Financial Inclusion Fund II – REGULATION (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”)

The FIF Fund II aims to make sustainable investments that contribute to improve financial inclusion and achieve significant progress towards the Sustainable Development Goals (SDGs) in emerging countries. In order to attain its sustainable investment objective, the FIF Fund II 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 FIF Fund II will seek to achieve its investment objectives by investing primarily in microfinance institutions (“MFIs”) and regulated banks responsibly serving the micro, small, and medium-sized enterprises, as well as companies involved in developing products and delivery channels that contribute to more efficient and effective delivery of financial services to disadvantaged populations, 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 FIF Fund II 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 FIF Fund II 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 FIF Fund II. The FIF Fund II has designed an impact framework specifying its theory of change, detailed guidelines and impact indicators that will be measured at the portfolio company level and at the FIF Fund II level (the “Impact Framework”) that is aligned with Bamboo’s policy regarding ESG requirements and has a comprehensive exclusion list of harmful sectors the fund is prohibited from investing in. The Impact Framework also specifies the processes and roles with respect to impact management.

Detailed investment criteria to support the FIF Fund II’s sustainable investment objective are set forth in its investment guidelines to ensure that the FIF Fund II contributes to its impact objectives. The FIF Fund II’s impact management process is deployed at every stage of the investment strategy.

Pre-Investment: Prior to investing in a company, the FIF Fund II checks that the potential investment is aligned with its impact thesis to improve financial inclusion and drive progress towards the SDGs in emerging countries. Following the screening phase, a thorough due diligence is performed on selected companies to analyse the expected impact of the company as well as potential risks. The Risk Committee analyses the risks of negative impacts. The analysis on the potential development impact of the investment (positive impact generated) is included in the investment memorandum submitted to the Investment Committee and forms part of the investment decision.

Investment: Upon approval of the investment, the FIF Fund II defines with the investee company the selected impact indicators to be monitored and reported on a regular basis. The FIF Fund II includes some conditions related to social and environmental matters in the investment agreement related to the monitoring of those specific ESG risks.

Post-investment: During the post-investment period, the FIF Fund II 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. The FIF Fund II requests investees to report any serious incident related to ESG matters. As an equity investor, the FIF Fund II 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: The FIF Fund II seeks to divest to trustworthy investors who will allow and enable the companies to pursue their missions and visions. The FIF Fund II also aims for organized, simple, fair and transparent divestment processes.

Whilst the FIF Fund II does not exclude investees that do not yet have a full environmental and social managements system, and actively engages its investees to ensure that they have minimum 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 FIF Fund II to measure the attainment of its impact objective include:

- Number of companies financed
- Number of fintech transactions performed by investees
- Number of people impacted with access to financial services
- Number of people reached through technology solutions
- Number of people employed by investee companies
- Number of women employed by investee companies.

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

The FIF Fund II integrates Sustainability Risks into decision-making and investee engagement throughout the investment process. The FIF Fund II has defined in the Impact Framework an exclusion list of harmful sectors that the FIF Fund II is prohibited from investing in. During the due diligence phase, the investment team analyses the potential positive impact of the investee as well as the risks of negative impacts. The Risk Committee analyses the risks of negative impacts. Findings are included in the investment memorandum presented to the Investment Committee whose investment decision is informed by the review of environmental, social and governance (ESG) factors. Where ESG-related risks cannot be mitigated to a satisfactory extent, the investment will not proceed.

Throughout its portfolio of investments, the FIF Fund II collects, analyzes and consolidates the impact metrics of portfolio companies. Upon approval of the investment, the FIF Fund II defines selected impact indicators to be monitored and reported on for each investee, aligned with the FIF Fund II's impact thesis, as further described under Part II of this Appendix. The FIF Fund II reports back to investors on progress and informs them of any development that can affect the impact of portfolio investments. Bamboo published an annual impact report. Additional in-depth impact analyses may be carried out upon availability of resources.

Engagement with investees, including on ESG matters, is an integral component of the FIF Fund II's investment cycle and contribution to positive development impact.

Assessment of the likely impacts of sustainability risks

The FIF Fund II 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 FIF Fund II. The FIF Fund II is exposed to the Sustainability Risks that its investees are exposed to through their operations and clients. When providing equity financing, the FIF Fund II 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 FIF Fund II operates.

Given the FIF Fund II's portfolio composition, the investees targeted by the FIF Fund II 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, extreme weather events, child labor, forced labor/exploitative working conditions, hazards to health and safety, impacts to indigenous people and cultural heritage, population displacement, client unsatisfaction/complaints, overindebtedness, aggressive sales/collection practices, lacks in client information/informed consent, 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 FIF Fund II's strategic impact focus, such impacts can in turn negatively affect the FIF Fund II's credit risk profile, reputation and/or its financial and/or earnings situation.

However, these sustainability risks are mitigated by the FIF Fund II's investment strategy to generate positive impact by targeting enterprises that improve financial inclusion for low- to middle-income populations and applying investment limits according to the FIF Fund II's exclusion list, investment strategy targeting companies with low to medium ESG risk, and diversified portfolio. The FIF Fund II 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 assessment 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 FIF Fund II's ESG risk management. Finally, the FIF Fund II's engagement with investees, including on ESG matters, is an integral component of the Fund's investment cycle and contribution to positive development impact.