Operating Principles for Impact Management
Cardano Development hereby reaffirms its status as a Signatory to the Operating Principles for Impact Management (the ‘Impact Principles’).

Cardano Development is both a Fund Manager and incubator and empowers financial markets by streamlining capital and applying risk insights to create innovative and scalable solutions. Thereby we have an overall vision to build Inclusive and sustainable local financial markets that leads to economic growth in frontier countries. Our expertise includes the ability to apply comprehensive risk management tools to complex risks in data-poor environments. Cardano Development has the following 11 mandates:

- The Currency Exchange Fund (TCX)
- GuarantCo
- Frontier Clearing Corporation (Frontclear)
- ILX Fund (ILX)
- Water Finance Facility (WFF)
- Savings
- IMFact
- BIX Capital
- AGRI3 Fund
- Nyala Ventures
- The Development Guarantee Group

Cardano Development works with reputable partners including development banks, foundations, governments, impact investors, Institutional Investors and commercial partners. Each institution is managed by a separately focused subsidiary with targeted governance and manages its own impact framework.

This Disclosure Statement affirms that TCX Fund and ILX Fund are managed in alignment with the Impact Principles. Total assets under management in alignment with the Impact Principles is USD 3,911 million as of June 30th, 2023. The AuM corresponds to TCX’s Long Derivatives Portfolio. All procedures and policies referenced in this statement are under development and subject to adaptations into their final form. The intent of the Fund Manager is however in line with this statement.

Joost Zuidberg
CEO - Cardano Development
July 2023

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.
<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
<th>TCX</th>
<th>ILX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1</td>
<td>Define strategic impact objective(s), consistent with the investment strategy.</td>
<td>05</td>
<td>15</td>
</tr>
<tr>
<td>Principle 2</td>
<td>Manage strategic impact on a portfolio basis.</td>
<td>06</td>
<td>17</td>
</tr>
<tr>
<td>Principle 3</td>
<td>Establish the Manager’s contribution to the achievement of impact.</td>
<td>07</td>
<td>19</td>
</tr>
<tr>
<td>Principle 4</td>
<td>Assess the expected impact of each investment, based on a systematic approach.</td>
<td>08</td>
<td>21</td>
</tr>
<tr>
<td>Principle 5</td>
<td>Assess, address, monitor, and manage potential negative impacts of each investment.</td>
<td>09</td>
<td>23</td>
</tr>
<tr>
<td>Principle 6</td>
<td>Monitor the progress of each investment in achieving impact against expectations and respond appropriately.</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Principle 7</td>
<td>Conduct exits considering the effect on sustained impact.</td>
<td>11</td>
<td>26</td>
</tr>
<tr>
<td>Principle 8</td>
<td>Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.</td>
<td>12</td>
<td>27</td>
</tr>
<tr>
<td>Principle 9</td>
<td>Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.</td>
<td>13</td>
<td>28</td>
</tr>
</tbody>
</table>
**TCX**

**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.

TCX is a specialised Fund providing long-term hedging products in illiquid emerging and frontier market currencies (OECD DAC list). Its development mission is to de-risk development finance, by removing the currency and interest rate risk of investors and local borrowers and to promote capital markets, thus spurring financial stability and inclusive economic growth.

TCX was founded by the world’s leading multilateral and bilateral Development Finance Institutions (DFIs) with the purpose to act as a global currency risk-pool. It’s (supra) national ownership through the DFIs is reflected in the Fund’s Business Principles of Additionality, Non-Speculation and Market Based Pricing. Combined, these principles entail that the Fund only offers its products (Cross currency swaps and FX forwards) where the markets are thin or inexistent, when investments in the real economy are supported and on the condition that it does not distort markets.

The Fund’s geographical scope has been limited to the countries on the OECD Development Assistance Committee list.
TCX applies an Impact Measurement and Reporting Framework (IMRF) which reports hedging volumes, as well as a development impact score called ‘Difficulty of Hedge (DoH)’ on a portfolio and sub-portfolio level. The DoH is an internally developed score, ranking each hedging transaction according to the level of market development of the currency and the tenor of the transaction.

The IMRF makes a distinction between TCX’s “Primary” and “Market Creation” portfolio. The former contains all transactions that hedge the financing of development projects with a tangible impact on the local economy, whereas the latter refers to all transactions where TCX sells the accumulated frontier currency risk to international investors, thus contributing to market creation. For both sub-portfolios, the TCX Supervisory Board approves annual targets, which are linked to the staff incentive system.

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 recognising 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.

PRINCIPLE 2
Manage strategic impact on a portfolio basis.
TCX’s contribution is its unique risk bearing capacity, combined with its ability to price long-term currency risk in even the most frontier countries. TCX offers its products in currencies and tenors far beyond where the markets operate, thus making the Fund complementary to other market participants, rather than competing with them. This high level of additionality is one of the Fund’s key principles and provides added value for its shareholders.

TCX also spearheads numerous advocacy efforts to increase local currency solutions in development finance. The Fund Manager’s staff regularly speaks at events, publishes policy papers, and visits local borrowers to increase understanding and awareness of currency risk.

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.

**PRINCIPLE 3**

Establish the Manager’s contribution to the achievement of impact.
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.

TCX, as a hedging provider, is not directly involved in the investment. The Fund’s counterparty however discloses the sector of the project that is being financed, as well as the details of the financing structure relevant for the hedge (currency, tenor, instalments, etc.).

In order to estimate the indirect impact deriving from the investments that are being hedged, TCX applies the Joint Impact model (JIM), resulting in concrete impact indicators that assess in advance the expected impact. The JIM uses a harmonized approach, meaning that the methodology and assumptions are consistently applied across portfolios of all users of the model (e.g. FMO, Proparco, BIO Invest, BII, CDC, FinDev Canada, etc.)
PRINCIPLE 5

Assess, address, monitor, and manage potential negative impacts 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.

TCX strives to meet high Environmental and Social (E&S) standards when fulfilling its role and its E&S Guidelines ensure that the Fund will only enter into Primary Investments that support sustainable business practices.

While there is no E&S risk in the derivatives themselves, there is in the underlying business activities supported with the hedge. TCX provides hedging services to DFIs, MIVs, commercial banks, or non-bank financial institutions for the purpose of hedging the funding they provide to the emerging market borrower (Primary Investments), in which case TCX has no relation with the end-client that should adhere to the E&S standards. Our counterparty is the one that assesses the end-client and requires certain E&S standards from it. As such, TCX’s policy only applies to Primary Investments and focuses on assessing whether its counterparties have appropriate E&S management systems in place.

TCX has a clear and linear process to provide all the elements necessary for the Fund to take an informed decision on whether the potential counterparty meets TCX’s E&S requirements and therefore is eligible to have access to the Fund’s services.

TCX will not make Primary Investments for the purpose of hedging projects that are on the IFC Exclusion List. TCX will always need to ensure this is adhered to, irrespective of the type of counterparty. Counterparties are required to confirm to TCX that the underlying loans are not related to projects on the Exclusion List or in case of non-FIs that the counterparty is not involved in any activities on the Exclusion List. The standard implementation is via an ongoing, counterparty-wide representation in the ISDA.
PRINCIPLE 6

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

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.

As laid out under Principle 4, TCX’s counterparty only discloses information relevant for the hedge contract, and the sector of the underlying project. The limited data hinders TCX to monitor the ongoing progress of each investment in achieving impact. The JIM results provide a one-off estimation of the impact indicators that result from the projects being hedged.

However, the value of the hedge contract is assessed on a daily (or weekly) basis. The impact on the financial stability of the project funding, is therefore continuously measured. At inception of the hedge, the present value of the contract is zero, but this changes over time when expectations differ from reality. A larger discrepancy indicates a higher risk that was avoided by hedging against the currency volatility.
PRINCIPLE 7

Conduct exits considering the effect on 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.

TCX generally does not unwind existing hedges proactively. The Fund’s patient capital structure is designed to serve its shareholders for long-term transactions of occasionally 15 years and longer. However, a premature unwinding of a hedge can be requested by TCX’s counterparty. On (partial) termination or amendment of a Primary Investment, the unwind value of the Primary Investment will be determined in accordance with the TCX Valuation Policy.

When the hedge contract terminates, the currency and interest rate risk for the remainder of the financing period remains.
TCX reviews and documents the impact performance of the aggregate portfolio on an ongoing basis. The monthly updated Impact Dashboard, which is openly accessible on TCX’s website, documents the past and current impact performance of TCX. Detailed impact figures are shared with TCX shareholders through the annual Impact Report (the first one was published in 2020), which may be used as basis for operational or strategic management decisions.

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.

**PRINCIPLE 8**

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.
This Disclosure note reaffirms the alignment of TCX policies and procedures with the Impact Principles and will be updated annually.

Independent verification was undertaken by impact consultancy StewardRedqueen in March 2021. Since then, TCX’s impact objectives, management and assessments have changed little to not at all. TCX’s intention is to again subject its impact management system and related processes to independent verification by a third-party assurer, to reaffirm their alignment with the Impact Principles.
Operating Principles for Impact Management
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.

About ILX

ILX Management B.V. (ILX) is an Amsterdam-based asset manager specialized in global development finance co-investment strategies. ILX invests in SDGs and Climate Finance focused private credit in EMs to generate attractive risk-adjusted returns for investors while achieving positive, direct and measurable SDG-related results. Having recognized the urgency of mobilizing private sector capital at scale to address the growing funding gap for the SDGs, growing funding gap, and the unique business model of ILX, the Dutch (BZ), German (BMZ), and British (FCDO) governments supported the establishment of ILX in 2017.

Following this support, ILX raised USD 1.05 billion in 2022, attracting commitments from leading Dutch pension funds. The success of this fundraising can be attributed to ILX’s unique position as an intermediary between institutional investors’ growing appetite for SDG investments with attractive risk-return profiles and its strong network of relationships across the global MDBs (such as the ADB, AfDB, EBRD, IDB and IFC) and DFIs (such as FMO, DEG, Proparco and BII). These commitments confirmed the value of ILX’s diversified, long-term, efficient and impactful investment strategy.

The investment strategy of ILX Fund I (the Fund) focuses on B-loan participations, originated and syndicated by these leading MDBs and DFIs. The private sector B-loans that ILX participates in directly finance SDG-aligned investments and are significantly allocated towards Climate Finance. ILX’s investment strategy is uniquely diversified both across the EMs and between four key sustainability themes: energy access & clean energy, sustainable industry & infrastructure, inclusive finance and food security.
Sustainability Objective

The Fund’s sustainability objective is to avoid, minimize or mitigate ESG risks while contributing to the SDGs by focusing on ILX Sustainability Themes and reporting quantitative and/or qualitative SDG-related Results at the project level.

The sustainability objective of the Fund is to be attained by co-investing with MDBs and DFIs in projects that contribute to economic, social and environmental objectives in emerging markets and developing economies. As the mandates of MDBs and DFIs aim to contribute to sustainable economic development, all their DFI-originated loan facilities are carefully selected by their banking, ESG and impact teams and meet rigorous ESG and SDG-related criteria to be eligible.

The Fund classifies as an Article 9 SFDR financial product, being a financial product that has sustainable investments—as defined in SFDR—as its objective, and does not use an index as reference benchmark.

ILX Investment Strategy

The Fund’s investment strategy is to build a portfolio of participations in MDB/DFI-originated and syndicated loan facilities, diversified across geographies and sectors, all in accordance with the Fund’s Investment Policy. The Fund aims to invest in loans with an attractive risk-return profile and which have the potential to generate positive SDG-related results.

ILX Sustainability Themes

To contribute to the UN Sustainable Development Goals (SDGs) across environmental, social and economic dimensions, the Fund focuses on four ILX Sustainability Themes:
1. **Energy Access & Clean Energy**: access to energy is a prerequisite for economic and social development in EM, where many countries still face major energy deficits. Expanding infrastructure to provide clean energy is vital to mitigate climate change. ILX invests in the energy value chain across diverse technologies to power economies, with a focus on renewable energy, to increase energy supply.

2. **Sustainable Industry & Infrastructure**: developing quality, reliable, sustainable, resilient infrastructure and promoting sustainable industrialization is crucial to spur economic growth and employment creation in EM, where infrastructure constraints significantly limit businesses’ productivity and the manufacturing value added and economic complexity is low. ILX invests in economic infrastructure (roads, rails, ports, water, wastewater, ICT), social infrastructure (health and education) and manufacturing activities to help address these issues.

3. **Inclusive Finance**: ensuring availability of sustainable financing flows to microentrepreneurs, SMEs, corporates and individuals is essential to expand business growth potential and adults’ access to finance in EM, where the financial sector remains largely underdeveloped. ILX invests in financial institutions, with a focus on green finance, gender lens investing and MSME finance to help advance financial inclusion.

4. **Food Security**: supporting the agricultural value chain (from farm to retail) is key to develop a sustainable food and agriculture systems in EM, where a significant portion of the population has limited access to safe, nutritious, sufficient food and is largely dependent on activities related to agriculture. ILX invests in agriculture production, food & beverage, food processing and consumer products to help develop the agricultural value chain.
Sustainability Strategy

ILX’s sustainability strategy is fully integrated with its investment strategy and is based on three key pillars considered in all investments:

1. **Exclusions**: the Manager avoids investments in activities that it deems unsuitable, largely driven by the desire to align portfolio content with the Fund’s and its Investor’s values. Our exclusions span a broad range of activities including weapons and munitions, tobacco, alcohol, coal, upstream oil and gas-related activities.

2. **ESG Safeguarding**: the Manager ensures that all material ESG factors are identified and mitigated, which results in the Borrower’s improved ESG behaviour, as the Borrower engages with the arranging DFI and commits to comply with minimum ESG requirements.

3. **SDG/Climate-focused Investments**: the Manager identifies, measures, monitors and reports the contribution of the investments in its portfolio to the SDGs and Climate Finance objectives across its four Sustainability Themes, as and when the Borrower engages with the arranging DFI and commits to report on agreed SDG-related results. Results can be of quantitative and/or qualitative nature and are identified, monitored and reported at a project level. To identify contribution to the SDGs, the Manager uses its proprietary SDG Mapping Methodology, which is anchored on the SDI taxonomy designed by its cornerstone Fund Participant, and DFI’s HIPSO-SDG Framework that defines quantitative/qualitative indicators associated with SDGs.

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 recognising 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.

**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 recognising 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.
All three key pillars are reflected in the Fund’s sustainability policies, which comprise its (i) Exclusion Policy; (ii) ESG Policy and (iii) SDG Policy and, together with the Fund’s Investment Policy, constitute the Investment Charter. These policies set out the manager’s approach to sustainability matters and are to be adhered in all investments.

The Manager has developed a Sustainability Assessment Tool to analyze the ESG, SDG and Climate-related performance of its portfolio, by collecting and monitoring the ESG and SDG-related results of the underlying investments. At the portfolio level, the Manager tracks the estimated GHG avoidance of its projects on an aggregate basis and models direct and indirect job creation estimates by utilizing the Joint Impact Model (JIM). Additionally, the Manager labels its portfolio contribution to climate finance (mitigation and adaptation) objectives.

**Dedicated Sustainability Team**

ILX has a dedicated Sustainability Team that sits under the CIO and assesses all investments, seeking to minimize potential negative ESG impacts and achieve positive SDG-related impact. The Sustainability Team is integrated with the Investment Team. The Firm nor its employees are financially rewarded for reaching financial nor impact objectives, as it does not charge a performance fee. However, the Fund has both financial and non-financial KPIs, including a minimum SDI allocation KPI.

**Integrated Sustainable Investment Process**

The sustainability process is fully embedded into the ILX investment process, including Exclusion, ESG and SDG assessments at Initial Investment Proposal (IIP) stage, Final Investment Proposal (FIP) stage and Monitoring stages, and is based on the arranging DFI project due diligence, monitoring and reporting capacities.
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.

ILX Vision - By 2030 global institutional investors will make significant allocations to emerging markets, directly supporting the UN Sustainable Development Goals (SDGs).

ILX Mission - To create large scale investment opportunities in global Development Finance that directly contribute to sustainable development across emerging markets.

Private Capital Mobilisation - Bridging the Gap

ILX’s unique contribution to the achievement of SDG and Climate results is related to its success in unlocking institutional capital at scale, motivated by the identification of a market gap created by the shortage of available long-term debt funding for the financing of SDG and Climate focused projects across the EMs. Available investment capacity falls short of what is required to close the SDG and Climate financing gap due to lack of sufficient cross border private investment flows. Local banks alone have limitations in long-term USD and EUR-denominated project financing and MDBs/DFIs cannot fulfil all the significant long-term financing needs across the EMs. Cross border commercial banking flows into EMs have been less active following more stringent capital requirements and the impact of the COVID-19 pandemic. MDBs/DFIs have historically syndicated loans to international commercial banks to mobilize more capital and lever their own capital commitments.

ILX has successfully managed to unlock institutional capital at scale towards SDG investments, by connecting the dots between MDBs/DFIs and Institutional Investors. Institutional Investors were not fully equipped to invest in private debt in emerging markets, where the SDG gaps are most pressing. Thus, ILX’s role is crucial to help institutional investors harness their investment decisions in emerging economies to, ultimately, increase private capital mobilization towards emerging markets, with positive SDG-related results.
ESG and SDG Data

As explained in Principle 4 and Principle 5, ILX retrieves the Borrower’s ESG and SDG data through the arranging DFIs and (i) conducts its own independent assessment, which acts as a second line of defense in minimizing ESG risks and (ii) maps the investment’s contribution to the SDGs, in line with Institutional Investor’s approaches.

ILX has close dialogue with ESG and Impact specialists at originating DFIs and builds on their robust methodologies and administrative capacity to collect ESG and SDG-related data that is then channeled to Institutional Investors seeking SDG-aligned investments.

Thought Leadership

ILX is at the forefront of global discussions on sustainable investments, aiming to act as a matchmaker between DFIs and Institutional Investors. ILX is committed to increasing awareness of the need to mobilize private capital towards emerging markets to deliver the SDG agenda.

Another key goal for the manager is to advance the harmonization agenda in the impact investing field. To that end, ILX actively engages with internationally recognized leaders in the impact investing industry, such as the Global Impact Investing Network (GIIN), IRIS, Impact Management Project, Convergence Finance, United Nations Principles of Responsible Investment (UNPRI). ILX also participates as an observer of the HIPSO initiative, which aims to harmonize indicators to measure SDG-related results in private sector investments. This gives the Manager a unique opportunity to share the view of institutional investors among DFIs and help to close the gap.

As an Article 9 Fund in scope of EU Commission regulations, ILX has actively participated and led different working groups striving to define best practices applicable to EM debt. For instance, approaches to collect and model data on the set of predefined PAI indicators have been developed alongside other industry-leading Article 9 fund managers through engagement via the Social Performance Task Force (SPTF) association. At the same time, ILX has actively engaged with its MDBs/DFIs counterparts, which are not in scope of the regulation, to share best practices applied by private sector asset managers and increase awareness and recognition of the different regulatory requirements with a focus on the PAI indicators.
PRINCIPLE 4

Assess the expected impact of each investment, based on a systemic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact\(^3\) 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?**\(^4\)
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\(^5\) and follow best practice.\(^6\)

**Expected Results Identification and Measurement**

When signing the Loan Agreement with the MDB/DFI, the borrower undertakes reporting commitments, which includes the reporting on the relevant sustainability indicators defined for the particular investment. Based on these reporting commitments that are also being received by the Manager, the latter the Manager identifies the expected outcome/output quantitative and/or qualitative results, as and when defined by the Borrower in cooperation with the arranging MDB/DFI.

As an aggregator of syndicated deals originated by MDBs and DFIs, ILX’s Results Measurement Framework is anchored on the joint measurement system utilized by leading MDBs and DFIs, who committed in 2013 to the use of harmonized indicators to measure the impact performance of their private sector investments, agreed in a Memorandum of Understanding named HIPSO (Harmonized Indicators for Private Sector Operations). The HIPSO framework is used by leading MDBs and DFIs to measure the economic, environmental, and social results of their private sector investments. The MDB/DFI project targets and indicators could deviate from HIPSO formulated indicators. In such a case, the MDB/DFI indicator has priority over formulated HIPSO indicators. Typical metrics of the Fund includes number of direct jobs created or supported (FTEe); GHG emissions reduction (CO2e t/y); energy generated (GWh) and number & value of outstanding loans to MSMEs (# and currency).
**SDG Mapping**

Investments funded by the Manager are labelled per Sustainability Theme and mapped to one primary Sector SDG. For the mapping, the Manager follows its proprietary SDG mapping methodology, which is anchored on the SDI taxonomy designed by its cornerstone Fund Participant and the HIPSO SDG Framework designed by leading DFIs in collaboration with observers such as the Manager.

**SDG-Related Risks Identification**

The Manager assesses the likelihood of achieving the project-level quantitative and qualitative expected results and identifies the risk factors that could result in actual results varying from the expected results. The risk factors considered are (i) Measurement risk (ii) External risk and (iii) Execution risk.

**SDG Management Process**

ILX’s assessment of the expected output and outcome results of its investments builds on the MDB’s/DFI’s, who are considered pioneer impact investors and have developed robust and sophisticated methodologies. At each stage of the investment process, the Sustainability Team assessment is integrated to the overall investment assessment.

The Manager informs its Participants of the (ii) investment’s contribution to the SDGs and the (i) expected and actual quantitative and/or qualitative SDG-related results of our investments, when available and applicable.

---

3Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.
4Adapted from the Impact Management Project (www.impactmanagementproject.com).
5Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thesgii.org); GIIRS (http://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.
6International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.
**PRINCIPLE 5**

Assess, address, monitor, and manage potential negative impacts 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.

**ESG Safeguarding**

For each investment, the Manager collects data on applicable ESG Factors through the arranging MDB/DFI, who conduct an Environmental and Social Due Diligence (ESDD) to screen E&S and categorizes the E&S risk level based on the nature and scale of the Project. On corporate governance, MDBs/DFIs assess the borrower’s corporate governance practices on 5 different areas (commitment to corporate governance; board structure and functioning; control environment -control systems, audits, compliance; transparency and disclosure; treatment of minority shareholders) when material corporate governance risks are identified.

The ESG data collected by the MDB/DFI is reviewed by the Manager by following the Fund’s ESG Policy. The Fund’s ESG Policy serve as the guiding principles for this assessment and are based on the leading DFIs Environmental & Social (E&S) Performance Standards (PS) and the DFIs Corporate Governance Development Framework.

In addition to reviewing the ESG data collected by the MDB/DFI, the Manager (i) uses the RepRisk tool to independently identify key reputational risks stemming from ESG factors and (ii) assesses the group structure, composition of the board, shareholders and management of all its investments.

When gaps are identified in attaining the minimum E&S and Corporate Governance performance standards the Borrower, in close cooperation with the originating DFI, develops an action plan to avoid, minimize or mitigate those ESG risks. The action plan specifies the necessary actions to be undertaken by the Borrower in order to increase the level of compliance with the ESG factors in the course of the investment’s lifecycle. The ESAPs provide the arranging MDB/DFIs with the necessary leverage to influence the borrowers’ ESG behavior, is an effective tool to monitor and track E&S results, communicate how impacts are addressed, and provide remediation when appropriate. The level of compliance with the applicable ESG factors and, in case of non-compliance, the willingness to put in place an action plan in order to comply in the future, is as a significant element in the final investment decision of the manager.
ESG Management Process

ESG factors are managed both by the lead MDB/DFI and by ILX; ILX provides an independent review at each stage of the investment process (Initial Investment Proposal; Final Investment Proposal and Monitoring), building on the MDB’s/DFI’s approaches, with over 30 years’ experience safeguarding ESG factors in Emerging Market investments.

<table>
<thead>
<tr>
<th>Projects</th>
<th>DFI</th>
<th>Institutional Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Investment Proposal (IIP)</td>
<td>E&amp;S Risk Categorisation</td>
<td>ILX retrieves data on risk categorisation and scope of DD from originating DFI</td>
</tr>
<tr>
<td>Final Investment Proposal (FIP)</td>
<td>E&amp;S Engagement</td>
<td>Conducts DD to determine material ESG factors and develops an ESG Action Plan, with strict covenants</td>
</tr>
<tr>
<td>Monitoring</td>
<td>E&amp;S Monitoring</td>
<td>Supervises compliance with Action Plan, including onsite visits</td>
</tr>
<tr>
<td>E&amp;S Risk Categorisation</td>
<td>E&amp;S Risk Categorisation</td>
<td>ILX retrieves data on risk categorisation and scope of DD from originating DFI</td>
</tr>
<tr>
<td>E&amp;S Assessment</td>
<td>ILX retrieves ESG data from originating DFI</td>
<td></td>
</tr>
<tr>
<td>ESG Annual Review</td>
<td>ILX receives annual ESG monitoring data from originating DFI</td>
<td></td>
</tr>
<tr>
<td>Annual Sustainability Report</td>
<td>Derivation of ESG score, indicating compliance with ESG Guidelines at entry and willingness to comply throughout the lifecycle</td>
<td></td>
</tr>
</tbody>
</table>
PRINCIPLE 6

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

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.\(^{11}\) The Manager shall also seek to use the results framework to capture investment outcomes.\(^{12}\)

ESG Monitoring

When signing the loan agreement with the MDB/DFI, the borrower commits to comply with the applicable ESG action plans to mitigate identified risks and annually report on its compliance. These annual reports are typically submitted to the MDB/DFI, which in turn uploads the information to a portal accessible by the Manager. Based on the annual borrower’s ESG updates provided by the arranging MDB/DFI, the Manager analyses the borrower’s compliance with the agreed mitigation measures and brings its internal monitoring system up to date.

SDG Monitoring

After approval of the Loan investments, the Manager periodically analyses the SDG-related performance of its portfolio by monitoring the progress of each investment in achieving the SDG-related expected results. For monitoring Fund performance, the Manager utilizes its Sustainability Monitoring and Reporting Tool and relies on project indicators and data formulated, collected and monitored by the arranging MDB/DFI. The Manager expects to collect the data self-reported by the Borrower to the arranging MDB/DFI on an annual and rolling basis.

If the Borrower is substantially deviating from expected results, the Manager will communicate with the arranging MDB/DFI to, when appropriate, identify a remedial action such as active engagement with the Borrower or other appropriate measures to improve performance.

\(^{11}\)Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio’s expected impact performance.

\(^{12}\)Outcomes are the short-term and medium-term effects of an investment’s outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).
PRINCIPLE 7
Conduct exits considering the effect on sustained impact.

When conducting an exit,\(^\text{13}\) 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.

The Fund is a Private Debt Fund with the strategy to hold loan investments until maturity in conjunction with the involvement of the MDB/DFI. The Manager’s long-term investment horizon and the Borrower’s commitment to adopt long-term ESG action plans to improve its ESG behaviour, act as safeguards to ensure that the impact is sustainable and lasts beyond the Manager’s investment.

\(^{13}\)This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.
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.

As described in Principle 4, Principle 5 and Principle 6, the Manager will review and document potential negative ESG impact and positive SDG-related results of each investment, throughout their lifecycle. This includes comparing the expected versus actual SDG-related results, when available, and conducting regular SDG assessment on a subset of projects, which will inform the sustainability strategy and policies. The findings and lessons learned from previous years will be fundamental in the annual review process of the Fund’s Exclusion policy, ESG policy and SDG policy.

Annual policy reviews are the responsibility of the CIO and ensure that both the policy and its governance remain up-to-date and well implemented. It is the Sustainability Team’s responsibility to ensure that the lessons learned from past impact management practices are well reflected in both policies and procedures and that these are in line with industry best practices.
**PRINCIPLE 9**

Publicly disclose alignment with the Impact Principles and provide regular independent verification\(^{14}\) of the 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.

This Disclosure note re-affirms the alignment of ILX Fund’s policies and procedures with the Principles and will be updated annually.

Independent verification will be undertaken by an external and independent party. This is first conducted in Q4 2023.

\(^{14}\)The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.