

Disclosure Statement 2023

Operating Principles for Impact Management



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Impact Management

IMPACT FINANCE

Impact Finance Management S.A. (“Impact Finance”) here declares its status as Signatory of the Operating Principles for Impact Management “The Impact Principles”.

This Disclosure Statement applies to Impact Finance Fund (“IFF”), its sole investment fund, managed by Impact Finance Investment S.à r.l., an affiliate of Impact Finance in the Great Duchy of Luxembourg. As of the 1st of August of 2023, the Asset Value of the Impact Finance Fund is USD 72,074,374.



Benjamin Firmenich & Cédric Lombard
Executive Directors

Principle 1

Define strategic impact objective(s), consistent with the investment strategy

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

About Impact Finance

Impact Finance was created in 2010 by Cédric Lombard and Fabio Malanchini, two successful entrepreneurs in the field of microfinance. Impact Finance is a pioneer and a leader in impact investing, striving to lead the sector through constant innovation and a true vocation in offering quality impact reporting. Our flagship fund is a private debt instrument created in 2011 in Luxembourg called the Impact Finance Fund. The fund finances inspiring and replicable regenerative businesses active in the food and agribusiness sectors, that seek to make positive social and environmental changes to our world. Since July 2021, the fund falls within the scope of Art. 9.2 of the Regulation (EU) 2019/2088 of the European Parliament and the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (hereafter SFDR).

Investment Strategy

We identified three major global challenges that the world is facing today:

- Increasing inequalities
- Overexploitation of natural resources
- Climate change

For us, these challenges represent business opportunities to change the world positively. Based on a decade of expertise in financing companies in the Latin-American food and agribusiness sector, we defined five investment verticals with tremendous market potential that represent business driven solutions for those three challenges.

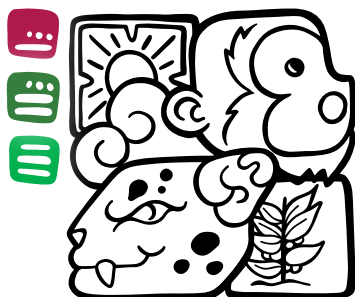
SDG 8 (Decent work and economic growth) is at the heart of our investment objective, it aims to promote sustained, inclusive and sustainable economic growth, full and productive employment as well as decent work for all. Each vertical is additionally linked to two supplementary specific SDGs.

Investment strategy



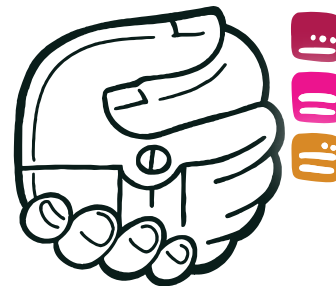
Small-scale Producers

Working directly with small-scale producers in a win-win collaboration



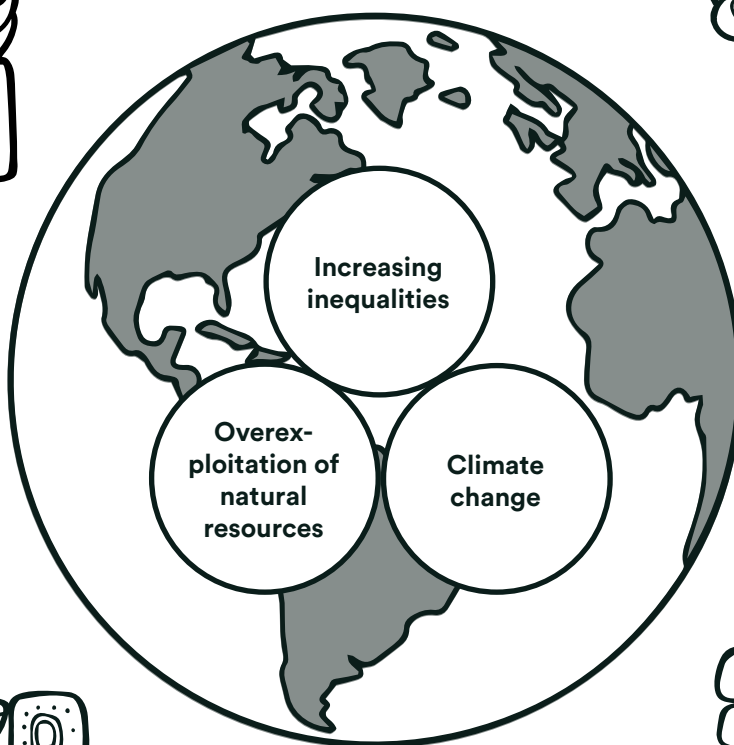
Agroforestry

Regenerating ecosystems thanks to economic activities



Financial Inclusion

Reinventing financial intermediation to generate economic growth



Circular Industry

Converting waste into resources



Integrated Farming

Creating job opportunities in rural areas and optimizing resources

Principle 2

Manage strategic impact on a portfolio basis

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

Since 2010, Impact Finance has invested in its proprietary impact monitoring system: Kharmax. It collects data, establishes a sustainability rating for each company, and helps to report outcomes in an aggregated manner.

The positive impact linked to each vertical represents a set of indicators. Since 2019, we have been reporting these indicators according to the framework proposed by the Impact Management Project.

Positive impact is Impact Finance's Raison d'être; it is embedded in our business model. All the deals evaluated by the company are first run by a Selection Committee which particularly focuses on impact. The project is then discussed by the Investment Committee where, again, the question of impact is raised and validated. The impact that portfolio companies have is, therefore, the angular stone of the company's culture, it is a sine qua non condition for investing. The staff incentive system is aligned with the financial performance of the company and considering that impact criteria are rigorously kept, financial performance goes hand-in-hand with impact achievements.

Principle 3

Establish the manager's contribution to the achievement of impact

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

Impact Finance invests in regenerative businesses that seek to have a net-positive impact because they understand that societal well-being depends on the health of the planet. Through a strict selection process and rigorous financial analysis, we believe we are helping to create a better and more sustainable impact.

Through the constant monitoring of the economic evolution of each investment and of around 75 risk indicators per company, we have an invaluable perspective on the intrinsic link between financial and non-financial elements of each investee.

Impact Finance provides non-financial support to its investees. Along with our financing, we accompany them closely and provide them with catered business development services, principally focused on governance, financial management and sales. In particular we provide them with constant follow-up and reflection on their social responsibility and impact and how to use it as an added value. We offer them a on-going critical point of view on their financial information and reporting.

On the investors' side, our duty and our aim are to report on the performance of the fund and on its impact. On a quarterly basis, we strive to present the key figures of the financial and non-financial aspects, as well as always showing a concrete case to illustrate our work. On a yearly basis, we publish an impact report providing an update on our monitoring and reporting methodology, as well as presenting and discussing the results of the fund in terms of impact.

Principle 4

Assess the expected impact of each investment, based on a systematic approach

For each investment, the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

The expected impact of each investment is determined in the investment proposal in the section "Impact thesis". This section describes in detail how the project fits to the vertical, what is its current impact, and the expected outcomes after investment. That description follows the framework proposed by the Impact Management Project.

Our proprietary risk rating included in the investment proposal considers internal and external risks of the company. A satisfactory risk rating will reinforce the likelihood of reaching the expected impact.

IMPACT MANAGEMENT PROJECT



What

How the project fits the vertical and description of its specific features



Who

Description of the targeted stakeholder



How much

Number of individuals experiencing the outcome before investment. Expected increase after investment.



Contribution

Contribution is the company's social outcome that would not have occurred if the company had not existed. The estimated degree of change is calculated through a list of indicators specific to each vertical.



Risk

Impact Finance systematically performs a risk due diligence of portfolio companies, which is updated on a yearly basis.

Principle 5

Assess, address, monitor and manage potential negative impacts of each investment

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

The attention of the manager on a set of ESG indicators is constant. Since 2021, we reviewed the Principal Adverse Indicators (PAI) mentioned in annex 1 of SFDR and adopted them integrally into our sustainability rating. The ESG risks of each investment are identified and mitigated throughout the entire investment process, starting before the disbursement, and then they are regularly followed-up and monitored.

The Selection Committee is the first step of the evaluation. Following a desk review, it excludes companies that do not fulfill the minimum requirements in terms of ESG criteria and that do not fit the investment strategy and verticals. After the Selection Committee, an in-depth due diligence is conducted on site which includes identification of potential sustainability risks such as social unrest and extreme weather events.

The due diligence of each of our investees includes a Kharmax sustainability rating as well as a risk rating, which are afterward reviewed yearly. The objective of our sustainability rating is to ensure that all our companies avoid doing significant harm. This rating covers 5 dimensions: environment, labor practices, human rights, governance, product responsibility and economics. In addition to 52 indicators directly related to the PAI, there are 17 additional indicators to offer a more complete perspective on sustainability.

The Kharmax sustainability rating and the sustainability risks are reviewed by the Investment Committee, which sets the covenants and defines clear objectives to be reached. Once the investment is disbursed, the covenants and the indicators are regularly monitored. A Kharmax sustainability rating is performed on a yearly basis along with the update of the risk rating.

Principal 6

Monitor the progress of each investment in achieving impact against expectations and respond accordingly

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

Whereas the Kharmax sustainability rating is standard with the same indicators across all sectors, monitoring of the achievement of positive impact is based on a set of indicators specific to each vertical. The impact indicators are built on our experience and relation with local stakeholders emanating from more than two decades of impact investing. The information related to the positive impact of every investee is collected yearly by the investment team, it is reviewed by the investment specialist and validated by the two executive directors before being published in the Impact Report.

During the compulsory yearly visit, the investment officer interviews all the key managers and meets with members of the board, as well as visits the infrastructures and suppliers of the company.

An update of the elements discovered during the on-site visit is shared with the senior management.

Principle 8

Review, document and improve decisions and processes based on the achievement of impact and lessons learned

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

There are two levels to be considered as we check the company performance: the day-to-day follow-up first, and then the yearly review of both impact monitoring and risk rating.

The portfolio and investments at risk are reviewed on a weekly basis and each company is carefully monitored. This follow-up is well documented at the manager's level and has been shared with the investment and the operations team. The evaluation of each company is also reviewed at the level of the Risk & Valuation Committee on a quarterly basis, particularly the ones that are underperforming economically and that are in breach of their reporting obligations.

The sustainable finance and the impact investing world are moving forward fast. Twelve years ago, when we launched our fund, the tools at disposal were scarce and disappointing. In a decade the sector has grown tremendously. From our start with a tool which was revolutionary in the way it was focusing on the impact of the whole value chain, we have moved ahead towards our current methodology integrating our sustainability rating, our positive impact assessment, as well as our risk rating.

Every year has been a year of change. Our main engines have been our investors and our investees. The team has been continuously looking to bring to both a tool that can satisfy their needs and enable them both to communicate on their impact. Thanks to an ongoing dialogue with both our investors and our investees on sustainability and impact, our approach has evolved with the strong belief that what we report and how we report are crucial elements of the equation. They enable impact investing to become stronger.

In addition to our stakeholders, we have always followed the initiative proposed by actors of the industry and emerging standards. The adoption of IMP methodology in 2019 and our B-Corp certification in 2020 are important milestones of our walk forward. In 2021, we have decided to fully adopt the SFDR and consequently have dropped the B-Corp Certification as we believe most of our impact is concentrated in our fund and in its investments. The senior management of Impact Finance, together with the investment specialist are establishing the yearly objectives regarding the evolution of impact monitoring and reporting.

In the same way, our risk assessment methodology is regularly updated based on the specific cases we have been through, especially the ones which brought to light a lack of focus or flow in the process.

Principle 9

Publicly disclose alignment with the Impact Principles and provide regular independent verification of the extent of alignment

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

As a signatory of the Operating Principles for Impact Management, Impact Finance is committed to disclosing on an annual basis its impact management methodology. Impact Finance has appointed Telos Impact to undertake the assessment of its methodology and policies and validate the content of the present Disclosure Statement.

Telos Impact is an advisory firm specialized in impact investing and providing the highest level of services to individuals and families. Created in 2015, Telos Impact counts with 30 people in Belgium and France. It is dedicated to screen impact investment opportunities and recommend them to their customers.

Telos Impact reviewed Impact Finance methodology and policies and has released its first positive verification statement on the 31/10/2021. The independent verification is updated every two years.



「IMPACT FINANCE」



Luxembourg
Geneva
Cali

info@impact-finance.com
www.impact-finance.com

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