LEVEL EEI

WORKSHOP 3: OVERCOMING BARRIERS OF ENVIRONMENTAL IMPACT EVALUATION IN FINANCE

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Workshop objectives

- Advancing our common understanding of (real and fake) problems associated to measurement of impact of financial products
- Identifying (practical) ways forward

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Workshop breakdown

Phase 1: Presentation of the workshop and reminder of methods to evaluate impact (20 min)
Phase 2: thinking about confounding factors
Phase 3: case studies of impact evaluation methods used for financial products (20 min)
Phase 4: discussing and moving beyond practical barriers to impact evaluation (30 min)
Phase 5: discussing “collective impact” evaluation (20 min)
Phase 6: discussing the necessity to measure and the proper regulation of impact products (30 min)

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Phase 1: Presentation of the workshop and reminder of methods to evaluate impact

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Level the playing field for Energy Efficiency Investment products

The challenges of impact evaluation

Proving causality and additionality
- An outcome that would not have happened otherwise?
- An outcome that is caused by the investor actions?

The fundamental evaluation problem
- There is no planet B
- Need to rely on second-best options

Finding an appropriate counterfactual
- Need to control for many confounding factors (selection bias, spillovers, secular trend, interfering events, etc.)
- Different ways to create a counterfactual (most perfect match, comparison group, synthetic clone, artificial cutoff, etc.)

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An introduction to impact evaluation methods

Quantitative methods > observe difference vs a baseline

- Counterfactual methods: RCTs and quasi-experimental methods
- Non-counterfactual methods: before/after designs, casual comparisons, etc.

Qualitative methods > get evidence that achieved outcomes are in line with expectations / may reasonably be attributed to investor contribution

- Surveys, interviews and focus groups
- Structured interviews (ex: QuIP)
- Targets, ratings and scorecards

Theory-based methods > validate different steps of a theory of change

Mixed methods > combine various methods to triangulate investor impact

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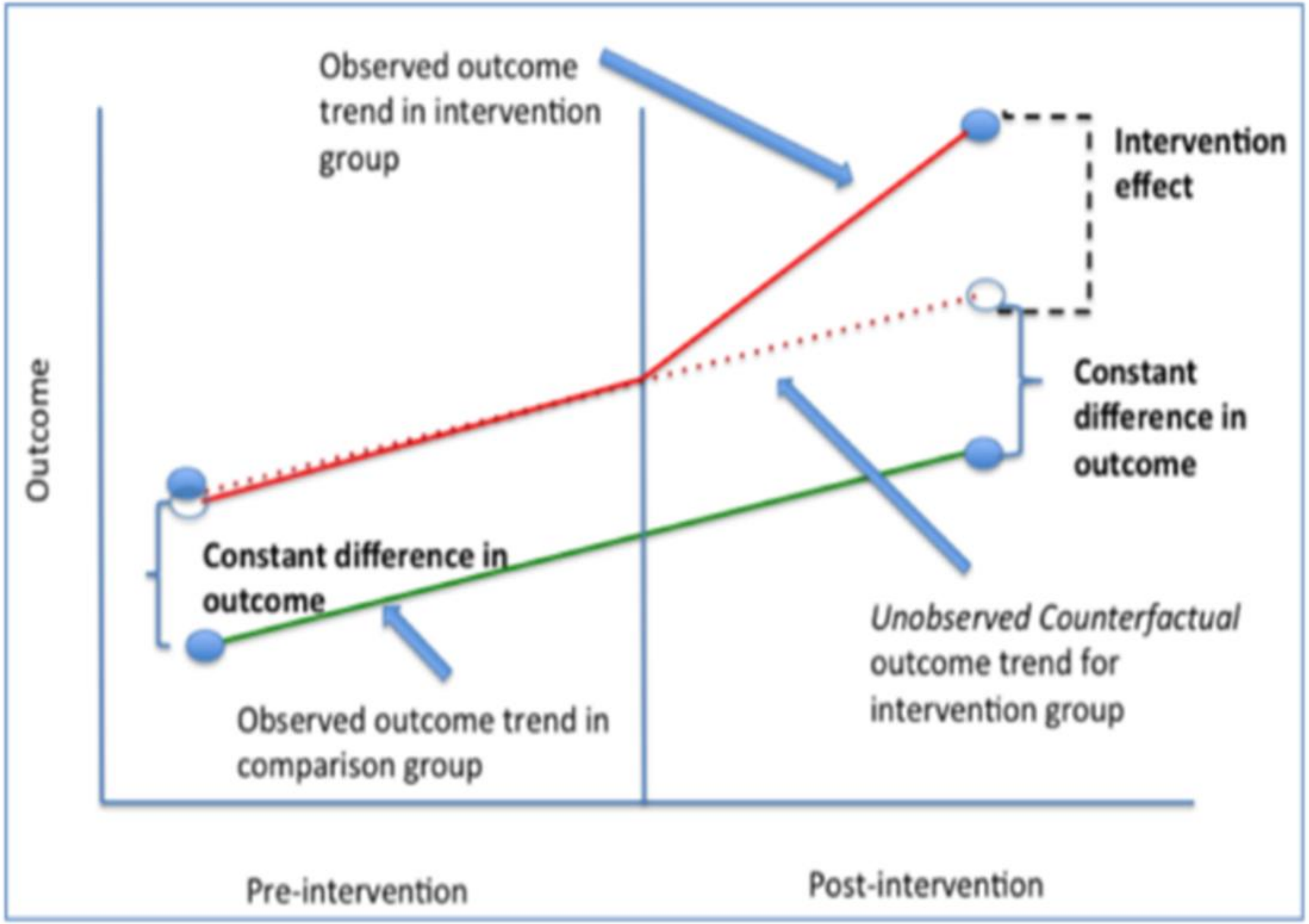
Quasi-experimental methods

They include:

- (Propensity Score) Matching > the most perfect match
- **Difference-in-Difference > a comparison group with a similar past trend**
- The Synthetic Control Method > a synthetic clone
- Instrumental Variables > an adequate comparison group after removing selection bias
- Regression Discontinuity Designs > a comparison group based on an artificial cutoff



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Level the playing field for Energy Efficiency Investment products

Stronger ability to demonstrate causality and additionality ⟷ Weaker ability to demonstrate causality and additionality

Counterfactual methods

Experimental methods

Randomized Controlled Trials

Quasi-experimental methods

- (Propensity Score) Matching
- Difference in difference
- Regression Discontinuity Design
- Synthetic Control Method
- Instrumental variables

Non-counterfactual methods

Comparative methods

- Before/after designs
- Casual comparisons

Qualitative and mixed methods

- Surveys, interviews and focus groups
- QuIP
- Targets, ratings and scorecards
- Theory-based methods

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Phase 2: thinking about confounding factors

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Examples of confounding factors in the financial context

Try to find examples for the following confounding factors in the context of evaluating the impact of a financial product

- Selection biases?
- Positive and negative spillovers?
- Secular trend?
- Interfering events?

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Phase 3: case studies of impact evaluation methods used for financial products

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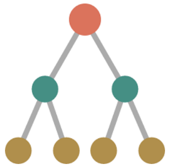
Case #1: Partners Group’s ESG Dashboard

- Partners Group, a Switzerland-based private markets fund manager, tracks the changes in ESG KPIs for its investments in private equity or infrastructure using a dashboard. The dashboard emphasizes improvements, regressions, or absence of change for various KPIs with different levels of materiality depending on the investees’ sector



Non-counterfactual quantitative method (Before/after design)

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		Environmental				Social				Governance			
		Environmental management	Climate change	Energy management	Waste management	Sustainable supply chains	Employee retention	Health & safety	Gender equality advancement	Active ownership	Bribery & corruption	ESG governance	Cybersecurity
Vertical	**Company**	**Environmental maturity**	**GHG intensity (tCO_2e / m USD sales)**	**Energy intensity (kWh / m USD sales)**	**% Waste diverted**	**Responsible supply chain maturity**	**Employee turnover**	**Lost-time incident rate**	**% Female management**	**Number of operating directors**	**Anti-bribery / Anti-corruption maturity**	**Publication of a CSR report**	**Cybersecurity maturity**
Goods & Products	Company A	3.0 ▲	52.2 ►	176'254.2 ▼	- ►	3.1 ▲	6% ▲	0.8 ▲	11% ▲	3 ►	3.4 ▲	Yes	2.9 ▲
	Company B	2.6 ►	- ▼	- ▼	- ►	3.0 ▲	5% ►	4.2 ▲	32% ▲	3 ►	3.0 ▲	No	1.9 ►
	Company C	1.0	-	39'505.4	-	1.0	24%	1.8	4%	-	1.0	No	2.0
	Company D	2.7 ►	- ▼	- ▼	- ►	2.6 ▼	- ►	1.2 ►	- ►	3 ▲	2.9 ►	No	2.4 ▼
	Company E	1.3	2.9	1'550.7	-	1.3	72%	-	17% ▲	-	3.1 ▲	Yes	2.9
	Company F	2.1 ►	224.6 ▲	202'868.7 ▼	- ►	2.9 ▼	132% ▼	- ►	33% ▲	3 ▲	3.4 ►	No	2.4 ►
	Company G	3.4 ▲	44.5 ▲	43'956.4 ▲	- ▼	2.7 ▲	59% ►	0.2 ►	17% ▲	4 ▲	3.3 ▲	No	2.9 ▲
	Company H	1.0 ▼	51.4 ▲	189'989.2 ▼	4% ▼	2.6 ▲	10% ►	2.0 ▲	33% ►	2 ▼	2.6 ▲	No	2.3 ►
	Company I	2.1 ▲	- ►	- ►	- ►	1.3 ►	32% ►	- ▼	26% ▼	- ▲	3.6 ▲	Yes	2.3 ▲
	Company J	3.3 ▲	- ▼	7'679.3 ▲	85% ▲	2.4 ▼	16% ▼	0.0 ▲	36% ▼	3 ►	2.6 ►	No	2.4 ▲
	Company K	2.7 ►	71.1 ▲	74'475.0 ▲	- ►	2.9 ▲	72% ▼	- ►	13% ▼	3 ▲	3.3 ▼	No	2.6 ►
	Company L	2.6	-	-	-	1.0	-	-	11%	4	3.1	Yes	3.1
Services & Technology	Company M	3.9 ►	3.2 ▲	- ▼	- ►	2.9 ►	21% ►	- ►	33% ►	2 ►	3.9 ►	No	3.6 ►
	Company N	1.0 ►	1.5 ▲	1'299.9 ▲	78% ▲	1.1 ►	22% ►	1.3 ▲	51% ▲	2 ▼	2.9 ►	No	2.3 ▼
	Company O	1.0 ▼	36.9 ►	37'370.7 ►	20% ▲	1.0 ►	29% ►	4.6 ▼	67% ▲	5 ▲	4.0 ▲	No	3.3 ▲
	Company P	1.0 ►	- ▼	- ▼	- ▼	1.0 ►	15% ►	- ►	53% ▲	3 ►	[illegible]	No	2.4 ►
	Company Q	3.0 ▲	1.4 ▲	[illegible]	100% ►	1.0 ▼	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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Legend	
Materiality*	high / medium / low
Priority ESG topic	
2021 ESG engagement performance	improvement in performance ▲
	no change in performance ►
	decline in performance ▼

Key findings and future focus

We need to further increase our waste management data coverage

We improved health & safety across >35% of our portfolio

We will continue our focus on entrepreneurial governance in sustainability

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Case #2: Bridges Fund Management's Impact radar

- Bridges Fund Management, a UK fund manager specialized in private assets, assesses investments using a four-dimensional Impact radar.
- Bridges defines a range for each dimension ("Target outcomes", "Additionality", "Externalities", Alignment"). That range allows them to provide scores and plot an investment's impact return (achievement if performance is as expected), as well as impact risk (probability that performance will be different than expected) within the radar, which then becomes a framework for managing impact performance.
- Additionality return scoring considers whether Bridges investments will create non-monetary benefits that generate additional social value (i.e., that will not occur otherwise).
    - In their framework, an investment scores low on investor-level additionality if the business is already well-established with other competing investors. In co-investment situations, investor-level additionality is analyzed by the extent to which Bridges leads the development of the investment, and therefore the leverage of additional capital. An investment is considered medium in investor-level additionality if Bridges is the sole or lead investor in an opportunity overlooked by mainstream investors. The highest level of investor-level additionality is when Bridges is incubating the business in-house. Indeed, most often additionality is due to Bridges' integral role in structuring or even incubating businesses in-house (in which case, the investor- and enterprise-level additionality become one and the same). For Bridges Social Sector Funds, investor additionality is readily assumed, since such investees could not rely on the mainstream capital markets to support their growth due to their business model design/structure.
- The additionality risk analysis captures the risk of displacement of societal benefits due to the investments and questions whether they are very unlikely, unlikely of likely.

Qualitative method (Target, ratings and scorecards)

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Case #2: Bridges Fund Management's Impact radar

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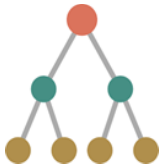
Case #3: Big Issue Invest

- Big Issue Invest is an asset management firm that supports social businesses and charities to deliver social, economic, and environmental impact across the United Kingdom through various social via various social investment funds
- Big Issue Invest collates impact data on an annual basis, as a minimum, to understand the position of their portfolio against their overall mission
- Among data collected, they get feedback from beneficiaries through a survey in order to evaluate their actual contribution



Qualitative method (Surveys, interviews and focus groups)

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Case #3: The Big Issue Invest

BII portfolio investor attribution rating

71%	BII's investment was essential to our achieving our organisational goals
20%	BII's investment was helpful in achieving our goals but we probably would have achieved them with another investor
10%	BII's investment was helpful in achieving our goals but we probably would have been delayed in achieving them
0%	BII's investment provided helpful assurance but did not directly contribute to the goal
0%	The process of securing and managing BII's investment has had a negative impact on our ability to achieve our goals

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Other examples?

- Could you think of funds/products that use one of the presented impact evaluation methods for assessing their product impact?
- Or any other method?

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Phase 4: discussing and moving beyond practical barriers to impact evaluation

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Barriers to investor impact evaluation

Barrier #1: availability of data

Barrier #2: size of investees

Barrier #3: impact timeline

Barrier #4: cost

<u>Questions:</u>

- Are those barriers real ?
- How to overcome them ?

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Phase 5: discussing “collective impact” evaluation

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The specific case of “collective impact”

1) How do we evaluate a collective impact?

Ex: impact of clean energy thematic funds

A problem: there is no counterfactual since all similar companies are treated > evaluation will be prone to many confounding factors (ex: a change in perception by conventional investors)

2) How do we evaluate individual impact within a collective action? Should we use proportional attribution?

Ex: market signaling through screening strategies

Ex: coordinated engagement

Level the playing field for Energy Efficiency Investment products

Phase 6: discussing the necessity to measure investor impact and the proper regulation of impact products

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Discussing the necessity to measure investor/product impact

Is measuring investor impact crucial or secondary for impact-driven products?

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Discussing a proper regulation of impact products

- Do you think that impact products that do not measure investor impact should be considered as suitable for impact-oriented retail investors?
- Should the regulator introduce one/two categories of impact-oriented products?
- If a "dark impact" category is introduced, how to set standards for impact evaluation?

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