

Listed impact investing: a crucial role for a sustainable future



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The current situation solidifies one of our deepest convictions: finance, particularly impact investing on the listed markets, has a key role to play in creating a more sustainable, more resilient ecosystem. A pioneer in listed impact investing in France, La Financière de l'Echiquier (LFDE) is firmly committed to making its contribution. In 2017, we were one of the first European asset management companies to launch an impact strategy backed by the UN's Sustainable Development Goals. LFDE is committed to actively contributing to building impact finance on the listed markets. That is why we joined the Global Impact Investing Network (GIIN) in 2020, as well as collaborative commitment initiatives with the UN PRI, and the Net Zero Asset Managers Initiative in 2021.

Impact: a performance driver

Positive impact provides access to long-term trends that carry remarkable financial opportunities. According to a Better Business World report published in 2017, innovations in health, wellness and telemedicine – SDG 3 – are a \$2.845 trillion opportunity between now and 2030. Setting up a circular economy, combating food waste, and focusing on agriculture could generate \$2.365 trillion in opportunities.¹ All these sources of growth can be captured through impact funds. In recent years, these funds have also demonstrated their ability to generate as much or more performance than the rest of the market.

The challenge of transparency

We strive to lay out our approach in the clearest, most precise way. Measuring the effectiveness of our investment strategy and assessing the results obtained is characteristic of the LFDE spirit. Producing accurate reporting for investors is vital in our opinion.

Our transparent approach is covered in many reports accessible to all, including our SRI reports and the annual impact report of our impact strategy launched in 2017, a unique tool for measuring the impact that La Financière de l'Echiquier was one of the first asset management companies in Europe to achieve. By measuring the positive and negative impact of the fund and the companies in the portfolio, we can evaluate the overall quality of the system and report on performance, transparently, for the end investor. Designed with the help of independent experts at Better Way, the third annual impact report on this SDG-backed fund, published in July 2021 and available on our website, concretely measures the positive impact generated by the investments made in the portfolio companies, with respect to the SDGs.

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A strict impact doctrine

We have also structured an impact doctrine published in July 2021. It reflects our unique and rigorous positioning on listed impact investing and is now applied to our two impact strategies. This innovative and scalable doctrine takes its inspiration from the early work of the French Forum for Responsible Investment (FIR) and the GIIN.

Our impact doctrine is based on three pillars. Intentionality, i.e. the intention to generate a positive environmental and/or social impact, which is the starting point of any impact investing approach. Intentionality is determined on the basis of an impact thesis, the setting of ex-ante impact goals combined with precise indicators, robust governance, dedicated internal resources, and other sources. Another decisive factor in managing any impact fund, additionality is that extra shade of soul that takes us beyond a responsible investor and makes us an impact investor. This is a special and direct contribution

from the investor allowing the invested company or financed project to enhance the net positive impact of its activities. At LFDE, this means long-term equity holdings in the invested company, ongoing dialogue with management, and other factors.

Lastly, the measurability of the impact of investments and of funds is crucial for enhancing transparency on the actual impact of clients' investments, as well as for tracking progress in pre-established impact objectives.² These measurements are conducted with the backing of independent experts and are now built into the compensation structure of impact fund managers. This initiative, which has no equal in the listed universe, provides an alignment of interests that is crucial in our eyes, in service of the common good.

Outlook

La Financière de l'Echiquier is convinced that impact is here to stay. Not only has it proven its ability to deliver performance, but in addition, the Covid-19 pandemic crisis we've come through has solidified one of our convictions: listed impact investing is key to financing the €2.5 trillion needed to achieve the SDGs. An estimated 91% of these requirements can only be financed by the listed markets. According to the United Nations, the opportunities created by the main SDGs will reach \$12 trillion.³ Some listed European companies are in a good position to seize them. The stakes could not be higher. The challenge is inspiring. The opportunities are immense.

FOOTNOTE

1 United Nations, Report of the Business & Sustainable Development Commission (BSDC) in 2017, PwC, CSR Europe, UNEPFI, McKinsey Global Institute.

2 The investor's attention is drawn to the fact that his investment in the fund does not generate a direct impact on the environment and society, but that the fund seeks to select and invest in companies that meet the precise criteria defined in the management strategy

3 Sources: United Nations, Report of the Business & Sustainable Development Commission of 2017, PwC, CSR Europe, UNEPFI, McKinsey Global Institute.