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

What is the final motivation of the ESG investor?

Financial performance or/and extra-financial performance?
The key elements of impact investing are:

1. **Intentionality**
   The intention of an investor to generate a positive and measurable social and environmental impact

2. **Additionality**
   Fulfilling a positive impact beyond the provision of private capital

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

Source: Eurosif (2019)
Figure 1: Global Impact Investing Network (GIIN)

https://thegiin.org
The example of social impact bonds

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

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 3,000 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-linked$^2$ (SLB) = **pay-for-failure bond** ($\approx$ cap option)

Risk taker
SIB: investor viewpoint $\neq$ SLB: issuer viewpoint

$^2$See the examples of ENEL and H&M previously
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
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 🌍, 🏛️, and 🤝

- **Environment**
  - 6: Clean water and sanitation
  - 7: Affordable and clean energy
  - 9: Industry, innovation, and infrastructure
  - 10: Reduced inequalities
  - 11: Sustainable cities and communities
  - 12: Responsible consumption and production
  - 13: Climate action
  - 14: Life below water
  - 15: Life on land

- **Social**
  - 1: No poverty
  - 2: Zero hunger
  - 3: Good health and well-being
  - 4: Quality education
  - 5: Gender equality
  - 6: Clean water and sanitation
  - 8: Decent work and economic growth
  - 9: Industry, innovation, and infrastructure
  - 10: Reduced inequalities
  - 12: Responsible consumption and production
  - 16: Peace, justice, and strong institutions

- **Governance**
  - 5: Gender equality
  - 8: Decent work and economic growth
  - 9: Industry, innovation, and infrastructure
  - 10: Reduced inequalities
  - 11: Sustainable cities and communities
  - 12: Responsible consumption and production
  - 13: Life on land
  - 16: Peace, justice, and strong institutions

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Figure 4: Examples of sovereign SDG reports

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
The challenge of reporting
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**Definition**

**Thematic funds**

**Biodiversity risk**