ABC Fund – REGULATION (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR")

The ABC Fund aims to make sustainable investments that contribute to improve the livelihoods of smallholder farmers in developing countries, with a specific focus on women, youth and climate-smart agriculture.

In order to attain its sustainable investment objective, the Fund invests in accordance with its investment policy in target businesses which are considered as contributing to driving positive social and environmental change, aligned with its impact thesis. The Fund will seek to achieve its investment objectives by investing primarily in farmers' cooperatives, small to medium-sized agribusinesses and financial intermediaries, while following a binding approach consisting of selecting companies that have the potential to generate positive impact at scale, while mitigating the risks of negative impacts through ESG integration, exclusions and engagement with investees.

In pursuing its sustainable objective, the Fund also places a priority on the effective management of potential Sustainability Risks associated with its investments to do no significantly harm to any area of environmental or social concern. The Fund seeks to integrate Sustainability Risk considerations all along the investment process. Towards that end, the Fund has implemented and maintains a specific investment process making a sustainability risk and impact assessment of each potential investment.

Impact & ESG risk management process

Management of both positive and negative impacts of investments is at the core of the Fund. The Fund has designed an "ABC Fund - TAF ESG and Impact Framework" specifying its theory of change, detailed guidelines and impact indicators that will be measured at the portfolio company level and at the Fund level, as well as a policy on the assessment and management of ESG risks, ESG requirements and a comprehensive exclusion list of harmful sectors the fund is prohibited from investing in. The ABC Fund - TAF ESG and Impact Framework also specifies the processes and roles with respect to impact management. The ABC Fund - TAF ESG and Impact Framework has been co-designed and iterated in collaboration with Agriterra and builds upon recommendations provided by consultants mandated by IFAD. The ABC Fund - TAF ESG and Impact Framework has been reviewed and approved by the Board of Directors of the Fund.

Detailed investment criteria to support the Fund's sustainable investment objective are set forth in its Investment Strategy to ensure that the Fund contributes to its impact objective of improving the livelihoods of smallholder farmers in developing countries, with a specific focus on women, youth and climate-smart agriculture. In order to achieve its impact objective, the Fund's impact management process is deployed at every stage of the investment strategy.

Pre-Investment: Prior to investing in a company, the Fund checks that the potential investment is aligned with its impact thesis to improve the livelihoods of smallholder farmers in developing countries. Following the screening phase, a thorough due diligence is performed on selected companies to analyse the expected impact of the company and conduct an ESG risk assessment, leading to an ESG risk score. The analysis on the potential development impact of the investment (positive impact generated), as well as the ESG risk assessment (risk of negative impacts), are both included in the investment memorandum submitted to the Investment Committee. These analyses are discussed in the Investment Committee and form part of the investment decision.

Investment: Upon approval of the investment, the Fund defines with the investee company the selected impact indicators to be monitored and reported on a regular basis. If some significant ESG risks have been identified during the ESG due diligence, the Fund may also include conditions in the investment agreement related to the monitoring of those specific ESG risks.

Post-investment: During the post-investment period, the 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. In case specific ESG risks have been identified, the Fund monitors the progress reported by investee companies in monitoring and mitigating those risks. The Fund’s intervention is often complemented by a Technical Assistance Facility which also contributes to helping investee strengthen their capacities to deliver positive social and environmental impact while mitigating ESG risks.

Whilst the Fund does not exclude investees that do not yet have a full environmental and social managements system, it actively engages its investees to ensure that they have acceptable standards in place and are well positioned to improve their practices over time.

The social performance of our investment in investees is periodically evaluated. Some of the key indicators used by the Fund to measure the attainment of its impact objective include:

- Number of smallholder farmers impacted
- Number of women smallholder farmers
- Number of young smallholder farmers
- Number of indirectly impacted individuals (household members)
- Number of cooperatives/farmer organizations financed
- Number of SMEs financed
- Number of Financial Institutions financed
- Value of financing disbursed to cooperatives/farmer organizations
- Value of financing disbursed to SMEs
- Value of financing disbursed to financial intermediaries
- Average loan size of the ABC Fund loans

Integration of sustainability risks into the investment decisions of the ABC Fund

The Fund integrates Sustainability Risks into decision-making and investee engagement throughout the investment process. The Fund has defined an exclusion list of harmful sectors that the Fund is prohibited from investing in as detailed in the Investment Strategy. The Fund’s investment evaluation of investees includes an ESG risk assessment, leading to an environmental, social and governance (“ESG”) risk score according to the level of ESG risks. The ESG risk assessment, conducted during the due diligence phase, is customized according to the profile of the investee. Results of the ESG due diligence are included in the investment memorandum presented to the Investment Committee whose investment decision informed by the review of ESG factors. Where ESG-related risks are considered high and cannot be mitigated to a satisfactory extent, the investment will not proceed. Where significant sustainability risks are identified as a result of the ESG due diligence of an investee but the risk level is still medium or low, a clear ESG risk mitigation strategy may be requested as a prerequisite for investment, and regular updates related to the ESG risk mitigation strategy and/or ESG action plan as a reporting requirement.

Throughout its portfolio of investments, the Fund collects, analyzes and consolidates the impact metrics of portfolio companies. The Fund has designed a list of impact indicators to be monitored and reported on for each investee, aligned with the Fund’s impact thesis. The Fund reports back to its investors annual impact report on progress and informs them of any development that can affect the impact of portfolio investments. Additional in-depth impact analyses may be carried out.

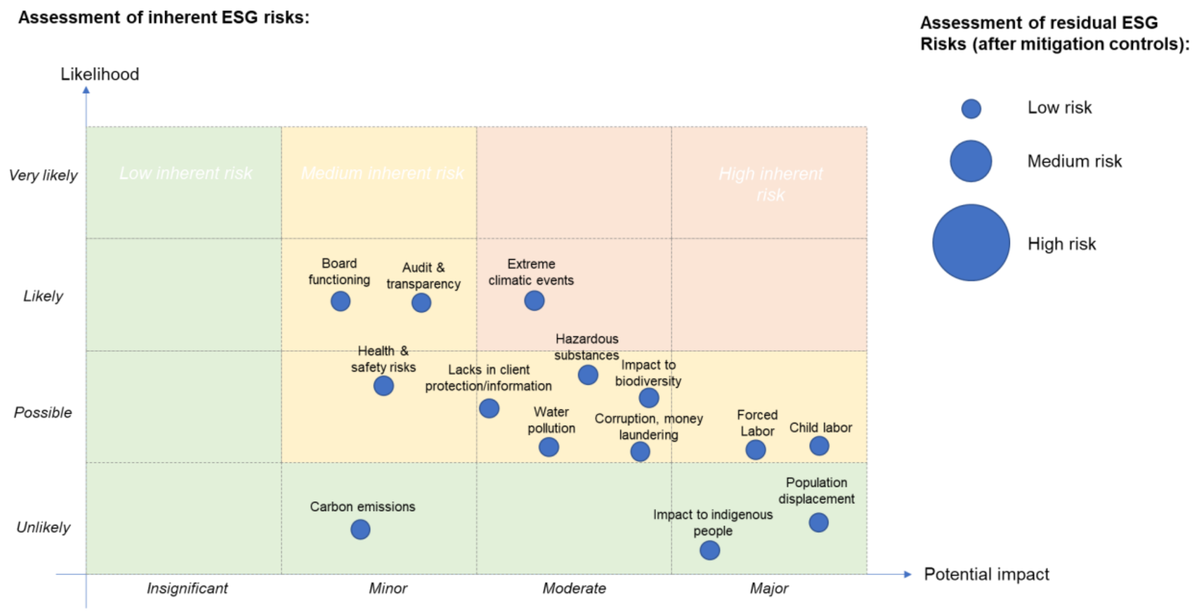
Engagement with investees, including on ESG matters, is an integral component of the Fund’s investment cycle and contribution to positive development impact. The Fund’s intervention is complemented by a Technical Assistance Facility, led by Agriterra, which also contributes to helping investee strengthen their capacities to deliver positive social and environmental impact while mitigating ESG risks.

Assessment of the likely impacts of sustainability risks

The Fund is exposed to sustainability risks in the form of (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 the sustainability risks that its investees are exposed to through their operations and clients. When providing debt financing, as a balance sheet lender, the Fund may be impacted by ESG events impacting the investees and their clients. This risk is amplified by the often weaker environmental and social laws and enforcement thereof in the developing countries in which the Fund operates.

Given the Fund's portfolio composition, the focus on agriculture, agribusiness and financial sectors may trigger the risk of negative impact on the environment and society in the form of water pollution, carbon emissions, release of hazardous substances, threats to local biodiversity, location in areas subject to extreme weather events, child labor, forced labor or exploitative working conditions, hazards to health and safety, impacts to indigenous people and cultural heritage, population displacement, monopoly of contractors, lacks in client information and/or protection, corruption, money laundering and/or link to armed groups. If not adequately managed, these impacts may negatively affect the investees' reputation, regulatory compliance and financial viability. Given the Fund's strategic impact focus, such impacts can in turn negatively affect the Fund's credit risk profile, reputation and/or its financial and/or earnings situation.

However, these sustainability risks are mitigated by the Fund's investment strategy to generate positive impact by focusing on organizations that have a strong potential to improve the livelihoods of smallholder farmers, as well as by the Fund's exclusion list, ESG policy targeting companies with low to medium ESG risk as both detailed under the Investment Strategy, Technical Assistance and diversified portfolio. The Fund applies an exclusion list prohibiting activities that involve significant negative impact on the environment or society (ex: child labor, forced labor). The Fund refrains from financing activities with a high level of ESG risk, based on a specific ESG risk assessment conducted during due diligence. In addition, the Fund is requiring its investees to comply with a set of ESG requirements and, where necessary, engages with investees to ensure improvement of their ESG performance. Mandatory incident reporting further facilitates the Fund's ESG risk management. Finally, the Fund's engagement with investees, including on ESG matters, is an integral component of the Fund's investment cycle and contribution to positive development impact. The Fund's intervention is also complemented by a Technical Assistance Facility which also contributes to helping investees strengthen their capacities to deliver positive social and environmental impact while mitigating ESG risks.



More information about the Fund can be found on the website: http://agri-business-capital.com/