Description of

impak Methodology

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impak Analytics
Enabling sustainable change™

Table of content

1. Impact basics - What is impact?

Impact is a lasting change to the conditions of people and the various ecosystems that constitute our planet. It can be positive and bring improvement to these conditions, or the opposite and worsen them.

All economic activity generates negative externalities, whether environmental or social. Technically, all companies start from a situation of damage to the environment and potentially to society. However, they can implement activities to mitigate this impact, whether preventive or corrective and minimize the harm done to people and the planet. Impact management consists of the identification, understanding, and measuring of these impacts, followed by the implementation of a plan to not only reduce the negative impacts but also to maximize the positive impacts. The best practice in the industry is to qualify these impacts by relating them to one of the 17 United Nations Sustainable Development Goals (SDGs) and one of their associated targets.

The IMP norms, now hosted by Impact Frontiers, provide a global framework based on a global consensus on how to measure, assess, and report impacts on people and the natural environment. The norms do not exist in opposition to traditional ESG, but rather go further; they include, among others, the principles outlined by the Principles for Responsible Investment (PRI), Global Impact Investing Network (GIIN), and add the assessment of positive impacts. The evolution proposed by the IMP norms is in line with what is needed from the financial world.

Inherent to the IMP norms is the importance of intentionality in analyzing impact. Intentionality is not a separate dimension within the 5 IMP dimensions (See section 3.4 on the 5 Dimensions of the IMP below), but rather a transversal concept within the 5 dimensions and sub-criteria. For example, the importance of the outcome for the stakeholders should be assessed by an organization through consultation and inclusion of relevant stakeholders in decision-making. To add to this, we take intentionality into account through the weighting of each positive impact, which is calculated using the percentage of activities it represents within the companies' total activities, notably in terms of its turnover.

2. IS2 Methodology

2.1 The selection of material positive impacts

There are many definitions of what is considered to be a positive impact, with a broader definition being the consideration of all long-term apparent effects of an intervention, both intended and unintended. On the other hand, at impak, positive impacts are identified after an exhaustive review of the company's activities and intentionality. We select a maximum of 10 activities potentially generating a positive impact and assess each activity based on four main criteria to determine whether a positive change might occur and whether the impact should be retained and analyzed. Below is an overview of the four criteria of assessment, which are assessed in order; if an impact fails criterion 2, criteria 3 through 5 will not be analyzed.

1. **Were the relevant activities delivered in the year of analysis?**

First, we need to consider whether the activity has already been delivered by the company during the year of analysis and if it is linked to its business model. If an activity has not yet been delivered or if it is related to an external initiative unrelated to the business model, we will not consider it as generating a positive impact.

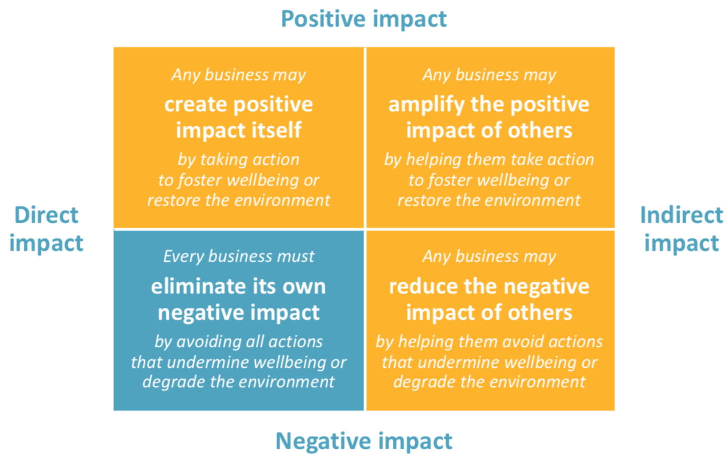
2. **Can the impact that the organization intends to generate be linked to a Sustainable Development Goal (SDG) and specific target?**

As mentioned above, our methodology is based on the IMP norms and links to the UN's Sustainable Development Goals as the most commonly accepted typology of impact issues. Therefore, the second step when assessing the relevance of an impact is to determine whether it can be linked to one of the SDG targets, and therefore contribute positively to one of the pressing issues that society needs to address, as defined by this framework.

3. **Does the activity go beyond impact mitigation, and generate a positive change?**

A positive change in the life of a beneficiary, let it be people or the planet, is not automatically synonymous with positive impact. Hence, the second step aims to analyze whether the impacts of the activity go beyond the mitigation of one of the organization's negative impact to generate a positive impact for external stakeholders. The IMP norms identify a threshold as the moment from which the stakeholders consider that the outcome is positive. Below this threshold, an activity that generates a positive change can only mitigate the negative impact of the organization. For example, take a company producing renewable energy from wind turbines. This step will determine whether the energy is produced for its own energy consumption (mitigation) or if it is generated for others - and therefore contribute to increasing the share of renewable energy in the global mix (positive impact aligned with SDG target 7.2).

Figure 1: The relationship between Break-Even Goals (bottom-left) and Positive Pursuits.



4. Is the Theory of Change valid and recognized?

The Theory of Change (ToC) is a specific type of methodology for planning, participation, and evaluation that is used in companies to promote social or environmental change. This process is fundamental in initiating impact transformation and should be part of any company's effort to generate true positive impact. The theory of change is embedded throughout the IMP standards and used by the analysts at impak to validate the logic behind the creation of impact.

It explains the process of change by outlining causal linkages within an initiative of an organization along short-term, intermediate, and longer-term impacts. The identified changes should be mapped out and show each outcome in logical relationship to all the others, as well as the chronological flow, along an “outcome pathway.” The links between outcomes are explained by “rationales” or statements of why one outcome is thought to be a prerequisite for another.

5. **Is the impact material, and what does it represent in terms of the company's activities?**

Impak does not consider an activity to be material if the percentage of organization activities contributing to the positive impact does not exceed 0.01% of Group-turnover. If the percentage of activities that contribute to the selection of positive impact is <0.01% (or estimated to be immaterial), we do not consider the impact to be material. In order to limit the risk of overestimating a positive impact (impact-washing), if there is insufficient data to estimate a representative percentage, the activity is not retained as generating a positive impact.

Given the frequent lack of financial data from corporations to assess positive activities based on the share of revenue (step 5), impak developed a second assessment method to retain positive impacts. This method allows the analyst to assess the materiality of a positive activity through a qualitative assessment based on strict criteria.

To note that activities not meeting all steps will still be considered in the analysis, however, since material positive impact cannot be confirmed, they will not be analyzed in further detail according to the IMP dimensions.

Positive impact taxonomy

In order to facilitate the analysis of the five steps mentioned above and to align the assessment of positive impacts with sector best practices, we have developed an impak positive impact taxonomy for the main sectors analyzed. Our taxonomy consolidates the best-known and most robust sectoral consensus for qualifying positive impacts, notably based on the WHO, the European Taxonomy's enabling activities, IRIS +, or the IEA. In this way, it gathers the conditions applicable to steps 1, 2, 3 and 4 for the most common positive impacts generated by a given sector.

2.2 The selection of material negative impacts

As mentioned above, impact measurement requires a holistic analysis from the perspective of different stakeholder groups. A narrow focus may be detrimental to optimizing investor returns or achieving the SDGs goals. That is why materiality at impak is double, dynamic, and context and data-driven.

Double materiality

Double articulates the two perspectives of materiality, stressing the impacts "on" and "of" a company. It identifies the risks and opportunities that the environment or society poses to a company across its development, performance, market position, value creation (financial materiality), as well as its impacts on the economy, the environment, and the people (impact materiality). For instance, it is a question of understanding how the company contributes to climate change ("inside-out" vision) and how the latter is a source of risk for the company ("outside-in" vision).

Actual and potential impacts

A negative impact occurs when an action removes or reduces the stakeholders' ability to meet the needs of the present without compromising the ability of future generations to meet their own needs. Two types of negative impacts exist:

Actual: an impact that has already occurred or is occurring (in progress)
Potential: an impact that may occur but has not yet done so

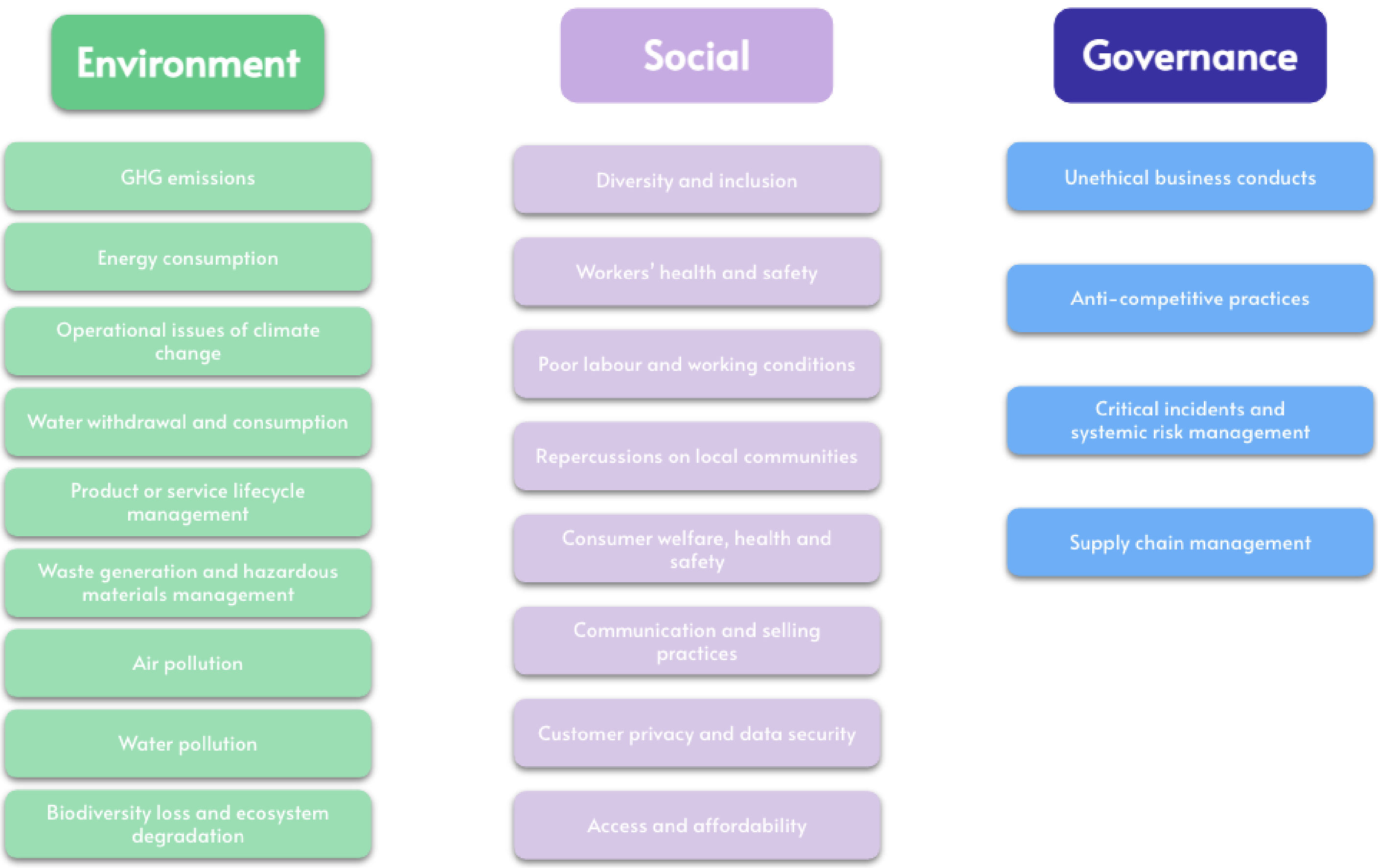
This distinction between actual and potential is at the heart of numerous standards, regulations and initiatives such as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs).[1] Following this trend, impak considers both types of impacts in its analyses. However, only actual impacts are retained for analysis according to the five dimensions of the IMP norms. Once the materiality has been assessed for the company with the iMATool, and material outcomes have been retained, the analyst determines whether the outcomes are actual or potential negative impacts. An outcome linked to a material controversy is analyzed as actual.

Defined outcomes

Impak's negative impact analysis is organized around 21 outcomes across environmental, social, and governance issues. The environmental outcomes are derived from the Doughnut theory[2] which defined an environmental ceiling with nine planetary boundaries, or tipping points, beyond which lie unacceptable environmental degradation and irreversible changes to Earth systems. impak's social and governance outcomes are derived from internationally agreed minimum standards.[3] They are also based on the 17 UN SDGs, while definitions are anchored in international definitions and standards, such as SASB, the GRI, UNEP FI, the WBA, the OECD

[1] Notably, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs), the future European Directive on Corporate Due Diligence and Corporate Accountability, the European Sustainable Finance Disclosure Regulation (SFDR) and the European Financial Reporting Advisory Group's (EFFRAG).
[2] See https://doughnuteconomics.org/about-doughnut-economics
[3] Including, but not limited to the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the European Convention on Human Rights, the European Social Charter, the UN Guiding Principles on Business and Human Rights, The Ten Principles of the Global Compact of the United Nations, The OECD Guidelines for Multinational Enterprises.

guidelines and more. The 21 outcomes, divided into Environmental, Social, and Governance categories, are shown below:



iMAT tool

impak launched an internal tool, the impak Materiality Assessment Tool (iMATool), to identify and prioritize material outcomes for a company across 173 sectors (based on the Industry Classification Benchmark known as ICB). The tool assesses the significant impacts of a company throughout its entire value chain using a life-cycle approach. For some organizations, their most important impacts may occur upstream or downstream in their value chain instead of within their own operations. The iMATool also offers a country and company-specific assessment as it is crucial to provide nuances as a sector-level result is essential but not sufficient to assess fully what is material for a company. Each material outcome is linked to an SDG and a target.

The iMATool is built on credible data to foster objectivity, robustness, and relevance, encompassing multiple relevant international norms and standards[4] and market-driven standards[5]. Notably, initiatives that link the SDGs to private companies' activities such as the Global Reporting Initiative (GRI), the United National Principles for Responsible Investment (UNPRI), the UN Global Compact, the Value Reporting Foundation (the VRF, formerly the Sustainability Accounting Standards Board or SASB)), and UNEP FI are used as the basis of the materiality assessment. Additionally, impak uses macro data at the company's sector and geographic level (academic, government, NGO sources) and includes controversies and controversial activities in the materiality process.

3. Media watch and controversies

Companies can operate in controversial activity sectors, regions or contexts (controversial activities) and can be in the middle of social or environmental controversies and litigation (controversial events).

- ➔ **Controversial events:** Scandals, allegations, fines and convictions will also impact the materiality assessment and can affect the impact type of each material impact and of the organization globally

To assess the materiality of controversial events in the impact assessment, impak developed a controversy monitoring methodology used by a dedicated team (the Media Watch team). The Media Watch team uses different research platforms and search streams to ensure monitoring, both before starting an analysis (using thorough "pull" research) and periodically throughout the year (using an alert-based "push" system). Through this process, impak is searching for convictions, allegations, NGO reports, appeals, settlements, etc. that can inform us on the organization's specific negative impacts, as well as the organization's ability to properly mitigate its material negative impacts.

The Media Watch team filters the research results to retain the most material controversies from an impact perspective using the controversy score. The score, inspired by the IMP framework

[4] Including, but not limited to the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the European Convention on Human Rights, the European Social Charter, the Sustainable Development Goals (SDGs), the UN Guiding Principles on Business and Human Rights, The Ten Principles of the Global Compact of the United Nations, The OECD Guidelines for Multinational Enterprises, the Paris Agreement on Climate Change, the United Nations Framework Convention on Climate Change, the WHO Air Quality Guidelines for Europe.

[5] Including, but not limited to the International Finance Corporation: IFC Performance Standards, the World Benchmarking Alliance Social Transformation, the KnowTheChain benchmarks, Living wage financials, Encore Natural Capital, the Access to Medicine Foundation.

and especially the principle of relative stakeholder vulnerability, is associated with a level of severity, from low to severe. Controversies with a low level of severity are not retained in the impact assessment.

Severe	The impact of the controversy is mostly widespread or extensive, with severe repercussions on stakeholders. At least a major part of the population is considered vulnerable, and the company management practices are considered unsatisfying.
High	The impact of the controversy is mostly extensive or widespread with high repercussions on stakeholders. Vulnerable stakeholders are involved and the company management practices are considered unsatisfying.
Moderate	The impact of the controversy can be localized to widespread but involves some vulnerable stakeholders. The impact is mostly moderate with no irremediable repercussions.
Low	The impact of the controversy is mostly localized or extensive with no irremediable repercussions on stakeholders. There is no vulnerable population involved.

This process is done upstream from the impact assessment to identify additional material impacts. It enables the analysts to provide an assessment that is actual and context-driven.

4. The 5 Dimensions of the IMP

Once the positive and negative outcomes have been assessed, the impact analysis of organizations is carried out along the 5 dimensions of the IMP:

- WHAT: what outcome(s) an impact relates to and how important the outcome is to the people (or the planet) experiencing it.
- HOW MUCH: how significant an impact is in a given time period. How deep is it? How many people are affected? How quickly does the impact occur, and how long does it last?
- WHO: who experiences an impact and how underserved they are in relation to the outcome.
- CONTRIBUTION: how the effect compares and makes a contribution to what is likely to happen in the broader market, had the company not taken part in it.
- RISK: which risk factors are significant and how likely is it that the outcome differs from the initial expectation and desired outcome.

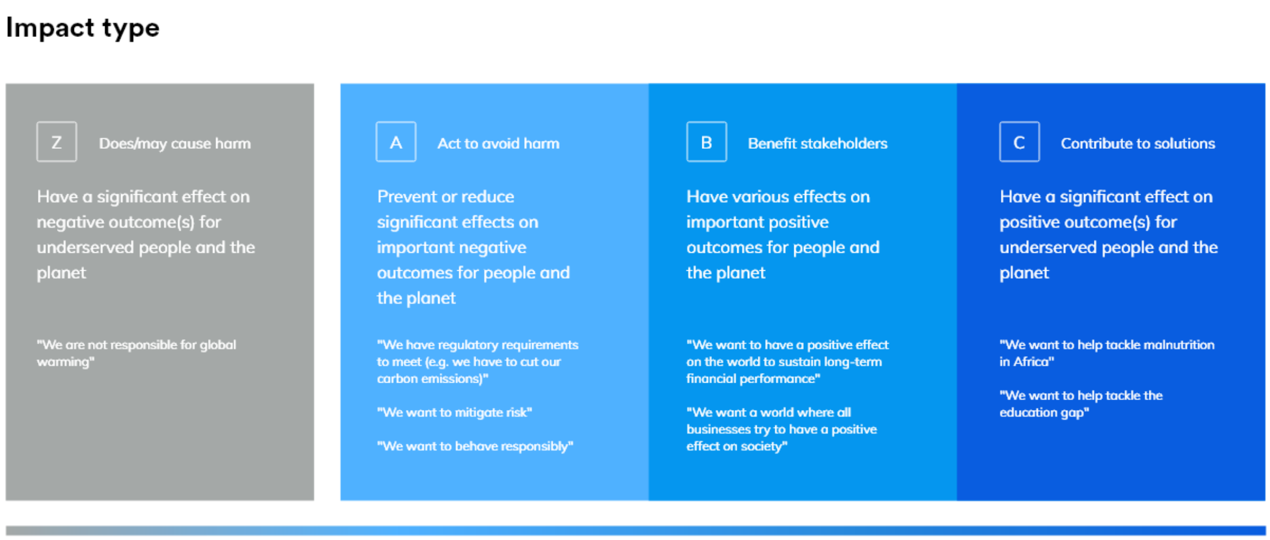
Impact performance is assessed and reported across the following categories of data:

Dimension	Category	Description
WHAT	1. Outcome in Period	The outcome experienced by the stakeholder when engaging with the enterprise.
	2. Importance of outcome to stakeholder	Stakeholders' view of whether the outcome they experience is important. Where possible, the people experiencing the outcome provide this data, e.g. through direct surveying, although third party research may also be included. For the planet and environment, scientific research provides this view.
	3. Threshold for positive outcome	The level of outcome that is considered to be positive. Anything below this level is considered negative.
	4. SDG and SDG target	The Sustainable Development Goal that the outcome relates to, along with the specific target.
WHO	5. Stakeholder	The type of stakeholder experiencing the outcome.
	6. Geography	The geographical location where the stakeholder experiences the outcome.
	7. Baseline	The level of outcome experienced by the stakeholders prior to engaging with, or otherwise being affected by, the organization.
	8. Stakeholder characteristics	Socio-demographics and/or behavioural characteristics and/or ecosystem characteristics of the stakeholder to enable segmentation during the intervention.
HOW MUCH	9. Scale	The number of individuals experiencing the outcome. When the planet is the stakeholder, this category is not relevant.
	10. Depth	The degree of change experienced by the stakeholder. Depth is calculated by analyzing the change that has occurred between the 'Baseline' (WHO) and the 'Outcome in Period' (WHAT).
	11. Duration	The time period for which the stakeholder experiences the outcome.
CONTRIBUTION	12. Depth	The estimated degree of change that the stakeholder is likely to experience in the market without (or "irrespective") of the company's contribution to the outcome.
	13. Duration	The estimated time period that the outcome would have lasted for anyway - without engaging with, or being affected by, the enterprise.
RISK	14. Type of risk	Impact risk is the likelihood that impact will be different than expected, and that the difference will be material from the perspective of the people or the planet who experience impact. 1. **Evidence Risk**: the probability that insufficient high-quality data exists to know what impact is occurring (or will occur) across the other four dimensions of impact, for all stakeholders. 2. **External Risk**: the probability that external factors disrupt the organization's ability to deliver the expected impact. 3. **Stakeholder Participation Risk**: the probability that expectations and/or experience of stakeholders are misunderstood or not taken into account. 4. **Drop-off Risk**: the probability that the expected positive impact does not endure and/or that negative impact is no longer mitigated.

		5. **Efficiency Risk**: the probability that the expected impact could have been achieved with fewer resources or at a lower cost. 6. **Execution Risk**: the probabilities that the activities are not delivered as planned or do not result in the desired outcomes. 7. **Alignment Risk**: the probability that impact is not locked into the enterprise model, making mission drift more likely. 8. **Endurance Risk**: the probability that the required activities are not delivered for a long enough period. 9. **Unexpected Impact Risk**: the probability that unexpected positive or negative impact is experienced by people and the planet. *For the purpose of our analysis, we analyze the 4 most material risks per outcome.
	15. Level of risk	The level of risk, factoring in the severity and likelihood of the impact risk. There are three levels of risk: low, medium, and high.
	16. Risk reduction strategies	Concrete action steps to mitigate the risks identified in the previous two categories.

5. ZABC Impact types

impak's categorization is based on the IMP framework's initial approach in terms of impact types. This simple categorization scheme for the impact of businesses overcomes the confusion created by the many methodologies to describe and measure impact.



Classification of impact types

A – Act to Avoid Harm: at a minimum, investors who wish to follow an impact model can choose enterprises that act to avoid harm to their stakeholders; such 'responsible' enterprises can also mitigate reputational or operational risk (often referred to as ESG risk management), as well as respecting the personal values of their asset owners. Examples of actions include decreasing one's carbon footprint or paying appropriate wages.

B – Benefit Stakeholders: in addition to acting to avoid harm, investors can also favour enterprises that actively benefit stakeholders, for example, through selling products that support good health or educational outcomes; an increasing range of these 'sustainable' enterprises are doing so in pursuit of financial outperformance over the long term (often referred to as pursuing ESG opportunities).

C – Contribute to Solutions: investors can go a step further, by investing in companies that are using their full capabilities to contribute to solutions to pressing social or environmental problems, such as enabling an otherwise underserved population to achieve good health or educational outcomes or hiring and upskilling individuals who were formerly unemployed for a prolonged period. Indeed, the contribution of a “C” type company has a contribution that is likely greater than what the market would have provided otherwise.

Z – Does or May Cause Harm: organizations that do not mitigate their material negative impacts in a significant manner or for whom a material controversy has been identified.

Each impact has a rating: a positive impact will therefore be B or C, a negative impact Z or A. These ratings lead to the overall rating of the company: according to the principle of Z prevails, the presence of a Z cancels the other notes.

6. Climate Strategy module

The climate module is a sectorial evaluation of a company’s climate strategy based on internationally recognized standards and initiatives.[6] The analysis contained within this module of key importance to the economy’s highly-emitting sectors; for instance, a company in the educational services sector does not contribute nearly as much to climate change as organizations in the integrated oil & gas sector. The module includes the following main components:

i) Reporting practices: This section evaluates the reporting practices of a company with regard to its GHG emissions, based on the GHG Protocol methodology.

> *Best practice:* Reporting greenhouse gas emissions indicators based on Scope 1, 2 and 3 (while disclosing all fifteen categories). A third-party audit of these indicators is also considered best practice.

ii) Targets: This section evaluates the alignment of the company’s targets with the Paris Agreement scenarios.

> *Best practice*: The targets must be in absolute values and include scope 1, 2 and 3 GHG emissions. They must be aligned with the 1.5-degree scenario and verified by a third party (ie. from the Science Based Targets initiative).

iii) Evolution of metrics: This section evaluates quantitative indicators reported by a company and their evolution in time.

> *Best practice*: The indicators must demonstrate a constant reduction of greenhouse gas emissions since the signing of the Paris Agreement in 2015.

[6] Including, but not limited to, the GHG Protocol, IPCC, SBTi, PACTA, Katowice, GRI, TCFD, EU taxonomy, Climate Watch, and World Resource Institute.

iv) Mitigation activities: This section assesses the actions already taken by a Company to reduce its GHG emissions - instead of focusing on future strategies.

> *Best practice:* The Company has achieved net zero emissions based on a decarbonization strategy and the use of carbon removal to neutralize any residual emissions.

Based on the assessments of the above-mentioned elements, a “Z” may be added to the Greenhouse Gas Emissions outcome in the impact statement, with a distinction in severity through either the May Cause Harm to Does Cause Harm conclusion. This module allows the analysis to clearly show which organizations have climate strategies that are insufficient to limit global warming to 1.5°C.