



## Article 10 (SFDR)

# Website disclosure for an Article 9 fund

**BUILD FUND S.A., SICAV-RAIF – BUILD II (Malawi) Sub-Fund**



**Product name: BUILD FUND S.A., SICAV-RAIF – BUILD II (Malawi) Sub-Fund (the “Sub-Fund”)**      **Legal identity identifier: N/A**

Does this financial product have a sustainable investment objective?

<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective: ___%</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> </ul>	<input type="checkbox"/> It <b>promotes Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it had a proportion of ___% of sustainable investments <ul style="list-style-type: none"> <li><input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with a social objective</li> </ul>
<input checked="" type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective: 60%</b>	<input type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>



**A. Summary**

**English version:** The objective of the Sub-Fund is to achieve an appropriate real positive return over the long term, primarily addressing the missing middle financing gap in Malawi, while simultaneously generating a positive impact under one or all of the following SDGs: SDG 5 – Gender Equality, SDG 7 – Affordable and Clean Energy, SDG 8 – Decent Work and Economic Growth, SDG 9 – Industry, Innovation, and Infrastructure, and SDG 10 – Reduced Inequalities. An overarching objective is SDG 1 – No Poverty; this initiative was inspired and formed under SDG 17 – Partnerships. The geographical focus of the Sub-Fund is Malawi. These objectives are aligned with UNCDF’s mission and will guide its origination activities.

To ensure that the Sub-Fund attains its sustainable investment objective, the Sub-Fund has defined clear steps as part of its investment strategy. First, during the pre-investment phase, the investment team checks potential investments against the Sub-Fund’s impact goals and the Sub-Fund’s Exclusion List. Second, during the due-diligence phase, the investment team conducts further on-site analyses on the expected impact of the company towards the SDGs targeted by the Sub-Fund. Third, an investment memo is prepared and submitted to the Sub-Fund’s investment committee, containing a description of the alignment of the company with the impact goals of the Sub-Fund. Fourth, during the negotiation of terms for investment, the Sub-Fund team and the investee agree on selected output/outcome indicators which the investee will report on to the Sub-Fund team at a defined frequency. Fifth, during the holding period, investee companies send regular reports on the defined list of impact indicators at the agreed frequency. The Sub-Fund team monitors the data collected and reviews assumptions based on new evidence. As a potential equity investor, the Sub-Fund purports to sit on the board of its investee companies, overseeing and contributing to social performance and impact issues alongside financial matters. Sixth, the Sub-Fund will seek to divest to trustworthy investors who will allow and enable the companies to pursue their mission and vision. The Sub-Fund also aims for an organized, simple, fair and transparent divestment process.



The Sub-Fund's impact and ESG management process is deployed throughout the lifetime of each investment. The binding elements of the investment strategy must be applied by the Sub-Fund's investees at each stage of the investment process: (i) Alignment with the Sub-Fund's impact objective of financing SDG-oriented business in Malawi; (ii) Compliance with the Sub-Fund's Exclusion List; (iii) Compliance with national applicable national laws on labour, environment, health, safety and social issues, as well as with the above-mentioned international principles of respect for human rights and international conventions of the International Labour Organization (ILO); (iv) Possession of all necessary environmental and social permits applicable to the activity of the company.

Finally, in an effort to measure the attainment of the social objectives of the Sub-Fund's sustainable investments, key indicators that will be measured across the portfolio have been defined (cf. 'Monitoring of sustainable investment objective').

**Version française :** L'objectif du Sous-fonds est d'obtenir un rendement positif réel approprié sur le long terme, en comblant principalement le déficit de financement intermédiaire manquant au Malawi, tout en générant simultanément un impact positif sur l'un ou l'ensemble des ODD suivants : ODD 5 - Égalité des genres, ODD 7 – Énergie abordable et propre, ODD 8 – Travail décent et croissance économique, ODD 9 – Industrie, innovation et infrastructure, et ODD 10 – Inégalités réduites. Un objectif primordial est l'ODD 1 - Pas de pauvreté ; cette initiative a été inspirée et formée dans le cadre de l'ODD 17 - Partenariats. La cible géographique du Sous-Fonds est le Malawi. Ces objectifs sont alignés sur la mission du Fonds d'Équipement des Nations Unies et guideront ses activités.

Pour s'assurer que le Sous-Fonds atteigne son objectif d'investissement durable, le Sous-Fonds a défini des étapes claires dans le cadre de sa stratégie d'investissement. Premièrement, pendant la phase de préinvestissement, l'équipe d'investissement vérifie que les clients potentiels remplissent les critères d'impact du Sous-Fonds et qu'ils ne sont pas sur la liste d'exclusion du Sous-Fonds. Deuxièmement, au cours de la phase de diligence raisonnable, l'équipe d'investissement effectue d'autres analyses sur place sur l'impact attendu de l'entreprise et sa contribution aux ODD ciblés par le Sous-Fonds. Troisièmement, une note d'investissement est préparée et soumise au comité d'investissement du Sous-Fonds, contenant une description de l'alignement de la société aux objectifs d'impact du Sous-Fonds. Quatrièmement, lors de la négociation des conditions d'investissement, l'équipe d'investissement du Sous-Fonds et le client conviennent d'indicateurs d'impact sélectionnés, dont les entreprises clientes feront rapport à l'équipe du Sous-Fonds pendant la durée de l'investissement à une fréquence définie. Cinquièmement, pendant la durée de l'investissement, les entreprises bénéficiaires envoient des rapports réguliers sur la liste définie d'indicateurs d'impact à la fréquence convenue. L'équipe du Sous-Fonds surveille les données collectées et examine les hypothèses sur la base de nouvelles preuves. En tant qu'investisseur potentiel en actions, le Sous-Fonds prétend siéger au conseil d'administration de ses sociétés bénéficiaires, supervisant et contribuant aux questions de performance sociale et d'impact parallèlement aux questions financières. Sixièmement, le Sous-Fonds cherchera à céder ses parts auprès d'investisseurs dignes de confiance qui permettront aux entreprises de poursuivre leur mission et leur vision. Le Sous-Fonds vise également un processus de désinvestissement organisé, simple, équitable et transparent.

Le processus de gestion d'impact et ESG du Sous-Fonds est déployé tout au long de la durée de vie de chaque investissement. Les éléments contraignants suivants de la stratégie d'investissement doivent être appliqués par les bénéficiaires du Sous-Fonds à chaque étape du processus d'investissement : (i) Alignement avec l'objectif d'impact du Sous-Fonds consistant à financer des activités axées sur les ODD au Malawi ; (ii) Conformité avec la liste d'exclusion du Sous-Fonds ; (iii) Respect des lois nationales applicables, y compris celles relatives au travail, à l'environnement, à la santé,



à la sécurité et aux questions sociales ; (iv) Respect des principes internationaux de respect des droits de l'homme et des conventions internationales de l'Organisation Internationale du Travail (OIT) et des conventions internationales relatives à l'environnement ; (v) Possession de tous les permis environnementaux et sociaux nécessaires applicables à l'activité de l'entreprise.

Enfin, dans le but de mesurer l'atteinte des objectifs sociaux des investissements durables du Sous-Fonds, des indicateurs qui seront mesurés sur l'ensemble du portefeuille ont été définis (cf. 'Monitoring of sustainable investment objective').



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

### How are the indicators for adverse impacts taken into account?

The indicators for adverse impacts on sustainability factors taken into account by the Sub-Fund are presented in the table below (indicators from Table 1 of Annex I – Regulation (EU) 2019/2088). Details on how are they are considered are also provided:

Adverse sustainability indicator	Metric	Actions taken	
<b>Climate and other environment-related indicators</b>			
<b>Greenhouse gas emissions</b>	1. GHG Emissions	<p>As per the Sub-Fund's investment strategy and impact framework, prior to any investment, two dimensions are assessed:</p> <ul style="list-style-type: none"> <li>The climate relevance of the potential investment – leading to a climate 'relevance score': this score from 0 to 2 is informed by the Rio Markers for Climate<sup>1</sup>. Two dimensions are considered: one score for climate mitigation, and one score for climate adaptation. The "climate relevance score" will be the higher of the adaptation or the mitigation scores. While there is no specific threshold defined for the investment approval in terms of climate relevance in the case of the Sub-Fund, a score of 1 or 2 will contribute to positively influence the investment decision. A score of 0 will not block the investment decision if the impact thesis and SDG alignment of the investment is strong enough. For instance, investments in solar off-grid energy solutions or smart transportation solutions that reduce GHG emission will receive a mitigation score of 1 or 2 (depending on the importance of this dimension). If there is no link to climate adaptation, their final</li> </ul>	
			Scope 1 GHG emissions
			Scope 2 GHG emissions
			Scope 3 GHG emissions
		Total GHG emissions	
	2. Carbon footprint	Carbon footprint	
	3. GHG intensity of investee companies	GHG intensity of investee companies	

<sup>1</sup> [https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook\\_FINAL.pdf](https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook_FINAL.pdf)



			<p>score will be equal to the mitigation score. Investments in climate-resilient farming methods as well as heat and drought resistant crops that reduce the vulnerability of smallholder farmers to the impacts of climate change would receive an adaptation score of 1 or 2, and in the absence of link to mitigation, a “climate relevance score” of 1 or 2. Climate-smart farming methods using biodigesters will also receive a climate mitigation score of 1 or 2. Investments that help address the expected changes or fluctuations in water supply as a consequence of climate change, by providing clean water to rural communities and helping them adapt to the climate effects on water, will receive a climate adaptation score of 1 or 2. Business models that have no link to climate mitigation nor climate adaptation will receive a score of 0 for both dimensions and therefore a “climate relevance” score of 0.</p> <ul style="list-style-type: none"> <li>• The climate risks inherent to the potential investments – leading to a ‘climate risk’ score.</li> </ul> <p>Both the climate relevance and climate risk scores are included in the investment memorandum and therefore inform the Sub-Fund’s investment decision.</p>
	<p>4. Exposure to companies active in the fossil fuel sector</p>	<p>Share of investments in companies active in the fossil fuel sector</p>	<p>As per the Sub-Fund’s investment strategy, during the due-diligence phase, the investment team assesses potential investee companies against the Sub-Fund’s exclusion list, which includes any activity involving large-scale search, extraction, production, distribution, processing and promotion of fossil fuels (coal, oil, natural gas and peat). It also includes any activity that increases the use of fossil fuels and/or prolongs the technical or economic lifetime of heat and power production using fossil fuels, except for back-up in power generation plants, for household cooking purposes and for processes where feasible alternatives do not exist. For the avoidance of doubt, indirect small-scale use of fossil fuels supporting such activities are permitted (such as use in machinery, vehicles, and equipment). As such, companies active in the fossil fuel sector are not eligible for financing by the Sub-Fund.</p>



	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	The Sub-Fund's evaluation of investees includes an environmental, social and governance risk assessment. As part of the environmental component of this evaluation, investee companies must disclose, depending on the sector in which they operate, if they are energy intense, and the sources of the energy they use. Both these elements are also taken into consideration for the calculation of the company's environmental risk score and therefore inform the Sub-Fund's investment decision.
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	
<b>Biodiversity</b>	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	<p>As per the Sub-Fund's investment strategy, during the due-diligence phase, the investment team assesses potential investee companies against the Sub-Fund's exclusion list, which includes any activity involving the destruction of High Conservation Value Areas. In addition, as part of the environmental component of the Sub-Fund's ESG evaluation of investees, investee companies, depending on the sector in which they operate, must disclose if:</p> <ul style="list-style-type: none"> <li>a) They operate in areas of global/national/regional significance for biodiversity and ecosystems.</li> <li>b) They are involved in any activity that has the potential to impact local biodiversity and/or that requires significant changes to the natural landscape, such as deforestation or the conversion of natural areas to farmland.</li> </ul> <p>Both these elements are also taken into consideration for the calculation of the company's environmental risk score and therefore inform the Sub-Fund's investment decision. Point b) is included as a 'red flag' indicator in the Sub-Fund's environmental assessment of companies operating in the agricultural sector. A detailed narrative on how this risk is managed and how the investee plans to manage it in the future has to be provided if these specific risks are identified, which also informs the Sub-Fund's investment decision.</p>
<b>Water</b>	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	<p>As part of the environmental component of the Sub-Fund's ESG evaluation of investees, investee companies, depending on the sector in which they operate, must disclose if:</p> <ul style="list-style-type: none"> <li>a) The company's business activities (or specific phases of it) release water pollutants.</li> <li>b) There is a risk of inadequate wastewater treatment and</li> </ul>



			<p>disinfection prior to discharge, leading to surface or ground water contamination.</p> <p>c) The company adopts water conservation and efficiency measures</p> <p>All these elements are taken into consideration for the calculation of the company's environmental risk score and therefore inform the Sub-Fund's investment decision.</p>
<b>Waste</b>	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as weighted average	<p>As per the Sub-Fund's investment strategy, during the due-diligence phase, the investment team assesses potential investee companies against the Sub-Fund's exclusion list, which includes any activity involving radioactive materials and unbounded asbestos fibers. In addition, as part of the environmental component of the Sub-Fund's ESG evaluation of investees, investee companies, depending on the sector in which they operate, have to disclose if:</p> <p>a) Their business activities produce waste material that may be hazardous for the environment and human health.</p> <p>b) They use, produce, or trade materials and chemicals that fall into the WHO Recommended Classification of Pesticides by Hazard Classes 1a (extremely hazardous) or 1b (highly hazardous), pesticides in Hazard Class II (moderately hazardous), or Annexes A and B of the Stockholm Convention.</p> <p>c) They have written waste management procedures for hazardous as well as non-hazardous materials produced.</p> <p>All these elements are taken into consideration for the calculation of the company's environmental risk score and therefore inform the Sub-Fund's investment decision. Point b) is included as a 'red flag' indicator in the Sub-Fund's environmental assessment of companies operating in the agricultural sector. A detailed narrative on how this risk is managed and how the investee plans to manage it in the future has to be provided if this specific risk is identified, which also informs the Sub-Fund's investment decision.</p>
<b>Indicators for social and employee, respect for human rights, anti-corruption, and anti-bribery matters</b>			
<b>Social and employee matters</b>	10. Violations of UN Global Compact principles and Organisation for Economic	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD	As per the Sub-Fund's investment strategy and impact framework, similar safeguards to the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for



	Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Guidelines for Multinational Enterprises	Multinational Enterprises are used to screen potential investees of the Sub-Fund. Indeed, the Sub-Fund is committed to operate according to the International Finance Corporation (IFC) Performance Standards (2012) and Interpretation Note on Financial Intermediaries. The Sub-Fund applies the IFC Performance Standard 1 to all investments and has established an environmental and social due diligence process to identify potential risks and impacts of any prospect investment. If the activities of any investee company involves or could be reasonably expected to involve material negative social or environmental impacts then an Environmental and Social Action Plan (ESAP) including any specific instruments that may be required (e.g. stakeholder engagement plan, resettlement action plan, environmental impact assessment, environmental and social management plan, etc.) shall be developed in line with the applicable International Finance Corporation Performance Standards for any such activities. In addition, companies that do not uphold the UN Guiding Principles on Business and Human Rights are thus highly unlikely to meet the Sub-Fund’s impact criteria and therefore are not eligible for financing. Similarly, even though the Sub-Fund invests primarily in early-stage businesses, potential investee companies who do not uphold the general policies stipulated by the OECD Guidelines for Multinational Enterprises are also highly unlikely to meet the Sub-Fund’s impact criteria and therefore are not eligible for financing.
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	As per the Sub-Fund’s investment strategy and impact framework, a gender lens is integrated along the investment process of the Sub-Fund, looking at investee companies’ entire range of women stakeholders, from ownership and governance, employees, to customers and suppliers. The Sub-Fund’s gender-lens is built around the following criteria:
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	<ul style="list-style-type: none"> <li>a) Women-owned companies: Companies where a woman is the only founder/shareholder or over 50% of co-founders/shareholders are women.</li> <li>b) Women-led companies: Companies having more than 30% women in the Board of Directors, or more than 30%</li> </ul>





			<p>women in Senior Executive positions/in the Executive Committee (ExCO)</p> <p>c) Women as employees: Companies employing a significant proportion (at least 30%) of women in their workforce<sup>2</sup>.</p> <p>d) Women as customers: Companies providing products/services that serve women and contribute to improve their lives<sup>3</sup>, and have more than 40% of customers (or direct beneficiaries of the products) being women, or has a clear intent to improving outreach to women to achieve at least this level.</p> <p>e) Women as suppliers: (specific to the agribusiness sector): Companies that work with women farmers in their supply chain – with at least 20% of farmer suppliers being women<sup>4</sup> or with a clear intent to increasing the number of women farmers to achieve at least this level.</p> <p>The Sub-Fund therefore privileges investments into companies who equally remunerate their employees or who are women-owned or women-led.</p>
	<p>14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)</p>	<p>Share of investment in investee companies involved in the manufacture or selling of controversial weapons</p>	<p>As per the Sub-Fund’s investment strategy, during the pre-investment phase, the investment team potential clients against the Sub-Fund’s Exclusion List, which includes any activity, involving the production and distribution of ammunition and weapons, and weapons carriers. In addition, during the due-diligence phase, the investment team assesses potential investee companies against the Sub-Fund’s investment objective, and, as such, companies involved in the manufacture or selling of controversial weapons are not eligible for financing by the Sub-Fund.</p>

In addition, the Sub-Fund further takes into account the indicators for adverse impacts on sustainability factors presented in the following table (indicators from Tables 2 and 3 of Annex I – Regulation (EU) 2019/2088). Details on how they are considered are also provided:

<sup>2</sup> The scope of this criteria should primarily be permanent employees, defined as individuals employed by the organization in full- or part-time roles – excluding temporary employees. In some cases, the scope of application can be enlarged depending on what makes the most sense regarding the context and business model of the company (ex: to include salesforce who may be considered as employees).

<sup>3</sup> Products that are designed for women’s unique needs, or address a problem that disproportionately impacts women.

<sup>4</sup> From Bamboo’s experience in the agribusiness sector, the number of women farmers supplying raw material products to agribusinesses tends to be underestimated, with the husband often formally registered as the supplier. Our assumption is that a threshold of 20% women formally registered as supplier of the agri-SME would potentially imply more women having access to markets through the SME. This could be assessed through farmer-level outcome surveys.



Adverse sustainability indicator	Metric	Actions taken
<b>Climate and other environment-related indicators</b>		
<b>Emissions</b>	3. Emissions of ozone-depleting substances	Tonnes of ozone-depleting substances equivalent per million EUR invested, expressed as a weighted average  As per the Sub-Fund's investment strategy, during the pre-investment phase, the investment team checks potential clients against the Sub-Fund's Exclusion List, which includes any activity involving activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as ozone depleting substances. Companies involved in the emission of ozone-depleting substances are therefore not eligible for financing by the Sub-Fund.
<b>Water, waste, and material emissions</b>	7. Investment in companies without water management policies	Share of investments in investee companies without water management policies  As mentioned above, as part of the environmental component of the Sub-Fund's ESG evaluation of investees, investee companies, depending on the sector in which they operate, must disclose their water usage practices, and provide any supporting written policy/procedure to substantiate their claims. These elements are taken into consideration for the calculation of the company's environmental risk score and therefore inform the Sub-Fund's investment decision.
	9. Investments in companies producing chemicals	Share of investments in investee companies the activities of which fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006  As per the Sub-Fund's investment strategy, during the pre-investment phase, the investment team checks potential clients against the Sub-Fund's Exclusion List, which includes any activity involving the production, trade, storage or transport of hazardous chemicals, or commercial-scale use of hazardous chemicals, as well as activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pesticides/herbicides and PCBs.
	10. Land degradation, desertification, soil sealing	Share of investments in investee companies the activities of which cause land degradation, desertification or soil sealing  As mentioned, as part of the environmental component of the Sub-Fund's ESG evaluation of investees, investee companies must disclose, depending on the sector in which they operate, if they are involved in any activity that requires significant changes to the natural landscape, such as deforestation or the conversion of natural-areas to company-used land. This element is taken into consideration for the calculation of the company's



			environmental risk score and therefore inform the Sub-Fund's investment decision.
	11. Investment in companies without sustainable land/agriculture practices	Share of investments in investee companies without sustainable land/agriculture practices or policies	As per the Sub-Fund's investment strategy, during the pre-investment phase, the investment team checks potential investee companies against the Sub-Fund's impact criteria. As such, companies operating in the agricultural sector without sustainable land/agriculture practices or policies are not eligible for financing by the Sub-Fund.
	14. Natural species and protected areas	<ol style="list-style-type: none"> <li>1. Share of investments in investee companies whose operations affect threatened species</li> <li>2. Share of investments in investee companies without a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas</li> </ol>	<p>As mentioned above, as per the Sub-Fund's investment strategy, during the due-diligence phase, the investment team assesses potential investee companies against the Sub-Fund's exclusion list, which includes any activity involving the destruction of High Conservation Value Areas. In addition, as part of the environmental component of the Sub-Fund's ESG evaluation of investees, investee companies, depending on the sector in which they operate, must disclose:</p> <ol style="list-style-type: none"> <li>a) If they operate in areas of global/national/regional significance for biodiversity and ecosystems.</li> <li>b) If they are engaged in the primary production and/or harvesting of living natural resources, if they apply industry-specific measures to ensure good resource management and to preserve biodiversity.</li> <li>c) If they purchase from primary suppliers who produce in regions where there is risk of significant conversion of natural and/or critical habitats.</li> </ol> <p>All these elements are taken into consideration for the calculation of the company's environmental risk score and therefore inform the Sub-Fund's investment decision.</p>
	15. Deforestation	Share of investments in companies without a policy to address deforestation	As per the Sub-Fund's investment strategy, during the due-diligence phase, the investment team assesses potential investee companies against the Sub-Fund's exclusion list, which includes any activity involving commercial logging operations for use in primary tropical moist forest as well as the production or trade in wood or other forestry products other than from sustainably managed forests. In addition, as



			mentioned, as part of the environmental component of the Sub-Fund's ESG evaluation of investees, investee companies must disclose if they are involved in any activity that requires and/or leads to significant changes to the natural landscape, such as deforestation. If they do, they are required to provide any relevant policy related to the management of this risk. This element is taken into consideration for the calculation of the company's environmental risk score and therefore informs the Sub-Fund's investment decision.
<b>Indicators for social and employee, respect for human rights, anti-corruption, and anti-bribery matters</b>			
<b>Social and employee matters</b>	1. Investment in companies without workplace accident prevention policies	Share of investments in investee companies without a workplace accident prevention policy	<p>As part of the social component of the Sub-Fund's ESG evaluation of investees, investee companies must disclose, depending on the sector in which they operate, if:</p> <ul style="list-style-type: none"> <li>a) They have a written health and safety policy for workers employed in their business activities.</li> <li>b) They take actions to prevent inherent safety and health risks related to their business activities</li> <li>c) They provide a safe and healthy work environment, considering inherent risks in their sector and other specific classes of hazards in the work areas, including physical and chemical.</li> <li>d) They are engaged with primary suppliers in activities where there are significant work-related health and safety issues, and if they have a written policy detailing procedures and mitigation measures to ensure that primary suppliers are taking steps to prevent or to correct any health and safety issues identified</li> <li>e) They have a written grievance mechanism for workers and if it is made easily accessible to them</li> </ul> <p>All these elements are taken into consideration for the calculation of the company's social risk score and therefore inform the Sub-Fund's investment decision.</p>
	4. Lack of a supplier code of conduct	Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labor and forced labor)	
	5. Lack of a grievance/complaints handling mechanism related to employee matters	Share of investments in investee companies without any grievance/complaints handling mechanism related to employee matters	
<b>Human rights</b>	12. Operations and suppliers at	Share of investments in investee companies exposed	As per the Sub-Fund's investment strategy, during the due-diligence




	<p>significant risk of incidents of child labour</p>	<p>to operations and suppliers at significant risk of incidents of child labour in terms of geographic areas or type of operation</p>	<p>phase, the investment team assesses potential investee companies against the Sub-Fund's exclusion list, which includes any activity involving harmful or exploitative forms of child labour. In addition, as part of the social component of the Sub-Fund's ESG evaluation of investees, investee companies, depending on the sector in which they operate, must disclose:</p> <ul style="list-style-type: none"> <li>a) Their processes/policies to ensure they do not employ children.</li> <li>b) If they are engaged with primary suppliers in areas where there is a significant risk of child labour</li> <li>c) If they have a written policy regarding the prevention or prohibition of child labour among their primary suppliers.</li> </ul> <p>All these elements are taken into consideration for the calculation of the company's social risk score and therefore inform the Sub-Fund's investment decision. Points a), b), and c) are included as 'red flag' indicators in the Sub-Fund's social assessment of potential investee companies, depending on the sector in which they operate. A detailed narrative on how these risks are managed and how the investee plans to manage them in the future has to be provided if these specific risks are identified, which also informs the Sub-Fund's investment decision.</p>
	<p>13. Operations and suppliers at significant risk of incidents of forced or compulsory labour</p>	<p>Share of investments in investee companies exposed to operations and suppliers at significant risk of incidents of forced or compulsory labour in terms in terms of geographic areas and/or the type of operation</p>	<p>As per the Sub-Fund's investment strategy, during the due-diligence phase, the investment team assesses potential investee companies against the Sub-Fund's exclusion list, which includes any activity involving harmful or exploitative forms of forced labour. In addition, as part of the social component of the Sub-Fund's ESG evaluation of investees, investee companies must disclose:</p> <ul style="list-style-type: none"> <li>a) Their processes/policies to ensure they do not use forced labour</li> <li>b) If they have a written policy regarding the prevention or prohibition of forced labour among their primary suppliers.</li> </ul> <p>All these elements are taken into consideration for the calculation of the company's social risk score and therefore inform the Sub-Fund's investment decision. Points a) and b) are included as 'red flag' indicators in</p>



			the Sub-Fund’s social assessment of potential investee companies, depending on the sector in which they operate. A detailed narrative on how these risks are managed and how the investee plans to manage them in the future has to be provided if these specific risks are identified, which also informs the Sub-Fund’s investment decision.
<b>Anti-corruption and anti-bribery</b>	17. Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws	Number of convictions and amount of fines for violations of anti-corruption and anti-bribery laws by investee companies	As per the Sub-Fund’s investment strategy, a full KYC is conducted during the due-diligence phase to ensure investee companies or any of their members have been convicted for violations on anti-corruption and anti-bribery laws.

**Are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?**

As per the Sub-Fund’s investment strategy and impact framework, similar safeguards to the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises are used to screen potential investees of the Sub-Fund. Indeed, the Sub-Fund is committed to operate according to the International Finance Corporation (IFC) Performance Standards (2012) and Interpretation Note on Financial Intermediaries. The Sub-Fund applies the IFC Performance Standard 1 to all investments and has established an environmental and social due diligence process to identify potential risks and impacts of any prospect investment. If the activities of any investee company involves or could be reasonably expected to involve material negative social or environmental impacts then an Environmental and Social Action Plan (ESAP) including any specific instruments that may be required (e.g. stakeholder engagement plan, resettlement action plan, environmental impact assessment, environmental and social management plan, etc.) shall be developed in line with the applicable International Finance Corporation Performance Standards for any such activities. In addition, companies that do not uphold the UN Guiding Principles on Business and Human Rights are thus highly unlikely to meet the Sub-Fund’s impact criteria and therefore are not eligible for financing. Similarly, even though the Sub-Fund invests primarily in early-stage businesses, potential investee companies who do not uphold the general policies stipulated by the OECD Guidelines for Multinational Enterprises are also highly unlikely to meet the Sub-Fund’s impact criteria and therefore are not eligible for financing.

 **C. Sustainable investment objective of the financial product**

**What is the sustainable investment objective of this financial product?**

The Sub-Fund aims to financially support SDG-positive opportunities, operating in Malawi. The Sub-Fund is committed to connecting the larger capital mobilization efforts of the Sustainable Development Goals (“SDGs”) to the Malawi last mile environment. This segment of society consistently fails to receive various products and services needed to develop. Malawi is in dire need of responsive capital solutions to support financial intermediaries, small and medium enterprises, and project developers who operate in these communities.

The objective of the Sub-Fund is to achieve an appropriate real positive return over the long term, primarily addressing the missing middle financing gap in Malawi, while simultaneously generating a positive impact under one or all of the following SDGs: SDG 5 – Gender Equality, SDG 7 – Affordable and Clean Energy, SDG 8 – Decent Work and Economic Growth, SDG 9 – Industry, Innovation, and



Infrastructure, and SDG 10 – Reduced Inequalities. An overarching objective is SDG 1 – No Poverty; this initiative was inspired and formed under SDG 17 – Partnerships. The geographical focus of the Sub-Fund is Malawi. These objectives are aligned with UNCDF’s mission and will guide its origination activities.

The Sub-Fund will seek to invest in financial service providers (traditional and digital), small and medium enterprises (“SMEs”), and/or project developers seeking debt or equity financing to meet capital expenditure or working capital needs.

With regards to themes, investments will take place in the four sectors mentioned below (an additional theme focused on women and youth economic empowerment is integrated across there four):

- **Green Economy & Renewable Energy:** Focuses on investments to mitigate the effects of climate change and to drive clean energy access to “last-mile” communities. Prospective investees include solar and hydro off-grid or mini-grid renewable energy investments, as well as industrial scale renewable energy and selected on-grid installations.
- **Food Security & Nutrition:** Focuses on investments into the agricultural sector. It targets small and medium scale agricultural farms as well as agricultural businesses along entire agricultural value chains that will be financed directly or indirectly. Prospective investees include eco-friendly cooperatives, commercial farms, aggregators, agribusiness software providers, processing companies or other eco-friendly focused businesses which on-lend to the agricultural sector, to fund for instance smallholders.
- **Financial Inclusion and Innovation:** Focuses on investments that ensure that a range of financial products are available to all segments of society, at a reasonable cost, and on a sustainable basis. Prospective investees include financial services providers and fintechs, such as payment aggregators, money transfer companies offering a variety of financial products and services through digital delivery channels (such as mobile phone networks)
- **Local Infrastructure:** Focuses on investments for the financing of catalytic infrastructure (including, but not limited to, transport, communications, marketplaces) with high local economic development impact. Opportunities will include both greenfield and brownfield investments.

No reference benchmark has been designated for the purpose of attaining the sustainable investment objective



#### D. Investment strategy

##### What investment strategy does this financial product follow?

The Sub-Fund aims to make sustainable investments that contribute to achieve significant progress towards the SDGs in Malawi. To do so, the Sub-Fund invests in target businesses which are considered as contributing to driving positive social and environmental change, aligned with the Sub-Fund’s impact thesis. The Sub-Fund focuses on identifying targets whose products, technologies and/or services contribute to achieve progress towards the SDGs in Malawi.

To ensure that the Sub-Fund attains its sustainable investment objective, the Sub-Fund has defined clear steps as part of its investment strategy.

First, during the pre-investment phase, the investment team checks potential investments against the Sub-Fund’s impact goals and the Sub-Fund’s Exclusion List.



Second, during the due-diligence phase, the investment team conducts further on-site analyses on the expected impact of the company towards the SDGs targeted by the Sub-Fund. At this stage, the investment team also ensures that all the activities of the Sub-Fund's investee companies are consistent with applicable national laws on labor, environment, health, safety and social issues. Each investee company is requested to have all applicable environmental and social permits.

Third, an investment memo is prepared and submitted to the Sub-Fund's investment committee, containing a description of the alignment of the company with the impact goals of the Sub-Fund.

Fourth, during the negotiation of terms for investment, the Sub-Fund team and the investee agree on selected output/outcome indicators which the investee will report on to the Sub-Fund team at a defined frequency.

Fifth, during the holding period, investee companies send regular reports on the defined list of impact indicators at the agreed frequency. The Sub-Fund team monitors the data collected and reviews assumptions based on new evidence. As a potential equity investor, the Sub-Fund purports to sit on the board of its investee companies, overseeing and contributing to social performance and impact issues alongside financial matters.

Sixth, the Sub-Fund will seek to divest to trustworthy investors who will allow and enable the companies to pursue their mission and vision. The Sub-Fund also aims for an organized, simple, fair and transparent divestment process.

**What are the binding elements of the investment strategy used to select the investments to attain the sustainable investment objective?**

The Sub-Fund's impact and ESG management process is deployed throughout the lifetime of each investment. The binding elements of the investment strategy must be applied by the Sub-Fund's investees at each stage of the investment process:

- Alignment with the Sub-Fund's impact objective of financing SDG-oriented business in Malawi;
- Compliance with the Sub-Fund's Exclusion List, which includes;
  1. Production or activities involving harmful or exploitative forms of forced labor<sup>5</sup>/harmful child labor<sup>6</sup>.
  2. Activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES.
  3. Production and distribution of ammunition and weapons, and weapons carriers.<sup>7</sup>
  4. Projects where the following products form a substantial part of the project's primary financed business activities<sup>8</sup>:
    - a) Alcoholic Beverages (except beer and wine);
    - b) Tobacco;
    - c) Gambling, casinos and equivalent enterprises.
  5. Radioactive materials<sup>9</sup> and unbounded asbestos fibers<sup>10</sup>;

<sup>5</sup> Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

<sup>6</sup> Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

<sup>7</sup> This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

<sup>8</sup> For companies, "substantial" means more than 10 % of their consolidated balance sheets or earnings. For financial institutions and investment funds, "substantial" means more than 10% of their underlying portfolio volumes.

<sup>9</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment or any other equipment where the radioactive source is understood to be trivial and/or adequately shielded.

<sup>10</sup> This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.





6. Drift net fishing or trawling in the marine environment;
  7. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations;
  8. Destruction<sup>11</sup> of High Conservation Value areas<sup>12</sup>;
  9. Pornography and/or prostitution;
  10. Racist and/or anti-democratic media;
  11. Commercial logging operations for use in primary tropical moist forest;
  12. Production or trade in wood or other forestry products other than from sustainably managed forests;
  13. Production, trade, storage or transport of hazardous chemicals<sup>13</sup>, or commercial-scale use of hazardous chemicals.
  14. Production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous peoples, without full documented consent of such peoples.
  15. Investments into large-scale search, extraction, production, distribution, processing and promotion of fossil fuels (coal, oil, natural gas and peat).
  16. Biofuel projects if they are:
    - a) Based on feedstock grown on land with high carbon content or biodiversity value, such as rainforests, wetlands, peat lands and grasslands, in reserves or on protected lands, or on lands with a high conservation value;
    - b) Large-scale projects focusing only on export of feedstock or biofuels. Such projects should in any case be commercially viable without concessional financing;
    - c) Using a feedstock for production of liquid biofuels, where the overall climate and development benefits would be higher by using the same feedstock unprocessed for e.g. direct combustion in a co-generation plant.
  17. Activities that increase use of fossil fuels and/or prolong the technical or economic lifetime of heat and power production using fossil fuels, except for back-up in power generation plants, for household cooking purposes and for processes where feasible alternatives do not exist. For the avoidance of doubt, indirect small-scale use of fossil fuels supporting such activities are permitted (such as use in machinery, vehicles and equipment).
- Compliance with national applicable national laws on labour, environment, health, safety and social issues, as well as with the above-mentioned international principles of respect for human rights and international conventions of the International Labour Organization (ILO);
  - Possession of all necessary environmental and social permits applicable to the activity of the company.

In addition, all investee companies are required to provide reporting on agreed-upon impact indicators at an agreed frequency.

#### **What is the policy to assess good governance practices of the investee companies?**

As part of the Sub-Fund's ESG Risk Assessment, the governance risks of all investee companies are analysed to ensure that all investee companies meet minimum requirements in terms of good governance practices prior to the disbursement of any financing. The following components of good governance practices are analysed:

- Commitment to good governance, which includes the analysis of elements such as:

<sup>11</sup> Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost

<sup>12</sup> High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance.

<sup>13</sup> Hazardous chemicals include gasoline, kerosene and other petroleum products (but excluding liquefied petroleum gas and other gases used to supply clean household cooking solutions).



- Basic corporate formalities - board of directors, shareholder identification and meetings, charter/articles of Incorporation/Association
- Board independency from management
- Core functions identified
- Governance structure development
- Functioning of governing bodies, which includes the analysis of elements such as:
  - Board awareness about its role
  - Board training
  - Frequency of board meetings
  - Review of organizational policies
  - Board management reports
  - Skill requirements of board members
  - Fairness of board elections
  - Board rotation
  - Representativeness of board of directors
  - Remuneration of board members
  - Fairness of control committee elections
  - Functioning of control committee
- Strategic vision, which includes the analysis of elements such as:
  - Existence and quality of strategic plan
  - Strategic plan development, monitoring and evaluation
- Transparency and ethics, which includes the analysis of elements such as:
  - Accounting and auditing practices
  - Internal audit practices
  - Financial statements disclosure
  - External audit practices
  - Conflict of interest
  - Political independency
  - Confidentiality
  - Written guidelines for ethical behaviour
- Risk management, which includes the analysis of elements such as:
  - Environmental and social risk management systems
  - Risk identification
  - Stakeholder engagement and consultation

Under the analysis of social risks of potential investees, the following components are analysed, depending on the business model of the company:

- Agribusinesses
  - Working conditions
  - Youth and women inclusiveness
  - Occupational health
  - Contract farming
  - Cultural heritage
  - Resettlement
- Clean Energy Access companies
  - Working conditions
  - Social conditions in supply chain
  - Customer service
  - Client protection
  - Personal data privacy
  - Local communities



- Financial intermediaries
  - Working conditions
  - Health and safety
  - Youth and women access to financial products/services
  - Client protection
  - Portfolio social performance monitoring

All investees are required to comply with national regulations related to labour law.

**Does this financial product consider principal adverse impacts on sustainability factors?**

Yes, the Sub-Fund aims to mitigate principal adverse impacts on sustainability factors through its investment strategy by considering the principal adverse impact indicators during the pre-investment phase. For more information, please refer to question “How have the indicators for adverse impacts on sustainability factors been taken into account?”.

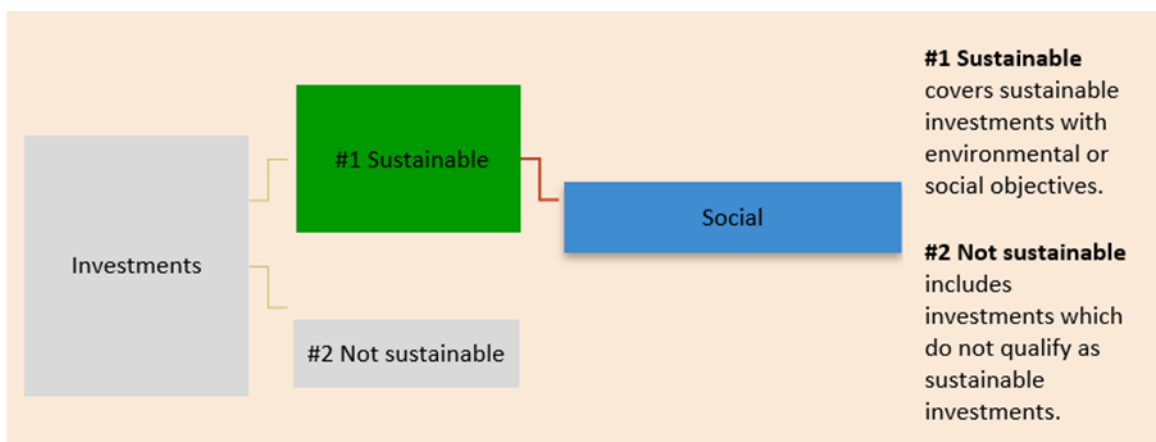
No



**E. Proportion of investments**

**What is the planned asset allocation for this financial product?**

A minimum of 60% of the Sub-Fund’s net assets will be sustainable investments with a social objective. The remaining 40% includes cash, some of which is used to cover management fees, and other operational expenses; mindful that there will be, at times of fresh investment capital into the Sub-Fund, a reasonable lag between investment and deployment.



**What is the minimum share of investments with an environmental objective aligned with the EU Taxonomy? (including what methodology is used for the calculation of the alignment with the EU Taxonomy and why; and what the minimum share of transitional and enabling activities)**

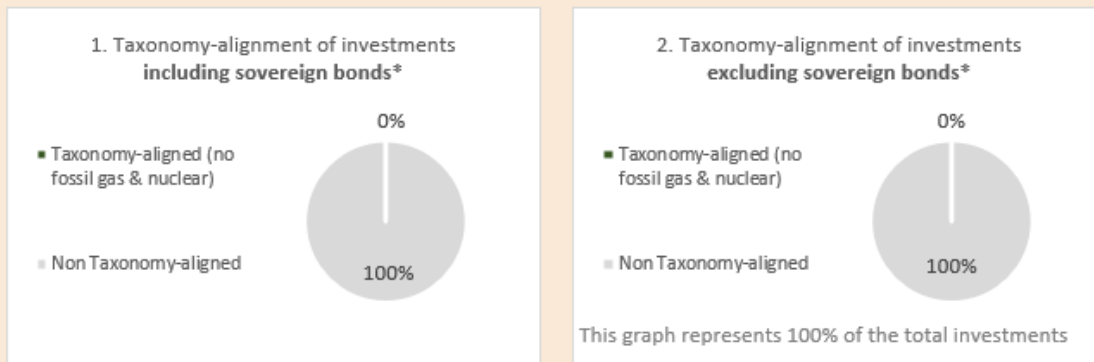
Non-applicable given the social objective of the Sub-Fund.



**Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>14</sup>?**

- Yes
- In fossil gas  In nuclear energy
- No

*The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.*



*\*For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures*

**What is the minimum share of sustainable investments with a social objective?**

The Sub-Fund aims to invest a minimum share of 100% of its total investments in economic activities with a social objective.

**What investments are included under “#2 Not Sustainable”, what is their purpose and are there any minimum environmental or social safeguards?**

The remaining include cash, some of which is used to cover management fees, and other operational expenses.

While these investments may not contribute to a social objective within the meaning of SFDR, the Sub-Fund aims to ensure a minimum level of minimum environmental and social safeguards. As

<sup>14</sup> Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do not significantly harm any EU Taxonomy objective – see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.



such, the investments which are not sustainable investments are not expected to affect the delivery of the Sub-Fund's overarching sustainable investment objective.



## F. Monitoring of sustainable investment objective

### **What sustainability indicators are used to measure the attainment of the sustainable investment objective by this financial product?**

The following key output indicators are currently being measured across the portfolio:

- Number of leads identified to become prospective investees for the BUILD-II (Malawi) Sub-Fund (per year)
- Number of prospective investees screened in Malawi for further due diligence (per year)
- Number of prospective investees selected for pre-investment TA in Malawi- i.e. investment readiness advisory support (per year)
- Number of new investments made by the BUILD-II (Malawi) Sub-Fund (per year)
- Amount of capital disbursed by the BUILD-II (Malawi) Sub-Fund (in US\$ per year)
- Total number of outstanding investments in the BUILD-II (Malawi) Sub-Fund (by year end)
- Total amount of capital outstanding in the BUILD-II (Malawi) Sub-Fund (in US\$ by year end)
- Number of investees receiving post-investment technical assistance (TA) in Malawi - i.e. advisory support to maximize the impact of the finance received and de-risk investment for the BUILD-II (Malawi) Sub-Fund (per year).

In addition, the following key outcome indicators are currently being measured across the portfolio:

- Number of individuals employed by BUILD-II (Malawi) Sub-Fund investee companies (cumulative)
- Number of individuals served (as customers or users) by BUILD-II (Malawi) Sub-Fund investee companies
- Aggregated income taxes paid by BUILD-II (Malawi) Sub-Fund portfolio companies (in US\$ per year)
- BUILD-II (Malawi) Sub-Fund level - Amount of first loss raised
- BUILD-II (Malawi) Sub-Fund level - Additional funding catalyzed from private investors
- Amount of additional capital provided to the BUILD-II (Malawi) Sub-Fund investees as co-investment or follow-on by other funding sources (in US\$ per year)
- Amount provided by other lenders or investors of portfolio companies that the BUILD-II (Malawi) Sub-Fund has contributed to catalyze (in US\$ per year)
- Number of BUILD-II (Malawi) Sub-Fund investees that will receive additional follow-on or co-investment capital (per year)
- Aggregated revenues generated by BUILD-II (Malawi) Sub-Fund portfolio companies (in US\$ per year)
- Number of new jobs created in the BUILD-II (Malawi) Sub-Fund's investees
- Number of new ripple jobs created upstream and downstream of value chains

### **How are the sustainable investment objective and the sustainability indicators monitored throughout the lifecycle of the financial product and what are the related internal/external control mechanisms?**

The Sub-Fund's impact and ESG management process is deployed throughout the lifetime of each investment, and ensures that the social objectives of the Sub-Fund's sustainable investments are



met and that the associated sustainability indicators are monitored throughout the lifecycle of the financial product:

- **Pre-investment – screening:** Prior to investing in a company, the Sub-Fund checks that the potential investment is aligned with its impact thesis to drive progress towards the SDGs in Malawi.
- **Pre-investment – due diligence:** Following the screening phase, a thorough due diligence is performed on selected companies to analyze the expected impact of the company.
- **Pre-investment – investment committee:** The analysis on the potential development impact of the investment (positive impact generated) is included in the investment memorandum submitted to the Investment Committee. This analysis is discussed in the Investment Committee and form part of the investment decision.
- **Investment negotiation – definition of impact metrics:** Upon approval of the investment, the Sub-Fund defines with the investee company the selected impact indicators to be monitored and reported on a regular basis.
- **Investment period – ongoing impact monitoring:** During the post-investment period, the Sub-Fund monitors the impact data reported by its investees at the agreed upon frequency. Additional in-depth impact analyses beyond “core” impact metrics may be carried out upon availability of resources. As a potential equity investor, the Sub-Fund usually sits on the board of investees to oversee and enhance the impact strategy and analysis of social performance as well as contribute to financial matters
- **Divestment:** For equity investments, the Sub-Fund seeks to divest to trustworthy investors who will allow and enable the companies to pursue their missions and visions. The Sub-Fund also aims for organized, simple, fair and transparent divestment processes.



## G. Methodologies

### What is the methodology to measure the attainment of the sustainable investment objective using the sustainability indicators?

As highlighted above, upon conclusion of the investment, the Sub-Fund’s team and the investee client agree on selected impact indicators which the client will report on to the Sub-Fund’s team at a defined frequency. Depending on the specific business model of the investee company, a certain number of the Sub-Fund’s sustainability indicators will be included in the company’s selected impact indicators. Then, at least on a yearly basis, the Sub-Fund team will collect data from investee companies on the company’s selected impact and sustainability indicators and aggregate the data at the level of the Sub-Fund to measure its attainment of the social objectives of the Sub-Fund’s sustainable investments.



## H. Data sources and processing

### What are the data sources used to attain the sustainable investment objective of the financial product including the measures taken to ensure data quality, how data is processed and the proportion of data that is estimated?



As per the Sub-Fund's investment strategy, upon conclusion of each investment, the Sub-Fund's team and the investee client agree on selected impact indicators on which the client will report to the Sub-Fund's team on a defined frequency. Across its portfolio, the Sub-Fund will seek to collect and consolidate data for the sustainability indicators of the Sub-Fund. In addition to these core impact indicators, each investment will have its own set of metrics depending on its sector and business model.

To ensure data quality, the selection of metrics is guided by the following overarching principles:

- **Measurability:** selected metrics need to be easily measurable and aligned with existing market data based on the existing and planned resources;
- **Proportionality,** considering the Sub-Fund ticket sizes and the target investees;
- **Relevance:** metrics should be relevant to the target investees and in order to measure the impact objectives of the Sub-Fund;

The Sub-Fund aims to define impact indicators for which investee companies have readily available data to ensure a minimum share of this data is estimated. Investee companies will report against the agreed-upon impact indicators on a defined frequency and at least annually. As mentioned above, the Sub-Fund team then aggregates the data at the level of the Sub-Fund to measure its attainment of the social objectives of the Sub-Fund's sustainable investments.

Additionally, the investment team may use evidence-based assumptions/data from investees as inputs for its development impact measurement. These assumptions may, for instance, be based on pre-existing customer surveys, research, interviews and observations. Additional in-depth impact analyses may be carried out upon availability of resources.



## I. Limitations to methodologies and data

**What are the limitations to the methodologies and data sources? (Including how such limitations do not affect the attainment of the sustainable investment objective and the actions taken to address such limitations)**

The main limitation to the methodology is that the Sub-Fund depends on self-reporting by investee companies for the agreed-upon impact indicators against which they have to report on at an agreed frequency. This limitation is mitigated by the fact that, prior to investing in any company, the Sub-Fund conducts a thorough, on-site due diligence during which the baseline for the selected impact indicators is collected and can be verified. Based on the financial analysis conducted by the investment team, business model of the company, and intended use of the Sub-Fund's investment by the company, the credibility of variations against the baseline for each impact indicator can be assessed. Furthermore, as a potential equity investor, the Sub-Fund purports to sit on the board of its investee companies, overseeing and contributing to social performance and impact issues alongside financial matters. The Sub-Fund therefore is therefore directly involved in investee companies' operations and can verify the credibility of impact data submitted. In addition, all investee companies will be screened prior to investment against the Sub-Fund's impact objectives and will therefore inherently contribute to the impact objectives and the social objectives of the Sub-Fund's sustainable investments through their regular business operations. Finally, by applying the principles of measurability and relevance described above to the selection of metrics against which portfolio companies will have to report, the Sub-Fund aims to maximize response rates and the quality of the data received.



## J. Due diligence



**What is the due diligence carried out on the underlying assets and what are the internal and external controls in place?**

The objective of the Sub-Fund’s detailed due diligence is to validate the investment proposal including the assessment financials at present and future plans, business case, products, strategies, risk and opportunities including Environmental, Social and Governance (ESG) risks, repayment capacity (debt investments) and exit plan (equity investments). An impact thesis is assessed by analysing and reviewing in detail the operations, the business model, ownership, governance and management structures, the competition and market, the impact and sustainability performance and the financial performance of the potential investee in detail. UNCDF will provide a preliminary assessment to the Investment Team of potential investable opportunities identified by UNCDF, which includes: (i) providing information that will assist the Sub-Fund Manager in making a determination of the investment risk and financial sustainability of potential investable opportunities; and (ii) providing an assessment of tentative development impact frameworks related to the potential investable opportunities which are linked to the SDGs. This Due Diligence phase includes one or more on-site visits.

The outputs of the Detailed Due Diligence will be adopted by the dedicated Investment Team as assigned by the Sub-Fund Manager. Extra diligence activities that are specific to the investment type will also be conducted.

In the event any major red flags are uncovered during the due diligence (not limited to but including fraudulent activity detected, unsatisfactory background checks, incomplete or missing documentation) the investment team using its best judgment will terminate the due diligence process and update the Risk Committee (RC) about the terminated transaction along with the reasons for doing so.

The Due Diligence concludes with an RC in which the members of the RC decide about the presentation of the proposal to the Investment Committee (IC). An approval by the RC will allow the Investment Team to present the opportunity to the IC. A rejection can mean a rejection of the project or a request to the investment team to adjust certain aspects of the project before re-submitting to the RC. The approval could also be conditional, with the RC recommending additional steps to be achieved before presenting to the IC. The Investment Team can then achieve these conditions and present to the IC, after providing due updates to the RC.



**K. Engagement policies**

**Is engagement part of the environmental or social investment strategy?**

- Yes
- No

**If so, what are the engagement policies? (Including any management procedures applicable to sustainability-related controversies in investee companies)**

The Sub-Fund’s engagement with investees, including on sustainability-related matters, is an integral component of the Sub-Fund’s investment cycle and contribution to positive development impact. Prior to investing in any company, The Sub-Fund conducts an ESG assessment of investees, during which any potential sustainability-related controversies are identified, and monitors progress through annual reporting. Incident reporting further facilitates the Sub-Fund’s management of such sustainability-related incidents. In addition, the Sub-Fund requires its investees to comply with a set





of ESG requirements and, where necessary, engages with investees to ensure improvement of their ESG performance. Finally, as previously mentioned, as a potential equity and quasi-equity investor, the Sub-Fund purports to sit on the board of its investee companies, overseeing and contributing to social and environmental performance and impact issues alongside financial matters.



#### L. Attainment of the sustainable investment objective

**Has a reference benchmark been designated?**

Yes

No