Principal Adverse Sustainability Impact statement

Incofin Investment Management NV

Summary

This statement is published by Incofin Investment Management NV ("Incofin IM") on its website in accordance with Article 4 of the SFDR.

Incofin IM 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, Incofin IM 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 overarching impact objective of our funds is to promote access to basic goods and services for vulnerable and excluded populations through creative business solutions, with a specific focus on financial inclusion, agri-food value chains and access to safe drinking water. Each of our funds have specialized focuses on specific markets including base-of-the-pyramid and underserved populations, smallholder farmers, rural MSMEs, and Fair-Trade producer organizations.

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

Description of principal adverse impacts

Incofin IM reports on 14 mandatory PAI indicators regarding greenhouse gas emissions, biodiversity, water, waste, social violations, and governance issues. In addition, Incofin IM 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 Incofin IM considers the mandatory PAI indicators in its investment decisions. Specifically, it will provide details on Incofin IM's current actions to avoid and mitigate 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	1. GHG emissions (Scope 1, 2, 3 and total) 2. Carbon footprint 3. GHG intensity of investee companies	Incofin IM does not have GHG and energy performance as a sustainable objective; therefore, does not have specific related actions on this PAI and does not track the indicators

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

PAI group	PAI indicator[1]	Current and planned actions
and energy performance	4. Exposure to companies active in the fossil fuel sector 5. Share of non-renewable energy consumption and production 6. Energy consumption intensity per high impact climate sector[2]	related to these aspects. However, it is important to highlight that Incofin IM does not currently have any investment in Fossil Fuel activities or in its pipeline. To comply with the SFDR regulation, Incofin IM will start tracking the mandatory PAI indicators. In addition, Incofin IM 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	Incofin IM 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	Incofin IM does not have water as a sustainable objective; therefore, does not have specific related actions on this PAI and does not track the indicators related to these aspects.

[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
		To comply with the SFDR regulation, Incofin IM will start tracking the relevant indicators.
Waste	9. Hazardous waste ratio	Incofin IM 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 Incofin IM'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)	Incofin IM 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 Incofin IM are expected to respect human rights standards as defined by the organisations referenced above, especially

[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
		the rights of women, and 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 Organization 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 prioritize principal adverse sustainability impacts

Incofin IM'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 version was approved on March 2021.

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

[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. 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, Incofin IM 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. Incofin IM 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 sectors of Incofin IM, availability of data is a challenge for identifying the PAIs mandated by the SFDR regulation. Incofin IM has been working with its impact investors peers through the Social Performance Task Force (SPTF), a financial inclusion network of over 4,500 members, to standardize methodologies, metrics, data collection and reporting of the PAI indicators. A pilot test will be conducted throughout 2022 to test the quality of the data, with the aim to finalize the methods and tools before the June 2023 deadline for the first quantitative PAI reporting. Incofin IM will be reporting PAI indicators at the portfolio company level (financial institution), but will proactively work with peers to build capacities to collect and report at the end-client level in the future, likely with the use of proxy indicators.

➢ *Prioritising the principle adverse impacts*

To prioritize the PAIs and evaluate its materiality on Incofin IM'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 SPI4-ALINUS for financial institutions (an industry recognized social and environmental audit tool) and ECHOS-AgSME© / ECHOS-AgPO© for agriculture SMEs and producer organizations (an internally developed-tool) to evaluate a company's ESG practices against the industry's best practices and furthermore, classify the risk level. Minimum thresholds corresponding to the risk appetite of the fund are set as another safeguard.

Engagement policies

Incofin IM focuses on debt and equity 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 Incofin IM's investment process and contribution to positive development impact.

When making an investment, Incofin IM 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, Incofin IM 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 Incofin IM's investees is conducted by external consultants.

References to international standards

The ESG and impact methodology and tools used by Incofin IM 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