

## Sustainability-related product disclosure

### agRIF

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#### Summary

This statement is published by agRIF Coöperatief U.A., a cooperative society with limited liability and a social objective (the “**Fund**”), in accordance with Article 10 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the “**SFDR**”).

#### No significant harm to the sustainable investment objective

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

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

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

#### Sustainable investment objective of the financial product

The Fund has sustainable investment as its objective as described in article 9 of the SFDR. The mandate of the Fund is to invest in entities contributing to the social, environmental and/or economic development of vulnerable populations in emerging countries. Specifically, the Fund seeks to invest in companies that contribute to at least one of the following:

- enhance financial inclusion in the agricultural value chain, especially focusing on smallholder farmers and rural micro-, small and medium entrepreneurs (MSMEs), by investing primarily in financial intermediaries;
- build strong and transparent companies that apply responsible practices and 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;
- support the development of the local communities, which can take the form of creating sustainable employment and decent jobs for people excluded from the labor market.

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

### **Investment strategy**

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

The Investment Manager shall review the application form submitted by an organization requesting funding as a first step to verify that the potential investee meets the eligibility criteria of the Fund (including the general corporate governance practices). In addition, the Investment Manager also checks references and evaluates the quality of financial reports. Internal approval to proceed will be requested for a potential investee that meets the eligibility criteria, and if provided, the terms and conditions of a possible investment will be negotiated with the potential investee.

Once the terms have been agreed between the potential investee and the Fund, pre-due diligence information will be gathered. The Investment Manager analyses this information prior to conducting a field visit to the organization. The results of the pre-due diligence and the field visit will be used to conduct a financial risk analysis using the Counterparty Risk Score tool (as described in the Investment Policy) and a social and environmental risk analysis using the SPI4-ALINUS<sup>1</sup> tool, an industry recognized due diligence tool that is aligned with the Universal Standards<sup>2</sup>. The Investment Manager assesses sustainability risk with a double materiality perspective<sup>3</sup>, taking into account both external ESG risks and internal negative impacts created by the company.

If the Investment Manager identifies during its due diligence, eligibility criteria that may be improved by potential investees, the Investment Manager may request the Fund to proactively provide technical assistance to the targeted investees in order to help them attain the quality level expected by the Fund. When a proposal from a potential investee scores below 55% on the SPI4-ALINUS tool and that ESG-related risks cannot be mitigated to a satisfactory extent, the investment does not proceed. If the score exceeds the minimum, an investment memorandum summarizing the results of the ESG risk assessment is presented to the Investment Committee of the Fund, which takes the final investment decision.

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<sup>1</sup> Tool developed by CERISE, a non for profit organization which has more than 15 years of social audits in financial inclusion, rural finance and social businesses (<http://www.cerise-microfinance.org>), working to promote ethical and responsible finance.

<sup>2</sup> The Universal Standards for Social Performance Management (the "Universal Standards") is a comprehensive manual of best practices created by and for people in microfinance as a resource to help financial service providers achieve their social goals. They were developed by the Social Performance Task Force (SPTF), a non-profit membership organization with more than 3,000 members from all over the world, engaging with all stakeholder groups in inclusive finance.

<sup>3</sup> 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.

### Proportion of investments

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

### Monitoring of sustainable investment objectives

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

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

### Methodologies

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

ESG risk score	1	% of the investment portfolio invested in investees having a minimum SPI4-ALINUS score of 60%
SDG 1: No Poverty	2	% of investees who offer services and products targeting vulnerable or excluded groups
	3	# of end-beneficiaries
	4	% of rural end-beneficiaries
SDG 2: Zero Hunger	5	% of investees having more than 20% of loan portfolio in agriculture
	6	Total \$ in agriculture financing by investees
SDG 5: Gender Equality	7	% of women end-beneficiaries
	8	% of women staff employed by investees
SDG 8: Decent Work & Economic Growth	9	% of investees having more than 50% of loan portfolio in productive activities
	10	% of investees following best practices on labour rights (SPI4-ALINUS dimension on staff treatment >60%)
SDG 10: Reduced inequalities	11	% of investees who have an anti-discrimination policy
	12	% of investees offering remittance services
SDG 12: Responsible consumption and production	13	% of FI investees who offer specific loan products to finance renewable energy, energy efficient technologies, or activities that promote environmentally-friendly practices (such as recycling, waste management, clean water, etc.)

### **Data sources and processing**

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

### **Limitations to methodologies and data**

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

### **Due diligence**

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

### **Engagement policies**

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

At the broader industry level, the Fund proactively supports the harmonization of best practices on responsible investment through its participation in initiatives such as the Client Protection Pathway, Social Performance Taskforce (SPTF), Global Impact Investing Network (GIIN), among others.

### **Attainment of the sustainable investment objective**

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

## I. Sustainability Risks

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

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

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

This risk is amplified by the often weaker environmental and social laws and other laws and regulations and enforcement thereof in the countries in which the Fund operates, i.e. including, but not limited to Africa, Asia, Eastern Europe and Central Asia, and Latin America and Caribbean region, as specifically mentioned under the issue document of the Fund.

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

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

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

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

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

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

## II. Principal adverse sustainability impacts statement

### Summary

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

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

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

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

### Description of principal adverse impacts

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

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

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

<sup>4</sup> As defined in Table 1 of Annex 1 in RTS.



PAI Group	PAI Indicator <sup>4</sup>	Current and Planned Actions
	6. Energy consumption intensity per high impact climate sector <sup>5</sup>	To comply with the SFDR regulation, the Fund will start tracking the mandatory PAI indicators. In addition, the Fund will consider adding the Harmonised EDFI Fossil Fuel Exclusion List to its existing Exclusion List, which would formally prohibit investments in activities such as coal, oil exploration, gas production, and crude oil pipelines.
Biodiversity	7. Activities negatively affecting biodiversity sensitive areas	The Fund excludes financing activities that negatively affects biodiversity sensitive areas and where there is inadequate programs to reduce their impact. This includes: <ul style="list-style-type: none"> <li>- Trade in wildlife or wildlife products under the CITES<sup>6</sup>.</li> <li>- Drift net fishing in the marine environment using nets in excess of 2.5 km in length</li> <li>- Commercial logging operations or purchase of logging equipment for use in primary tropical moist forest.</li> <li>- Production or trade in wood or other forestry products from unmanaged forests.</li> <li>- Any activities that destroys critical habitat.</li> </ul>
Water	8. Emissions to water ratio	The Fund does not have water as a sustainable objective; therefore, do not have specific related actions on this PAI and do not tracked the indicators related to these aspects.  To comply with the SFDR regulation, the Fund will start tracking the relevant indicators.

<sup>5</sup> 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.

<sup>6</sup> 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 <sup>4</sup>	Current and Planned Actions
Waste	9. Hazardous waste ratio	<p>The Fund excludes financing activities using hazardous materials such as those involving:</p> <ul style="list-style-type: none"> <li>- Production or trade in or use of hazardous materials such as radioactive materials, unbonded asbestos fibers, and products containing PCBs.<sup>7</sup></li> <li>- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous</li> <li>- Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations.</li> </ul>
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	<p>The International Labour Organisation (ILO) conventions form the basis of the Fund's labour rights assessment. Companies are excluded from investment if they:</p> <ul style="list-style-type: none"> <li>- Are involving forced labour or child labour;</li> <li>- Violate the labour rights of their own employees or contract suppliers that violate their employees' labour rights;</li> <li>- 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;</li> <li>- 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.</li> </ul>
Human Rights	14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	<p>The Fund assesses human rights risk according to the Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights.</p> <p>All business partners of the Fund are expected to respect human rights standards as defined by the organisations referenced above, especially the rights of women, and</p>

<sup>7</sup> 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 <sup>4</sup>	Current and Planned Actions
		<p>those of children and other vulnerable groups. Involvement in child labour or forced labour are covered under labour rights above.</p> <p>In addition, companies are excluded if they:</p> <ul style="list-style-type: none"> <li>- Operate in industries identified as high-risk for the violation of human rights and <u>do not have a policy on awareness</u> to prevent potential and/or actual human rights infringement risks that arise from their business activities;</li> <li>- Operate in industries identified as high-risk for the violation of human rights and do not have <u>processes to enable the remediation</u> of adverse human rights impact which they cause or to which they contribute;</li> <li>- Are involved in human rights violations, including contributing to or benefitting from structural and gross human rights violations;</li> <li>- Produce or sell weapons and/or munitions. For controversial weapons like anti-personnel landmines and cluster bombs any involvement leads to exclusion.</li> </ul>
Anti-corruption and anti-bribery	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	<p>Companies are excluded if they:</p> <ul style="list-style-type: none"> <li>- Are involved in criminal investigations and controversies related to corruption, bribery or money laundering;</li> </ul>

### Description of policies to identify and prioritise principal adverse sustainability impacts

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

As outlined in the Policy, the Fund considers the sustainability risks of its investments from a double materiality perspective<sup>8</sup> using a 4-step risk management approach of its Investment Manager:

<sup>8</sup> Double materiality perspective is referring to the external ESG risks that can negatively impact a portfolio company as well as the internal ESG risks created by the portfolio company through its operations.

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

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

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

➤ *Identifying principal adverse impacts*

Given the pioneering target investment sector of the Fund, availability of data is a challenge for identifying the PAIs mandated by the SFDR regulation. The Fund has been working with its impact investors peers through the 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.

The Fund 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 the Fund's sustainability objective, a mix of quantitative audit tools, judgement based techniques and benchmarking are used to process the information gathered. This includes an ESG rating using SPI4-ALINUS, an industry recognized social and environmental audit 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**

The Fund 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 the Fund's investment process and contribution to positive development impact.

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

### **References to international standards**

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

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