

EQ Positive Impact – Impact Measurement Methodology & Case Study



This methodology paper is primarily aimed at asset managers and finance industry professionals who would like to measure the social and environmental impact of their portfolios.

EQ Positive Impact is an investment strategy with a dual mandate to maximise both impact and risk-adjusted returns. This document outlines the methodology employed within EQ Positive Impact to measure social and environmental impact.

As [defined by the Global Impact Investing Network \(GIIN\)](#), impact investments are made into companies, organisations, and funds ‘with the intention to generate positive, measurable social and environmental impact alongside a financial return.’ Two of the [core characteristics of impact investment](#) include: 1) using evidence and impact data in investment design, and 2) using impact performance data in investment decision-making.

Having a clear methodology for impact measurement is therefore essential for EQ Positive Impact to deliver on its dual mandate, inform its investment and engagement activities, manage investment impact and facilitate client reporting.

What data do we focus on?

The metrics included in the EQ Positive Impact Report (and associated online impact calculator tool) relate to the social and environmental benefits generated by the **core products and services** of the invested companies. These products and services reflect the purposes of the underlying businesses, and most often carry the largest associated impact.

Focusing on the impact of underlying products and services, and not incorporating data on the impact achieved by the operational side of the business, significantly reduces the risk of [greenwashing](#), i.e. making an unsubstantiated or misleading claim about the social or environmental benefits of a product, service or company practice.

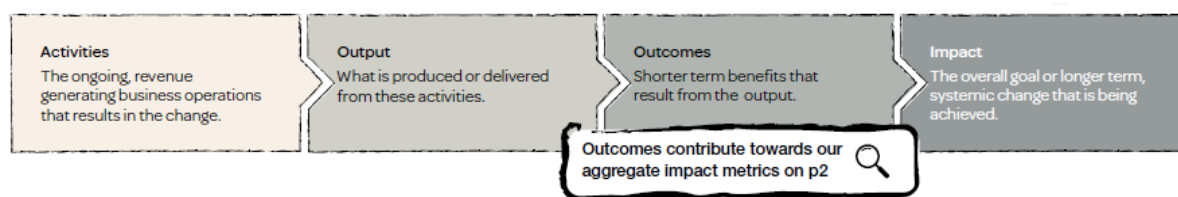
This analysis covers the **equity, fixed income, and alternatives** portion of EQ Positive Impact.

What impact are we measuring?

The measurement methodology for EQ Positive Impact is guided by the [UN Sustainable Development Goals](#) (SDGs). While several impact funds still limit their impact analysis to the *intentional alignment* of investments in relation to the SDGs (usually by mapping revenue segments to link to the SDGs), this methodology goes further by measuring the *achieved* SDG-linked impacts of portfolio investments within the past year.

Companies rarely disclose their direct contribution to the UN SDGs. However, the link between a company’s activities and progress towards an identified UN target can be established via a theory of change which includes output and outcome data (Figure 1).

Figure 1. Theory of change



Case study

This case study focuses on the ‘renewable energy generated’ impact indicator, which measures the renewable energy generated (in MWh) over a year by companies owning and delivering renewable energy technologies (including wind, solar, geothermal, hydro, biomass).

Step 1 – SDG target selection

The UN SDGs present the framework for what EQ Positive Impact invests in and avoids. Every holding in the strategy is mapped to the UN SDGs by examining its core business – as reflected by its core products and services.

Those UN SDGs mapped to companies and bonds are then linked to a set of the most relevant SDG targets and an extensive list of potential indicators.

One SDG target that emerged from mapping our holdings was SDG target 7.2: ‘By 2030, increase substantially the share of renewable energy in the global energy mix.’

Indicators are only selected for reporting after impact data collection (Step 3).

Step 2 – Impact data collection

Within EQ Positive Impact, underlying investments that contribute to SDG target 7.2 are primarily electric utilities, renewable energy technology manufacturers and operators. All these companies’ core products and services were determined relevant to this target, and their disclosed impact data reviewed.

Data sources included the companies’ most recent annual reports, corporate social responsibility (CSR) reports, financial disclosures and investor presentations. Annual data for the ` period was preferred, although reporting cycles differ geographically.

All impact data relevant to SDG target 7.2 was collected, covering a range of different metrics – with the aim of aggregating data into a final indicator linked to progress on SDG target 7.2. However, companies reporting data on renewable energy generated without it being a key part of their commercial activities were not included, for two reasons: 1) to reduce the risk of double counting, and 2) to avoid reporting impact data on companies which might be making their operations less harmful to society or the environment, but where their core activities are going against the SDGs. Hypothetical examples that would be excluded are tobacco companies powering their factory with solar panels, or utility companies where renewables do not present a large proportion of the generation mix.

Step 3 – Indicator finalisation

After reviewing the collected impact data, the final impact indicator was selected based on its SDG-relevance and the level of data availability (Table 1).

Table 1: Details of the final indicator and components

SDG target	Business activity	Component indicators	Final indicator
7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.	Manufacturing of new renewable energy technology. Installing of renewable energy technology. Operator of renewable energy technology.	Annual: MWh of renewable energy generated, MWh of renewable energy sold, MWh renewable energy distributed. Converted MW installed renewable capacity via a technology-specific conversion factor.	MWh of renewable energy generated in 1 year.

In this example, the finalised indicator for the portfolio's SDG 7 impact is 'MWh of renewable energy generated'.

As companies disclose related impact data in slightly different manners, this is an aggregate indicator of companies' disclosed data via the component indicators.

Step 4 – Impact data association analysis

This analysis is based on three assumptions:

1. Shareholders are partly responsible for the impacts of the companies they own.
2. Bond investors are partly responsible for the impacts of the activities financed by those bonds.
3. An investor can be associated with the impact of a company, or bond projects, in proportion to the size of their share in that company or bond issuance.

For each company with available impact data for 'MWh renewable energy generated', the disclosed data was divided by the company's enterprise value including cash and then multiplied by the percentage size of this specific company within the portfolio. This was then multiplied by £1,000,000 to indicate the 'impact efficiency' of £1 million invested relating to the 'MWh renewable energy generated' indicator.

The individual contributions to this indicator by every relevant company and corporate bond were then aggregated to give an overall portfolio impact on to 'renewable energy generated'.

Illustrating this analysis using Iberdrola as an example

Iberdrola is an electric utility company with a leading focus on renewable energies.

Iberdrola reported¹ that its renewable energy technology generated 164,266,000 MWh of renewable electricity in 2022.

The company presents an aggregate of approximately 5.44% of **one fund** within the impact portfolios. This fund presents 6% in the EQ Positive Impact Portfolios (Risk level: Adventurous).

Iberdrola has an enterprise value including cash of about 118,754 million GBP (as at 31/12/2022).

Per £1 million investment in the impact portfolio, Iberdrola contributes to:

$$= \frac{164,266,000}{118,754} \times 0.0544 \times 0.06 \times 1,000,000 = 4.5 \text{ MWh}$$

Concluding remarks

This case study demonstrates an example of the impact measurement process underlying the Positive Impact Report 2023. The report includes 12 different indicators, each of which involved a version of this same process.

The indicators shown represent the data that were: 1) most reported on by the underlying companies, and 2) most material to the UN SDG exposure within the EQ Positive Impact strategy. These indicators therefore best capture the total impact of the companies and bonds held within EQ Positive Impact during 2022.

This methodology likely represents an understatement of the associated impact of the EQ Positive Impact strategy, because of the conservative approach taken towards impact data collection. Only disclosed impact data was considered, and more than half of portfolio holdings did not disclose any data relevant to the 12 indicators. Estimated data, e.g. based on average peer group data, were not included.

Disclaimer

The methodology connects investor's portfolios to the impact that can be attributed to their investments. An individual investors' investment in the EQ Positive Impact Portfolio does not create the outputs and outcomes reported on, as their capital is not additional to the business in most cases. Instead, these are associated impacts based on company disclosures and share of ownership.

At EQ Investors we are committed to improve on the available methodologies to report on the social and environmental impact achieved through any investment. To push the boundaries of impact measurement further, we are cooperating with several asset managers and institutions and always welcome any feedback on our reports and methodology.

¹ https://www.iberdrola.com/documents/20125/2931678/gsm23_IA_SustainabilityReport2022.pdf