying question): Is there any monitoring of relative changes (in relation to m the specific objectives set ex ante by the fund, m comparable assets or m a past trend) in the non-financial performance of real estate assets during the period of ownership by the fund?

This qualifying question allows us to characterise the fund's intentions with regard to issuers' non-financial performance: have targets or benchmarks been set for each issuer, and is non-financial performance assessed against these targets? The rating scale is similar to that of the previous question, based on the share of the portfolio concerned (less than 50%, 50% to 70%, and above 70%).

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 investee companies and, secondarily, of the fund through its investments is operationally difficult and requires the use of more or less sophisticated quantitative methods.

Impacts are the effects on society or the environment compared to a counterfactual scenario. The counterfactual scenario must therefore first be identified, which is no easy task.

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 real estate assets, one measure of achievements would be, for example, the number of stakeholders with whom environmental performance criteria have been added to contracts (leases, works contracts, PM, etc.). On the other hand, one measure of environmental results would be the rate of improvement in energy or carbon performance over a year.

Question 21: How is the fund's additionality in achieving the 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 that at least a body of evidence credibly supports its existence.

In another deliverable from 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 for answering 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 "basic" quantitative method (sector comparison, trend comparison, or an ex ante target) or a single "basic" qualitative method (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.

In the case of interviews, the responses obtained must be sufficiently meaningful and representative to be used as evidence (proportion of respondents, sample size, etc.).

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

A quantitative method "basic"	A quantitative method "basic" + a qualitative method "basic"	A quantitative "counterfactual" **OR** A quantitative method "basic" + a qualitative method "structured" **OR** A quantitative "basic" quantitative method + a logical method	A quantitative "counterfactual" + a "basic" qualitative method	A quantitative "counterfactual" + a qualitative "structured" **OR** A quantitative method "counterfactual" + a method "logical"

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 (optional question): In 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 reduction 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 monitor 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 draws on the observation of 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 valued in this question 22.

Question 23 (qualifying question): How are the negative externalities (beyond the fund's sustainable transformation objectives) of real estate assets 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 advantage 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 needed to carry out the required monitoring.

For value-add real estate funds, the objective is to define the targets for improvement in PAI (post-works).

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 the negative externalities at the level of each investment of the fund, 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?

This is a qualifying question.

In order to support financial actors 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 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 the use of either:

I. internal controllers;

II. external auditors;

III. or an impact committee made up of independent members

6 C.2. Quality of observed results

Question 25 (qualifying question in 2025): To what extent do the absolute results (i.e., progress or regression) observed in terms of real estate assets correspond to the sustainable transformation objectives targeted by the fund?

It is obviously preferable for the fund targeting contribution/impact 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 real estate asset **with the fund's overall objectives.** Here, the term "real estate asset" is understood in the broad sense and not only in the physical sense; it refers to the evaluation of all results obtained in relation to the asset (e.g. social policy, etc.).

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, are improving), the higher the score obtained (with two levels: 50%/70% of assets under management).

In the case of Value-Add funds: the objectives included when the licence was filed or during the design phase (e.g. through dynamic energy simulation) are accepted. The objective is understood to be at the asset level and not at the tenant level.

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 (31/12). If this is not the case, 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 evaluated still represent less than 70% of assets under management on the observation date (31/12), the fund scores 0 on the 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 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 given a transitional score of 2 for this question.*

2. *Where the fund has been unable to implement the planned engagement actions (e.g. coordinated engagement) due to unexpected external events beyond its control (e.g. other investors refusing to participate in a coordinated engagement process). In this case, the fund may, for a maximum of one year, remove the issuers concerned from its observation scope. The unexpected external event must be genuinely unexpected. A refusal to vote at a co-ownership general meeting cannot be accepted as such.*

3. *Cases where the fund has been unable to monitor performance due to unexpected external events beyond its control (e.g. when an issuer has stopped reporting the requested information). In such cases, the fund may exclude the issuers concerned from its monitoring scope for a maximum period of one year.*

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 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 actions 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).

For Value-Add funds: the objectives included when the permit was filed or during the design phase (e.g. through dynamic energy simulation) are accepted. The objective applies to the asset as a whole and not to the tenant.

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). Otherwise, the fund may add to its analysis the positions closed during the past financial year that were held for at least twelve months.

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

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

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 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 given a transitional score of 2 for this question.

2. Where the fund has been unable to implement the planned engagement actions (e.g. coordinated engagement) due to unforeseen external events beyond its control (e.g. other investors refusing 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. The unexpected external event must be genuinely unexpected. A refusal to vote at a co-ownership general meeting cannot be accepted as such.

3. Cases where the fund has been unable to monitor the results obtained due to unexpected external events beyond its control (e.g. when an issuer has stopped reporting the requested information). In such cases, the fund may, for a maximum period of one year, exclude the issuers concerned from the scope of observation.

Question 27: To what extent is the fund's additionality in achieving the observed results demonstrated?

This question follows on from question 21: once the additionality of the fund has been analysed, what is the outcome 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.

In the case of interviews, the responses obtained must be sufficiently meaningful and representative to be used as evidence (proportion of respondents, sample, etc.).

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

Question 27.1 (blank 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 the total additionality of a fund (i.e., including direct and indirect effects), the
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). If this is not the case, 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 evaluated still represent less than 70% of the assets under management on the observation date (31 December), the fund scores 0 for this question.

Question 28: To what extent have the negative externalities of issuers (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 assigned 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 (31/12). If this is not the case, 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 evaluated still represent less than 70% of assets under management on the observation date (31/12), the fund scores 0 on the question.

D. COMMUNICATION AND CREDIBILITY

Question 29 (qualifying question): How is the fund's potential impact communicated to savers and investors?

Threshold 3 is qualifying.

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 best practices necessary to "promote credibility and confidence in impact finance, and to 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 should base its communication on the tangible evidence at its disposal.

The use of intermediate scores

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

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

— Score> = 90% of possible points: the fund is very strong in this area and can communicate positively about its excellent practices.

— Score> =70% of points, the fund is sound in this dimension and can communicate positively about its good practice.

— Score ≥ 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 relative strengths in this dimension in its communications.

In its communication, 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 call itself an "impact investment fund".

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

1. **the fund has obtained an overall rating equal to or higher than the minimum threshold set on the date of the assessment**

AND

2. **the fund has successfully passed the qualifying questions test.** **<u>The case of recent funds</u>**

Recent funds (less than two years old) cannot be assessed on the actions actually taken (section B) and on 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 grid.

Consequently, we recommend that new funds wishing to present their actions and the planned procedure for monitoring results emphasise in their communications that **these are purely intentional** 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 grid due to insufficient historical data, 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?

The question is qualifying. This is indeed 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 challenges of 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, explains the contribution actions implemented by the fund and the role they may have played in the results obtained.

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 SGP'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 itself more broadly, particularly in terms of reducing negative externalities, are consistent with the commitment it demonstrates in relation to the fund under analysis – both in terms of its internal practices and its other assets under management.

A positive response to this question therefore adds 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 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 underlying the rating of 0 to 3 for this question, with a portion of remuneration indexed to impact criteria of 0 to more than half of variable remuneration. A portion of variable remuneration may be considered to be "indexed to impact criteria" when that portion of variable remuneration is likely to fall below 0 if the impact objectives are not met.

Note: for the time being, score 1 (qualifying) does not specify what constitutes a "significant proportion". In a future iteration of the grid, a quantitative threshold will be indicated (likely around 10%).

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 1 rating to funds for which the remuneration of management teams does not include any variable component. Some impact funds (particularly solidarity funds) consider that the absence of a variable remuneration component allows their management teams (who are reputed to find other motivations in managing impact funds than seeking to maximise their personal gain) to adopt an approach to financial return and impact that is consistent with the fund's investment thesis.

E. BONUSES

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 must be used as a basis, i.e. one that is consistent with the historical performance of the asset class.

For real estate assets, examples include a sharing mechanism based on collection, fund performance and the amount of rent collected.

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

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 issuers' behaviour, 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 loans at conditional rates; 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.

Action de l'Institution Financière		Changement dans le monde réel causé par l'action	
Action	**Produit (Output)**	**Résultat (Outcome)**	**Impact**
Action spécifique de l'institution financière pour contribuer à la transformation souhaitée	Changement résultant de l'action de l'IF qui influence l'organisation visée	Changement mesurable dans les activités de l'organisation visée, résultant de l'output	Conséquence de l'outcome, traduisant la contribution de l'action à la transformation durable de l'économie
Offre de capital concessionnel à une start up œuvrant pour l'inclusion des handicapés	Accès accru au capital pour l'entreprise	L'accès au capital permet la croissance de l'entreprise et l'embauche de davantage de salariés	Inclusion accrue des handicapés dans la société

CONTRIBUTION

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

EXTERNALITY (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 of an agent seeking to add value to their individual actions.

IMPACT AT THE 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 THE FUND LEVEL

The additional effects on the stakeholders of the 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

Commitment to contributing to sustainable transformation, which is reflected in the statement of a clear and specific objective to be achieved within a given time frame.

STAKEHOLDERS

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

SUSTAINABLE TRANSFORMATION PERFORMANCE OF ISSUERS

Degree of achievement of the objectives assigned to each issuer, measured using indicators. In the context of a fund, these indicators are either aggregated at 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 THE 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 THE ISSUER LEVEL

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

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

THEORY OF CHANGE

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

According to ISO 14097: "Strategy for planning the change process, highlighting 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 aspects of the business at the strategic, tactical and operational levels.

FOR MORE INFORMATION

CONTACTS

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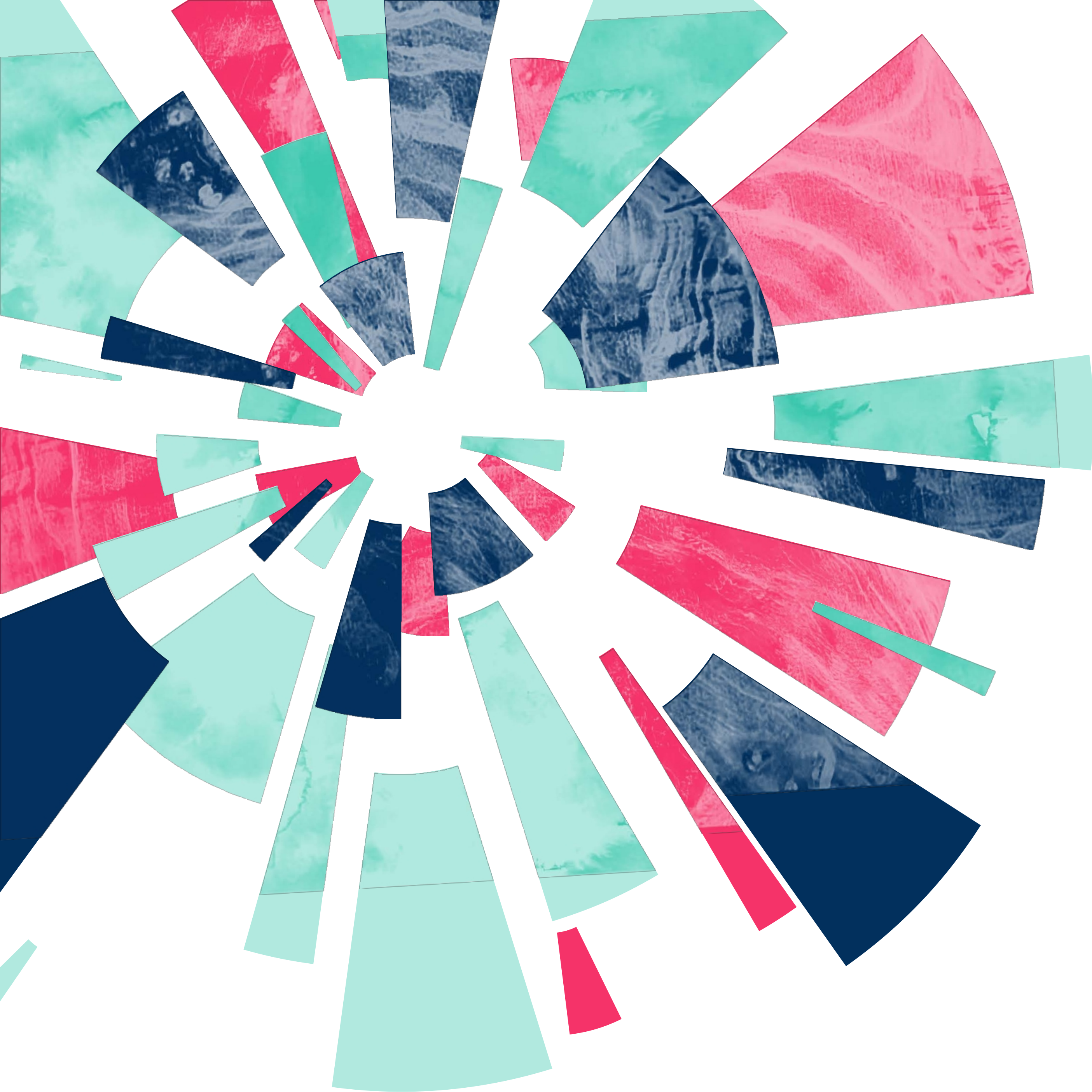

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PLACE IMPACT GROUP

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

ASSET CLASS: REAL ESTATE ASSETS

May 2025