LA FINANCIÈRE DE L'ÉCHIQUIER

Specific impact methodology

Echiquier Health Impact for All

PREAMBLE

This document presents **the impact strategy** of the Echiquier Impact SICAV sub-fund: Echiquier Health Impact for All (EHIFA). It is part of the so-called **theory of change** framework, which is presented by the Institut de la Finance Durable (IFD) as "a clear and transparent methodology describing the causal mechanisms through which the investment strategy contributes to upstream environmental and social objectives, the relevant investment or financing period, and the measurement methods".

This document is built around best practices in impact investing and theory of change, as identified by the Global Impact Investing Network (GIIN) and IFD.

The fund's approach complies **with the IFD Impact Charter**, of which it is a signatory. The fund's performance is assessed against the impact potential measurement grid dedicated to listed equities, with results verified by the Board of Directors as meeting the criteria. Further details are provided in the appendix to this document.

This specific document complements LFDE's Impact Doctrine and the fund's Impact Report, which present the methodologies common to LFDE's impact funds, the annual results of impact measurements, and case studies on selected portfolio companies. We recommend that you read this document in conjunction with the fund's annual 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.

PRESENTATION OF THE FUND'S IMPACT VISION

Our aim: to help improve access to healthcare

The fund has been created around a critical issue**: improving access to healthcare**, one of the targets of the Sustainable Development Goals (SDG 3), for which there is a glaring funding shortfall, less than 5 years before the deadline of this UN roadmap. In our view, this lack of access is based on several complementary issues:

- **Availability**: the world will be short of 18 million healthcare professionals by 2030[1] and 300 million people live with a disease for which no treatment is available.[2]
- **Geographical accessibility**: 646 million people worldwide cannot reach a healthcare facility in less than an hour.[3]
- **Affordability**: 100 million people worldwide are pushed into extreme poverty by the cost of healthcare.[4]

[1] World Health Organization (WHO), 2022
[2] European Journal of human Genetics, 2019
[3] Nature.com, 2020
[4] WHO, 2017

- **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[5] .

The aim of Echiquier Health Impact for All is to **support international companies offering innovative solutions that contribute to improving access to healthcare**.

It is one of the few impact funds in Europe focusing on access to healthcare, unique in its positioning and proprietary methodology.

- Impact is the starting point for generating investment ideas, with the aim of covering the four dimensions of access to health identified by the World Health Organization (WHO) [6] , and which we have appropriated to create a proprietary methodology for selecting companies. The four issues to which the OPC Echiquier Health Impact for All aims to contribute are:
- **Availability**: improving the availability of healthcare providers, healthcare infrastructures and treatments for diseases that are poorly covered.
- **Geographical Accessibility**: improving the geographical coverage of healthcare and patient autonomy in their treatment.
- **Financial accessibility**: 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.

Our additionality: promoting innovative SMEs and best practices....

The OPC has chosen to have a company size bias in favor of small and mid-cap companies, for whom this capital can play a decisive role in their development. This choice sets us apart from other funds and indices specializing in healthcare, which traditionally concentrate the majority of their investments in large pharmaceutical companies, which are less sensitive to long-term investments and have more financial models.

We soon realized that innovation could be at the expense of access to healthcare. In the course of our research into the development of the DNSH criteria, we defined **our doctrine on access to healthcare**. We identified the best practices towards which we wanted to steer the sector, as well as those that could be detrimental to access to healthcare, which we wished to exclude.

... for impacts at different levels

The direct impact of the fund is based on several levers, aimed at **combining investment and commitment**:

- **Deploy patient capital** with long-term equity investments in companies offering innovative solutions that contribute to improving access to healthcare (for 20% or more of their sales, with no other significant negative impact).
- **Engage with these companies** on their contribution to improving access to healthcare.

[5] Trust in healthcare by country" studies, Statista 2021 and 2022
[6] AAAQ (Availability, Acceptability, Accessibility, Quality) Framework, WHO

- **Sharing the value**: in addition, LFDE has set up a mechanism enabling it to donate part of its management fees to philanthropic projects that make a complementary contribution to the challenges of access to healthcare.

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

- **The products and services** and **best practices** of the portfolio companies provide innovative solutions to access to healthcare for **patients**, **caregivers** and **healthcare systems**, as described in the Theory of Change illustration section on the 4 dimensions of access to healthcare.
- **Indicators** are tracked annually to measure impact, such as the number of beneficiaries of healthcare solutions, the number of clinical trials in phase 2 or 3, and so on.

At the level of the financial sector, the fund also seeks to **influence practices** by sending **a signal** about the importance of financing access to healthcare, in particular through innovative small and medium-sized enterprises that have a decisive need for capital for their development.

- LFDE participates in working groups to promote listed impact investing, and offers a fund that is accessible to all types of investor, with daily liquidity.
- Voluntary **transparency** is provided on the evaluation **methodology** dedicated to the theme of access to healthcare, in particular through the publication of a detailed manifesto on the subject and an annual impact report on the fund's results.

A PROPRIETARY IMPACT METHODOLOGY

In its investment approach, the fund relies on methodological requirements common to impact funds and detailed in LFDE's impact doctrine:

- Identification of companies contributing to its impact thesis,
- The application of sectoral and normative exclusions,
- Analysis of ESG material issues using proprietary analysis models,
- Fundamental financial analysis.

The fund also relies on a specific proprietary evaluation methodology for access to healthcare, described below.

An exclusion filter to avoid the most negative contributions

The fund's exclusion filter is a safeguard against contributors generating the most negative externalities. It makes it possible to exclude companies active in **14 activities and sectors** considered to be harmful and endowed with the most controversial practices. [7]It is consistent with the **exclusion list for impact mutual funds** .

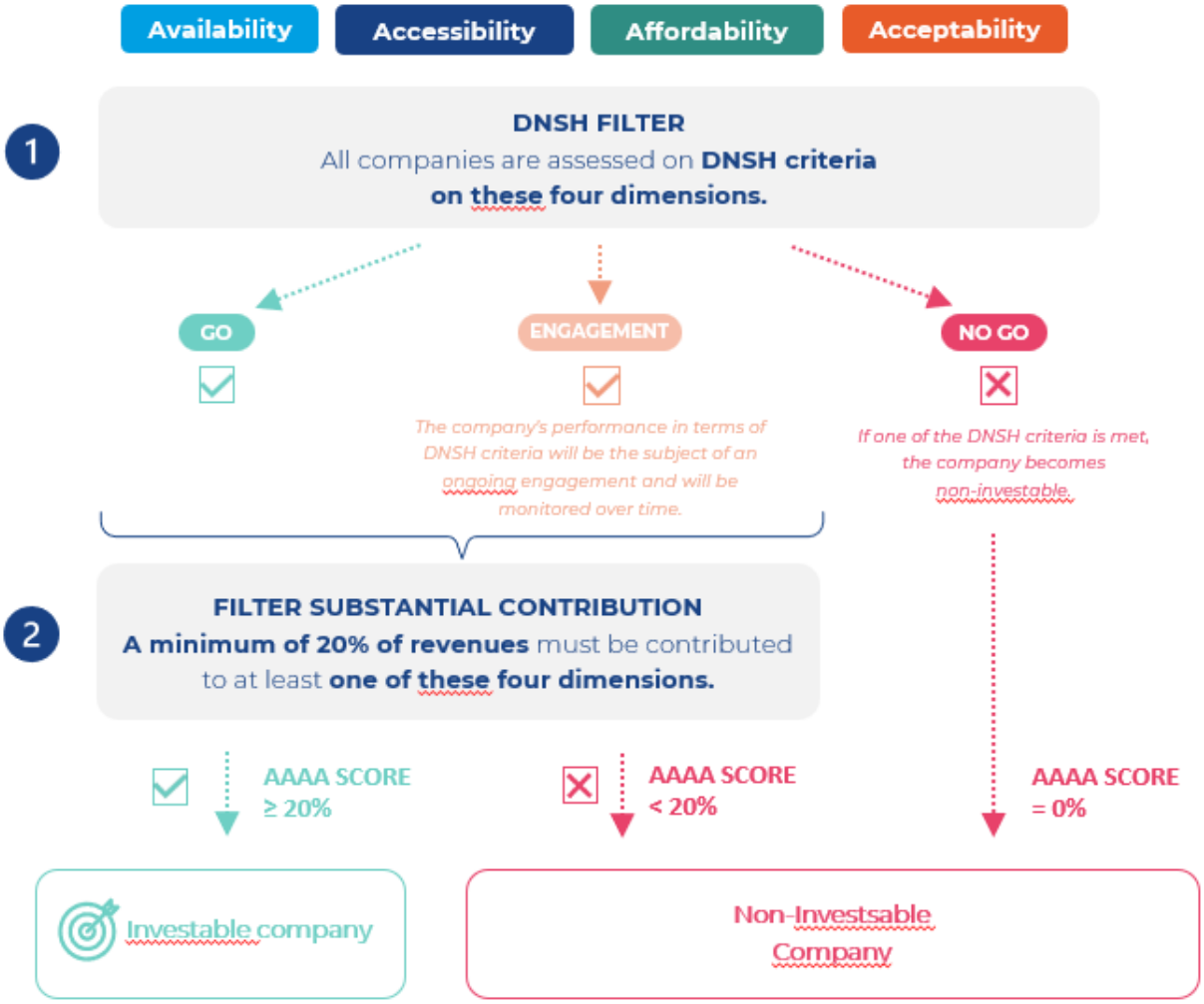
Measuring impact: a scoring system capturing net contributions to access to healthcare

[8]Companies that have passed these 3 stages are analyzed according to our AAAA methodology .
To be eligible, a company must pass the following two filters:

1. **DNSH filter**: not to contribute negatively, through its activities and practices, to one of the 4 challenges of access to healthcare. This approach is key to ensuring the net positive impact of our investments. For each issue, several points of vigilance have been identified. For each of them, up to three levels of practice have been defined, as described in the diagram below: **GO**, **COMMITMENT** and **NO GO**.
2. **SUBSTANTIAL CONTRIBUTION filter**: making a positive contribution, through its products and services, to at least one of the 4 dimensions of access to healthcare, with at least 20% of sales contributing to one or more of the four access issues established by our methodology:
    - Availability: products and services that improve the availability of caregivers and treatments for poorly covered diseases.
    - **Geographical Accessibility** (Accessibility): products and services that improve patient autonomy and healthcare coverage.
    - Affordability: products and services that improve patients' financial ability to access quality medical services and/or public payers.
    - Acceptability: products and services that improve patient confidence and comfort in healthcare treatments and services.

[7] The exclusion list is available here : Exclusion Policy LFDE_EN
[8] Availability, Accessibility, Affordability and Acceptability.

Examples are provided in the Theory of Change illustration section.



ILLUSTRATING THE THEORY OF CHANGE ON HEALTH ACCESS DIMENSIONS

The fund's investment and commitment are structured around the solutions proposed by the companies in the portfolio, based on **the 4 dimensions of access to healthcare.** The following are **examples of the solutions** offered by these companies, along with some of their **expected contributions**:

	ISSUES ADDRESSED	PROPOSED SOLUTIONS	EXPECTED CONTRIBUTIONS
AVAILABILITY	• **Rare diseases** with no treatment and **new diseases** linked to our lifestyles and disruptions (climatic, environmental, epidemics...). • **Shortage of care providers** and saturation of care infrastructures.	• **New treatments** and **screening methods** for rare or emerging diseases. • **Software to improve** care center **organization** and caregiver availability. • Technologies to **support medical interventions**.	• Increase in number : - of **illnesses covered**, - of **patients treated**. • Improving **the capacity of care infrastructures**.
FINANCIAL ACCESSIBILITY	• **High cost** of healthcare and health insurance. • **Lack of state funding** for the healthcare system. • **Additional costs** associated with late treatment due to **ineffective diagnosis.**	• More precise, high-performance diagnostic and monitoring methods to **reduce the cost of treatment and patient care**. • **Less expensive treatments and equipment**, or combined with a *Bottom of the Pyramid* distribution policy. • Software **to facilitate reimbursement**	• **Cost reduction** : - for **states**, - care for **patients**. • Increase in the **number of patients under care**
GEOGRAPHICAL ACCESSIBILITY	• **Medical deserts** and **geographical inequalities** in the quality of care. • **Lack of access** to healthcare **for certain populations** (disadvantaged, isolated, developing countries, etc.).	• Equipment facilitating treatment and monitoring by the patient and/or at home. • **Remote intervention** systems. • Systems for **transporting** patients, sensitive medical products and treatments.	• **Better geographical coverage** of healthcare. • **Better comfort and follow-up** for people with **chronic illnesses**. • Increase in the **number of patients treated**.
ACCEPTABILITY	• **Cumbersome and restrictive treatments** or **screening** methods. • Deterrent **side-effects** (microbial resistance, pain). • Risk of **accident** or **medical error**. • **Mistrust** of the healthcare system.	• Equipment to **improve the safety and comfort** of patients and caregivers. • **Less intrusive and/or painful** screening and follow-up methods. • **Less invasive and/or restrictive** treatments.	• **Better living conditions** and patient **care**. • **Better working conditions** for caregivers. • **Reduce medical errors** and accidents.

In addition to this contribution through the solutions they propose, thanks to our DNSH filter, portfolio companies are deploying **leading-edge practices in terms of access to healthcare**, with initiatives such as the establishment of sovereign hosting for sensitive medical data (acceptability), the transfer of skills to countries of commercialization (geographical accessibility), fair pricing policies (financial accessibility) 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.

LIMITATIONS AND EXTERNAL FACTORS

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 can affect the financing of access to healthcare. 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
FACTORS POLICIES AND REGULATORY FACTORS	• **Disparities in drug reimbursement and pricing policies between countries** - impact on the affordability of treatments, on the availability of the most innovative treatments between countries, etc. • **Disparity of healthcare systems** between countries - public or private, access to healthcare according to income level, "comfort" use of certain treatments outside the target patient base, etc. "comfort" use of certain treatments outside the target patient base, etc. • **Drug approval policies** - changes in these policies, imposed deadlines that can impact the pace of innovation, etc. • **Availability of healthcare professionals** - changes in numerus clausus, medical deserts, etc.	• Assessing and raising awareness of the **risk of dependence** on these external factors. • **Influence** through participation in consultations and advocacy activities on these issues, notably via the *Access to Medicine Foundation*. • Assessment and commitment to **transparency in clinical trials** and **reasonable consideration of approval times** by companies. • Assessment and awareness-raising of companies regarding **the quality of discussions and negotiations with reimbursement bodies** (including the presence of negotiation teams in key countries). • A selection of companies **offering solutions to the availability of** healthcare professionals.
FACTORS FINANCIAL AND ECONOMIC FACTORS	• State **budgetary trade-offs** for the healthcare sector. • **Weak economic growth** in the sector. • Changes in **interest rates** and **monetary policy**. • Global **economic situation**.	• Analysis of **national health policies**, particularly in relation to electoral deadlines. • Integrate **macroeconomic and financial risks** into company valuation. • Taking into account the company's **debt ratio** in our analyses.
ADOPTION OF NEW TECHNOLOGIES CONTRIBUTING TO ACCESS TO HEALTHCARE	• Risks to customer **adoption of new technologies** - affordability, lack of infrastructure, resistance to change, etc. • **Lack of training** for healthcare professionals to enable them to adopt new innovations in the sector.	• Assessment of the extent to which the company has **taken risk into account** and implemented **mitigation measures**. • Assessment of the extent to which **awareness** and/or **training** issues are taken into account by **customers** and within the **value chain**.
RISKS PHYSICAL	Main potential **impacts** : • Companies' physical assets, including infrastructure. • Disruption of supply chains - for example, in connection with the decline in biodiversity that can affect essential medicinal plants. • Workers' health. • Break in continuity of care. • Risk of hospital overcrowding, etc.	• **Analysis of physical risks** at **company** and **portfolio** level. • Analysis of **critical points** in **supply chains** and **dependence on biodiversity**.

GOVERNANCE	• **Lack of alignment with management** on ESG and impact issues. • **Lack of alignment with other shareholders** of the companies in which we invest on ESG and impact issues. • **Reputational risks** - serious controversies, drug recalls, side effects, lawsuits, etc. - leading to a loss of trust.	• **ESG analysis** with a particular focus on **governance**: stability of management, incentives to stay the course - variable remuneration based on ESG criteria, etc. • Analysis of **shareholder structure** and associated opportunities for collaborative engagement. • **In-depth analysis of** companies' **controversy** histories and their management of these events.
FACTORS PECULIAR TO THE SECTOR HEALTH	• **Health risks** - emergence of new diseases, some of which may be linked to climate change, pandemics, etc. • **Changes in the health status of populations** - rise in chronic diseases linked to changes in lifestyles, increase in life expectancy, etc. • **Treatment shortages** linked to excessive use of certain drugs by non-target patients (cf. GLP-1).	• Analysis of companies' **capacity for innovation** and their **responsiveness** to changing needs. • Assessing and raising awareness among companies of the importance of **responsible marketing** to avoid excessive use of certain drugs by non-target patients.

Other limits to EHIFA's action

Impact funds on listed markets need to adopt specific approaches[9] , because, unlike unlisted funds, they do not provide additional capital directly to companies. Their action therefore relies on other additionality levers integrated into the investment process.

- **Influence and commitment:** the ability to make a commitment depends on the extent to which management listens to EHIFA's concerns, and on the extent to which EHIFA holds a stake in the company's capital, with no possibility of integrating into corporate governance.
- **Measuring impact**: evaluation is more complex due to the diversity of companies, activities and business models. It is also difficult to link these impacts to the direct contribution of the management team.

Additional resources, such as the **Echiquier Health Impact for All annual impact report, our Manifesto on Access to Health and the LFDE Transparency Code**, are available on our website in the *Responsible Investment* section.

FUND MANAGEMENT TEAM AND GOVERNANCE

Internal and external governance

EHIFA's in-house management team[10] is made up of managers and analysts who combine solid financial and extra-financial skills with a strong belief in impact.

[9] A GIIN article, to which LFDE contributed, explores best practices in impact rating.
[10] The composition of the management team is available on the fund page.

It is complemented by the Responsible Investment Research team. External governance is ensured by a Board of Directors[11] , the majority of whom are independent, in common with other impact funds.

It is also complemented by an **Expert Committee**: made up of 4 healthcare professionals, it provides specific knowledge of technologies, companies or trends in the sector. The committee members' appetite for impact enables them to bring a critical eye to bear on healthcare sector themes, methodologies and impact measurements. The committee meets several times a year, and regular exchanges take place between the experts and the management team. The composition of the expert committee is available in the appendix to this document.

Aligning managers' financial incentives with impact objectives

From 2022 onwards, we have integrated **two impact targets set ex ante into the managers' variable remuneration policy**. This approach aims to align our interests with those of our customers, based on the fund's impact thesis. The objectives are validated by the Board of Directors. These 2 objectives correspond to the team's action levers and are measured over a 3-year period:

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

[11] The composition of the Board of Directors is available on our website.

APPENDIX

Composition of the Expert Committee

The Expert Committee is made up of 4 **members**, **100% independent with complementary and international profiles**.

Measuring the impact potential of Echiquier Health Impact For All against the IFD grid

As part of our adherence to the IFD Impact Charter, we have completed the impact potential measurement grid dedicated to listed equities. The independent review of the fund's evaluation according to the grid, guaranteeing the transparency of the analysis, was carried out by the members of the Board of Directors of the SICAV Echiquier Impact. Echiquier Health Impact for All obtained a **score of 74/100** (vs 55/100*: minimum required by the grid dedicated to listed equities).

- The fund meets **all the qualifying conditions of the grid**. [12]The completed grid for the fund is publicly available on the Financière de l'Echiquier website and on the IFD website.

[12] Available from this link: Impact potential evaluation grid - Echiquier Health Impact for All

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Intracommunity no. FR 83 352 045 454 - A.M.F. approval no. GP 91004