Course 2023-2024 in Sustainable Finance Lecture 5. Impact Investing

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¹The opinions expressed in this presentation are those of the authors and are not meant to represent the opinions or official positions of Amundi Asset Management.

Agenda

- Lecture 1: Introduction
- Lecture 2: ESG Scoring
- Lecture 3: Impact of ESG Investing on Asset Prices and Portfolio Returns
- Lecture 4: Sustainable Financial Products
- Lecture 5: Impact Investing
- Lecture 6: Engagement & Voting Policy
- Lecture 7: Extra-financial Accounting
- Lecture 8: Awareness of Climate Change Impacts
- Lecture 9: The Ecosystem of Climate Change
- Lecture 10: Economic Models & Climate Change
- Lecture 11: Climate Risk Measures
- Lecture 12: Transition Risk Modeling
- Lecture 13: Climate Portfolio Construction
- Lecture 14: Physical Risk Modeling
- Lecture 15: Climate Stress Testing & Risk Management

Motivations

Principle

- Financial risks \Rightarrow financial performance (return, volatility, Sharpe ratio, etc.)
- Extra-financial risks \Rightarrow financial performance (return, volatility, Sharpe ratio, etc.)
- Extra-financial risks \Rightarrow extra-financial performance (ESG KPIs)

What is the final motivation of the ESG investor?

Financial performance or/and extra-financial performance?

Motivations

Definition

The key elements of impact investing are:

Intentionality

The intention of an investor to generate a positive and measurable social and environmental impact

Additionality

Fulfilling a positive impact beyond the provision of private capital

Measurement

Being able to account for in a transparent way on the financial, social and environmental performance of investments

Source: Eurosif (2019)

The investor must be able to measure its impact from a quantitative point of view

Motivations Sustainable development goals (SDGs) The challenge of reporting

GIIN

Figure 1: Global Impact Investing Network (GIIN)



GLOBAL IMPACT INVESTING NETWORK

https://thegiin.org

The example of social impact bonds

Social impact bond (SIB) = pay-for-success bond (\approx call option)

The Peterborough SIB

- On 18 March 2010, the UK Secretary of State for Justice announced a six-year SIB pilot scheme that will see around 3000 short term prisoners from Peterborough prison, serving less than 12 months, receiving intensive interventions both in prison and in the community
- Funding from investors will be initially used to pay for the services
- If reoffending is not reduced by at least 7.5%, the investors will receive no recompense

The example of sustainability-linked bonds

Sustainability-linked² (SLB) = pay-for-failure bond (\approx cap option)

SIB: investor viewpoint \neq **SLB:** issuer viewpoint

²See the examples of ENEL and H&M previouly

Motivations Sustainable development goals (SDGs) The challenge of reporting

Measurement tools

Impact assessment and metrics

- Avoided CO2 emissions in tons per \$M invested
- Amount of clean water produced by the project
- Number of children who are less obese
- Land management
- Affordable housing
- Job creation
- Construction of student housing

Sustainable development goals (SDGs)

The sustainable development goals are a collection of 17 interlinked global goals designed to be a "*blueprint to achieve a better and more sustainable future for all*"

https://sdgs.un.org

Sustainable development goals (SDGs)

Figure 2: The map of sustainable development goals



Sustainable development goals (SDGs)

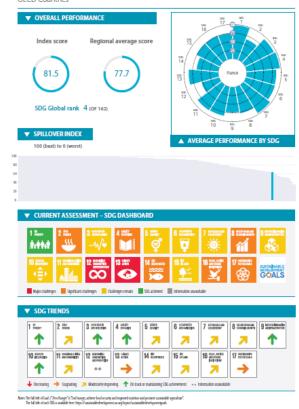
Figure 3: Mapping the SDGs across **E**, **S** and **G**



Sustainable development goals (SDGs)

Figure 4: Examples of sovereign SDG reports

FRANCE



UNITED STATES





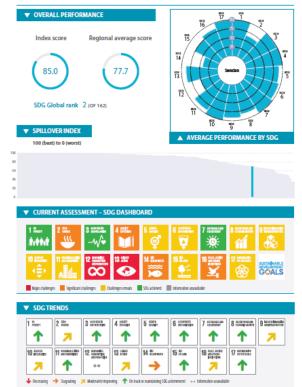
📕 Major challenges 📕 Significant challenges 📒 Challenges remain 📕 SDG achieved 📗 Information unavailable



Note: The full title of Goal 7 Tero Hunger's "Ind hunger, achieve lood arcarity and improved mattition and promote matimable asystaltare". The full title of each SIGs available here https://watainabledire/sporents.as.asy/topics/unitainable/systepporents.oh.

Source: Sustainable Development Report 2019, https://dashboards.sdgindex.org

SWEDEN OECD Countries



Note: The full tile of Gal 2 'levo Tanges' in "End hanges, achieve lood exactly and improved nations and promote statistically against and "The full tile of each 20 to available here https://statistatile.tevelsporest.an.org/https://statistatile.tevelsporest.god

The challenge of reporting

- Impact reporting and investment standards (IRIS) proposed by GIIN
- EU taxonomy on sustainable finance
- Non-financial reporting directive 2014/95/EU (NFRD)
- Carbon accounting

Motivations Sustainable development goals (SDGs) The challenge of reporting

The challenge of reporting



Thematic funds

Biodiversity risk