



## Theory of Change

Echiquier Climate &  
Biodiversity Impact Europe



LA FINANCIÈRE  
DE L'ÉCHIQUIER

# THEORY OF CHANGE

## ECHIQUIER CLIMATE & BIODIVERSITY IMPACT EUROPE

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### PREAMBLE

This document presents the **theory of change** of the Echiquier Impact SICAV sub-fund: Echiquier Climate & Biodiversity Impact Europe (ECBIE)<sup>1</sup>. In the definition of impact investing proposed by the Institut de la Finance Durable (IFD)<sup>2</sup>, the theory of change framework is presented as :

*"A clear and transparent methodology describing the causal mechanisms through which the investment strategy contributes to environmental and social objectives defined upstream, the relevant investment or financing period, and the measurement methods".*

This document is built around best practices in theory of change, as identified by the Global Impact Investing Network (GIIN) and by IFD through its impact potential evaluation matrix for funds.

This summary document complements the fund's **impact report**, which gives a more detailed presentation of the fund's methodology, the results of the year's impact measurements, and case studies of certain portfolio companies.

We recommend that you read this document in conjunction with the fund's impact report.

*Disclaimer: The opinions expressed in this document are those of the management team. The investor's attention is drawn to the fact that his investment in the sub-fund does not generate any direct impact on the environment and society, but seeks to select and invest in companies that meet the precise criteria defined in the management strategy.*

**Update :** August 2024

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<sup>1</sup> In this document, for reasons of simplicity, the term "fund" will be used to designate this SICAV sub-fund.

<sup>2</sup> IFD's work on impact investing is available at: <https://institutdelafinancedurable.com/en/impact-finance/>

## I. ISSUES TO BE RESOLVED AND GENERAL OBJECTIVE OF THE FUND

### PROBLEMS TO BE SOLVED : "Engaging companies in climate and biodiversity."

- **The latest IPCC report<sup>3</sup> from 2022** reminds us that temperatures have already risen by 1.1°C compared to the pre-industrial period, and that the global warming level of 1.5°C will be reached as early as 2030. Impacts are accelerating and intensifying, and future risks will be increasingly complex, combined, cascading and difficult to manage.
- **The latest IPBES<sup>4</sup> biodiversity report for 2019** estimates that 75% of the Earth's surface is significantly altered, and that 25% of plant and animal species are threatened.

⇒ These major challenges of our century are changing the equations for companies and financial markets. It is crucial to **attract capital to companies committed** to combating climate change and preserving biodiversity. The International Monetary Fund (IMF) estimates that **an additional annual investment of 3,740 billion euros**, on top of the 830 billion euros already required, will be essential between now and 2030 if we are to achieve the objectives of the Paris Agreement.

### GENERAL OBJECTIVE OF THE FUND: "To support European companies that contribute to carbon neutrality and the preservation of biodiversity."

- Faced with these challenges, Echiquier Climate & Biodiversity Impact Europe has made the singular choice of **supporting all sectors of the economy in their transition**.
- ECBIE's objective is to support **European companies that contribute to carbon neutrality and the preservation of biodiversity** by :
  1. **Providing solutions**
  2. **Displaying best practices** or
  3. **Accentuating their transition**.
- The **potential environmental contribution** of these different types of investment, assessed in particular through the Climate and Biodiversity Maturity Score (MCB)<sup>5</sup>, is the starting point for generating investment ideas.

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<sup>3</sup> Intergovernmental Panel on Climate Change.

<sup>4</sup> The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services.

<sup>5</sup> The construction of the fund is based on the MCB score, the fruit of the expertise of LFDE's teams and the advice provided by I Care. This proprietary methodology measures a company's maturity in taking climate change and biodiversity issues into account in its internal activities and practices. For more information, consult the [fund's impact report](#).

## II. SPECIFIC OBJECTIVES: DIRECT AND INDIRECT IMPACTS

**FIRST LEVEL - DIRECT IMPACT:** "Combining investment and commitment to companies that contribute to carbon neutrality and the preservation of biodiversity".

The core of ECBIE's impact concerns **companies**, with two main levers for action:

1. Invest in companies that contribute to carbon neutrality and the preservation of biodiversity:
  - Portfolio construction in three pockets:
    1. Solutions pocket: Financing **solutions companies** that have a direct environmental impact on the generation of greenhouse gases or the preservation of biodiversity.
    2. Pioneer pocket: Financing **pioneering companies** in all sectors that have made ambitious commitments to the climate and/or biodiversity, and have a strong capacity to influence their ecosystems.
    3. Transition pocket: Financing **companies in transition**, which have begun to implement measures in favor of the climate and biodiversity, and need to be supported and challenged.
  - The fund can invest in **small- and mid-cap companies**, which are often less well financed by the market. It can help **companies raise capital on the markets**, through IPOs or capital increases.
2. Engage with these companies on their impact on climate and biodiversity:
  - **Areas for improvement** are communicated to each portfolio company. This allows for close dialogue. For companies in the Transition pocket, **a company will be divested** if the MCB Score does not improve sufficiently<sup>6</sup>.
  - We systematically exercise our **voting rights at Annual General Meetings** (AGMs) and engage in dialogue with companies on these occasions.
  - **Collaborative engagements** with companies in portfolio on specific climate and biodiversity issues, in association with other investors.

Several key indicators are tracked, including **2 ex-ante impact targets for 2022-2024**, linked to part of the managers' variable compensation:

- **+ 12 point** increase in the portfolio's weighted average MCB Score
- **10 successful** impact **engagement cases**.

In addition, LFDE has set up a **value-sharing mechanism** within the fund, enabling part of its management fees to be paid back to philanthropic projects making a complementary contribution to climate and biodiversity issues. This is the case, for example, with the [\*Osons Ici et Maintenant\*](#) association, which offers a program to help young people who are far removed from the job market to discover careers in the ecological transition.

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<sup>6</sup> The Climate and Biodiversity Maturity Score (MCB) of companies in the transition pocket is updated annually. If the score remains stable, we initiate a commitment process with the companies concerned. If the situation persists or their score falls, we divest.

## SECOND LEVEL - INDIRECT IMPACT: "To have an indirect impact on ecosystems through a ripple effect on corporate stakeholders and the financial sector."

ECBIE targets a second, more indirect level of impact on corporate stakeholders and the financial sector.

### 3. Impact on company stakeholders and their sectors:

- For the **Solutions pocket**, companies' products and services provide their customers with direct or indirect, large-scale solutions to climate and/or biodiversity issues, and can also generate a knock-on effect on innovation in their ecosystem.
  - For the **Pioneers pocket**, the practices of the most mature companies in a sector in terms of climate and biodiversity can generate an emulation effect among their peers, as well as a knock-on effect on their value chains.
  - For the **Transition pocket**, companies that embark on a positive trajectory with regard to climate and/or biodiversity are likely to involve their stakeholders in this new dynamic. The potential influence may extend to their sectors, particularly for companies in sectors with a large environmental footprint.
- ⇒ The chain of impacts of these three pockets, and in particular the expected impacts on their stakeholders, are presented in the following section.

**Examples of indicators** tracked annually in the fund's impact report :

- Weighted average carbon intensity (in tCO<sub>2</sub>eq/M€)
- Weighted average intensity of emissions saved (in tCO<sub>2</sub>eq/M€)
- Portfolio temperature alignment...

### 4. Impact of the fund on the financial sector

- The existence of the fund and the communication about it **send a signal to financial markets** about the importance of taking into account the impact of investments on climate and biodiversity.
- Voluntary **transparency** is provided on the **methodology used to** assess impacts on climate and biodiversity, through the presentation of the **Climate and Biodiversity Maturity Score**.
- **Active participation in the development of listed impact investing** by contributing to industry working groups.
- A **fund accessible to all types of investor**, responding to growing subscriber demand for impact funds, in line with regulatory developments<sup>7</sup>. Each of our funds has a **dedicated share for retail investors**<sup>8</sup>, with daily liquidity.

The **impact generated both directly and indirectly is tracked through** the **fund's detailed annual impact report**, which presents evaluation methodologies and team contributions to industry working groups.

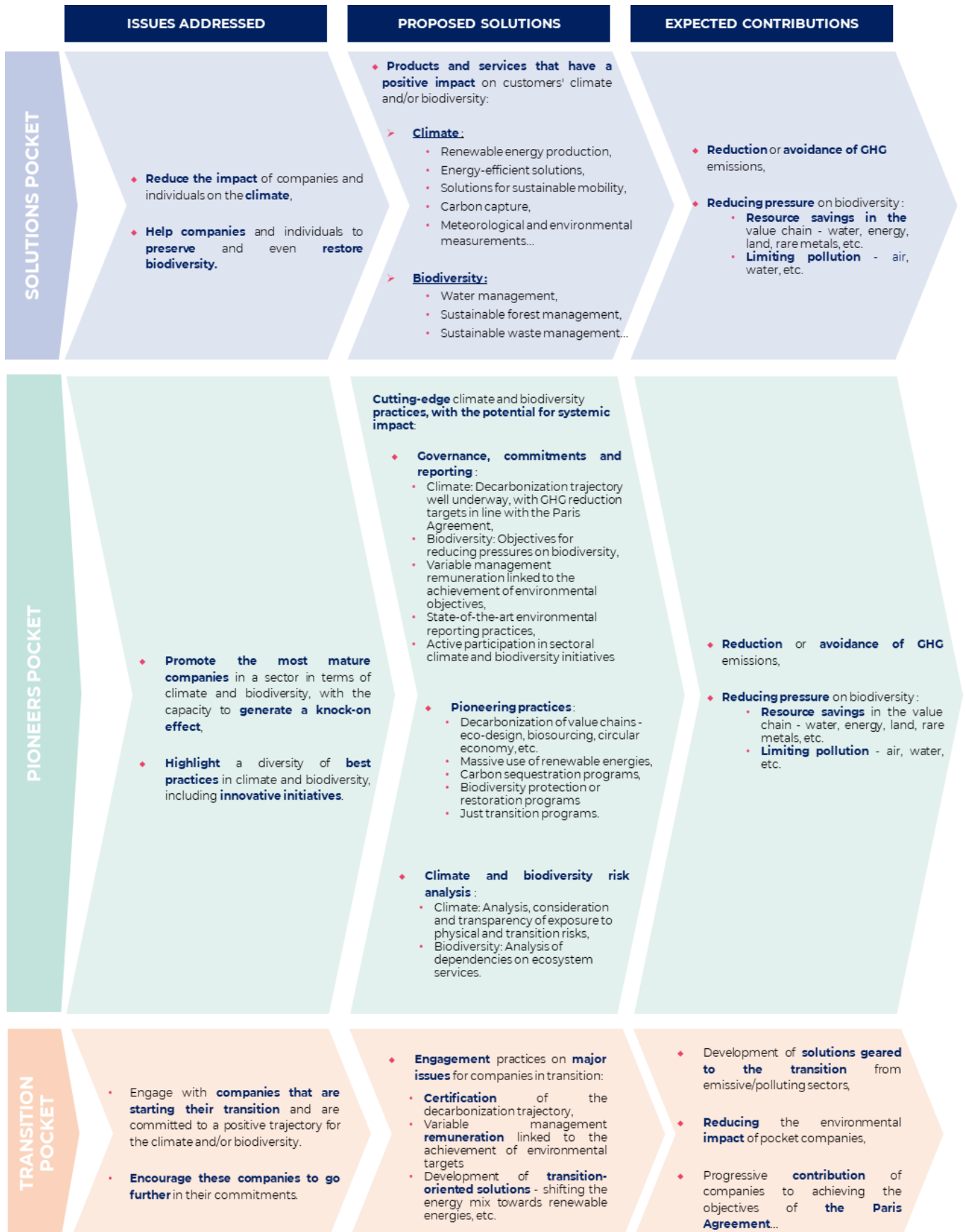
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<sup>7</sup> This is the case, for example, with the MiFID 2 revision on customer ESG preferences. ECBIE is an Article 9 fund according to SFDR Directive with a commitment to 100% sustainable investment, making it easy to identify by financial advisors looking for funds for their clients interested in products with a high percentage of sustainable investment.

<sup>8</sup> The A share is open to all subscribers, with €16.5 million AuM at 12/30/2023 (16.6% of total AuM).

### III. ZOOM IN ON THE IMPACT CHAIN BY POCKET

Within ECBIE, each pocket has its own impact logic, presented below to clarify the issues, solutions and expected contributions specific to it:



## IV. LIMITATIONS AND EXTERNAL FACTORS

### 1. Managing key external factors

Thanks to its approach to climate and biodiversity, the management team is able to observe certain external factors that may affect their implementation. The success of the theory of change thus hinges on several **key external factors**. These are analyzed and closely managed during the portfolio selection and monitoring process.

EXTERNAL FACTORS	RISKS TO IMPACT REALIZATION	LFDE ACTIONS
<b>POLITICAL AND REGULATORY FACTORS</b>	<ul style="list-style-type: none"> <li>Unfavorable trends and/or absence of <b>regulations and public policies in</b> favor of technologies that contribute to climate protection and/or biodiversity preservation - subsidies, efficient CO2 market, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Assessing and raising awareness of the <b>risk of dependence</b> on these external factors.</li> <li><b>Influence</b> through participation in consultations on these subjects, notably via professional bodies such as the AFG.</li> </ul>
<b>FINANCIAL AND ECONOMIC FACTORS</b>	<ul style="list-style-type: none"> <li><b>Low economic growth</b> in sectors contributing to climate and/or biodiversity.</li> <li>Changes in <b>interest rates</b> and <b>monetary policy</b>.</li> <li>Global <b>economic situation</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Integrate <b>macroeconomic and financial risks</b> into company valuation.</li> <li>Taking the <b>company's debt ratio</b> into account in our analysis.</li> </ul>
<b>ADOPTION OF NEW TECHNOLOGIES CONTRIBUTING TO CLIMATE AND/OR BIODIVERSITY</b>	<ul style="list-style-type: none"> <li>Risks to customer <b>adoption of new technologies</b> - affordability, lack of infrastructure, resistance to change, etc.</li> <li>Risks relating to the <b>lack of skills</b> needed to adopt these technologies within the value chain.</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of the extent to which the company has taken <b>risk into account</b> and implemented <b>mitigation measures</b>.</li> <li>Assessment of the extent to which <b>awareness</b> and/or <b>training</b> issues are taken into account by <b>customers</b> and within the <b>value chain</b>.</li> </ul>
<b>PHYSICAL RISKS</b>	<p><u>Potential main impacts:</u></p> <ul style="list-style-type: none"> <li>Companies' physical assets, including infrastructure,</li> <li>Supply chain disruption,</li> <li>Workers' health...</li> </ul>	<ul style="list-style-type: none"> <li><b>Analysis of physical risks at company and portfolio level.</b></li> <li>Analysis of <b>critical points in supply chains</b> - rare metals for transition, water use in water-stressed areas, etc.</li> </ul>
<b>GOVERNANCE</b>	<ul style="list-style-type: none"> <li><b>Lack of alignment with management</b> on ESG and impact issues.</li> <li><b>Lack of alignment with other shareholders</b> of the companies in which we invest on ESG and impact issues.</li> </ul>	<ul style="list-style-type: none"> <li><b>ESG analysis</b> with a particular focus on <b>governance</b>: stability of management, incentives to stay the course - variable compensation based on ESG criteria, etc.</li> <li>Analysis of <b>shareholder structure</b> and associated opportunities for collaborative engagement.</li> </ul>

## 2. Other limits to the fund's action

The fund's impacts also fall within certain limits, linked to the specific characteristics of impact investing on listed markets:

- As listed markets benefit from a certain level of liquidity, the fund's **additionality does not lie in providing additional capital** - unlike unlisted funds - to positive-impact companies. Listed impact funds must therefore mobilize to benefit from other additionality modalities integrated into the investment process and covering most of the assets in the portfolio.
- **Influence and engagement** vary from company to company, and depend on the extent to which management is willing to listen, and sometimes on the fund's stake in the company. Unlike unlisted companies, listed impact funds do not have the opportunity to join the governance bodies of the companies in which they invest.
- **The impacts generated by the companies in the portfolio are more complex to measure**, due to the diversity of the companies, their activities and business models. It is also difficult to link these impacts to the direct contribution of the management team. This is why the key indicators linked to managers' variable remuneration are based on the teams' actual levers for action, i.e. company selection and engagement.

A [GIIN article](#), to which LFDE's Responsible Investment Research team contributed, presents the specificities and best practices of impact on listed markets.

The [Echiquier Climate & Biodiversity Impact Europe impact report](#) and the LFDE [Transparency Code](#) are available on our website, in the "Responsible Investment" section of the "[To find our more](#)" page. They provide additional information on the fund's investment process and impact approach.





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