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Investment Solutions
for People and Planet

DISCLOSURE STATEMENT
OPERATING PRINCIPLES FOR IMPACT MANAGEMENT
AlphaMundi Group

31 March 2023

AlphaMundi Group ("AMG") is a founding signatory to the Operating Principles for Impact Management ("Impact Principles"). The Impact Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

AMG hereby affirms that its investment assets are managed in accordance with the Impact Principles. The total assets under management (AUM) in alignment with the Impact Principles is USD 55 million as of 31 March 2023.[1]

Pekka Halla
Senior Associate
AlphaMundi Group
geneva@alphamundi.ch

[1] The information contained in this Disclosure Statement has not been verified or endorsed by the Global Impact Investing Network ("the GIIN") or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of the GIIN. The GIIN shall not be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, "Affiliate" shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

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 or 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.

AMG has had embedded impact in its DNA since inception, as captured in the company's vision and mission statements, and as reflected in its theory of change and general strategy[2]. Based on this strategic intent, AMG has further defined eight operational impact objectives[3], each of which is aligned with specific SDGs[4]. The impact objectives are divided into three categories: 1) Manager level objectives, 2) Portfolio company level objectives, and 3) End beneficiary level objectives. For the latter category, AMG uses sectoral theories of change to specify impact objectives that are tailored with the end beneficiaries of each company in mind.

The sectors in which AMG invests are defined in the investment missions and mandates of the funds managed by the company. For the SocialAlpha Investment Fund ("SAIF"), the mission is to improve the lives of low-income consumers in Latin America and Africa, and the fund uses a multi-sectoral approach and invests in SMEs that contribute to this overall mission in various ways[5]. For the AlphaJiri Investment Fund ("AJIF"), the mission is to target investments primarily in SMEs in the sustainable food and agriculture and renewable energy sectors[6].

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.

In managing its investment activities, AMG applies an Investment Management Policy that explicitly integrates impact considerations at different stages of the investment lifecycle, in alignment with the requirements of Article 9 of Regulation 2019/2088 of the European Parliament and the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "SFDR"). In brief, this includes:

- In the pipeline scouting phase, screening potential investee companies against AMG's exclusion list and evaluating the companies' alignment with AMG's impact objectives and investment mandate.

[2] https://www.alphamundigroup.com/mission-history/
[3] https://www.alphamundigroup.com/impact-alphamundi/
[4] https://www.alphamundigroup.com/wp-content/uploads/2022/09/FIMM-Report_PDF.pdf
[5] https://www.alphamundigroup.com/socialalpha-fund/
[6] https://www.alphamundigroup.com/alphajiri-fund/

- In the due diligence phase, performing an analysis of both the potential positive impact of the company in question (the company's 'Impact Case') as well as any risks of negative impacts (the company's 'ESG Risk Profile'), and including this information into the investment proposal presented to the respective fund's Investment Committee.
- In the deal formulation phase, including mandatory requirements for the companies to periodically submit data on selected impact metrics and to report any changes in their risks for negative impacts.
- During the investment, monitoring the impact performance of each investee company as well as the evolution of the company's risks for negative impacts, and engaging with the company when needed.

To monitor achieved impact at the portfolio level, AMG aggregates the impact data collected from all portfolio companies and reports it to investors and other stakeholders via newsletters and annual reports.

Since 2022, AMG has applied a policy by which all staff have at least one criterion KPI related to the achievement of positive social or environmental impact among their personal key performance indicators (KPIs).

Principle 3 - *Establish the investor's contribution to the achievement of impact:* The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

The analysis of the 'Impact Case' of each investee, first established during the due diligence phase and then periodically updated during the investment period, includes a dedicated section for the evaluation of the catalytic role that AMG's involvement plays in the investee's growth and positive impact. In general, AMG seeks to contribute to its investees' impact through both financial and non-financial means.

In terms of financial means, AMG addresses the financing gap faced by SMEs in emerging markets and considers an investment when the company is at an inflection point in its growth, and the financing provided can be catalytic in scaling the business. As AMG predominantly provides debt financing, the contribution to the achievement of impact can be assessed directly by looking at the uses of investment, such as expanding the loan portfolio of a microfinance institution, purchasing a set amount of renewable energy systems, purchasing equipment for operations, or perhaps hiring additional personnel for business expansion.

In terms of non-financial means, AMG often supports companies with technical assistance to enhance the generated impact. The technical assistance programs are developed in collaboration with the AlphaMundi Foundation and address themes such as product innovation, market expansion, impact assessment, and gender equality.

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 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? 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 systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

AMG defines and measures impact metrics for each investment at both the investee company level and the level of the companies' end beneficiaries (see above description for Principle 1). The metrics referring to the investee company level are shared by all companies and they measure the companies' impact in terms of the number of lives reached, their gender impact (aligned with the criteria of the 2X Challenge), and their alignment with the principle of 'do no harm'. At the end beneficiary level, the metrics are selected through a process of constructing a company-specific 'Impact Case'. This involves systematically clarifying the kind of positive impact that the company (and AMG through its investment) can be expected to achieve. More specifically, each Impact Case is elaborated with a set of appropriate impact goals (e.g., "Increase access to clean energy"), and dedicated indicators are selected for expressing these goals. The indicator selection is designed to cover the three impact dimensions of 'What', 'Who' and 'How Much', as defined in Impact Frontier's framework[7]. When possible, the indicators are selected from the database of the IRIS+ indicator system.

The Impact Case is first constructed in the due diligence phase, and subsequently included in the investment proposal for the consideration of the investment committees. At this point, a rough quantitative estimate of the scale and depth of the expected impact is formed. After making the investment, AMG intends to monitor and compare the achieved impact performance against the original estimates. To improve this aspect of impact management, during 2023 AMG is working on a method for setting more precise quantifiable impact targets for each investment.

Importantly, AMG constructs the Impact Case in collaboration with the company in question. By doing so, AMG aims to promote true impact management as part of the operating model of investees. Furthermore, as mentioned above, AMG works together with the AlphaMundi Foundation to develop targeted technical assistance programs to further enhance the created impact.

[7] https://impactfrontiers.org/norms/five-dimensions-of-impact/

Principle 5 - *Assess, address, monitor and manage the potential risks of negative effects of each investment:* For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. 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.

AMG takes an active approach to managing the potential risks of negative effects related to ESG issues. It includes considering both risks of negative effects on the value of investments and risks of adverse impacts towards the environment or society ('double materiality'). In brief, the following measures are taken:

- In the pipeline scouting phase, AMG screens out companies with high exposure to risks of negative effects by applying an exclusion list of environmentally and socially harmful industries and activities.
- In the due diligence phase, AMG develops a full-scale analysis of the company's ESG risk profile. The ESG risk profile is constructed with the help of an ESG questionnaire that covers, among others, the topics included in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. The questionnaire is also informed by the mandatory 'principal adverse impact' indicators defined in the SFDR. Results of the ESG risk analysis form an integral part of each investment proposal presented to the Investment Committee. If the analysis identifies that the actual or potential adverse impacts are too high and that they cannot be prevented or mitigated to a satisfactory extent, the investment will not proceed.
- The deal terms of each investment include a requirement for the investee companies to report any realized risks of negative effects and any changes in potential risks for negative effects.
- During the investment, AMG monitors the evolution of the company's risks for negative effects. When deemed necessary, appropriated measures are adopted to mitigate any negative outcomes in collaboration with the investee in question.

More details on the policies and procedures employed by AMG for managing potential risks of negative effects can be found in the SFDR-related disclosure documents that are published on AMG's website[8].

Principle 6 - *Monitor the progress of each investment in achieving impact against expectations and respond accordingly:* The Manager shall use the results framework (referenced in Principle 4) to monitor 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. The Manager shall also seek to use the results framework to capture investment outcomes.

[8] https://www.alphamundigroup.com/impact-alphamundi/

AMG monitors the achievement of impact through the metrics defined both at the investee company level and at the level of the companies' end beneficiaries (see above description for Principle 4). In the definition of these indicators, established measurement frameworks – in particular, the IRIS+ indicator system as well as the 2X Challenge criteria – are relied upon to the extent possible. Data for the metrics is collected twice a year, and it is predominantly self-reported by investee companies. The requirement to provide data periodically on the selected indicators is included in the contract terms of each investment. When deemed necessary, appropriate engagement methods with investee companies are considered to enhance the positive impact created. This is particularly the case when the impact displayed by the data is reducing or otherwise deviating from the original expectations. Engagement may also include technical assistance or capacity building in collaboration with the AlphaMundi Foundation.

Principle 7 - *Conduct exits, considering the effect of sustained impact:* When conducting an exit, 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 the impact.

AMG investments to date have been mostly in the form of amortizing debt capital. With such investments, the timing and process of exit is fixed from the beginning, with little opportunity for adaptation afterwards. Nevertheless, AMG considers different measures to help sustain the positive impacts of the companies, even after the investment term is over, on a case-by-case basis. This includes technical assistance, such as helping to build the company's impact measurement capabilities.

During 2023, AMG will be working on formalizing a general exit strategy for sustained impact, in particular as the company is considering increasing the share of its investments into equity, which will open up new opportunities for influencing the sustainability of the impact of its investees.

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.

AMG periodically reviews and documents the impact performance of each investment and at the portfolio level, and the results are published in annual impact reports. AMG is further improving its own ability and that of its stakeholders to draw lessons from impact data by partnering with Proof, a specialized service provider, to construct an online dashboard that will provide an accessible and illustrative means for monitoring impact performance, doing analyses, etc.

Additional initiatives for enhancing the gathering of feedback and improving practices include:

- AMG conducts a bi-yearly survey among its investee company leadership, in order to gain feedback on the value the companies perceive in working with us.
- AMG actively and regularly seeks to interact with external experts in order to gain feedback on our impact practices.
- During 2023, AMG is putting in place a dedicated 'impact committee', a governing body made up of a panel of external experts who will oversee both the review of achieved impact and the enhancement of existing impact-related practices.

Principle 9 - *Publicly disclose alignment with the Impact Principles and provide regular independent verification of the extent of alignment:* The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact 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.

AMG publishes an annually updated disclosure statement on its alignment with the Impact Principles on both its own website[9] as well on the website of the Impact Principles[10]. An independent verification of the alignment is performed regularly (every 4 years), with the most recent verification occurring in 2023. The results of the independent verification are likewise made publicly available on both the AMG website and the website of the Impact Principles in April 2023.

[9] https://www.alphamundigroup.com/impact-alphamundi/
[10] https://www.impactprinciples.org/signatories-reporting