Specific impact methodology

Echiquier Positive Impact Europe

LA FINANCIÈRE DE L'ÉCHIQUIER

PREAMBLE

This document presents **the impact strategy** of the Echiquier Positive Impact Europe (EPIE) sub-fund of the SICAV Echiquier Impact. 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.

EPIE's approach is in line with the **IFD Impact Charter,** of which the fund is a signatory. EPIE'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 intention: to contribute to investment in the SDGs

[1]The Echiquier Positive Impact Europe (EPIE) fund was created in 2017 around a critical issue: **the large funding gap to achieve the United Nations' Sustainable Development Goals (SDGs) by 2030**. Only a fraction of global financial flows are dedicated to this. Listed financial markets - which account for over 90% of financial flows, but less than 20% of impact investments - have an indispensable role to play[4].

EPIE's aim is to **support European companies whose products and services, as well as their operations, contribute to the SDGs. It** is one of the first impact funds in Europe to focus on the SDGs[5], unique in its positioning and proprietary methodology. Impact is the starting point for generating investment ideas, with the aim of covering 9 SDGs to which the private sector can contribute.

[1] In 2023, the Secretary General of the United Nations announced the terrible delay in financing the Sustainable Development Goals (SDGs)[(3)] with a shortfall of around 4,200 billion dollars per year.

Our additionality: a unique positioning in company selection...

Since its creation, EPIE has adopted a singular positioning in its selection of companies. This positioning enables us to promote companies whose positive impacts are not always recognized by the market. It avoids concentration around the small portion of assets considered "green" or "impact", or whose contribution to the UN's Sustainable Development Goals is highly visible. To do this, we select stocks according to two types of impact: **DIRECT and INDIRECT.**

1. **Direct impact :**

- Companies whose impact comes from the direct use of their products and services by end-users.
- The impacts of these companies are generally well identified by the market, as they operate in impact-generating sectors: healthcare, insurance, sustainable mobility, renewable energies, etc.

2. **Indirect impact :**

- Companies that have an impact upstream, along the value chain, via products or services that improve the impact along the value chain of their BtoB customers.
- Those whose product design has a positive impact through ambitious eco-design or carbon neutrality initiatives.

Impacts less identified by the market are significant, but more indirect. They help to transform the production model. We communicate our classification of each portfolio company in full transparency in our annual impact reports.

... for impacts sought by EPIE at different levels

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

- **Deploying patient capital**, with long-term equity investments in companies whose activities contribute to meeting the targets of the Millennium Development Goals (MDGs).
- **Engage with these companies** to improve their contribution to the SDGs.
- **Sharing the value**: in addition, LFDE has set up a mechanism enabling a portion of its management fees to be transferred to the LBP AM Group Foundation, which finances social impact projects that make a complementary contribution to the SDGs.

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

- **Large-scale solutions to the issues targeted by the SDGs** are proposed by companies, through their products or services or their innovative internal initiatives.
- **Indicators are tracked annually to measure their impact,** such as the number of patients treated or tons of CO2 avoided.

At financial sector level, EPIE also seeks to **influence practices** by sending a signal about the importance of taking the SDGs into account in investments. LFDE participates in working groups to promote listed impact investing, and offers a fund accessible to all types of investor, with daily liquidity. The annual impact report details results and methodologies.

A PROPRIETARY IMPACT METHODOLOGY

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

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

EPIE also relies on a specific proprietary evaluation methodology linked to the SDGs, described below.

An exclusion filter to avoid the most negative contributions

[2]EPIE's exclusion filter is a safeguard against activities that contribute most negatively to the SDGs, and is consistent with the **exclusion list for impact funds**. It makes it possible to exclude from the portfolio companies involved in the most harmful activities and sectors, contributing negatively to the SDGs, as well as companies with the most controversial practices.

Measuring impact: scoring to capture net contributions to the SDGs

In order to go beyond simply measuring companies' "positive" exposure to sustainable issues, EPIE has designed a rigorous methodology to assess their net contribution to the specific targets of the SDGs, precisely identifying the activities concerned and the ways in which they contribute.

By creating jobs, investing in R&D and improving access to essential goods and services, the private sector can play a key role, which our methodology captures in two ways:

1. Score Solutions, based on the analysis of products and services

LFDE has selected 9 of the 17 business-oriented SDGs for their strong economic materiality.

For the 9 selected SDGs, the activities of companies that could make a positive contribution to the SDG targets were mapped, along with any negative contributions. The net contribution to the SDGs is calculated by dividing sales between these activities, resulting in a Net Score out of 100, reflecting both positive and potentially negative impacts.

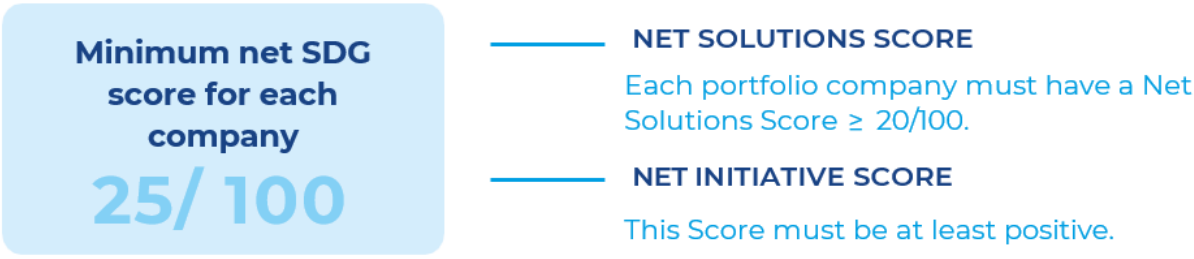
[2] The exclusion list is available here: Exclusion policy

2. Initiatives Score, based on analysis of social and environmental practices

The aim of this second level of contribution is to value the leading social and environmental practices of companies contributing to the SDGs, and to penalize practices that contribute negatively to one or more of the SDGs. For each of the seventeen SDGs, LFDE has mapped one or more significant and high-impact initiatives that the company can intentionally implement to contribute to them. Conversely, if the company's actions contravene one or more of these SDGs, it will be penalized in equivalent proportions. Each initiative is equally weighted when calculating the score. The net sum of all initiatives (positive and negative) undertaken by the company determines its "Initiatives" Score.

3. Calculating the net ODD score and minimum thresholds

The average of these two Net Scores gives the overall score, the **Net ODD Score**, ranging from -100 to +100. Our rating system identifies the most virtuous companies, while ensuring that they have no significant negative impact on other SDGs. Minimum thresholds are required on these Scores:



More details on this methodology are available in the Transparency Code: Transparency Code.

ILLUSTRATING THE THEORY OF CHANGE ON ENVIRONMENTAL AND SOCIAL ISSUES

EPIE's investment and commitment are articulated around the solutions proposed by the companies in the portfolio, and focused on key environmental and social issues linked to the 9 selected SDGs and their targets.

Environmental issues

With regard to environmental issues, **5 SDGs and some of their targets are** currently being addressed by portfolio companies. Below are examples of **direct and indirect solutions** provided by these companies, along with some of the associated **expected contributions**.

ENVIRONMENTAL ISSUES

ISSUES ADDRESSED	PROPOSED SOLUTIONS	CONTRIBUTIONS COMPREHENSIVE
ODD :     	**DIRECT solutions :** Positive impacts linked to the direct use by end-users of products and services such as : • **Biodiversity :** • **Renewable energies**. • Sustainable **forest** management. • Sustainable **water** management. • Sustainable **waste** management. • Sustainable **mobility**...	• GHG **avoidance** or **sequestration**. • **Access to** clean **water**. . **Waste reduction**...
TARGETS : 6.1, 6.3 and 6.4 7.1, 7.2 and 7.3 9.4 and 9.5 11.3, 11.5 and 11.6 12.2, 12.3, 12.5 and 12.6	**INDIRECT solutions :** **Facilitating** positive **impacts** upstream and downstream **of the value chain (B to B)** or via **design** or **sourcing practices:** • **Energy efficiency**, • **Rationalization** of industrial **resources,** • **Circular** economy, • **Biosourcing**, • **Dematerialization**, • **Ecodesign** • **Air** quality...	• **Reduction of** GHG emissions within the value chain, • **Saving resources** in the value chain - water, energy, land, rare metals, etc. • **Limitation of pollution** - air, water, etc.

In addition to this contribution through their core business, companies have **cutting-edge environmental practices that contribute to the SDGs**, with initiatives such as the massive use of renewable energies and energy efficiency for their own operations, the reduction of their water consumption, the deployment of sustainable mobility solutions for employees, etc.

Social issues

As far as social issues are concerned, **4 SDGs and some of their targets** are currently being addressed by our portfolio companies. Below are examples of **direct and indirect solutions** provided by these companies, as well as some of the associated **expected contributions**:

ISSUES ADDRESSED	PROPOSED SOLUTIONS	CONTRIBUTIONS COMPREHENSIVE
ODD : / **TARGETS :** 3 BONNE SANTÉ ET BIEN-ÊTRE — 3.3, 3.4, 3.5, 3.8 4 ÉDUCATION DE QUALITÉ — 4.4 8 TRAVAIL DÉCENT ET CROISSANCE ÉCONOMIQUE — 8.2, 8.3, 8.4, 8.5, 8.8 and 8.10 16 PAIX, JUSTICE ET INSTITUTIONS EFFICACES — 16.4, 16.5 and 16.6	**DIRECT Solutions :** **Positive impacts** linked to the direct **use** by **end-users** of products and services such as: • Medical gases, • Health coverage, • Hearing aids, • Treatments for non-communicable diseases, • Dermatological treatments, • Academic research including open source, • Financial inclusion solutions, particularly in emerging countries.	• Improving **access to healthcare healthcare**, • **Contribution to medical** academic and scientific scientific research, • Improving **access to financial solutions**...
	INDIRECT Solutions : **Facilitating** positive **impacts** upstream and downstream **of the value chain (B to B)**: • Natural ingredients for the health and cosmetics sector, • Healthy, natural ingredients for food, • Molecules for vaccines, especially for developing countries, • Digital solutions for companies of all sizes, • Data protection and cybersecurity solutions.	• Contributing to the development **of healthy nutritional products**, • Contribution to the development **health solutions**, • Contribution to **business efficiency and resilience**...

In addition to this contribution through their core business, companies have **cutting-edge social practices that contribute to the SDGs**, with initiatives such as universal health coverage for all employees, measures to promote gender equality, employment of people with disabilities, etc.

LIMITS AND EXTERNAL FACTORS

Managing key external factors

Thanks to its cross-functional approach to both social and environmental issues, the management team is able to observe **certain key external factors** that could affect the achievement of the SDGs. These are closely analyzed and managed when selecting and monitoring the portfolio.

EXTERNAL FACTORS	RISKS TO ACHIEVING IMPACT	LFDE ACTIONS
FACTORS POLICIES AND REGULATORY FACTORS	• Unfavorable trends and/or absence of **regulations and public policies** favorable to technologies contributing to climate and/or biodiversity preservation - subsidies, efficient CO_2market, etc.	• Assessing and raising companies to the risk of dependence on these external factors. • Influence through participation in consultations on these subjects, notably via professional organizations such as AFG.
FACTORS FINANCIAL AND ECONOMIC FACTORS	• **Weak economic growth** in sectors contributing to climate change and/or biodiversity. • Changes in interest **rates** and **monetary policies**. • Global **economic situation**.	• Integration of **macroeconomic and financial risks** in the valuation valuation. • Taking into account the company's **debt ratio** in our analyses.
ADOPTION OF NEW TECHNOLOGIES THAT CONTRIBUTE TO CLIMATE AND/OR BIODIVERSITY	• Risks to customer **adoption of new technologies** - affordability, lack of infrastructure, resistance to change, etc. • Risks relating to the **lack of skills** needed to adopt these technologies within the value chain.	• Assessment of the extent to which the company has **taken this risk into account** and implemented **mitigation measures.** • Assessment of the extent to which **awareness** and/or **training** issues have been taken into account with **customers** and within the **value chain**.
RISKS PHYSICAL	Main potential **impacts** : • Physical company assets, including infrastructure, • Supply chain disruptions, • Workers' health...	• **Analysis of physical risks** at **company** and **portfolio** level. • Analysis of **critical points** in **supply chains** - rare metals for transition, water use in water-stressed areas, etc.
GOVERNANCE	• **Lack of alignment with management** on ESG and impact issues. • **Lack of alignment with other shareholders** of companies in which we invest on ESG and impact issues.	• **ESG analysis** with a particular focus on **governance**: management stability, incentives to stay the course - variable compensation based on ESG criteria, etc. • Analysis of **shareholder structure** and associated opportunities for collaborative engagement.

Other limits to EPIE's action

[3]Impact funds on listed markets have to adopt specific approaches 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:** EPIE's capacity for commitment depends on its ability to listen to management and its weight in the capital, without the possibility of integrating 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 Positive Impact Europe annual impact report** and the **LFDE Transparency Code**, are available on our website in the *Responsible Investment* section.

EPIE MANAGEMENT TEAM AND GOVERNANCE

Internal and external governance

[4]EPIE's internal management team is made up of fund managers and analysts who combine solid financial and extra-financial skills with a strong conviction in impact, and several decades of combined experience.

The team is complemented by the Responsible Investment Research team. [5]External governance is ensured by a Board of Directors, the majority of whom are independent, common to LFDE's other impact funds.

Aligning managers' financial incentives with impact objectives

From 2022 onwards, we have integrated **two upstream impact objectives into the variable remuneration policy of EPIE's managers.** This approach aims to align our interests with those of our customers, based on EPIE's impact thesis. These two objectives correspond to action levers for the team and are measured over a 3-year period:

- **+ 10 points** increase in the portfolio's weighted average Net Solutions Score,
- **10 cases of successful commitment** to impact.

[3] A GIIN article, to which LFDE contributed, explores best practices in impact rating.
[4] The composition of the management team is available on the fund page.
[5] The composition of the IR research team and the Board of Directors is available on our website.

APPENDIX

Measuring the impact potential of Echiquier Positive Impact Europe against the IFD grid

As part of our adherence to the IFD Impact Charter, we completed the impact potential measurement grid dedicated to listed equities. The independent review of EPIE'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.

- EPIE obtains **a score of 74/100** (vs. 55/100*: minimum required by the grid dedicated to listed equities).
- EPIE satisfies **all the grid's qualifying conditions**. [6]The grid completed for the fund is publicly available on the Financière de l'Echiquier and IFD websites.

[6] Available from this link: Impact potential evaluation grid - Echiquier Positive Impact Europe

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