

Course 2023-2024 in Sustainable Finance

Lecture 5. Impact Investing

Thierry Roncalli*

*Amundi Asset Management¹

*University of Paris-Saclay

March 2024

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:

- 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)

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

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

Risk taker

SIB: investor viewpoint \neq SLB: issuer viewpoint

²See 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

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**



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

Thematic funds

Biodiversity risk