Impact Investments: Was wir (nicht) wissen

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SLIDE 8

(I) What we know

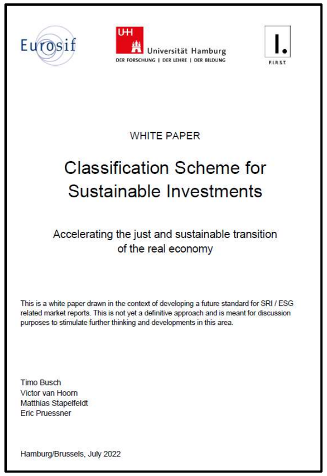
There is obviously consensus regarding…

…the need of a simple and easy to communicate product classification scheme that reflects on different ambition levels:

- BVI et al (2021): „ESG Verbändekonzept“
- Eurosif (2022): „White-Paper“ for SRI market reports
- EVPA, European Venture Philanthropy Association (2023): „European Impact Investing Consortium“
- SFB (2023): „ESG Skala“ (bzw. „Ampel“)

…the relevance of differentiating between impact-aligned and impact-generating investments:

- G7 (2022): „Impact Task Force“
- BVI (2022): „IMPACT Investing: Grundlagen und Arbeitshypothesen“
- SSF (2023): „Sustainable Investment market report“
- ESMA (2023): “Buying Impact” vs “Creating Impact“


Eurosif
Universität Hamburg
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WHITE PAPER

Classification Scheme for Sustainable Investments

Accelerating the just and sustainable transition of the real economy

This is a white paper drawn in the context of developing a future standard for SRI / ESG related market reports. This is not yet a definitive approach and is meant for discussion purposes to stimulate further thinking and developments in this area.

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Eric Pruessner

Hamburg/Brussels, July 2022


ESMA
European Securities and Markets Authority

31 May 2023
ESMA30-1668416927-2498

Progress Report on Greenwashing

Response to the European Commission's request for input on “greenwashing risks and the supervision of sustainable finance policies”

Eurosif: new classification for SRI market studies

		Exclusions-Focused	Basic ESG	Advanced ESG	Impact-Aligned	Impact-Generating
Ambition level		None	Marginal	Low	Medium	High
Investment focus				Double materiality		
Main objective		Exclude sectors, companies or assets to align with investors' values	Integration of sustainability risks	Systematic analysis & incorporation of ESG factors	Align with positive impacts on environment and/or society	Measurable contribution to positive real-world impacts
Investment process	Investment approach	Exclusions or norms-based screening	ESG integration	Exclusions & positive screening or Best-in-class (≤70% investable)	Exclusions & selection of assets with already positive impact	Engage with or provide additional capital to assets to generate measurable positive impact
	Performance Measurement	-	-	Measurement of ESG performance	Measurement of company impact	Measurement of company & investor impact

Comparability check I: Suggested categories of sustainability products in SFDR consultation

A - Products	B - Products	C - Products	D - Products
Investment in firms/assets with positive company impact through products/services.	Investment in firms/assets with positive company impact through operations.	Exclusion of activities and/or investees with negative company impact.	Products „aiming to bring measurable improvements to the sustainability profile of the assets they invest in.“ (p. 33)
Impact-aligned		Exclusions-focused	Impact-generating

Comparability check II: UK FCA Proposal

Sustainable Focus

- “objective to invest in assets that meet a credible standard of environmental and/or social sustainability” (p. 32)
- Impact-aligned

Sustainable Improvers

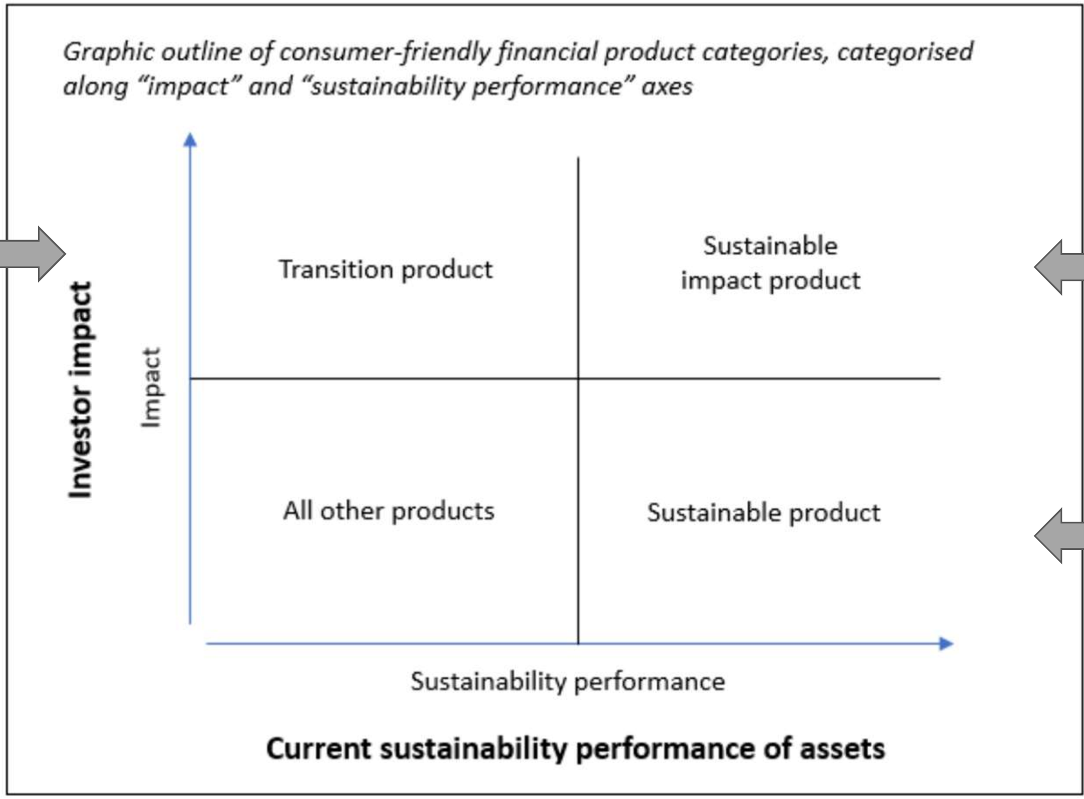
- “objective to deliver measurable improvements in the sustainability profile of its assets over time, including through investor stewardship” (p. 35)
- Impact-generating (focus on stewardship)

Sustainable Impact

- “objective to achieve a pre-defined, positive and measurable environmental and/or social impact” (p. 37)
- Impact-generating (focus on capital allocation)

Comparability check III: Dutch Authority for the Financial Markets (AFM)

Impact-generating



Impact-generating

Impact-aligned

(II) Important questions for which we have first answers

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Impact Investing: 18 Principles („white paper“)

Impact life cycle:

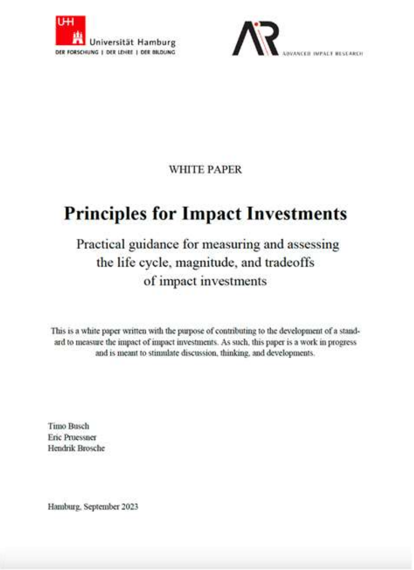
- How should company and investor impact be measured throughout the investment life cycle?
- Can impacts be transferred between investors?

Impact magnitude:

- What is a significant company impact?
- How long does a significant company impact last?
- How long does an investor contribution last?

Impact tradeoffs:

- Which ecological and social impacts should be considered?
- How to deal with trade-offs between impact categories?
- Should investors monetize their impact?


Universität Hamburg

WHITE PAPER

Principles for Impact Investments

Practical guidance for measuring and assessing the life cycle, magnitude, and tradeoffs of impact investments

This is a white paper written with the purpose of contributing to the development of a standard to measure the impact of impact investments. As such, this paper is a work in progress and is meant to stimulate discussion, thinking, and developments.

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Hendrik Brosche

Hamburg, September 2023

Impact life cycle

Principles 1-4: General rules how to determine impact at the investee and portfolio levels.

Principle 5:* Company impact is **generally transferable** between investors.

Principle 6:* Investor impact is **generally not transferrable** between investors.

** Based on the outcome of the DVFA Impact Working Group.*

Impact magnitude

Principle 7: Impact-aligned and impact-generating investments should only refer to **significant company impacts** and aggregate them on a portfolio level.

Principle 8: Ideally, investors should use **thresholds** to determine the magnitude of a company impact at the investee level. A company impact is significant if it leads to a social or ecological footprint that meets (or exceeds) its thresholds. Regarding the IMP classification, this applies to B and C impacts.

Principle 9: In cases when thresholds are not available or where IMP's A classification applies, investors should use **relative performance improvements** to determine the magnitude of the company impact at the investee level.

Principles 10-13: Specific rules for impact duration.

Impact tradeoffs

Principles 14-15: Choice of impacts based on materiality assessments.

Principle 16: Investors should conduct a thorough analysis of the potential negative impacts that stem from tradeoffs between different impact categories. Such negative impacts should be **measured, monitored, and reported**, and an explanation should be provided for how they will be **mitigated over time.**

Principle 17: Impact-aligned and impact-generating investments should only **aggregate** company impacts within **established impact categories** (e.g., as defined in life cycle assessments) and should not aggregate impacts across different impact categories.

Principle 18: Monetizing impacts at the portfolio level is not useful.

(III) What we don't know

- Significant impacts via relative performance improvements:
  - What are adequate improvements rates for historic comparisons?
  - Should and, if so how can best-performing within sectors be incorporated?
- Capital allocation & engagement as a mechanism for investor contribution:
  - What are reasonable time frames for which investors can claim to contribute to a (achieved) significant company impact?
- Reporting (significant) positive and negative impacts:
  - How many (positive) impacts are enough?
  - How do deal with severe negative impacts?
- Impact-aligned:
  - Which threshold is necessary (e.g. share of sustainable investments)?
    EU Commission Article 9: 100%; ESMA Consultation on fund names: 50%;
    UK: 70%; National supervisors, different approaches, e.g. 75% (BaFin)
- Impact-generation:
  - What proportion of an portfolio needs to provide evidence for investor contribution?