Operating Impact Principles for Impact Management

September 2022 Disclosure Statement
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Disclosure Statement

Albright Capital is a signatory to the Operating Impact Principles for Impact Management (“the Impact Principles”). This Disclosure Statement serves to affirm that Albright Capital has the policies and procedures in place to manage impact investments in accordance with the Impact Principles. Total assets under management in alignment with the Impact Principles are US$0 million as of June 30th, 2022.

Gregory B. Bowes
Founder & Managing Principal
Albright Capital Management LP
September 20, 2022
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.

“Albright Capital is a continuation of the founders’ commitment to the promotion of economic development, reduction of worldwide poverty, creation of a middle class, and growth of effective democracies.”

- Albright Capital Statement of Values (October 2005)

Since its founding in 2005, Albright Capital has invested across the emerging markets with the dual purpose of delivering attractive commercial returns to investors and making a positive impact in the countries where its portfolio companies operate.

Albright Capital’s former Chair, Madeleine K. Albright, devoted her life to global citizenship – i.e., advancing social and economic development, creating a middle class, and promoting effective democracy. We honor her long-held belief that the achievement of these objectives is beyond the resources and capacity of governments alone and requires a constructively engaged private sector.

Thus, for strategies designated as having “impact”, Albright Capital’s strategic impact objective is centered around economic development in the emerging markets. The Albright Capital team adopts this ethos and believes that consciously seeking to advance living conditions through investments is both inherently worthwhile and good business. As discussed below, Albright Capital has developed a measurement framework linked to the United Nations Sustainable Development Goals (“UN SDGs”). While economic development is the common theme of Albright Capital’s impact approach, Albright expects to assess a diverse set of impact opportunities, depending on its investment mandate. Consequently, Albright Capital’s impact program is not focused on a single UN SDG.

Albright Capital is a private investment firm focused on the global emerging markets. Albright Capital’s investment strategy is based on value and flexibility, in order to harness the volatility of the emerging markets and access attractive investment opportunities. The investment strategy is therefore broad, with a generalist approach to sector, and significant geographic flexibility.
Prior to becoming a signatory to the Impact Principles, Albright Capital developed an impact measurement tool and set up impact management policies and procedures as detailed in Albright Capital’s governing document for ESG and impact, the Environmental Social Governance Policy and Process for Measuring Social Impact (“ESG & Impact Policy”). Consistent with the Impact Principles, Albright’s impact measurement approach is customized to Albright Capital’s broad investment mandate. As such, Albright Capital’s initial impact assessments for investments under an impact mandate involve screening the potential impact of an investee across all 17 UN SDGs.

A core tenet of Albright Capital’s investment approach is its centralized investment process, whereby all investment opportunities are put through the same multi-stage screening and diligence framework. Albright’s impact investments will be subject to an augmented framework, where established processes are enhanced by Albright Capital’s impact policies and procedures in order to ensure a credible basis for achieving Albright’s impact objectives through its investment strategy. For any Albright Capital-advised investment fund that is designated as an “impact fund” (of which there is not yet one), impacts will be measured in accordance with the Impact Principles and Albright Capital’s ESG & Impact Policy. For any private investment fund that is not designated as an “impact fund”, such as a credit fund, Albright Capital intends to employ its impact measurement and management methodology whenever feasible.

Principle 2: Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

Albright Capital’s approach to managing nonfinancial outcomes is outlined in its ESG & Impact Policy. Within this document Albright Capital describes the process by which it manages both ESG and impact. For ESG this includes: (i) assessing a prospective portfolio company’s compliance with the IFC Performance Standards; (ii) an annual assessment of portfolio company compliance against the IFC’s Performance Standards; and (iii) an annual assessment of the progress of its portfolio companies towards achieving the UN SDGs.

1 An investment must meet Albright’s internal “contribution” threshold towards a positive social impact in order to qualify as an Albright impact investment. This is done to ensure there is a credible basis for achieving the impact objectives through the investment strategy, with proportionate scale/intensity as per the Impact Principles’ guidance.
Albright Capital’s ESG & Impact Policy integrates the firm’s Impact Assessment User Manual (“Impact Manual”) as an exhibit. This latter document outlines Albright Capital’s processes for impact measurement and management. Critical steps of Albright Capital’s impact management process include: (i) multiple pre-investment assessments of impact potential covering all 17 UN SDGs; (ii) selection of up to five high-potential UN SDGs for measurement and monitoring; (iii) initial baseline and forecast measurements, annual benchmarking, and monitoring against initial forecasts; and (iv) final measurement comparing impact performance versus baseline and forecasts upon exit.

The Impact Manual details when Albright Capital should seek the expertise of third-party impact-specialized consultants, and when the responsibility for impact management will reside with the relevant investment teams. Critically, these processes have been set up with multiple documentation checkpoints (e.g., submission of investment memoranda and official impact management Excel tool to the Albright Investment Committee) to ensure they can be verified by third-party auditors.

As stated in the discussion surrounding Principle 1, Albright Capital’s investment approach is broad (both geographically and by sector). Accordingly, Albright Capital created its own impact measurement system based on the Impact Management Project’s five dimensions of Impact (What, Who, How Much, Contribution, Risk), tailored specifically to account for this investment approach. Albright’s measurement system is described in granular detail within the Impact Manual. Similar to large development finance institutions (e.g., the IFC), Albright Capital’s impact scores are most relevant when comparing investments in the same or similar sectors. Nonetheless, Albright Capital’s impact management process is standardized for all investment types to ensure impact management at the portfolio level, since the same policies and procedures will be implemented regardless of investment jurisdiction or business type.

When Albright Capital’s impact investment program grows (see Principle 8 on page 11), Albright Capital’s Management Committee intends to assess compensation schemes that incentivize investment teams to deliver high positive impact scores as well as financial returns.

Principle 3: Establish the Manager’s contribution to the achievement of impact.

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2 The IFC’s Anticipated Impact Management and Monitoring System explicitly states comparability of scoring is only relevant within each sector grouping.
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.

In order to establish and document a credible narrative on its contribution to the achievement of impact, Albright Capital will create a theory of change (“TOC”) for each individual impact investment. TOCs for impact investments within the same or similar sectors will have significant overlap on business activities (inputs/outputs) and their linkage to outcomes/long-term impacts. TOCs will be based on available third-party research (e.g., academic, think tank, NGO, consulting, etc.) and include a concise diagram (evidence map) detailing the logic from input to output, output to outcome, and outcome to impact.

In order to more accurately depict Albright Capital’s impact investment contribution, the TOC will include a discussion on the circumstances surrounding the investment. These include perceived level of capital shortage (i.e., whether other sources of capital were available to the investee); investment structure (e.g., debt, equity, or mezzanine); governance rights; and any impact-related agreements present in the transaction documents.

During the investment period of any impact investment fund, Albright Capital will seek to triangulate between (i) company outputs; (ii) third-party data measuring a given outcome linked to the TOC; and when necessary (iii) company and/or Albright-funded third-party consulting services targeting periodic measurement of outcomes of the TOC.

In addition, and as discussed in Principle 2, Albright Capital’s impact scoring methodology is based on the Impact Management Project’s five dimensions of impact. Contribution is consequently embedded in Albright Capital’s impact measurement approach. Depending on the specific investment circumstances of a given impact investment, Albright Capital can score from one to five on the GP’s specific input of its contribution. This input score has specific criteria for each level in order to ensure that Albright’s contribution can be assessed in a systematic manner.

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\(^3\) 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? (3) How significant is the intended impact?\(^4\) 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.\(^6\)

As detailed in Albright Capital’s Impact Manual:

- Albright’s impact measurement (scoring) methodology and impact management processes will be systematically employed across all investments, regardless of sector, geography, or investment structure (for further discussion see Principle 2 on page 5).
- All impact investments will undergo multiple potential impact analyses, and a final impact forecast, predicting the expected impact over the life of the investment.
- All impact investments will have a TOC, which seeks evidence to assess the relative size of the challenge addressed within the targeted geographic context. The geographic context of the impact is also integrated in Albright Capital’s impact measurement (scoring) methodology.
- Albright Capital will incorporate an impact risk assessment focused on impact-related risks, i.e., evidence risk\(^7\) and stakeholder participation risk\(^8\). Albright Capital will document this discussion at the time of investment in the TOC.

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\(^3\) Impact is considered the material effect(s) on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

\(^4\) Adapted from the Impact Management Project (www.impactmanagementproject.com).

\(^5\) Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (http://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.

\(^6\) International 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.

\(^7\) The Impact Management Project defines evidence risk as the probability that insufficient high-quality data exists to know what impact is occurring (or will occur) across the other four dimensions of impact, for all stakeholders.

\(^8\) The Impact Management Project defines stakeholder participation risk as the probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account.
Albright Capital impact indicators are aligned with industry standards and follow best practices.

At present, Albright Capital’s Impact Manual does not require an assessment of the likelihood of achieving the investment’s expected impact. Similar to financial performance expectations, (i) there is a base level of positive impact expectation without which a given investment opportunity would not be considered; and (ii) analysis of major potential risks to impact expectations would be largely subjective. In addition, Albright’s Impact Manual limits the risk assessment to impact-related risks\(^9\)\(^,\)\(^10\) that could cause impact underperformance. These items will be brought to the Albright Capital Management Committee for further review and an update will be provided in the next Impact Principles reporting period.

In accordance with Albright Capital’s ESG & Impact Policy and general investment approach, Albright Capital will consider opportunities to increase the impact of all of its investments.

**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)\(^9\) 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.\(^10\) 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.*

As described in Principle 2, Albright Capital’s [ESG & Impact Policy](#) requires an annual ESG risk and performance assessment. Albright Capital approaches ESG risks in accordance with international best practices. This includes identification, avoidance, mitigation, and management of ESG risks. In its current portfolio, Albright Capital routinely engages with investees to address gaps in ESG standards, systems, and processes.

\(^9\) The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Impact Principles 4 & 6.

In addition to the practices outlined above, in Albright Capital’s impact measurement (scoring) methodology, poor ESG performance is a negative factor. This scoring is outlined in Albright Capital’s Impact Manual.

**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. The Manager will also seek to use the results framework to capture investment outcomes.

As detailed in Principle 2 and Principle 3, Albright Capital’s impact monitoring process uses a scoring methodology to capture and assess investment impact outcomes. This includes both the use of third-party data, as well as the employment of third-party consultants to assess the effect of investee outputs vs. targeted outcomes.

Albright Capital will approach impact monitoring as it does financial monitoring. Investment teams will, under the agreed governance or reporting framework for any investment made under an impact mandate, determine the nonfinancial data to be collected from a given investee on its activities, as well as how and how often to collect it. Unless explicitly agreed upon at the time of investment, Albright Capital will likely focus on its own collection of nonfinancial data from third-party sources.

In the event of significant impact underperformance, Albright Capital has built an impact reassessment option into its Impact Manual. This option was created in order to enable companies that undergo significant shocks (e.g., COVID-19) to reset their impact targets. Note however, that Albright Capital’s impact management system still requires a comparison of ultimate results against initial impact forecasts as well as updated impact targets. As with portfolio companies on financial matters, Albright Capital will take active measures to correct impact underperformance.

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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*, 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.

Albright Capital’s Investment Committee approves the disposition of all investments that do not have contractual exits. For impact investments, Albright Capital will review what effect the exit circumstances (timing, structure, and process) will have on the impact of the investee following Albright Capital’s exit. In addition, Albright Capital will also discuss and document how the impact scored at the time of exit, measured versus the forecast exit score at the time immediately following investment.

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 discussed in Principle 2 and Principle 4, Albright Capital will review and document the impact performance of each of its impact investments. As discussed in Principle 6, Albright Capital will compare the expected and actual impact of its impact investments. As discussed in Principle 5, Albright Capital will compare other positive and negative impacts of its impact investments.

Once a sufficient number of impact investments have been exited, Albright Capital intends to conduct a holistic review of all exited impact investments in order to assess successes and failures. This review will include decisions made pre-investment, during monitoring / management, at exit, and the processes set up to analyze, document, and manage impact at each stage of the investment cycle.

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11 This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.
Principle 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification 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 Statement reaffirms the alignment of Albright Capital’s policies and procedures with the Impact Principles and will be updated annually. Independent verification was undertaken in 2022 notwithstanding the absence of any impact assets under management.

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.