

# Theory of Change

Echiquier Health Impact  
for All



LA FINANCIÈRE  
DE L'ÉCHIQUIER

# THEORY OF CHANGE

## ECHIQUIER HEALTH IMPACT FOR ALL

### CONTENTS

I.	PROBLEMS TO BE SOLVED AND GENERAL OBJECTIVE OF THE FUND.....	3
II.	SPECIFIC OBJECTIVES: DIRECT AND INDIRECT IMPACTS.....	4
III.	ZOOM ON THE IMPACT CHAIN BY ACCESS TO HEALTH DIMENSION .....	6
IV.	LIMITATIONS AND EXTERNAL FACTORS.....	8

### PREAMBLE

This document presents the **theory of change** of the Echiquier Impact SICAV sub-fund: Echiquier Health Impact for All (EHIFA)<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.*

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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

### PROBLEM TO BE SOLVED: " Lack of access to healthcare worldwide is a public health issue."

" Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all ». This is the objective of target 8 of the United Nations' third Sustainable Development Goal (SDG)<sup>3</sup>, for which there is a glaring funding shortfall, less than 6 years before the due date of this UN roadmap.

According to us, improving access to health is based on several complementary challenges:

- **Availability:** 18 million healthcare professionals will be in short supply by 2030<sup>4</sup> and 300 million people worldwide live with a disease for which no treatment is available.<sup>5</sup>
- **Accessibility:** 646 million people worldwide cannot reach a healthcare facility in less than an hour.<sup>6</sup>
- **Affordability:** 100 million people worldwide are pushed into extreme poverty by the cost of healthcare.<sup>7</sup>
- **Acceptability:** 34% of the world's population do not fully trust the healthcare system to provide them with the best treatment, and over 43% do not trust the pharmaceutical industry<sup>8</sup>.

Faced with these alarming figures, funding for companies with a positive impact on access to healthcare, based on rigorous methodologies, seems more critical than ever.

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<sup>3</sup> The Sustainable Development Goals (SDGs) define 17 priorities for socially equitable, environmentally safe, economically prosperous, inclusive and predictable development by 2030. They were adopted in September 2015 by the UN as part of the 2030 Agenda. SDG3 aims to enable everyone to live in good health and promote well-being for all at all ages.

<sup>4</sup> [World Health Organization \(WHO\), 2022](#)

<sup>5</sup> [European Journal of human Genetics, 2019](#)

<sup>6</sup> [Nature.com, 2020](#)

<sup>7</sup> [WHO, 2017](#)

<sup>8</sup> [Trust in healthcare by country study, Statista, 2021 and 2022](#)

## **GENERAL OBJECTIVE OF THE FUND: " To support international companies offering innovative solutions that contribute to improving access to health."**

- The aim of Echiquier Health Impact for All is to support international companies **offering innovative solutions that contribute to improving access to health**.
- It is one of the **few impact funds in Europe on the theme of access to health**, unique in its positioning and the implementation of a proprietary methodology<sup>9</sup>.
- Impact is the starting point for generating investment ideas, with the aim of **covering the 4 dimensions of access to health** identified by the World Health Organization (WHO)<sup>10</sup>, which we have appropriated to create a proprietary methodology for selecting companies. The 4 issues to which Echiquier Health Impact for All aims to contribute are :
  - **Availability**: improving the availability of healthcare professionals, healthcare infrastructures and treatments for diseases that are poorly covered.
  - **Accessibility**: improving the geographical coverage of healthcare and patient autonomy in their treatment.
  - **Affordability**: improving patients' financial capacity to access quality medical services and state healthcare systems.
  - **Acceptability**: improving patient confidence in the healthcare system through treatments that are less painful, invasive or restrictive for patients.

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<sup>9</sup> LFDE's proprietary AAAA score is based on a solid methodology for analyzing the net contribution of companies to access to health. This analysis makes it possible to define precisely which activities contribute to each of the 4 dimensions of access to health: availability, accessibility, affordability and acceptability. The analysis is carried out in two stages. An analysis of the substantial contribution of products and services is coupled with an analysis of any negative contributions, known as DNSH.

<sup>10</sup> AAAQ (Availability, Acceptability, Accessibility, Quality) Framework, OMS

## II. SPECIFIC OBJECTIVES: DIRECT AND INDIRECT IMPACTS

**FIRST LEVEL - DIRECT IMPACT:** "Combining investment and engagement to companies that contribute to improving access to health".

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

1. Invest in companies offering innovative solutions that help improve access to health:
  - The deployment of **patient capital** with long-term equity investments in companies **offering innovative solutions that help improve access to health** (20% or more of their sales, with no other significant negative impact).
  - The fund can invest in **small- and mid-cap** companies, which are often less financed by the market. It can help **companies raise capital on the markets**, through IPOs or capital increases. This approach enables the fund, to favor investment in innovative small and medium-sized companies - rather than in the big pharmaceutical companies - for whom our support can play a decisive role in their development.
2. Engage with these companies on their contribution to improving access to health:
  - **Areas for improvement** are communicated to each company in the portfolio. They enable us to engage in close dialogue with the companies, in particular around the themes identified as "engagement themes" in our DNSH analysis<sup>11</sup> integrated into the AAAA score<sup>12</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 themes related to access to health, 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:

- **+ 10 points** increase in the portfolio's weighted average AAAA Score,
- **10 successful impact engagement cases**, focusing on impact, in relation to the 4 dimensions of access to health.

In addition, LFDE has set up a **value-sharing mechanism** within the fund, enabling part of its management fees to be donated to philanthropic projects making a complementary contribution to the challenges of access to health. This is the case, for example, with the [Les P'tits Doudous](#) association, which works to improve the care and well-being of children undergoing hospital surgery, in several countries, particularly France.

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<sup>11</sup> DNSH stands for "Do No Significant Harm". Our DNSH analysis within the AAAA score aims to ensure that the company's activities and practices do not contribute negatively to any of the 4 issues of access to health. This approach is key to ensuring the net positive impact of our investments.

<sup>12</sup> LFDE's proprietary AAAA score is based on a solid methodology for analyzing the net contribution of companies to access to healthcare. This analysis makes it possible to define precisely which activities contribute to each of the 4 pillars of access to healthcare: availability, accessibility, affordability and acceptability. The analysis is carried out in two stages. An analysis of the substantial contribution of products and services is coupled with an analysis of negative contributions (DNSH).

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

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

### 3. Impact on corporate stakeholders :

The **products, services** and **best practices of companies in portfolio** aim to have a positive impact on three main stakeholders:

- **Patients** are the primary stakeholders in healthcare companies. The companies selected by the fund seek, for example, to improve access, quality and acceptability of healthcare for patients.
- They also work in a variety of ways to improve working conditions for **healthcare professionals**, a key stakeholder in healthcare systems around the world.
- Their innovations also play a key role for **healthcare systems**, whether public or private, in particular by helping to reduce costs through optimized care paths (reducing medical wandering, relieving congestion in healthcare infrastructures, improving information exchange between healthcare professionals during the course of care...).

⇒ The chain of impacts on the 4 dimensions of access to health and the expected impacts on corporate stakeholders are presented in the following section.

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

- Number of clinical trials in phase 2 or 3,
- Number of beneficiaries of healthcare solutions,
- Number of health affordability programs...

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

- The existence of the fund and communication about it **send a signal to financial markets** about the importance of financing access to health, in particular through innovative small and medium-sized companies that have a decisive need for development capital.
- **Voluntary transparency** is provided on the evaluation **methodology** dedicated to the theme of access to health, in particular through the publication of [a detailed manifesto on the subject](#).
- **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>13</sup>. Each of our funds has a **dedicated share for retail investors**<sup>14</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>13</sup> This is the case, for example, with the MiFID 2 revision on customer ESG preferences. EHIFA 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>14</sup> The A share is open to all subscribers. At 12/30/2023, it had approximately €11 million AuM (81% of total AuM).

### III. ZOOM ON THE IMPACT CHAIN BY ACCESS TO HEALTH DIMENSION

The issue of access to health covers several dimensions. Financial, geographical, cultural, psychological and other factors all play a part in restricting access to health. Echiquier Health Impact for All is based on the **4 dimensions of access to health identified by the WHO<sup>15</sup>**, which we have appropriated to create a proprietary methodology for selecting companies.

The fund's investment and engagement are structured around the solutions proposed by the companies in the portfolio, and are based on these 4 dimensions, formalized by LFDE and mentioned earlier in this document.

The following are **examples of solutions** provided by these companies, along with some of the associated **expected contributions**:



<sup>15</sup> Availability, Acceptability, Accessibility, Quality

In addition to this contribution through the solutions offered, our DNSH filter shows that our portfolio companies **have leading practices in terms of access to health**, with initiatives such as the implementation of sovereign hosting of sensitive medical data (acceptability), skills transfer in countries of commercialization (accessibility), fair pricing policies (affordability) and the adoption of best practices in terms of interoperability (availability).

To find out more about the fund's theory of change, we invite you to consult [our manifesto on access to healthcare](#).



## IV. LIMITATIONS AND EXTERNAL FACTORS

### 1. Managing key external factors

In its atypical approach to investing in the healthcare sector, the management team is able to observe certain external factors that may affect the financing of access to health. 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>• <b>Disparities in drug reimbursement and pricing policies between countries</b> - impact on the affordability of treatments, on the availability of the most innovative treatments between countries, etc.</li> <li>• <b>Disparity of healthcare systems</b> between countries (public or private, access to healthcare according to income level, "comfort" use of certain treatments outside the target patient population...).</li> <li>• <b>Drug approval policies</b> - changes in these policies, imposed deadlines that can impact the pace of innovation, etc.</li> <li>• <b>Availability of healthcare professionals</b> - changes in numerus clausus, medical deserts, 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 and advocacy activities on these issues, notably via the <a href="#">Access to Medicine Foundation</a>.</li> <li>• Assessment and engagement to <b>transparency in clinical trials</b> and <b>reasonable consideration of approval times</b> by companies.</li> <li>• Assessing and raising awareness among companies of the <b>quality of discussions and negotiations with reimbursement organizations</b>, including the presence of negotiation teams in key countries.</li> <li>• Selection of companies <b>offering solutions to the availability of healthcare professionals</b>.</li> </ul>
<b>FINANCIAL AND ECONOMIC FACTORS</b>	<ul style="list-style-type: none"> <li>• State <b>budgetary trade-offs</b> for the healthcare sector.</li> <li>• <b>Weak economic growth</b> in the healthcare sector.</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>• Analysis of <b>national healthcare policies</b>, particularly in relation to electoral deadlines.</li> <li>• Integrate <b>macroeconomic and financial risks</b> into company valuation.</li> <li>• Taking the company's <b>debt ratio</b> into account in our analyses.</li> </ul>
<b>ADOPTION OF NEW TECHNOLOGIES CONTRIBUTING TO ACCESS TO HEALTHCARE</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>• <b>Lack of training</b> for healthcare professionals to enable them to adopt new innovations in the sector.</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of whether the company <b>has taken the risk into account</b> and <b>implemented 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>• Disruption of supply chains - for example, in connection with the decline in biodiversity that can affect essential medicinal plants.</li> <li>• Workers' health.</li> <li>• Break in continuity of healthcare.</li> <li>• Risk of hospital overcrowding, etc.</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</b> in <b>supply chains</b> and <b>dependence on biodiversity</b>.</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 companies in which we invest on ESG and impact issues.</li> <li>• <b>Reputational risks</b> - serious controversies, drug recalls, side effects, lawsuits, etc. - leading to a loss of trust.</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> <li>• <b>In-depth analysis of companies' controversy histories</b> and their management of these events.</li> </ul>
<b>FACTORS SPECIFIC TO THE HEALTHCARE SECTOR</b>	<ul style="list-style-type: none"> <li>• <b>Health risks</b> - emergence of new diseases including some linked to climate change, pandemics, etc.</li> <li>• <b>Changes in the health status of populations</b> - rise in chronic diseases linked to changes in lifestyles, increase in life expectancy, etc.</li> <li>• <b>Treatment shortages</b> linked to excessive use of certain drugs by non-target patients (cf. GLP-1).</li> </ul>	<ul style="list-style-type: none"> <li>• Analysis of <b>companies' capacity for innovation</b> and their <b>responsiveness</b> to changing needs.</li> <li>• Assessing and raising awareness among companies of the importance of <b>responsible marketing</b> to avoid excessive use of certain drugs by non-target patients.</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 one company to another, 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 their businesses, 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 of action, i.e. company selection and commitment.

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 Health Impact for All impact report](#), [our Manifesto on Access to Health](#) 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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