Incofin Investment Management

Independent verifier's limited assurance report on the alignment of Incofin Investment Management (IIM) with the Operating Principles for Impact Management.

To the Chief Operating Officer

In response to your request, we verified that IIM's impact management system, as described in its policies and procedures (the "Policies") and summarized in its annual Disclosure Statement dated May 8, 2020 (the "Statement") as attached in appendix, is aligned with the Operating Principles for Impact Management dated February 2019 (the "Principles"), issued by IIM for USD 302.76 million of its total assets under management for its proprietary funds (as of December 31, 2019).

IIM's responsibility for the alignment of its impact management system with the Principles

It is the responsibility of IIM to define the processes, roles and responsibilities necessary to align its organization with the Principles. It is also the responsibility of IIM to publicly report on its website (www.incofin.com), on an annual basis, its commitment to the Principles and the extent to which impact management systems are aligned with them.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

We apply International Standard on Quality Control and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance and ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the compliance of the impact management system of IIM described in the Policies with the Principles based on the procedures we performed and the evidence we obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 ("ISAE 3000") issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the Statement is free from material misstatement. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement.

1 Available at http://www.incofin.com/incofin-commits-to-9-principles-to-ensure-high-global-standards-for-impact-investments/
engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Nature and scope of our work
We performed the following procedures based on our professional judgment:

• We verified, based on walkthrough procedures, that the Policies address each of the Principles.
• We examined the relevance, completeness, reliability, neutrality and understandability of the Policies in relation to the Principles.
• We conducted interviews with the people in charge of defining, applying and enforcing the Policies.
• We verified that the amount of assets under management (as of December 31, 2019) aligns with the Statement.
• We examined the integrity of the information provided in the Statement in relation to the Policies.

The scope of our procedures does not include however an assessment of the effectiveness of the Policies, the effectiveness of IIM’s impact measurement approach nor the verification of the resulting impacts achieved.

Limited assurance conclusion
Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that IIM has not complied, in all material respects, with the Principles for USD 302.76 million of its total assets under management for its proprietary funds (as of December 31, 2019).

EY Bedrijfsrevisoren BV
Represented by

Sylvie Goethals
Partner
21SGO0001

February 5, 2021
Brussels, Belgium
Disclosed Statement
Operating Principles for Impact Management

Incofin Investment Management
May 8, 2020

Incofin Investment Management ("Incofin") hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Principles"). This Disclosure Statement applies to the total assets under management for our proprietary funds, which stands at USD 302.76 million as of December 31, 2019:

- agRIF Coopératif U.A.
- Rural Impulse Fund II, SA Sicav-SIF
- Incofin Inclusive Finance Fund RAIF
- Fairtrade Access Fund, SA, Sicav-SIF
- Incofin cvso

Loïc De Cannière
Founder & Managing Partner
Incofin Investment Management
May 8, 2020

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1 General Disclaimer: The information provided in this document are correct and up-to-date as of 31 December 2019 and have not been updated thereafter.
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 and 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.

- Incofin is an AIFM\textsuperscript{2} licensed impact fund management company specializing in rural financial inclusion and in the agri-food value chain. We have a global footprint with direct investments in over 110 financial institutions across 39 countries.

- The overarching impact objective of our funds is to promote financial inclusion and inclusive progress for the most vulnerable populations in emerging markets through creative business solutions. Each of our funds have specialized focuses on specific markets including bottom-of-the-pyramid populations, smallholder farmers, rural SMEs, and fair trade producer organizations. By investing in responsible financial intermediaries, producer organizations and agri-businesses with a healthy balance of financial and social objectives, our funds aim to support the development of the local communities where it invests. The development can take the form of creating sustainable and decent employment, respect for human rights and environmental sustainability.

- Our investment strategy is to be an active investor. We go beyond just providing capital – we work with our investees through their challenges and collaborate with them towards value creation. This is why Incofin refers to itself as “committed beyond investment”. We assist our clients before, during and after the investment as we provide advice, expertise and, where appropriate, technical assistance.

- Risk capital is the core of Incofin’s investment activities. We have an exceptional track record in providing debt and quasi-equity financing to over 110 financial institutions across 39 countries. We employ a rigorous screening and due diligence process to identify investees that are impact driven and have values aligned with our funds.

- For our equity investments, we are a hands-on investor, a “co-pilot” for the institutions we support. We share and encourage the entrepreneurial drive of our investees. We support, help develop and improve the performance of their businesses by sharing expertise that we have gathered from our years of global field experience. With more than 30 equity investments including a strong exit track record, we are proud to say that we have helped build and support solid institutions serving millions of clients globally.

- Agri-Finance is another important cornerstone of our long term impact vision. Smallholders represent 70% of the world’s poor and contribute more than 80% of total food production on our planet. Yet they are severely financially underserved due to market breakdowns and challenges in the value chain structures of smallholders. At Incofin, we are addressing these big challenges by providing risk capital to sustainability-focused producer cooperatives and agro SMEs. With a strong investment track record diversified across 14 countries and 10 different crops, the agro finance portfolio has provided more than 48m

\textsuperscript{2} Alternative Investment Fund Manager
USD in financing to smallholder farmers. Our dedicated investment team oversees a balanced portfolio of 36 clients serving local food chain systems as well as global food demands for exported products.

- Below are some indicators that we track to measure our alignment with the impact objectives of our fund:

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<td>16 mn number of active clients</td>
<td>330,446 smallholder farmers and collectors served</td>
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<td>$4 bn agriculture loan portfolio</td>
<td>6% increase in producer organisation productivity</td>
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<tr>
<td>68% rural clients</td>
<td>$475 premium received per farmer</td>
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<td>56% women active clients</td>
<td>66,138 beneficiaries of technical assistance</td>
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<td>33% female management staff of portfolio companies</td>
<td>7,607 farmers trained on good agricultural practices</td>
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<td>37% Female staff of portfolio companies</td>
<td>749 MT volume crops produced by investees</td>
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<td>83% number of loans disbursed below GNI per capita</td>
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- Our investment strategy is aligned to the United Nations Sustainable Development Goals (SDGs). In 2018, Incofin IM integrated the SDGs into our impact methodology. Across our various funds, Incofin IM set specific impact indicators for each investment. Each indicator has been mapped to a specific SDG target and is regularly monitored and reported to assess the progress towards each SDG. See below for a mapping of the major direct targeted SDGs for each proprietary fund.

- SDGs are embedded in the various industry recognized and adapted social and environmental audit tools we use, including SPI4-ALINUS for financial institutions, ECHOS-AgPO © and ECHOS-AgSME©. Mapping is not only conducted at the SDG level, but for each of the 169 targets. This mapping enables our team to track how our investees and funds are contributing towards the SDG goals in a tangible, measurable and actionable way. Furthermore, our Technical Assistance programs are increasingly structured around specific goals, and our reporting speaks the same impact language.
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.

- At Incofin we believe that if you value something, you need to measure it so that you can monitor it, analyze it and ultimately act on it. This is the reason why, in all investment decisions that we make, our 4 part impact methodology is embedded in the process.

- Part A is the Impact Thesis. During origination, we only select investees that aim for a healthy balance between social, environmental and commercial goals. Each Incofin fund has a unique investment thesis that assesses the: 1) INTENT for genuine impact and alignment to good SPM practices, 2) WHO is targeted as the end customer, 3) WHAT benefits the services provide, and 4) HOW the investee provides its services.

- Part B is the social and environmental due diligence. We use different environmental, social and governance audit tools for different types of institutions. Two of the tools have been developed in-house and two are industry tools.
Each tool has a minimum cut-off score in order to be eligible for financing, reflecting our commitment to promoting responsible and impactful businesses only.

- For Agriculture Producer Organizations: ECHOS-AgPO® (Incofin)
- For Agriculture SMEs: ECHOS-AgSME® (Incofin)
- For Microfinance: SPI4-Alinus (Cerise)
- For Other Sectors: Social Business Scorecard (Cerise).

- Part C is about helping equity investees develop a realistic impact strategy where they can positively and sustainably impact the lives of their end customers. Once Incofin decides to invest in an institution, output indicators at the level of the end clients are tracked throughout the life of the investment, showing Incofin’s commitment to measure the outcome of its investment at both fund and investee level. Some of the areas measured and tracked include but are not limited to: new customers obtaining access to financial products; additional credit to smallholder farmers and SMEs; increase in agricultural production; employment of females in the workforce; training and delivery of programs. Indicators are specific to each fund and in the case of equity investments, investees also. The indicators identified include those that not only promote social performance management (“SPM”) practices but also impact to the end customer.

- Part D is about responsible exits. We want to ensure that each exit meets the financial objectives of our investees and sustained impact post exit. During the exit process, the fitness and compatibility of a potential new partner for our portfolio clients is taken seriously. Factors taken into consideration include but are not limited to: reputation in the market; stability of leadership; sector experience; commitment to social performance; rationale for investment; and cultural fit.

- On an annual basis, we request an update on the E&S report on all our debt investees to assess improvement or deterioration of scores and practices. For equity investees, we conduct the same analysis and request that all board members report on their contribution to impact value creation in the company.

- On an annual basis, we design an Impact Plan. Impact goals are included in staff’s annual goal setting and is part of the annual performance evaluation.

**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.

- Our funds contribute to the achievement of the stated impact objectives (Principle 1) through the provision of innovative financing instruments, sharing of our expertise on best practices on social performance management and technical assistance facilities.

- We employ a Capital Plus Approach to value creation. For our equity investees, we always seek to be our investees’ hands-on co-pilot. We are members of the board of

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8 For example, this may include, improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.
director for all companies where we invest equity and contribute by initiating social
performance thinking through strategic conversations, guiding companies on how to
engage debt providers, raising investee profiles by showcasing their success in industry
events and supporting investee with grant-funded technical assistance adjusted to each
investee’s institutional needs. By investing with an average tenor of 7 years, we provide
patient capital, which we think is crucial to allow an ambitious impact strategy to be put in
place. At the time of investment, we agree with the company on a five year business plan,
to ensure alignment on financial value creation, we also include certain E&S clauses
(Client Protection Principles implementation, E&S plan, outcome measurement tracking).
Such clauses will be adapted according to the maturity level of the company.

- For our debt clients, Incofin’s funds’ innovative debt financing instruments enables these
impact driven financial institutions to access international capital markets, thus allowing
these institutions to increase their outreach and product offering to vulnerable populations.
Our loan structures are flexible (e.g. amortizing, bullet payment, unsecured) can be in
local currency debt (23% of portfolio) and are hedged against the USD or EUR, depending
on the fund. By allowing a minimum open position of the equity to foreign risk below 30%,
we limit our investee’s exposure to FX risks. We strive to provide cashless rollover to
mitigate liquidity risks and allow our investees to plan the portfolio disbursement plan
accordingly with their own clients.

- In addition to direct investments, Incofin provides tailored capacity building to its investees
across funds and geographies. We continuously work to mobilize donor funding to
implement tailored, high quality capacity building programs that respond to the real needs
of our investees. To date we have mobilized over EUR 9 million in grant funding and
structured about 100 technical assistance projects in various fields including governance
enhancement, risk management, product development, social performance, new
technologies, or business planning. We work with a well-established network of service
providers to ensure our clients get the right expertise and support. We continuously
monitor the project development, evaluate results and measure impact for investees and
for end clients.

- Incofin IM promotes value creation with its portfolio companies and the microfinance
industry at large, which as resulted in high loyalty as evidenced by a high retention: 51% of
our current FI debt investees have been an investee with Incofin IM for over 5 years
and 40% more than 8 years.

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\(^4\) 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?\(^5\) 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.

\(^4\) Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed
under Principle 4 may also include positive ESG effects derived from the investment.

\(^5\) Adapted from the Impact Management Project [www.impactmanagementproject.com]
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 systematic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practices.

- As described under Principle 2 above, embedded in our investment process is a four part impact methodology. This systematic approach helps us assess whether the organization has aligned social, environmental and commercial goals with our funds.

- Social and environmental due diligences are carried out on both debt and equity clients before an investment decision is made with the use of industry recognized or adapted tools (PART B). Each tool has a minimum cut-off score in order to be eligible for financing. The social and environmental scores are then tracked, reviewed and assessed on an annual basis during the course of the investment to ensure that the client is progressing in a positive direction.

- For equity investee specifically, ahead of the investment committee, an In-take Committee is convened during which we assess whether the target’s social mission is aligned with the fund’s impact goals.

- With our active seat on the Board of Directors, we can go the extra mile with equity investees by helping the companies develop a realistic E&S plan and impact strategy. Once Incofin decides to become a shareholder in an institution, we work with the company to identify relevant output indicators at the level of the end clients, aligned with IRIS and CERISE metrics, which are tracked throughout the life of the investment. Such indicators can vary depending on the institution’s social mission. For rural or agri institutions we typically monitor the evolution of their agri portfolio and outreach to farmers.

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 their investee to seek its commitment to take action to address potential gaps in the current investee systems, processes and standards, using an approach aligned with good international practice.

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9 Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org), GIIRS (http://p-analysitcs.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.

7 International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant and Timely), and SPICE (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

8 The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principle 4 and 6.

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.

- Our Environment, Social and Governance (ESG) Policy articulates our approach to assessing, addressing, monitoring and managing ESG risks, which are framed around globally recognized principles such as the IFC Performance Standards, UN Global Compact, and relevant EU regulations. The approach is embedded in our impact management system.

- Incofin IM's risk management and control framework (including ESG risk management) is organized based on three lines of defence and integrated at all levels of the investment process with clear roles and responsibilities for each "line of defence", as depicted below:

![Pyramid diagram with lines of defence]

- The identification and monitoring of ESG risks is the primary responsibility of the Investment Team, acting as the first line of defence. Our team undertakes E&S due diligence on all investments and assesses the client’s ability and commitment to achieve E&S outcomes consistent with our policy and funds’ requirement over the course of the investment. In addition, rigorous KYC and AML checks are carried out on the client, their management team, board of directors and shareholders to ensure there are no ESG violations such as money laundering, trafficking, human rights abuse, child labour and etc.

- The Risk and Compliance Department acts as the second line of defence and conducts systematic as well as surprise assessments and controls on investments prior to and after disbursement. All transactions identified as having high credit and E&S risks, triggered by a social & environmental score of less than 55%, must be sent to risk for review before going to the Investment Committee.

- Once at the Investment Committee, if the members considers the ESG diligence to indicate a major reputational risk for Incofin IM and its stakeholders, the IC has the possibility to perform an independent analysis and to decide whether the matter needs to go to the Compliance Committee, the third line of defence. The Compliance Committee has the power to veto any deal conflicting with the ESG policy of Incofin’s funds.

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- To further mitigate ESG risks, our legal documents specifies the role and responsibilities of our clients for managing the E&S risks of their operations and includes clauses on compliance to an Exclusion List and social undertakings. For applicable funds, in the case an institution has an exposure in a specific crop that exceeds 10% of their portfolio, we use the IFC GMAP tool\textsuperscript{10} to investigate any specific E&S risks, which shall be flagged to the Investment committee and subject to specific attention during the investment.

- On an annual basis, we conduct an E&S update of our investees to assess improvement or deterioration of scores and practices. If there is any worrying signs of deterioration (especially in the fields of client protection principles), the investment is discussed by the investment team to discuss what actions need to be taken (technical assistance support, etc).

**Principle 8: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.**

The Manager shall use the results framework (reference in Principle 4) to monitor the 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.\textsuperscript{11} The Manager shall also seek to use the results framework to capture investment outcomes.\textsuperscript{12}

- Incofin’s four part impact methodology incorporates the monitoring of progress of each investment, as described above. On a quarterly basis, portfolio companies report on impact metrics such as portfolio size, number of borrowers, portfolio yield, return on assets, client turnover, staff turnover, and etc. Social and environmental audits are updated and reviewed by Incofin annually. The analyses are shared with the respective funds and Incofin’s Risk Management Committee regularly.

- In the event that the investment is no longer expected to achieve its intended impacts, the situation is escalated to the Investment Committee (IC) for resolution on appropriate action.

**Principle 7: Conduct exits considering the effect on sustained impact.**

When conducting an exit,\textsuperscript{13} the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of impact.

\textsuperscript{10} https://gmaptool.org/

\textsuperscript{11} Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio’s expected impact performance.

\textsuperscript{12} Outcomes are the short-term and medium-term effects of an investment’s outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted form OECD-DAC

\textsuperscript{13} This may include debt, equity or bond sales and excludes self-liquidating or maturing instruments.
Incofin considers sustainability of our impact objectives not only at the start of the investment, but also during the exit. We want to ensure that all exits balances the financial expectations of our investors and investees, but will sustain the impact achievements post exit. For this reason, we developed a Fitness and Compatibility checklist to screen all exits. The choice of the buying shareholder is based on the following dimensions: reputation, financial stability/performance, regional and local knowledge, financial inclusion knowledge, social performance, clear rationale for acquisition, corporate culture, funding availability, management stability, management development, innovation/technology.

**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.

- Annual reports are prepared for each fund that reviews and documents the impact performance for each investment. This includes a review of progress towards the fund's impact objectives, trends in the ESG situation of each investee, and updates on processes based on those learned lessons and industry developments.

- On a semi-annual basis, a report is prepared for Incofin's Risk Management Committee (RMC) highlighting the trends in ESG factors at the portfolio level. This includes a dashboard of social and environmental scores, client protection principles, responsible pricing, and over-indebtedness risks, to name a few. The RMC will discuss the report and advise on operational and strategic adjustments, as needed.

**Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification**

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the 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.

- This Disclosure Note re-affirms the alignment of Incofin's policies and procedures with the Principles and will be updated annually.

- In accordance with the requirements of being a signatory, Incofin IM will obtain an independent verification. Incofin is currently analyzing the best option to complete this verification process, which will be completed by December 31, 2020.

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14 The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.