ALF
managed by Incofin

Sustainability-related product disclosure
ALF

Summary

This statement is published by Agri-Finance Liquidity Facility (Incofin Inclusive Finance Fund SA, SICAV-RAIF, Sub-Fund II), an investment company with variable share capital and a social objective (the "**Fund**"), in accordance with Article 10 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "**SFDR**").

No significant harm to the sustainable investment objective

The Fund strives to ensure the effective management of potential sustainability risks associated with its investments and to do no significant harm to any area of environmental or social concern. Toward that end, the Fund has implemented and maintains, together with Incofin Investment Management (the "**AIFM**" of the Fund), a specific investment process, investees selection criteria and exclusion list for making a sustainability risk and impact assessment of each potential investment.

As prerequisite for eligibility, a company must meet with the Fund's "do no harm" standards, which prohibits the financing of business activities inherently exposed to high ESG risks according to the Fund's Exclusion List, which is aligned with the IFC Exclusion List. This negative screening is done at the start of the deal flow and compliance monitored on an annual basis post investment.

As another layer of mitigation, all potential investees undergo an ESG risk assessment in addition to a credit risk assessment. A mix of industry recognized tools and dedicated proprietary tools are used to evaluate the environmental, social and governance risks and practices of the Investee. All tools are aligned with international standards like the UN Guidelines for Business and Human Rights, and the ILO Labour convention. The Fund's impact framework complies with the Operating Principles for Impact Management.

Sustainable investment objective of the financial product

The Fund has sustainable investment as its objective as described in article 9 of the SFDR. The mandate of the Fund is to invest in entities contributing to the social, environmental and/or economic development of vulnerable populations in emerging countries.

The mission of the Fund is to support systemic actors of the sustainable agri-food value chains in Africa and the Latin America and Caribbean ("LAC") region, in order to enable them to keep their business ongoing during and after the COVID-19 crisis, with special emphasis on ultimately benefiting as many vulnerable persons active in the agri-food value chains as possible, such as smallholder farmers, employees, and labourers.
Specifically, the Fund seeks to invest in companies that contribute to at least one of the following:

- to provide smallholder farmers with better access to capital, particularly long-term capital, that allows them to improve their operations, accrue value and break the cycle of agrarian poverty;
- to provide smallholder farmers with better access to critical, actionable information that allows them to enhance yields, reduce/prevent impact of diseases, and gain better access to the market;

- to facilitate access for smallholder farmers to the Fair Trade or Sustainable market, which allows them to benefit from an organized Fair Trade or Sustainable value chain, a fair price and a premium;
- to strengthen producer organizations and other types of Portfolio Companies through the provision of technical assistance, thereby allowing them to provide better services and reach more smallholders;
- to support the Fair Trade or Sustainable value chain by providing access to financing for plantations, Agro SMEs, and agriculture focused microfinance institutions whose products and services benefit smallholders.

The portfolio is diversified across regions, countries, products (debt instruments), and currencies. Such investments are expected to (i) provide a fair return to investors in the Fund, (ii) do no significant harm to society and/or the environment, and (iii) comply with the investment strategy of the Fund.

Investment strategy

Sustainability is designed into the Fund's investment process. To be eligible for financing, all potential investees must undergo a sustainability screening process. Firstly, a company must meet the Fund's investment mandate (positive screening). In addition, the company must also meet the Fund's "do no harm" standards (negative screening).

In order to achieve the Fund's objective, the investment strategy is to provide emergency liquidity financing to:

- primarily, agricultural enterprises which have Fair Trade and other sustainable and responsible certifications as determined in section 3.4 of the Fund's Investment Policy; or which do not have the above-mentioned certifications, but comply with the impact criteria of ALF as determined in section 3.4 of the Fund's Investment Policy; and
- secondarily, financial intermediaries that support Agri-Enterprises; and

both the Agri-Enterprises and the Financial Intermediaries must be viable: i.e. they were operationally sound prior to the COVID-19 crisis, and continue to have strong long-term economic fundamentals, but are facing liquidity challenges as a result of the COVID-19 crisis.

According to the Investment Policy of the Fund, selection of Agri-Enterprises and Agricultural focused Financial Intermediaries follows a strict investment process. The AIFM's evaluation of Agri-Enterprises and Agricultural focused Financial Intermediaries includes an environmental and social risk screening and due diligence, customized according to the risk profile of the investee.

The AIFM shall review the application form submitted by an organization requesting funding as a first step to verify that the potential investee meets the eligibility criteria of the Fund (including the general corporate governance practices). In addition, the AIFM also checks references, review fair trade certification reports, and evaluate the quality of financial reports. Internal approval to proceed will be requested for a potential investee that meets the eligibility criteria, and if provided the terms and conditions of a possible investment will be negotiated with the potential investee. Additionally, if the AIFM identify, during its due diligence, eligibility criteria that may be improved by potential investees, e.g. corporate governance practices, the Fund may proactively provide technical assistance to the targeted investees in order to help them to attain the quality level expected by the Fund.

Once the terms have been agreed between the potential investee and the Fund, pre-due diligence information will be gathered. The team of the AIFM will analyse this information prior to conducting a field visit to the client. The results of the pre-due diligence and the field visit will be used to conduct a financial risk analysis using the counterpart risk score tool (as described under the Investment Policy) and a social and environmental risk analysis using the ECHOS© tool, a due diligence tool that looks at a variety of indicators across five dimensions.

When a proposal from a potential investee scores below 55% on the ECHOS© tool scoring and that ESG-related risks cannot be mitigated to a satisfactory extent, the investment will not proceed. If score exceeds the minimums, an investment memorandum will be prepared and a risk assessment is performed. Results of the ESG due diligence are presented to the Investment Committee which will take decision on the investment.

Proportion of investments

The AIFM screens and assesses the sustainability risk on 100% of its investments according to its investment policy.

Monitoring of sustainable investment objectives

The AIFM measures the Fund's sustainability and impact performance against a set of defined indicators at the investee level (described below in the section "Methodologies") and these indicators are continuously monitored. The performance results are shared with the Board of Directors of the Fund in the quarterly and annual reports, and to the investors in the annual reports, by the AIFM.

If the AIFM finds that a company is violating any of its sustainability criteria, it shall proactively engage with the company to seek a solution. If the company is not willing to cooperate, the Fund will initiate a responsible divestment strategy.

Methodologies

The Fund intends to deliver a positive impact and it expects from portfolio companies the highest standards in terms of environmental, social and governance practices. The Fund tracks the sustainable performance of its investment portfolio through the following indicators, which are linked to the UN Sustainable Development Goals (SDGs):

ESG risk score	1	% of the investment portfolio invested in investees having a minimum ECHOS score of 60%
SDG 1: No Poverty	2	% of smallholder farmers owning less than 10 hectares of land
SDG 2: Zero Hunger	3	Total production of smallholder farmers
SDG 5: Gender Equality	4	% of women smallholder farmers
	5	% of women staff employed by investee companies
SDG 8: Decent Work & Economic Growth	6	$ of premiums derived from sustainable sales
	7	$ of additional income per smallholder farmer served
SDG 10: Reduced Inequalities	9	# of Producer Organisations and Agri-SMEs who fairly allocate excess income generated / premiums to the members

Data sources and processing

Data used to measure the achievement of the sustainable investment objective of the Fund are mostly primary data sourced directly from the existing or potential investee through interviews, company reports, policies, etc. during the due diligence, engagement and monitoring activities. Secondary data sourced from third-parties (such as rating agencies) and news articles are also used for verification purposes.

Limitations to methodologies and data

The AIFM reviews and updates its ESG and impact methodologies and tools on a regular basis to ensure that it is aligned with the latest industry standards, best practices, and regulations. The last update was in 2022. As the Fund works almost exclusively with unlisted companies in emerging markets, availability and quality of some ESG data may be limited. The Fund strives to overcome this data limitation through advocating for industry standardization.

Due diligence

The AIFM conducts a rigorous due diligence on all potential and existing investees once the company has passed the positive and negative screening process. The objective of the due diligence is to assess the financial and ESG performance of the company. The due diligence is typically 2-3 days, consisting of four parts: 1) a visit to the headquarter office for interviews with the management team and board of directors, 2) visits to several branches to assess the operations including a review of loan files, credit underwriting and internal controls, 3) visits with several end-clients, and 4) meetings with industry experts including local regulators, associations, rating agencies, other lenders, etc.

Engagement policies

Through the AIFM, the Fund's engagement occurs at both the portfolio level and the industry level. At the portfolio company level, this takes the form of technical assistance. The AIFM has a dedicated technical assistance department who works with investees to provide tailored capacity building on different intervention areas like organizational strengthening, risk management, product development, digitalization, sustainable certifications, social, environmental and governance performance, among others.

At the broader industry level, the Fund has been working with its impact investors peers through the Council on Smallholder Agricultural Finance (CSAF), a forum for lenders to share learning, develop industry standards and best practices, and engage other stakeholders to address barriers to market growth and impact.

Attainment of the sustainable investment objective

Given the pioneering impact character of the Fund, no index has been designated as a comparable reference benchmark for the purpose of attaining the sustainable investment objective of the Fund.

I. Sustainability Risks

This statement is published by the Fund on its website in accordance with Article 3 of the SFDR. "*Sustainability risk*" as defined by the SFDR means "*an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment*".

The Fund is exposed to sustainability risks in the form of environmental, social or governance (ESG) events and conditions that can have negative impacts on the assets, financial and/or earnings situation, or the reputation of the Fund.

The Fund is exposed to sustainability risks primarily through its direct exposure in financial service providers, as well as indirectly through the sustainability risk exposure of such clients with their end-clients. Such risks could be triggered from external events such as climate change, as well as through weak business practices.

This risk is amplified by the often weaker environmental and social laws and other laws and regulations and enforcement thereof in the countries in which the Fund operates, i.e. including, but not limited to Africa, and Latin America and Caribbean region.

Investments in emerging countries also face risks related to labour and working conditions including child labour, hazards to human health, safety and security, resource efficiency and pollution, land acquisition and (involuntary) resettlement, biodiversity, management of living natural resources, indigenous peoples and cultural heritage.

The Fund is financing activities which can potentially be exposed to and have adverse negative impact on the environment and society in terms of environmental pollution, hazards to human health, safety and security, as well as threats to a region's biodiversity and cultural heritage. If not adequately managed, these risks can have a negative impact on the relevant investee's reputation, regulatory compliance and financial viability. Given the Fund's strategic focus, such impacts can in turn negatively affect the Fund's risk profile, reputation and/or its financial situation.

However, sustainability risks are largely mitigated by the Fund's investment strategy to finance exclusively companies that meet strict sustainability criteria. The Fund applies exclusions and refrains from financing activities with a high level of environmental and social risk. The Fund integrates sustainability considerations into decision-making and investee engagement throughout the investment process. The AIFM's evaluation of potential investees includes an ESG risk screening and an ESG due diligence, customized according to the risk profile of the investee. By performing its due diligence on potential investees, the AIFM also applies the principles set-out under the Sustainability Risk Policy of the Fund established by the AIFM which spells out the AIFM's general framework for identifying, assessing and mitigating sustainability risks and made available to investors.

Engagement with potential and existing investees, including on ESG matters, is an integral component of the Fund's investment cycle and contribution to positive development impact. The Fund monitors its investments through quarterly and annual reporting provided by the AIFM to the board of directors of the Fund. Monitoring will also occur through regular follow-up visits (either physical or virtual) by the team of the AIFM to the investees.

Based on its selective and targeted investment approach, sustainability risks at the level of the Fund are not considered significant and thus not expected to materially impact the value of the assets and the financial performance of the Fund.

However, given the broad scope of sustainability risks and despite policies, procedures and tools in place to manage sustainability risks, there can be no certainty that the Fund will be successful in eliminating or mitigating all sustainability risks or that sustainability risks will not materialise, in each case with potentially significant financial, reputational, or other consequences for the Fund.

II. Principal adverse sustainability impacts statement

Summary

This statement is published by the Fund on its website in accordance with Article 4 of the SFDR.

The Fund considers principal adverse impacts of its investment decisions on sustainability factors. According to the regulations, Principal Adverse Impact (PAI) is defined as "Negative, material or likely to be material effects on sustainability factors that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity."

As an impact investor, FAF seeks to invest in companies that are not only financially sustainable, but also contribute to solving socio-economic problems, while avoiding harm to its end-clients, local communities, and the environment in which it invests. The target investment sector of the Fund is financial service providers that are working with base of the pyramid populations in emerging markets.

The purpose of this statement is to provide transparency on (i) the PAIs considered by the Fund, and (ii) how the Fund identifies and prioritises the PAIs.

Description of principal adverse impacts

The Fund reports on 14 mandatory PAI indicators regarding greenhouse gas emissions, biodiversity, water, waste, social violations, and governance issues. In addition, the Fund reports on at least one additional environmental indicator and at least one additional social indicator. The optional indicators are to be selected based on the scope and severity of the effects of the adverse impacts for the specific investments. The first quantitative reporting is due on June 2023 for the reference period of January 1st to December 31st, 2022.

The table below describes how the Fund considers the mandatory PAI indicators in its investment decisions. Specifically, it will provide details on the Fund's current actions to avoid and mitigant each of the mandatory PAIs and/or planned actions where there are shortcomings.

PAI Group	PAI Indicator[1]	Current and Planned Actions
Greenhouse Gas (GHG) emissions and energy performance	1. GHG emissions (Scope 1, 2, 3 and total) 2. Carbon footprint 3. GHG intensity of investee companies 4. Exposure to companies active in the fossil fuel sector 5. Share of non-renewable energy consumption and production	The Fund does not have GHG and energy performance as a sustainable objective; therefore, do not have specific related actions on this PAI and do not tracked the indicators related to these aspects. However, it is important to highlight that the Fund does not currently have any investment in Fossil Fuel activities or in its pipeline.

[1] As defined in Table 1 of Annex 1 in RTS.

PAI Group	PAI Indicator[1]	Current and Planned Actions
	6. Energy consumption intensity per high impact climate sector[2]	To comply with the SFDR regulation, the Fund will start tracking the mandatory PAI indicators. In addition, the Fund will consider adding the Harmonised EDFI Fossil Fuel Exclusion List to its existing Exclusion List, which would formally prohibit investments in activities such as coal, oil exploration, gas production, and crude oil pipelines.
Biodiversity	7. Activities negatively affecting biodiversity sensitive areas	The Fund excludes financing activities that negatively affects biodiversity sensitive areas and where there is inadequate programs to reduce their impact. This includes: - Trade in wildlife or wildlife products under the CITES[3]. - Drift net fishing in the marine environment using nets in excess of 2.5 km in length - Commercial logging operations or purchase of logging equipment for use in primary tropical moist forest. - Production or trade in wood or other forestry products from unmanaged forests. - Any activities that destroys critical habitat.
Water	8. Emissions to water ratio	The Fund does not have water as a sustainable objective; therefore, do not have specific related actions on this PAI and do not tracked the indicators related to these aspects. To comply with the SFDR regulation, the Fund will start tracking the relevant indicators.

[2] As defined in Annex 1 to the Regulation (EC) No 1893/2006 of the European Parliament and of the Council, these include:

- A. Agriculture, Forestry, and Fishing
- B. Mining and Quarrying
- C. Manufacturing
- D. Electricity, Gas, Steam, and Air Conditioning Supply
- E. Water Supply; Sewerage, Waste Management, and Remediation Activities
- F. Construction
- G. Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles
- H. Transportation and Storage
- L. Real Estate Activities.

[3] The Convention on International Trade in Endangered Species of Wild Fauna and Flora – known as CITES – is an international agreement, signed by 183 parties, designed to ensure that international trade in animals and plants does not threaten their survival in the wild.

PAI Group	PAI Indicator[1]	Current and Planned Actions
Waste	9. Hazardous waste ratio	The Fund excludes financing activities using hazardous materials such as those involving: - Production or trade in or use of hazardous materials such as radioactive materials, unbonded asbestos fibers, and products containing PCBs.4 - Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous - Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations.
Social & employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises 11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises 12. Unadjusted gender pay gap 13. Board gender diversity	The International Labour Organisation (ILO) conventions form the basis of the Fund's labour rights assessment. Companies are excluded from investment if they: - Are involving forced labour or child labour; - Violate the labour rights of their own employees or contract suppliers that violate their employees' labour rights; - Operate in industries identified as high-risk for the violation of the own employees' labour rights or labour rights of contractors' employees and do not have policies and programmes addressing these rights; - Are involved in remuneration controversies that raise significant ethical/moral concerns and are in clear violation of local or international standards of best practice, while failing to take credible measures.
Human Rights	14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	The Fund assesses human rights risk according to the Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights. All business partners of the Fund are expected to respect human rights standards as defined by the organisations referenced above, especially the rights of women, and

[4] Polychlorinated biphenyls -a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

PAI Group	PAI Indicator[1]	Current and Planned Actions
		those of children and other vulnerable groups. Involvement in child labour or forced labour are covered under labour rights above. In addition, companies are excluded if they: - Operate in industries identified as high-risk for the violation of human rights and do not have a policy on awareness to prevent potential and/or actual human rights infringement risks that arise from their business activities; - Operate in industries identified as high-risk for the violation of human rights and do not have processes to enable the remediation of adverse human rights impact which they cause or to which they contribute; - Are involved in human rights violations, including contributing to or benefitting from structural and gross human rights violations; - Produce or sell weapons and/or munitions. For controversial weapons like anti-personnel landmines and cluster bombs any involvement leads to exclusion.
Anti-corruption and anti-bribery	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Companies are excluded if they: - Are involved in criminal investigations and controversies related to corruption, bribery or money laundering;

Description of policies to identify and prioritise principal adverse sustainability impacts

The Fund's Sustainability Risk Policy ("Policy") describes the process and tools used to identify, assess, control and monitor sustainability risks that could have a materially negative impact on the value of the investments and/or its sustainability objectives. This Policy is reviewed and approved periodically. The latest policy was approved on March 2021.

As outlined in the Policy, the Fund considers the sustainability risks of its investments from a double materiality perspective[5] using a 4-step risk management approach of its AIFM:

[5] Double materiality perspective is referring to the external ESG risks that can negatively impact a portfolio company as well as the internal ESG risks created by the portfolio company through its operations.

1. **Identify** - Principal adverse impacts are largely filtered out before an investment is even made through the eligibility criteria, which applies both a positive and negative screening;
2. **Assess** - The materiality of potential sustainability risks are evaluated with our ESG rating tools that takes into account the probability of occurrence and severity of adverse impact, including their potentially irremediable character. A rigorous due diligence of the company, including an onsite verification, is carried out to determine if an adequate ESG management system is in place. The findings during the due diligence could lead to modification of the terms of the transaction. Where ESG-related risks of adverse impacts cannot be mitigated to a satisfactory extent, the investment will not proceed.
3. **Control** - Potential sustainability risks are controlled by avoiding or limiting them through various methods including ESG clauses in loan agreements, technical assistance to portfolio companies, requirement for an E&S action plan; and
4. **Monitor and report** - All portfolio companies are reviewed on an annual basis. Indicators are set to track the performance of the portfolio company over the investment period and reported to stakeholders.

Overall, the AIFM uses an iterative process for the early recognition of sustainability risks, which continues throughout the investment period. Good quality information is the starting point for identifying sustainability risks. The AIFM has a specialized team of investment professionals trained to collect relevant information and assess risks with an impact lenses. The main sources of information include:

- interviews with relevant stakeholders (i.e. company's senior management and board, industry experts, regulators, end borrowers, etc.)
- review of external and internal audit reports
- historic data analysis
- benchmarking against peer group
- market and sector information

➢ *Identifying principal adverse impacts*

Given the pioneering target investment sector of the Fund, availability of data is a challenge for identifying the PAIs mandated by the SFDR regulation. The Fund has been working with its impact investors peers through the Council on Smallholder Agricultural Finance (CSAF), a forum for lenders to share learning, develop industry standards and best practices (including on reporting on the PAI indicators), and engage other stakeholders to address barriers to market growth and impact. The Fund will be reporting PAI indicators at the portfolio company level, through a mix of data sourced directly from the investment company and third-party proxies.

➢ *Prioritising the principle adverse impacts*

To prioritize the PAIs and evaluate its materiality on the Fund's sustainability objective, a mix of quantitative audit tools, judgement based techniques and benchmarking are used to process the information gathered. This includes an ESG rating using proprietary tools called ECHOS-AgPO© (for Producer Organizations) and ECHOS-AgSME© (for Agriculture SMEs), to evaluate a company's ESG practices against the industry's best practices and furthermore, classify the risk level.

Engagement policies

The Fund focuses on debt transactions of primarily unlisted companies, and therefore, has limited exposure to publicly traded securities or listed companies and as such does not undertake investor engagement within the meaning and context provided by Article 3(g) of Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies. Nevertheless, engagement with portfolio companies is an integral component of the Fund's investment process and contribution to positive development impact.

When making an investment, the Fund supports its investee companies to contribute to the overall value creation for the company as a whole, its shareholders, its end-clients, and the society and environment in general. Where appropriate, *e.g.*, when an investee company does not meet the required standards of ESG management, the Fund and its AIFM supports the relevant investee company to improve its governance and financial management through a technical assistance facility ("**TAF**"). The TAF provides tailored capacity building on different intervention areas like organisational strengthening, risk management, product development, digitalization, sustainable certifications, social, environmental and governance performance, among others. The provision of TAF services to the Fund's investees is conducted by external consultants.

References to international standards

The ESG and impact methodology and tools used by the Fund is based on the below international standards:

- UN Guiding Principles on Business and Human Rights
- International Bill of Human rights
- ILO Declaration on Fundamental Principles and Rights at Work
- IFC Performance Standards
- IFC Environmental, Health and Safety (EHS) Guidelines