Disclosure Statement

Operating Principles for Impact Management

Incofin Investment Management

June 2023

Incofin Investment Management ("Incofin IM") hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Impact Principles"). The Disclosure Statement applies to all our advised and managed funds, with total assets under management in alignment with the Impact Principles of EUR 1.055 billion for the financial year ended on December 31st, 2022.[1]

Paul Buysens (Jul 13, 2023 16:25 GMT+2)

Geert Peetermans	Paul Buysens
Co-CEO	Co-CEO
Incofin Investment Management	Incofin Investment Management
July 2023	July 2023

Disclaimer

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[1] The information provided in this document is correct and up-to-date as of June 30th, 2023 and have not been updated thereafter. The Funds included are: agRIF Coöperatief U.A. (agRIF), Agri-Finance Liquidity Facility (ALF), Incofin CVSO, Fairtrade Access Fund S.A., SICAV-SIF (FAF), Incofin Inclusive Finance Fund Sub-Fund 1 ("IIFF-1"), BRS Microfinance Coop CVBA, Microfinance Enhancement Facility SA, SICAV-SIF (MEF), Incofin India Progress Fund (IPF), RURAL IMPULSE FUND II S.A., SICAV-SIF (RIF II), IIV Mikrofinanzfonds, IIV IMPACT INVESTING FUNDS, FCP-RAIF - DKM MIKROFINANZFONDS A (DKM A) and IIV IMPACT INVESTING FUNDS, FCP-RAIF - DKM MIKROFINANZFONDS B (DKM B).

Contents

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.

About Incofin IM

Incofin IM is an AIFM[2] licensed impact fund management company specializing in financial inclusion, sustainable agriculture and food value chains, and safe drinking water. We have a global footprint with direct investments in 192 financial institutions and agri-focused companies across 50 countries. With 5 regional offices in each continent (Colombia, Kenya, India and Cambodia) and a team of 90+ employees, we ensure proximity with our investees, which allows us to easily conduct on-site visits for due-diligence and monitoring purposes with each investee.

Impact objective

Incofin IM's corporate mission is to "invest for impact to drive inclusive progress and sustainable transitions". In other words, the overarching objective of our funds is to contribute to improving livelihoods, creating more meaningful jobs, reducing gender inequalities and increasing resilience to climate change by promoting access to essential goods and services through creative business solutions while ensuring social justice and considering the limits of our planet.

To this end, Incofin IM specifically focuses on financial inclusion, agri-food value chains and access to safe drinking water. We apply a climate lens and a gender lens across sectors and funds, which all have specialized focuses on specific markets including base-of-the-pyramid and underserved populations, smallholder farmers, rural MSMEs, and Fair-Trade producer organizations.

Targeting

We implement a clear targeting strategy to ensure that our investments will achieve the funds' impact objectives. We work with socially responsible financial intermediaries, producer organizations, agri-food and water businesses to reach end-beneficiaries that are:

- *Geographically excluded:* our investments are deployed in emerging markets. Incofin IM is present in emerging countries of Africa, Latin America, Eastern Europe, Central Asia, South-East Asia and South Asia. We also invest in post-conflict zones and fragile states such as Colombia and Congo DRC, where people face insecurity or ethnic and political violence. In some of our funds, we specifically target end-beneficiaries living in rural areas.

- *Economically excluded:* the objective of our funds is to ultimately reach base-of-the-pyramid and underserved populations, MSMEs, women, smallholder farmers and producers. Each fund establishes eligibility criteria to ensure that the target clientele of potential investees meets this objective.

[2] Alternative Investment Fund Manager.

- *Vulnerable communities or value chains:* agri-finance is another important cornerstone of our long-term impact vision: smallholder farmers and producers 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, and highly impacted by climate change. Another harsh reality is the inadequate or unreliable access to safe water, especially in large parts of Africa and Asia. In fact, 3 out of 10 people worldwide do not have access to safe drinking water. The mission of our fund W2AF[3] is to scale access to affordable safe drinking water in underserved populations with a focus on people living under $8/day by investing in innovative water businesses.

Desired outputs

By investing in responsible financial intermediaries, producer organizations, agri-food and water-businesses, our aim is to improve access to products and services that meet basic needs for end-beneficiaries, such as microloans, savings, microinsurance, agri-financing or safe drinking water. We also value investees who provide education, health or housing loans, and who contribute to their customers' capacity building through the provision of non-financial services, such as training services on women empowerment, financial literacy, business development, sustainable agriculture practices, health and other educational services. The financing from our funds is expected to create a trickledown effect and support the development of the local communities where it invests. The development can take the form of creating sustainable employment and decent jobs for people excluded from the labor market.

Through our investments in responsible producer organizations and agri businesses, we support environmental conservation. Fairtrade and sustainable value chains have standards and codes of conduct on environmentally sound agricultural practices, including minimizing and safe use of agrochemicals, proper and safe management of waste, maintenance of soil fertility and efficient use of water resources.

Through our investments in the water sector, our aim is to respond to the increasing inequality in access to safe drinking water, which is intensified by a growing world population, rising consumption and climate change. Incofin IM will support upcoming entrepreneurs with promising solutions and invest in various decentralized solutions such as water kiosks, which deliver safely treated drinking water in gallons to the home or to the local store, water pipes and water technologies.

Alignment with the Sustainable Development Goals

Our investment strategy is aligned with the United Nations Sustainable Development Goals (SDGs). For each of our funds, we define an impact theory of change. Specific output and outcome indicators are set, mapped to the relevant SDG targets, embedded into our assessment tools and regularly monitored and reported to assess progress. Furthermore, our Technical Assistance programs are increasingly structured around specific SDGs, and our reporting speaks the same impact language.

[3] Water Access Acceleration Fund, officially launched in March 2023: https://incofin.com/incofin-launches-w2af.

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.

A dedicated team

Everyone at Incofin IM plays a role in ESG and impact management. Our Impact Framework defines 3 lines of defence to manage E&S risks ("do no harm") as well as to achieve impact ("do good"):

1. As the 1st line of defence, our **Investment team** is responsible for conducting the ESG and impact screening and due diligence. The team is equipped to implement our Sustainability Risk Policy and contribute to the achievement of impact: recruitment is based on experience and affinity in the field of impact investing. Each newcomer at Incofin IM receives an induction training that includes an ESG and impact onboarding session. Refresher trainings on investees' social and environmental assessment are regularly conducted. On an annual basis, we design an Impact Plan, which is further translated into impact goals and included in staff's annual goals that makes up part of their annual performance evaluation. Impact performance is integrated into staff compensation through our inclusive progress management process. At the start of each year, the Management Board and Leadership team set clear impact goals at the company level, which are then translated into individual impact goals based on the specific role and responsibility of the employees. The results of the inclusive progress management process is reviewed mid-year and end-year, and closely linked to talent and remuneration strategies.
2. As the 2nd line of defence, the role of the **Risk & ESG team** is to nurture a Risk, ESG and Impact culture by supporting the development of frameworks, processes, tools, mechanisms and trainings to enable an efficient and effective diffusion of ESG and Impact into our operations at all levels and functions. The team is the guardian of the E&S policy, conducts quality checks on the ESG and impact due diligence, and reviews all cases that are escalated for risk review based on a set of ESG triggers.
3. The 3rd line of defence includes the **Risk Management Committee** (RMC) and the **Impact Committee** (ImC), who provides oversight on the effective implementation of the ESMS and sets the risk appetite.

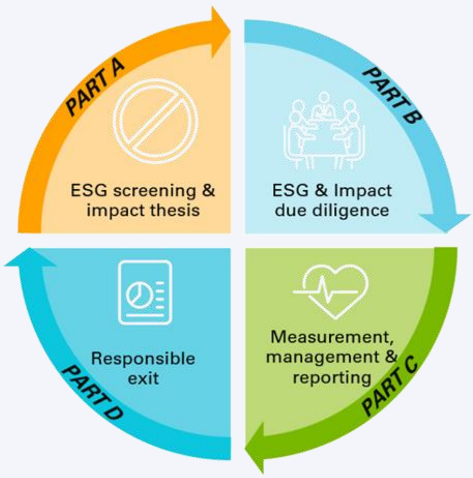
Impact framework

In line with the EU Sustainable Finance Disclosure Regulations (SFDR), our Impact Framework differentiates among the different types of ESG risks of our investments with the aim to ensure adequate identification and mitigation of potential adverse risks, as well as to clarify roles and establish accountability across the organization. The A-B-C impact framework[4] presented below views impact as a continuum, starting from the "do no harm" ESG risk screening of all investments to a more ambitious target of "doing good" and value creation for the shareholders, investees, end-clients, society and environment:

[4] In line with the framework developed by the Impact Management Project (IMP), a forum for building global consensus on how to measure and manage impact, now hosted by Impact Frontiers (www.impactfrontiers.org).

Impact methodology

Incofin IM's Sustainability Risk Policy[5] articulates our approach to identifying, assessing, controlling and monitoring ESG and impact risks, which is framed around globally recognized principles such as the IFC Performance Standards, UN Global Compact Principles, ILO Labour Conventions, and relevant EU Sustainable Finance Disclosure Regulations. This systematic approach helps us assess whether the organization has aligned social, environmental and commercial goals with our funds, and is embedded in our E&S management system (ESMS), which is composed of 4 parts:



Part A is the *ESG screening & impact thesis*. During origination, we only select investees that aim for a healthy balance between social, environmental and commercial goals. The filters includes:

- **Positive selection**: only investments that are aligned with the investment strategy and impact goals of the fund will be eligible. The impact thesis of the company needs to clearly spell out the intent, who, what and how.
- **Negative selection**: harmful investments linked with high ESG risk companies are excluded at this stage. A new E&S risk categorization tool was developed and launched in 2022, which indicates the level of E&S risk of a company and the depth of due diligence that needs to be conducted accordingly. The tool's criteria include: E&S exclusion list[6], high-risk sectors, high-risk country-commodity combinations[7], applicable IFC Performance Standards, etc. Companies failing the AML-CFT checks (i.e. money laundering) are also excluded.

[5] https://incofin.com/wp-content/uploads/2021-3-19-IIM-Sustainability-Risk-Final-for-RMC-approval.pdf.
[6] Incofin IM's exclusion list consolidates the following lists: 1) Harmonized European Development Finance Institution (EDFI) Exclusion List; 2) Harmonized EDFI Fossil Fuel Exclusion List; and 3) International Finance Corporation (IFC) Microfinance Exclusion List.
[7] Based on the Global Map of Environmental & Social Risks in Agro-Commodity Production (GMAP) developed by IFC.

Part B is the *ESG & impact due diligence*. We believe that in order to avoid and control adverse ESG risks, a good ESMS needs to be well defined and implemented at the portfolio company level. Therefore, we carry out a thorough assessment of all investees' ESG and impact practices using a comprehensive audit tool. We use different ESG and impact audit tools for different types of institutions and sectors. Where an industry recognized tool exists, our preference is to adopt the industry tool in order to promote industry harmonization and standardization. Two of our existing tools are industry tools (SPI4-ALINUS and Social Business Scorecard, both developed by the French NGO CERISE), while three have been developed in-house. Each tool has a minimum cut-off score in order for a company to be eligible for financing, reflecting our commitment to promoting responsible and impactful businesses only. This allows us to measure ESG and impact performance at the portfolio level and also to benchmark each investee's performance against the rest of the portfolio.

The investment memo describes the rationale for investing in an underserved sector and/or unserved country. It also includes a dedicated section which analyses the ESG practices of the potential investee against relevant international standards, and its alignment with the fund's impact thesis.

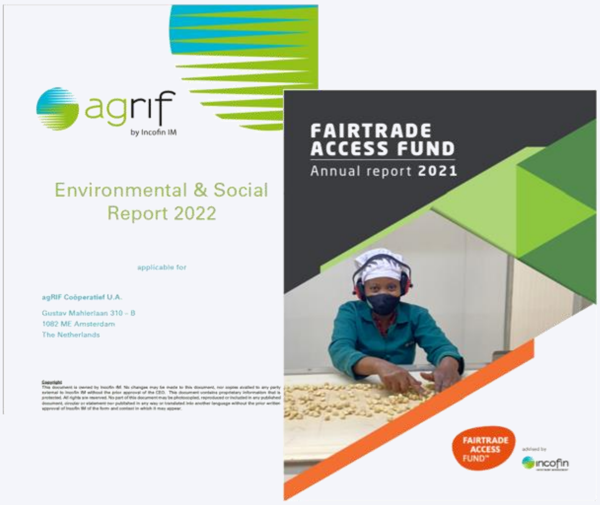
Transactions categorized as high risk in terms of financial and ESG factors are escalated to the Risk & ESG department and must undergo a risk review before it can be presented to the Investment Committee. These high risk transactions may also require additional clauses in the legal agreement in the form of E&S covenants, which need to be complied with during the lifetime of the investment.

Investment memos are then presented to the Investment Committee who decides on investments and divestments. The Investment Committee makes its decision based on the double-bottom line performance of each institution as described in the memo. At this stage, there is the possibility to consult the dedicated Impact Committee.

Legal documentation related to the transaction is reviewed by the Legal department of Incofin IM. Loan and shareholder agreements include ESG undertakings which prohibit the investee from using the loan to finance activities on the exclusion list, and requires to report on social performance, comply with the Client Protection Pathway[8], and to charge a responsible pricing to its borrowers.

Part C is *ESG & impact measurement, management and reporting*. On an annual basis, we update, consolidate and analyze our investees' ESG data, practices and trends at the portfolio level and measure the results against the funds' impact thesis. The results are shared with the funds' Board, IC and general stakeholders. Incofin IM is currently exploring how to best implement the impact attribution methodology, in order to increase accountability of our impact results and observe the changes linked specifically to our intervention.

[8] https://sptf.info/client-protection/the-client-protection-pathway



Because we highly value transparency in the market, we also disclose our yearly ESG and impact data on the IRIS+ Directory[9], allowing us to benchmark our performance against our peers and contribute to industry research.

Part D (*responsible exit*) will be elaborated in separate sections below.

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[10]. The narrative should be stated in clear terms and supported as much as possible, by evidence.

Formalization of the impact thesis

The investment policy for each fund clearly establishes its specific impact thesis. This includes definitions of the problems that the fund aims to address, the targeted sector and population, and how the investments aim to reach the targeted population. Indicators for monitoring results are formalized through tools mentioned in Principle 2 above, and mapped against the UN SDGs. The social and environmental scores are tracked, reviewed and assessed on an annual basis during the course of the investment to check that the client is progressing in a positive direction.

Financial products

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

Risk capital is the core of Incofin IM's investment activities. We have an exceptional track record in providing debt, quasi-equity and equity financing to 132 financial institutions across 44 countries. We also finance sustainability-focused producer cooperatives and agri-SMEs through trade finance,

[9] https://iris.thegiin.org/directory

[10] 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.

working capital and long-term financing products. With a strong investment track record diversified across 18 countries and 16 different crops, the agri-finance portfolio is currently channeling more than USD 68m in financing to smallholder farmers[11]. Our dedicated Agri Investment team oversees a balanced portfolio of 60 investees serving local food chain systems as well as global food demands for exported products.

Finally, with 29 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.

Our innovative financing products meet the needs of investees and enable these impact driven companies to access international capital markets. Market studies and sector analyses are regularly conducted, and our products' features can be adapted according to such findings and changing needs.

For debt, our flexible loan structures give investees the option to select an amortizing loan repayment structure or bullet payment. Most of our loans are unsecured. Loan maturity is 3 years on average, which matches with current market trends. We strive to mitigate liquidity risks of our clients by providing cashless rollovers when possible and adjusting disbursement dates to the portfolio funding needs of the client.

For equity, 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. While three out of our five equity funds are close-ended, the investment horizon is sufficiently long to not constrain the exit strategy.

Another pioneering feature of our funds is local currency lending. This enables investees to borrow without any FX risks. As of date, we have transactions in 24 different local currencies. Depending on the fund, local currency loans are hedged against the USD or EUR by the fund.

Non-financial contributions

In addition to financial support, we reinforce ethical principles and good ESG practices in our portfolio companies through promotion of client protection practices, decent working conditions for employees, fight against corruption, money laundering and tax evasion, as well as environmental preservation. Commitment to certain ESG practices is formalized through ESG clauses in the loan agreement and adapted based on the maturity level of the company. Where applicable, such commitments are accompanied with technical assistance.

For our equity investees, we always seek to be our investees' hands-on co-pilot. We strive to obtain a seat on the Board of Directors 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 investees' profiles by showcasing their success in industry events and supporting investees with grant-funded technical assistance. We work with the company to further establish an environmental and social action plan that seeks to create value.

Incofin IM provides tailored capacity building to its investees across funds and geographies with the aim to magnify impact. 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 14 million in grant funding and structured about 151 technical assistance projects in various fields, including governance enhancement, risk management, product development, social

[11] Outstanding agri portfolio as of December 31st, 2022.

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 project development, evaluate results and measure impact for investees and for end clients.

At the microfinance industry at large, Incofin IM believes in the importance of harmonization and partnership to sustain impact. We have spearheaded a number of initiatives including the Cambodia Lending Guidelines, and actively participated in many sector defining initiatives such as the SPTF Social Investor Working Group[12], CSAF[13] and GIIN[14].

The fruits of our holistic approach to value creation are the high retention rate: 49% of our current FI debt investees have been with Incofin IM for at least 5 years and 32% for at least 8 years.

[12] The SPTF Social Investor Working Group (SIWG) works to advance responsible investment in financial inclusion. The working group is open to all investors seeking financial and social returns. Currently, there are more than 600 investor members representing over 200 organizations in the group (https://sptf.info/working-groups/investors).
[13] Council on Smallholder Agricultural Finance (https://csaf.org).
[14] Global Impact Investing Network (https://thegiin.org).

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[15] 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? [16] 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 systematic impacts. Indicators shall, to the extent possible, be aligned with industry standards[17] and follow best practices[18].

For each investment, Incofin IM assesses in advance the possible positive impact of the investment. We follow the IMP's "five dimensions of impact" to answer the fundamental questions on what, who, how much, contribution and risk, as described below. Each investment proposal contains a dedicate ESG and Impact section that describes the company's impact strategy, systems and risks. The Investment Committee will examine the assessment on expected impact and its alignment with the Fund's mandate.

What is the intended impact?

This question is checked early in the process during the screening stage through the use of eligibility criteria. Only companies meeting the minimum requirements of the fund's impact thesis, such as targeted beneficiaries, social intent, products and services, will be selected. The intended impact will then be linked to the specific UN SDGs of the fund.

Who experiences the intended impact?

This question is verified during the pre-due diligence and due diligence stage through the collection of end-customers data, including sector, gender and level of rurality of FI borrowers, smallholder farmers and water customers. We also analyze the type of products offered by portfolio companies and in which regions they operate. This allows us to understand who the end-beneficiaries of each investment will be and to determine if it matches with the fund's impact thesis.

How significant is the intended impact?

This dimension is assessed through predefined impact quantitative and qualitive metrics and can be specific for each Fund. As part of the pre-due diligence and due diligence, portfolio companies are requested to share impact data. By analyzing the historic trends of the impact data, we can get an idea

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[15] 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.

[16] Adapted from Impact Management Project, now hosted by Impact Frontiers (www.impactfrontiers.org).

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

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

of 'how much' impact has been achieved before our investment. Through in-depth interviews with the company's board, senior management, industry leaders, regulators, etc. as well as through market research, we can then estimate reasonable projections and understand the factors likely to positively and negatively influence the trajectory. Post investment, portfolio companies are required to report on impact data, which is bonded in the legal agreements.

How does the portfolio company contribute to impact?

The gold standard to evaluate the contribution of portfolio companies is to estimate the outcomes counterfactual with randomized control trials and quasi-experimental methods. However, this requires significant resources from both the Funds and the portfolio companies, and not always pragmatic. We applied several approaches to develop as best as possible an estimate of our portfolio companies' additionality, which varies in rigor and cost depending on the Fund and type of investment (equity vs. debt):

1. **ESG and Impact tools**: our due diligence and monitoring audit tools allow us to assess the investees' additionality towards their end-clients. For example, through the SPI4-ALINUS tool for Financial Institutions, we analyze how the investee's product offering meets the needs of the target population, in terms of size, structure, delivery channel, flexibility, variety of financial services, etc., and whether it helps to reduce end-clients' vulnerability (provision of emergency loans, rescheduling, non-financial services, etc.).

2. **Technical Assistance in Outcomes Measurement**: the Outcomes Measurement (OM) Project is a flagship multi-investee TA initiative of Incofin, co-funded by agTAF (the TA Facility of the agRIF Fund) and implemented by CERISE and M-CRIL. The project aims at building the capacities of selected agRIF clients to track progress towards their individual social missions and the UN SDGs and utilizing social impact data for strategic decision-making and communication. The project intends to support agRIF investees in making further steps in impact measurement based on the specific needs and objectives of each institution, while furthering industry-wide efforts to make outcomes management more harmonized and practical.

3. **Stakeholder feedback:** through our various membership in industry networks and field visits, we also regularly gather stakeholder feedbacks to gain a deeper understanding of the drivers behind the changes in outcomes such as the enterprise's activities, external factors, government interventions, cultural practices.

4. **Market research**: when relevant, we also extrapolate research results from secondary resources such as industry reports to identify the drivers of outcomes, which could include from other organizations, government interventions, external factors (e.g. weather and economic conditions), and individuals' characteristics (e.g. motivation, cultural practices). Some examples includes 60 Decibels Microfinance Index, Council on Smallholder Agriculture Finance (CSAF) sector research, etc.

What is the risk of not achieving impact?

The two biggest impact risks that may undermine the delivery of the expected impact is 1) execution risk (likelihood of impact occurring) and 2) the unexpected impact risk (potential negative impacts). These two risks are rigorously and systematically screened, controlled and monitored throughout the investment process through the use of standardized assessment tools, independent risk reviews by the Risk & ESG Department, quarterly risk reviews (including country, climate, regulatory, counterparty), training to investment professionals, technical assistance, to name a few.

In the event that the investment is no longer expected to achieve its intended impacts (based on monitoring findings), the situation is escalated to the Investment Committee (IC) for resolution on appropriate action, and can be discussed in the Impact Committee (ImC) as well.

For our equity investees, having an active seat on the Board of Directors gives us an opportunity to go the extra mile in helping the companies to develop a realistic E&S plan and impact strategy. Once Incofin IM decides to become a shareholder in an institution, we work with the company to identify relevant outcome indicators at the level of the end-clients, aligned with IRIS+ and CERISE metrics, which are tracked throughout the life of the investment. With our fund agRIF, we launched in 2020 an “Outcomes Measurement” project via the fund’s technical assistance facility, with CERISE and M-CRIL as an implementing consortium. The project aims to develop tailored impact dashboards for each investee in collaboration with them. This allows us to track changes at the end-customers level, in terms of income, employment, health, education, housing, gender equality, etc. depending on each investee’s social mission. New investees were included in the project in 2021, bringing the total project beneficiaries to 9.

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[19]. 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 industry practice[20].

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.

Incofin's Sustainability Risk policy[21] ("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 and described in previous sections, the Incofin IM considers the sustainability risks of its investments from a double materiality perspective using a 4-step risk management approach:

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. Where ESG-related risks of adverse impacts cannot be mitigated to a satisfactory extent, the investment will not proceed.
3. **Control and engage** – 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.

Alignment with ESG industry standards and frameworks

ESG factors are assessed against external, international standards. Incofin has voluntarily agreed to abide by relevant international standards and principles on ESG risk management:

- IFC Performance Standards;
- World Bank Group Environmental Health and Safety Guidelines;

[19] 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.
[20] Examples of good international practice includes: IFC's Performance Standards (www.ifc.org/performancestandards), IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2), and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm).
[21] https://incofin.com/impact/sustainability-disclosures.

- UN Guiding Principles on Business and Human Rights;
- ILO Declaration on Fundamental Principles and Rights at Work;
- UN Principles for Responsible Investment;
- Universal Standards on Social and Environmental Performance Management;
- Responsible Lending Principles of CSAF members.

Compliance with EU regulations on Sustainable Finance

As an AIFM licensed global impact fund management company with the objective to achieve sustainability, Incofin IM and all its funds fall under Article 9 of the EU Sustainable Finance Disclosure Regulation (SFDR). As required by the regulation, we have published our Sustainability Risk Policy, Remuneration Policy Statement and Principal Adverse Impact Statement on Incofin IM's website[22], as well as the fund-specific Article 9 disclosures (as per Article 10). In addition, we have produced the pre-contractual documents (in line with Articles 6 to 9) and the 2023 periodic reports (in line with Article 11) for each of our proprietary funds, which have been reviewed and validated by auditors. We are currently working on the next steps to ensure full compliance with Articles 12 and 13 by end of 2023.

Principal Adverse Impacts

Incofin IM has opted-in to report on the Principal Adverse Impact (PAI) indicators of our portfolio companies as defined by Article 4 of SFDR[23], including indicators on greenhouse gas emissions, biodiversity, water emissions, waste, social violations of the UN Global Compact principles and governance issues, for all the funds we manage and advise, in accordance with the Regulatory Technical Standards (RTS). In addition, Incofin IM will report on at least one additional environmental indicator and at least one additional social indicator as set out in Table 1 of the Annex 1 of the RTS. The first quantitative reporting for the reference period of January 1st to December 31st, 2022 can be found on our website[24].

[22] https://incofin.com/impact/sustainability-disclosures
[23] https://incofin.com/wp-content/uploads/Principal-Adverse-Sustainability-Impact-statement-IIM.pdf
[24] https://incofin.com/impact/sustainability-disclosures

Principle 6: 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[25]. The Manager shall also seek to use the results framework to capture investment outcomes[26].

A process is defined for assessing and monitoring results of investees related to the impact thesis

Our investees are subject to an ESG and Impact reporting obligation. Our legal documentation sets out the terms of the ESG data collection process, including purpose (how data will be used), frequency (reporting deadlines), and method (Incofin IM's online reporting platform). The non-respect of the reporting clause constitutes an event of default.

The monitoring of progress of each investment is incorporated into Incofin IM's ESMS, as described above. This is **part C** on *ESG & impact measurement, management and reporting*: on a quarterly basis, investees report on impact metrics such as:

- For financial intermediaries: number of end-borrowers (including breakdown by gender, rurality and lending methodology), number of transactions, average loan size, portfolio breakdown by sector, portfolio yield, return on assets, client turnover, staff turnover, staff composition (including female representation at all levels), number of investees providing non-financial services / offering specific products dedicated to promoting environmentally-friendly practices, etc.
- For agri-businesses, impact metrics collected from investees include: number of smallholder farmers and suppliers reached (including breakdown by gender), number of Fairtrade or sustainable certified farmers, number of hectares sustainably cultivated, number of crops, amount of premiums, etc.
- For water businesses, the following impact metrics will be collected: number of customers with access to safe and affordable drinking water, volume of water produced in a safely managed way, share of customers' income spent on purchasing safe drinking water, share of female end-beneficiaries who have entrepreneurial activities, time saved by women and girls of not fetching water, water-use efficiency ratio, number of water businesses using renewable energy sources / with a recycling program / implementing a green strategy, etc.

These metrics are aligned with industry standards (SPI4-ALINUS, IRIS+, SDGs…).

Progress of each investment in achieving impact is compared to expectations

In addition to mandatory quarterly reporting by investees, the Investment team conducts annual monitoring visits, which include social, environmental and governance checks. In the event that the investment is no longer expected to achieve its intended impacts, the situation is escalated to the

[25] 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.

[26] 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.

Investment Committee (IC) for resolution on appropriate action, and can be discussed in the Impact Committee (ImC) as well. While Incofin IM has not systematically been setting quantitative impact targets at fund level so far, we are now striving to do so when designing new funds. For example, through W2AF, we committed to contribute to provide 20 billion liters of water to 30 million people by 2030. Our fund ALF has also set impact targets, which include financing at least 50 direct investees of which 50% in Africa, reaching 300k end-beneficiaries including 20% women, supporting 3,500 employees including 25% women, etc.

Part C is also about helping equity investees develop a realistic impact strategy where they can positively and sustainably impact the lives of their end customers. Once Incofin IM 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 IM'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 each investee. The indicators identified include those that not only promote ESG practices but also impact on the end-customer.

The Investment team is responsible for collecting E&S data from investees, while the Risk & ESG team oversees the aggregation and analysis of the data at the fund or Incofin IM level. The analyses are shared with the respective funds and Incofin IM's Risk Management Committee (RMC) regularly.

Principle 7: Conduct exits considering the effect on sustained impact

When conducting an exit[27], 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.

Engagement strategy and responsible exit

Part D of Incofin IM's ESMS is about *responsible exits*, specifically related to our equity investments. Incofin IM considers sustainability of its impact objectives not only at the start and duration of the investment, but also during the exit.

In equity, we want to ensure that each exit meets the financial objectives of our investees (scaling up targets) and sustained impact post exit. For this reason, we developed a Fitness and Compatibility checklist to screen all exits: during the exit process, the fitness and compatibility of a potential new partner for our portfolio clients is taken seriously. The choice of the buying shareholder is based on the following dimensions: reputation, financial stability/performance, regional and local knowledge, financial inclusion knowledge, social responsibility profile and strategy, clear rationale for acquisition, corporate culture, funding availability, strategic value to investee, capacity to provide non-financial support, commitment to maintain social mission, acceptability and fit with remaining shareholders and investee's Management team, etc. While four of our five equity funds are close-ended, the investment horizon is sufficiently long to not constrain the exit strategy.

[27] This may include debt, equity or bond sales and excludes self-liquidating or maturing instruments.

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.

Consistent review of impact performance

As described in Principle 6, we review each investment's ESG and impact performance at least annually, through the refresh of the ESG and impact scoring. An Impact Report[28] is produced annually that reviews and documents the impact performance at the level of the portfolio. This includes a review of progress towards the funds' impact objectives, trends in the ESG situation of each investee, and updates on processes based on lessons learned and industry developments.

Data-driven decision making

The Impact Committee (ImC) was created in 2021 with the mandate to monitor Incofin IM's progress towards its social goals and provide recommendations to the Management team when necessary. Among other things, this includes advisory guidance on Incofin IM-level impact lenses, new funds' impact thesis, necessary improvements in the ESG and impact process, etc. Any major ESG breaches or concerns are escalated to Incofin IM's Risk Management Committee (RMC), who will determine if operational and strategic adjustments are needed.

External social and environmental audits and ratings are taken into consideration in investees' ESG performance monitoring. More specifically, we monitor: i) the certification status of our CPP-certified investees and ii) the certification status of our Fairtrade and sustainable certified agri investees, to ensure that they maintain compliance with the highest standards.

[28] https://incofin.com/impact-report/report/impact-report-2020-2021

Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification[29] of the alignment

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 Statement re-affirms the alignment of Incofin IM's procedures with the Impact Principles and is updated annually.

In accordance with the Impact Principles' requirements, Incofin IM engaged EY Bedrijfsrevisoren BV as the external and independent verifier. The independent assurance report confirming Incofin IM's alignment with the Operating Principles for Impact Management is available here, dated July 2023. The verification will be replicated on an on-going basis no later than three-year intervals.

[29] 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.

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