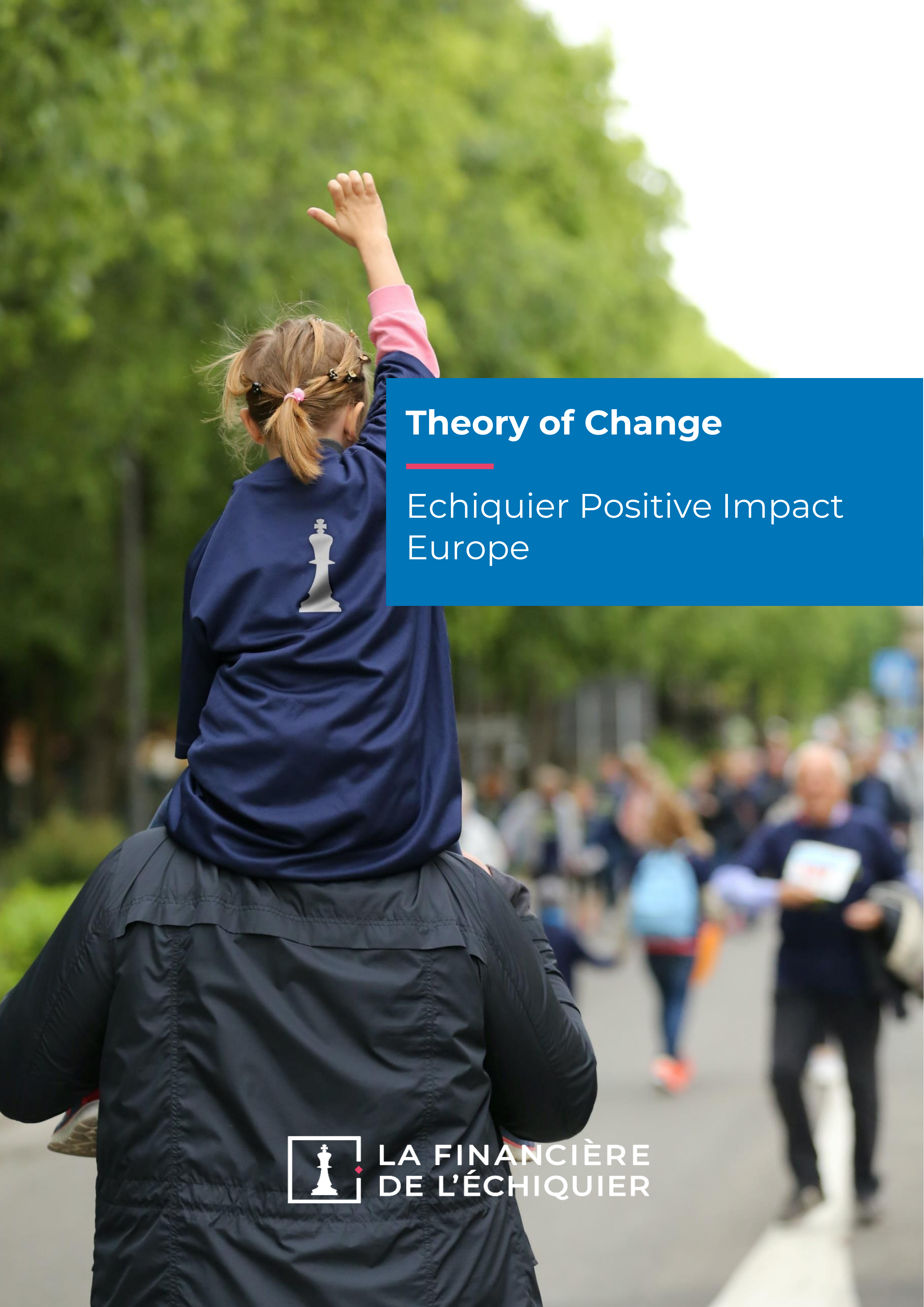


Theory of Change

Echiquier Positive Impact Europe

LA FINANCIÈRE
DE L'ÉCHIQUIER

THEORY OF CHANGE

ECHIQUIER POSITIVE IMPACT EUROPE

CONTENTS

PREAMBLE

This document presents the theory of change of the Echiquier Impact SICAV sub-fund: Echiquier Positive Impact Europe (EPIE)[1] . In the definition of impact investing proposed by the Institut de la Finance Durable (IFD)[2] , 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

[1] In this document, for reasons of simplicity, the term "fund" will be used to designate this SICAV sub-fund.
[2] 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: "A major financing gap to achieve the UN Sustainable Development Goals in 2030 ."

- 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 a year.
- Only a fraction of the world's financial flows are devoted to them. Redirecting them towards the SDGs on the basis of rigorous methodologies is more critical than ever.
- 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] .

GENERAL OBJECTIVE OF THE FUND: "To support European companies contributing to the SDGs ."

- The aim of Echiquier Positive Impact Europe is to support European companies whose products, services and operations contribute to the United Nations' Sustainable Development Goals.
- It is one of the first impact funds in Europe to be oriented towards the SDGs[5] , unique in its positioning and the implementation of a proprietary methodology[6] .
- Impact is the starting point for generating investment ideas, with the aim of covering 9 SDGs that have a strong economic materiality and to which the private sector can contribute.

[3] 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.

[4] GIIN

[5] The fund's investment process, created in 2010, evolved into an impact process in 2017.

[6] LFDE's proprietary SDG Score is based on a solid methodology for analyzing the net contribution of companies to specific SDG targets. This analysis makes it possible to define precisely which activities contribute to each SDG, and in what way. The Net SDG Score is an average out of 100 of the Solutions Score and the Initiatives Score, enabling the assessment of companies' net contribution to the SDGs. Marketing products and services with a high positive impact is not enough if the company does not act responsibly in the day-to-day running of its business, as well as in its relations with its stakeholders.

II. SPECIFIC OBJECTIVES: DIRECT AND INDIRECT IMPACTS

FIRST LEVEL - DIRECT IMPACT: "Combining investment and engagement with companies that contribute to the SDGs."

The heart of EPIE's impact concerns companies, with two main levers of action:

1. Invest in companies whose activities provide solutions to the SDGs:

- The deployment of patient capital, with long-term equity investments targeted at companies whose activities contribute to the SDG targets (for 20% or more of their sales, net of negative impacts).
- 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.

2. Engage with these companies on their contribution to the SDGs:

- Areas for improvement are communicated to each portfolio company. They enable us to engage in close dialogue.
- 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 are carried out on specific themes, notably in connection with the SDGs, 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 Net Solutions Score[7] ,
- 10 successful impact engagement cases.

In addition, LFDE has set up a value-sharing mechanism within the fund, enabling a portion of its management fees to be paid to the LBP AM Group Foundation, which finances social impact projects that make a complementary contribution to the SDGs.

[7] LFDE has selected 9 of the 17 SDGs with a strong economic impact. For these 9 SDGs, we have mapped the activities that contribute positively and those that contribute negatively. The breakdown of the company's sales between these positive and negative activities gives a net score out of 100, known as the Net Solutions Score.

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

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

3. Impact on corporate stakeholders :

- The portfolio companies' products and services provide direct or indirect, large-scale solutions to the issues targeted by the SDGs, as detailed below.
- Companies are also adopting leading-edge internal initiatives in favour of the SDGs, through the conduct of their operations
- ⇒ The chain of impacts on the 9 targeted SDGs and the expected impacts are presented in the following section.

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

- Number of patients under medical care,
- Tons of CO2 avoided thanks to renewable energies and energy efficiency solutions,
- Amounts invested in research for the modernization and sustainability of industrial sectors...

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 taking the SDGs into account in investments.
- Voluntary transparency is provided on the methodology used to assess impacts on the SDGs.
- 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[8] . Each of our funds has a dedicated share for retail investors[9] , 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.

[8] This is the case, for example, with the MiFID 2 revision on customer ESG preferences. EPIE is an Article 9 fund according to SFDR Directive, having made 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.

[9] The A share is open to all subscribers, with €211 million AuM at 12/30/2023 (46% of total AuM).

III. ZOOM IN ON THE IMPACT CHAIN BY CATEGORY OF ISSUE

The fund's investment and engagement are structured 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

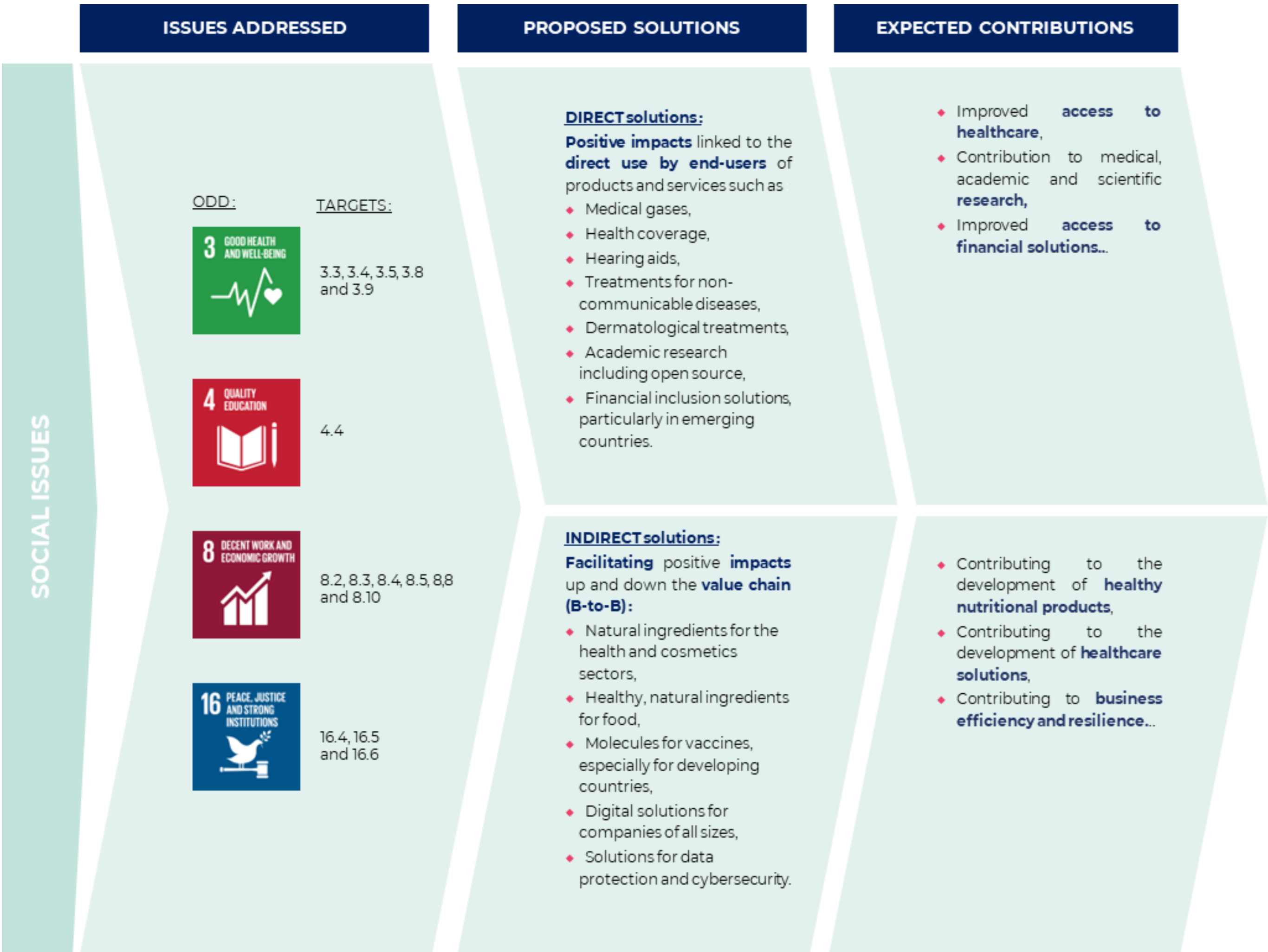
With regard to environmental issues, 5 SDGs and some of their targets[10] are currently being addressed by portfolio companies. Below are examples of direct and indirect solutions provided by these companies, along with some of the associated expected contributions:

In addition to this contribution through their core business, companies have leading-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, and so on.

[10] The 17 SDGs are broken down into 169 targets, allowing us to specify the objectives sought by each SDG. Using our proprietary methodology, we attribute companies' contributions to the SDG targets, in order to be as rigorous as possible. Details of the targets are available at: https://www.un.org/sustainabledevelopment/sustainable-development-goals/.

Social issues

For social issues, 4 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, as well as some of the expected contributions associated with them:



In addition to this contribution through their core business, companies also 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, and so on.

IV. LIMITATIONS AND EXTERNAL FACTORS

1. Managing key external factors

Thanks to its cross-disciplinary approach to both social and environmental issues, the management team is able to observe certain external factors that could affect the achievement of the SDGs. 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
POLITICAL AND REGULATORY FACTORS	• Unfavorable trends and/or absence of **regulations and public policies** favorable to technologies contributing to the SDGs - subsidies, efficient CO2 market, etc.	• Assessing and raising awareness of the **risk of dependence** on these external factors. • **Influence** through participation in consultations on these subjects, notably via professional bodies such as the AFG.
FINANCIAL AND ECONOMIC FACTORS	• **Low economic growth** in sectors contributing to the SDGs. • Changes in **interest rates** and **monetary policy**. • Global **economic situation**.	• Integrate **macroeconomic and financial risks** into company valuation. • Taking the **company's debt ratio** into account in our analysis.
ADOPTION OF NEW TECHNOLOGIES CONTRIBUTING 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 **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**.
PHYSICAL RISKS	Potential main **impacts** : • Companies' physical assets, including infrastructure, • Supply chain disruption, • 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 the companies in which we invest on ESG and impact issues.	• **ESG analysis** with a particular focus on **governance**: stability of management, incentives to stay the course - variable compensation based on ESG criteria, etc. • Analysis of **shareholder structure** and associated opportunities for collaborative engagement.

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 for action, namely 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 Positive 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.

LA FINANCIERE DE L'ECHIQUIER
53, AVENUE D'IENA – 75 116 PARIS – TEL: +33 (0)1.47.23.90.90 - www.lfde.com
S.A. WITH SHARE CAPITAL OF €10,047,500 - REGISTERED IN THE PARIS TRADE REGISTER UNDER SIREN NO. 352 045 454
A LICENSED INVESTMENT MANAGEMENT COMPANY ACCREDITED BY THE AMF AND REGISTERED UNDER NO. 91 004