

A photograph of a clear glass vase filled with water, containing several stems of white flowers with green leaves. The vase sits on a white surface. To the left of the vase is a small black chess king piece. The background is a blurred view of green foliage and a balcony railing. A blue rectangular box is overlaid on the right side of the image, containing white text.

Impact Doctrine

La Financière de
l'Echiquier



LA FINANCIÈRE
DE L'ÉCHIQUIER

PREAMBLE

La Financière de l'Echiquier has operated as a listed impact investing player in France since 2017. Impact is an essential part of the strategic positioning and management of the following funds:

- **Echiquier Climate Impact Europe**
- **Echiquier Positive Impact Europe**

This impact doctrine has a two-fold aim:

- **Defining the framework for our impact investments**, which will be applied to our current impact funds and should be applied to all of La Financière de l'Echiquier's new impact funds,
- **Illustrating in an educational and tangible way** the main characteristics of listed impact investing and its operational application to our investment decisions.

At this stage, discussions about impact investing in listed markets are in their early stages and have not yet produced a universally accepted single definition. There is much work under way, to which we are actively contributing. We hope that in the coming months this will result in the emergence of a framework common to industry operators and the market regulator.

This doctrine draws on the initial **work by FIR, France Invest¹** and the **GIIN²**.

It will probably be supplemented in the next few months as a result of our participation in 2021 in Finance for Tomorrow's and the AFG's (French Asset Management Association) impact investing working groups.

Our approach is intended to be sincere and **pragmatic**, with **continuous improvements** made to it in order to keep pace with industry developments and improve its quality from year to year.

This doctrine will therefore be **updated at least once a year**. The changes made will be systematically discussed with the Board of Directors of the SICAV Echiquier Impact.

Under the European SFDR regulation³, any fund considered to be an "impact" fund by La Financière de l'Echiquier will be classified as "**Article 9**" as a product with a sustainable investment objective.

Echiquier Positive Impact Europe and Echiquier Climate Impact Europe are aligned with all the principles set out in this doctrine. As of 30/06/2021, such funds represent 3.1% of La Financière de l'Echiquier Assets Under Management, i.e €417,254,825.

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By: Antoine Fabre and Coline Pavot - La Financière de l'Echiquier

¹ *Une définition exigeante pour le coté et le non coté* (An exacting definition for listed and unlisted investing) – FIR & France-Invest - 2021

² The Global Impact Investing Network (GIIN) is the first international impact investing initiative. LFDE is a member of the network.

³ SFDR = Sustainable Finance Disclosure Regulation

INTRODUCTION

Impact investing in listed markets

Over the last few months, impact investing has become a hot topic. Whereas it was traditionally a fixture of the unlisted universe, it is now making in-roads into a booming market. This trend was first driven by increased demand from institutional investors and has since been confirmed by individual investors.

The term “impact investing” refers to investments that **aim to produce a positive environmental and/or social impact** on society, **without sacrificing financial returns**. The goal of this type of financing is to prove the benefits of a new financial model whereby sustainable development issues and the impact of companies are central to investment decisions. It is a different way of looking at investing, to contribute positively to tomorrow’s world by focusing on the solutions to be provided to environmental and/or social challenges.

Note, however, that the money invested in impact funds does not have a direct impact. The positive impact will be generated through the investing of this money in companies with positive externalities.

La Financière de l’Echiquier as an impact investor

As a French responsible investing pioneer, in 2017 La Financière de l’Echiquier (LFDE) decided to embark on impact investing in listed markets by launching **Echiquier Positive Impact Europe**. This investment solution was one of the first in Europe to concentrate on financing companies that are making a positive and significant contribution to the UN’s Sustainable Development Goals. At the end of 2020, we passed another milestone when we launched a second impact fund: **Echiquier Climate Impact Europe**. Through this strategy, LFDE intends to contribute to energy and ecological transition issues.

The impact investing process at La Financière de l’Echiquier differs significantly from the traditional socially responsible investing approach. The multiple differences include increased engagement from the management team, a demand for even greater transparency, and more support for companies committed to generating impact.

These unique features are centred around the three concepts of **Intentionality, Additionality and Measurability**. An investment may only be classified as an impact investment if each of these three pillars is an integral part of the fund’s investment process. The interpretation and implementation of these concepts in La Financière de l’Echiquier’s impact funds are explained in this document.

We believe that investing in companies that have made their positive impact central to their strategy is a **factor contributing to long term performance**. We consider their financial health to be vital, as it allows the company’s managers to sustain the impact of their business, to increase - in a more or less direct way - the number of its beneficiaries or widens the scope of its action. We are also convinced that these companies are also more resilient because they have better risk management and address future issues, which benefit from some support in times of crisis.

For us, impact investing goes without saying. We are committed to contributing to its development in listed markets. This impact doctrine is the culmination of several years of work. It is an opportunity to **shed light on the uniqueness of our practices** and, hence, to explicitly state the promise made to our clients on impact investing and forestall any “impact washing”.

In addition to our investment activity, we undertake to be as exemplary a management company as possible. The sharing of value has been part of our mindset since La Financière de l’Echiquier was founded. This is reflected in the shares in the company held by our employees and the social impact projects financed by our Corporate Foundation, which was launched in 2005. In 2017, we put our CSR approach on a formal footing, with the aim of creating value sustainably for all our stakeholders and increasing our impact. This corporate project is in line with our long-standing commitments as a responsible investor.

I- INTENTIONALITY

Definition: Intentionality is the intention of an investor to contribute to generating a measurable social and/or environmental benefit alongside a financial return.⁴

The express intention to generate a positive environmental and/or social impact is the starting point of any impact investing approach. The implementation of this intentionality is based on several key elements, including the impact thesis, the setting of ex-ante impact goals combined with precise indicators, robust governance and dedicated internal resources.

· An impact-oriented investment process ·

Any impact fund must start by defining the environmental and/or social challenges that it wishes to contribute to. Once its impact thesis and intentionality have been established, the management process and methodologies that will allow it to achieve its objectives can be defined.

These must have various essential characteristics:

- The investment process must be strictly directed towards seeking impact, which becomes **the starting point** for the generating of each investment idea.
- To ensure that the companies chosen are a good fit for the fund's impact thesis, companies are selected using **sophisticated impact methodologies**.

At LFDE, the companies within our impact funds are systematically selected using proprietary, innovative methodologies, to determine the ESG profile of each company, and also and above all, to go further in order to capture their impact and their alignment with the issues targeted.

- The fund's impact thesis should **cover all its investments**. No companies that don't meet the fund's objective should be held in the portfolio.
- The minimum requirements linked to the impact thesis should be **revised up** over time and the methodologies should also be regularly adapted to take into account new industry practices, the emergence of new standards and changes in the responses to the issues targeted. This dynamic allows constant progress in the picking of companies based on their impacts and the encouraging of these companies to improve.
- The analyses of each company should be updated at least every two years so as to reflect the reality of the company's position and its impacts on society and the environment as accurately as possible.
- These methodologies must include an analysis of the **negative impacts and externalities** of companies. A 360°C view is vital to gain full awareness of each company's various impacts and ensure that its positive impacts exceed any negative impacts, from an environmental, social and societal viewpoint, regardless of the fund's impact thesis.

⁴ Source: GIIN

· Defining ex-ante impact objectives ·

To successfully achieve each fund's impact thesis, it is crucial that this is accompanied by precise, quantified and dated indicators. The monitoring of these indicators is a way of checking that the thesis is being properly implemented. This is why we define ex-ante impact objectives accompanied by precise quantitative indicators for all of our impact funds. These objectives must have a number of essential characteristics. They must:

- Be **simple** to enable easy reading by unitholders and managers,
- Be **demanding**,
- Define a **medium-term** horizon,
- Be **verifiable**, in other words not dependent on methodological changes,
- Be **actionable by the fund manager**, in other words relate to the fund's impact (rather than the impact of investee companies), which is the only type of impact that the manager has sufficient control over.

· Having the means to match our ambitions ·

Impact fund management requires the employing of significant resources and in-depth work that is more extensive than for responsible investing. This means that, as well as setting aside time and work capacity in-house, access to high quality data and third-party experts is vital.

All these resources are employed by La Financière de l'Echiquier to achieve our goal.

· Governance for the benefit of impact ·

As an impact investor, we believe it is crucial for dedicated governance to be introduced to help develop and implement the impact strategy of funds over the long term. This governance is also vital to guarantee their lasting intentionality. Our impact funds are therefore overseen using the following system of governance:

- **In-house**, an extensive structure is in place to ensure the successful management of our impact funds:
 - o **A management team** that combines sound financial and non-financial expertise with a strong belief in impact and many years of experience in this field. The team puts impact at the heart of all its investment decisions, with the special support provided to companies as they improve their ESG approaches and search for impact.
 - o **A Responsible Investing Research team** that is independent of the management team and up-to-date with non-financial issues. The team assists significantly with impact fund management. It is answerable for the proprietary methodologies used and their implementation in the analysis of companies. It challenges the management team's investment decisions and provides impact investment ideas. The team also has a stake in the selecting of the projects financed thanks to the payment of part of the management fees into the Corporate Foundation. The RI Research team is also very active in numerous industry working groups, particularly on the theme of listed impact investing.

- **Third parties:**

- We deliberately chose a SICAV as the vehicle for our impact funds so that it can be given a **Board of Directors** whose members are mainly independent and experienced professionals. Their complementary profiles provide the management team with specialised expertise in the environmental and social impacts of investments. These directors are tasked with advising and supervising the work of the management team and the RI research team with regard to their methodology, management approach, reporting and impact measurement. Our directors are very much involved. They are asked for their opinions on many issues throughout the year.
- We also wished to have a regular third-party perspective on our approach and methodologies. When we carried out our annual impact measurement campaign we were assisted by a **consultancy firm specialised in impact**. In addition to its independent review of the impact performance and the related reporting, its expert view constantly helps to develop our perception of impact in listed markets, allowing us to question and challenge ourselves as a result.

The high-quality dialogue between these various governance bodies drives up the standard of our impact practices. The continuous improvement of the quality of our impact funds' governance is one of our key concerns. We constantly consider how it can best be improved in order to increase our funds' impact.

· **Sharing value** ·

From our first tentative steps as a listed impact investor, we have been keen to integrate a value-sharing mechanism within our funds. This takes the form of the payment of part of our management fees into positive impact projects, selected directly or through the Primonial Group Foundation. The projects selected are closely linked to each fund's impact thesis and offer a tangible demonstration of the fund's positive and direct contribution to the environmental and social challenges targeted. We are highly involved in the selecting of the projects financed. This mechanism, which is an integral part of the history of our impact funds, is in addition to the impact of investee companies in response to these same issues. Our impact funds therefore have a dual intentionality, which maximises their impact. In the specific case of "fonds solidaires", this intentionality is materialised by investing between 5% and 10% of the fund's assets in unlisted impact projects.

II- ADDITIONALITY

Definition: Additionality refers to an investor's direct and specific action or contribution that enables an investee company or a financed project to increase its net positive impact. It answers the question: "If the asset had not been financed by this particular investor, what difference would this have made?"⁵

Additionality plays a decisive role in the management of any impact fund. It is the extra effort needed to go beyond being a responsible investor and become an impact investor. Although the link between the investor and the successful realisation of a project may seem less direct for listed investing than for unlisted investing, we believe that impact investors in listed markets may achieve additionality through long-term equity holdings in investee companies, continuous dialogue with companies, and so on.

• Being a patient investor •

As an impact investor it is a point of honour for us to act as a **patient shareholder** by acquiring long-term equity holdings in companies. In our view it is important to offer a certain stability in the ownership of the companies that we invest in. This stability is vital as it means that they can roll out their sustainable strategies with greater peace of mind, taking actions and decisions with a view to the long term. This long-term equity ownership gives us the chance to assist them with their development, for example by supporting the various equity operations punctuating the lives of these companies.

This stability in companies' shareholder structures also allows us to build trusting relationships with companies' management teams, which is an important condition for lasting constructive dialogue with shareholders.

• Being an investor that engages with companies •

Engagement with investee companies is crucial to our impact approach. Our two-fold objective is to maximise their positive impact while limiting their potential negative impacts, and to help to develop their environmental and social practices in the areas that are most relevant to their activities, and their governance. Our engagement may take many forms, including individual and collaborative engagement, engagement at general meetings, and the sharing of industry best practices by organising engagement seminars with our stakeholders. The engagement themes addressed as a priority are linked to the impact thesis for each strategy, which enables us to increase our intentionality. Through our approach, we can closely monitor companies' progress and the impact of our engagement actions. If our engagement efforts fail in areas considered to be vital, an escalation procedure is initiated that may result in the divestment of the stock.

We are fully aware of the fact that we alone are not responsible for the progress made by companies. We believe, however, that the many individual and collaborative engagement actions carried out are an important factor in changing companies' behaviour. We do our utmost to provide companies with the

⁵ *Source: Une définition exigeante pour le coté et le non coté (An exacting definition for listed and unlisted investing) – FIR & France-Invest - 2021*

support they need in their efforts. We therefore hope that our high-quality engagement process will play as decisive a role as possible in the positive changes that we are pleased to witness.

· A unique impact positioning ·

When looking at impact in listed markets, there are several ways of approaching the issue. The easiest option is to focus on the companies whose impact is most visible, which are often popular as they provide practical solutions to environmental and social challenges. Given our unique viewpoint as an impact investor we also look at other types of companies, whose **impact is sometimes less direct and/or less visible**, and therefore not as easy to identify, but that nevertheless have a vital impact. We see it as our duty to not just invest in companies that are in the spotlight, but to support this impact diversity. This special positioning raises the profile of companies whose efforts are still under-valued.

For example, these are companies :

- Developing BtoB products and services that enable their customers to improve their impact,
- Whose product design has a positive impact, for example through ambitious eco-design initiatives,
- With a growth dynamic on their impact activities and are still not very visible on these subjects due to a lack of extra-financial communication,
- In a transition phase in order to adapt their activities to new ESG issues, particularly environmental ones.

We also attach particular importance to **companies' additionality**, i.e the impact of companies in comparison to industry standards. This may be seen in the innovative nature of their business, the uniqueness of their products and services, their position as market leaders or new production methods.

We are aware of the bubble risk for these assets and are persuaded that we can limit this risk given the attention that we pay to valuations and our unique impact positioning, as a result of which we are able to diversify our investments into companies whose impact is more indirect or has been less clearly identified.

· Actively participating in the development of impact investing in listed markets ·

Impact investing has been developing strongly in unlisted markets for a number of years, whereas it is still in its infancy in listed markets. As an impact investor, it is crucial that we help it to develop. At La Financière de l'Echiquier, we take this responsibility very seriously and our involvement in various industry initiatives in this area demonstrates our keen wish to promote and actively contribute to the **building of impact finance** in listed markets. This commitment also reflects our determination to share our thinking and enhance our impact investing practices. We believe that a large-scale movement of investors towards impact will give the most virtuous companies the resources they need for their development.

III- MEASURABILITY

Definition: Impact measurement or measurability refers to the assessment of the social and/or environmental externalities of investments, in view of the impact objectives intentionally pursued by the investor.⁶

Measurability is an indispensable step in every impact investing approach. Measurement is crucial to ensure the transparent informing of our clients about the real impact of their investments, and to closely monitor the progress with our previously established impact objectives. These measurements, which are incorporated in the pay mechanism for impact fund managers, are carried out once a year with the support of independent experts.

· Distinguishing between the impact of investments and the fund's impact ·

There are two types of impact:

- **The impact of investments** means the impact of portfolio companies. These impacts do not directly depend on the investor, who can only influence companies through engagement actions, for example by sharing knowledge and good practices. In our view, it is therefore not right to attribute to ourselves a share of the impact of companies, prorated for the percentage of our shareholding. For instance, holding 1% of the shares of a company that generates renewable electricity does not make us responsible for the positive impact of 1% of the emissions prevented by this same company.
- **The fund's impact** means the impacts linked to the manager's direct actions. This applies, for example, to the length of time that companies are held in the portfolio, stock picking, and the engagement actions carried out with companies. This is why the ex-ante impact objectives for our funds are established based on this type of impact.

· Transparently assessing the portfolio's impacts once a year ·

We publish an annual impact report for each impact fund, whose primary objective is to report on the last year's achievements and the array of impacts directly and indirectly generated. This is an essential exercise in transparency for our clients with regard to the initial impact promise made by the product in which they have invested.

We believe that this impact assessment must meet several key requirements:

- Being carried out **annually** in partnership with independent experts, allowing an audit on the figures disclosed
- Reporting on the **impacts of the fund and investments**, while staying humble about the manager's responsibility for the latter
- Being transparent about any **negative impacts or externalities** attributable to the fund
- Ensuring the **monitoring of the ex-ante impact objectives** used to determine part of the impact fund managers' variable compensation

⁶ *Source: Une définition exigeante pour le coté et le non coté (An exacting definition for listed and unlisted investing) – FIR & France-Invest - 2021*

- Communicating completely transparently about the calculation and aggregation **methodologies** applied to the various impact indicators used and their limitations.

· Ensuring an alignment of financial and non-financial interests ·

We consider the alignment of managers' financial interests with the impact approach of funds, and particularly their ex-ante impact indicators, to be of paramount importance. It guarantees both a financial and a non-financial alignment with our impact funds' unitholders. We therefore decided to include the ex-ante impact objectives specific to each fund in the variable compensation structure for the relevant managers. This work was carried out in conjunction with the Echiquier Impact SICAV's Board of Directors, who made the decision to introduce this mechanism. Particular attention was paid to the choice of indicators, so that they are:

- **Simple**, meaning that a limited number of indicators are used.
- **Exacting**, in keeping with the high quality of our impact fund approach. If the managers achieve these objectives they are rewarded for their work from a budget that is supplementary to executives' variable compensation. It must therefore be ensured that this compensation reflects the value of a truly effective impact approach.
- **Verifiable**, so that the assessment of their results is as simple and reliable as possible. As part of the process for assessing the meeting of these criteria, the Responsible Investing Research team carries out a first-level control and the SICAV's Board of Directors a second-level control. Any methodological changes that might affect the ex-ante impact indicators chosen must be approved by the Board beforehand.

CONCLUSION

Being an impact investor is a daily challenge. We have a duty to maximise our clients' savings, by investing them in virtuous companies, which we support over the long term in order to help them to achieve their goals as responsible companies. The **involvement of all our teams** and **increased transparency** are essential to the success of our task. We do everything in our power to ensure this success.

We are confident that impact investing in listed markets has a vital role to play in the financing of tomorrow's world. The next few months will be decisive for the creation of an ambitious framework conducive to the development of this new form of investment. As pioneers in this field, we are pleased to be able to participate in this debate, which will allow us to share our experience and also challenge ourselves, in order to **keep further enhancing our management process.**

Which methodology should be used to aggregate impact indicators at portfolio level?

Which benchmark scenario should be used?

How should the negative externalities of investee companies be accounted for? ...

Many questions have yet to be addressed and are worth answering. We are certain that we can do this by working together.

We are at the start of a long journey that should be exciting. Every step will help us to produce an even greater impact on the world.



LA FINANCIERE DE L'ECHIQUIER

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