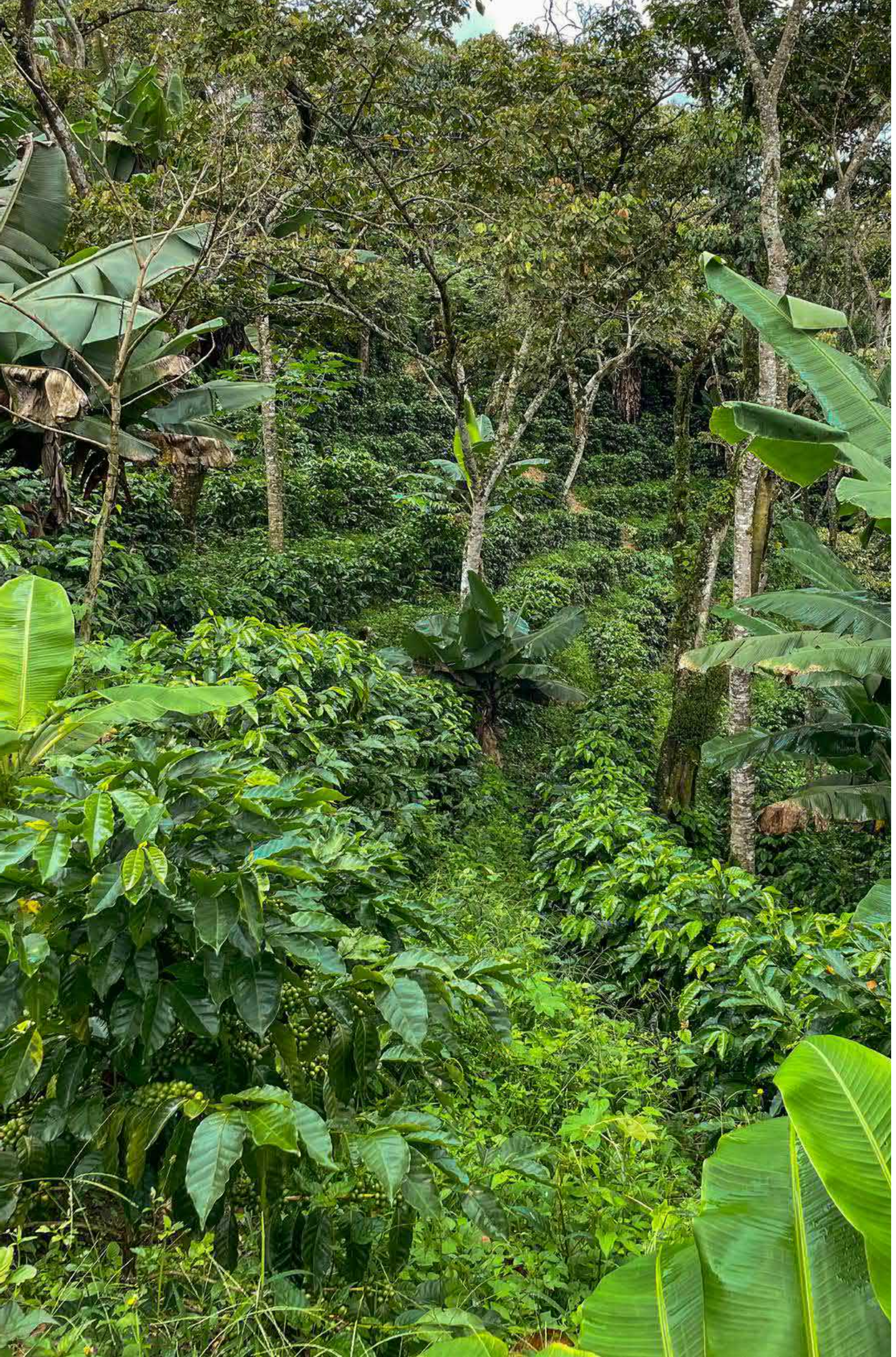
IMPACT FINANCE

IMPACT REPORT 2021

Impact beyond Rhetoric

Who are we?

Impact Finance is an investment manager specialized in impact investing in Latin America. Since its creation in 2010, we have focused on finding exceptional companies generating strong positive impact, while developing effective tools to analyze their risk and report on their impact. Our flagship is the Impact Finance Fund, focused on investing in agri- & food businesses.



Foreword

Dear reader,

2021 has been a year of hopes and opportunities. One year after the pandemic hit Latin America, the region bounced back with an economic growth of almost 7%. But reversing the long-term effects remains a challenge. With millions driven back into poverty, and a generation of children deprived of education, it may take decades to repair this loss of human capital.

As Impact Finance, it is our mission to address these challenges. In light of this, we expanded our portfolio with innovative financing companies providing credit to micro and small enterprises without access to traditional banking services. We consider these financing companies crucial to address job informality, a poverty trap exacerbated by the pandemic.

After a period of cautiousness, our fund is once again fully invested. In the context of political instability across the region, we opted for adding sectors unlikely to be affected by future political decisions.

For sustainable finance, 2021 has been a turbulent year. With ESG investing gaining popularity, the term threatens to become a victim of its own popularity and the subject of increasing polarization in the media. Investigations of alleged greenwashing by renowned funds have shaken up the market and led to attacks from different parts of society.

Yet, this hardly fruitful discussion is not leading to any solutions. Instead, the focus should be on accountability - and common sense. In this regard, the EU regulation on sustainable financing is a step in the right direction.

Therefore, as Impact Finance, we keep striving to improve our impact reporting. We now distinguish three levels of impact: company, fund and investor. With this step, we further increase our transparency.

The road to responsible financing requires time and effort. There may be more mistakes and opportunism that need addressing. It is all part of the process. As a Fund, we humbly keep moving towards a better - more sustainable - world.

Sincerely,

Cédric Lombard
& Benjamin Firmenich
Executive Directors

Certified B Corporation

Portfolio
as of 2021

Net Asset Value (USD)
51,190,106

Outstanding Portfolio (USD)
48,732,175

Number of Companies
32

Average outstanding (USD)
1,522,880

Return
3.21%

Impact
as of 2021

SDG	Impact	Contribution	Fund attribution	USD 1M investment attribution	# of companies reporting
1 NO POVERTY	small-scale producers	71,025	1,807	35	15
8 DECENT WORK AND ECONOMIC GROWTH	net jobs created in 2021	450	58	1	26
10 REDUCED INEQUALITIES	financed students	6,151	258	5	1
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	tons of waste used to produce energy	39,807	2,008	39	1
13 CLIMATE ACTION	tons of CO_2 sequestrated	17,531	2,198	43	3
15 LIFE ON LAND	hectares of trees planted	661	311	6	3

Key facts 2021

While Latin American economies were making a strong comeback after the pandemic-driven recession of 2020, another specter started haunting the region: inflation. Initially a belated effect of the pandemic, due to the imbalance between global supply and demand, now the war in Europe has spiked prices to levels practically unaffordable for many in Latin America.

While the Russian invasion of Ukraine has caused rising inflation worldwide, prices of food and fuel were already going up during 2021. The double inflation shock is threatening the economic recovery of the region. Also, the higher cost of living exacerbates inequality and poverty, as those who have the least suffer the most.

The spike in prices occurs amid an already polarized political scenario, leading to the rise of populist leaders like Pedro Castillo in Peru and Gabriel Boric in Chile. Recent protests against the government over high food and fuel prices in Ecuador, Peru and Argentina could spark more widespread outbreaks of social and political unrest across Latin America if the situation remains unaddressed.

Nonetheless, 2021 was also a year of growth and opportunities. After the deep recession of 2020, last year the region rebounded with almost 7% growth, as a result of vaccination programs facilitating the reopening of economies, government support for the most affected, and benefiting from global growth.

After a prolonged period of cautiousness due to the pandemic, in the first semester of 2021, the fund was once again fully invested. During the year we focused our new investments on two value chains that we consider of interest to our fund: The financing of micro and small enterprises through innovative business models, and traceable gold from artisanal and small gold miners.

One of the poverty-driving issues exacerbated by the pandemic is the lack of access of the millions of informal workers and micro and small enterprises to banking services. Innovative mission-driven financing companies can provide them access to competitive financial products, adapted to the needs of their businesses. Therefore, we see an important opportunity in expanding our financial inclusion sub-strategy with these companies.

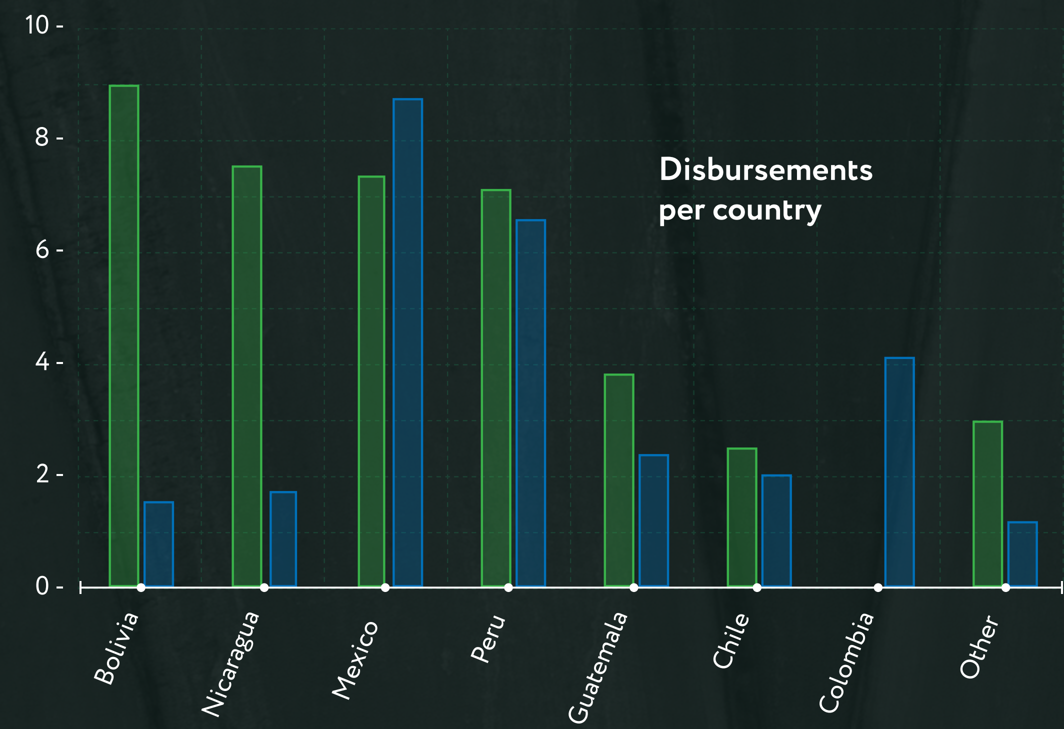
In Latin America, Mexico has taken the lead in fin-tech financing solutions for micro and small enterprises. Mexico has a notoriously bad banking offer for this audience in need of financing, a void that can be filled by these innovative financing institutions. Thus, after screening various fin-tech companies in Mexico, in 2021 we included our first fin-tech company in our portfolio.

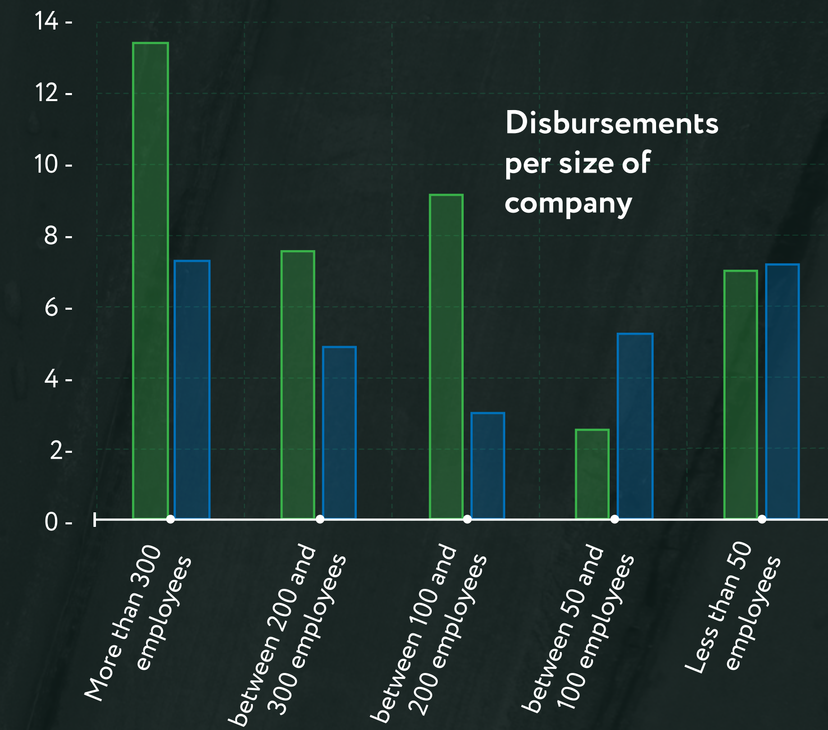
Also, we started financing a project for traceable and mercury-free artisanal miner gold in Nicaragua. We believe that, under the right conditions, artisanal gold extraction has less environmental impact than industrial open-pit mining. Also, artisanal mining has a stronger social impact. For remote rural communities, often largely abandoned by the state, small-scale gold mining provides a vital source of income.

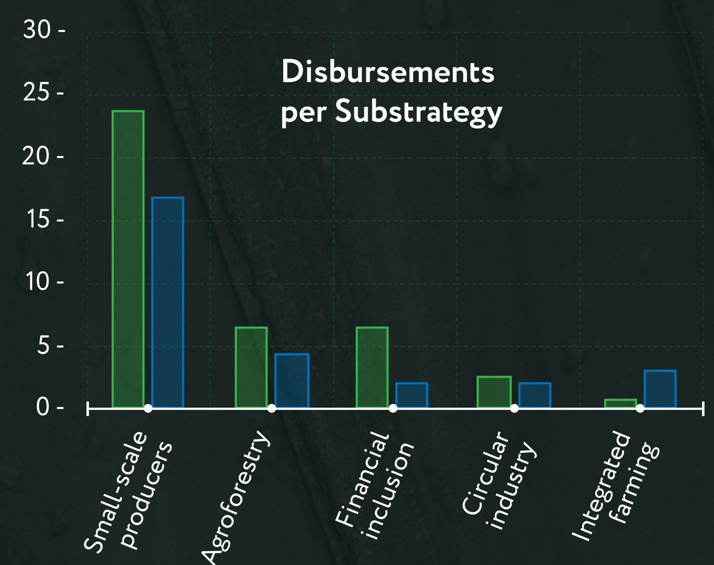
Yet, the sector is also plagued by harsh working conditions and environmental damage due to its informal conditions. By providing the artisanal miners with modern facilities to process the ore (without the use of highly toxic mercury), and by formalizing and legalizing the activities of small-scale miners, the company contributes to establishing a socially and environmentally more sustainable value chain.

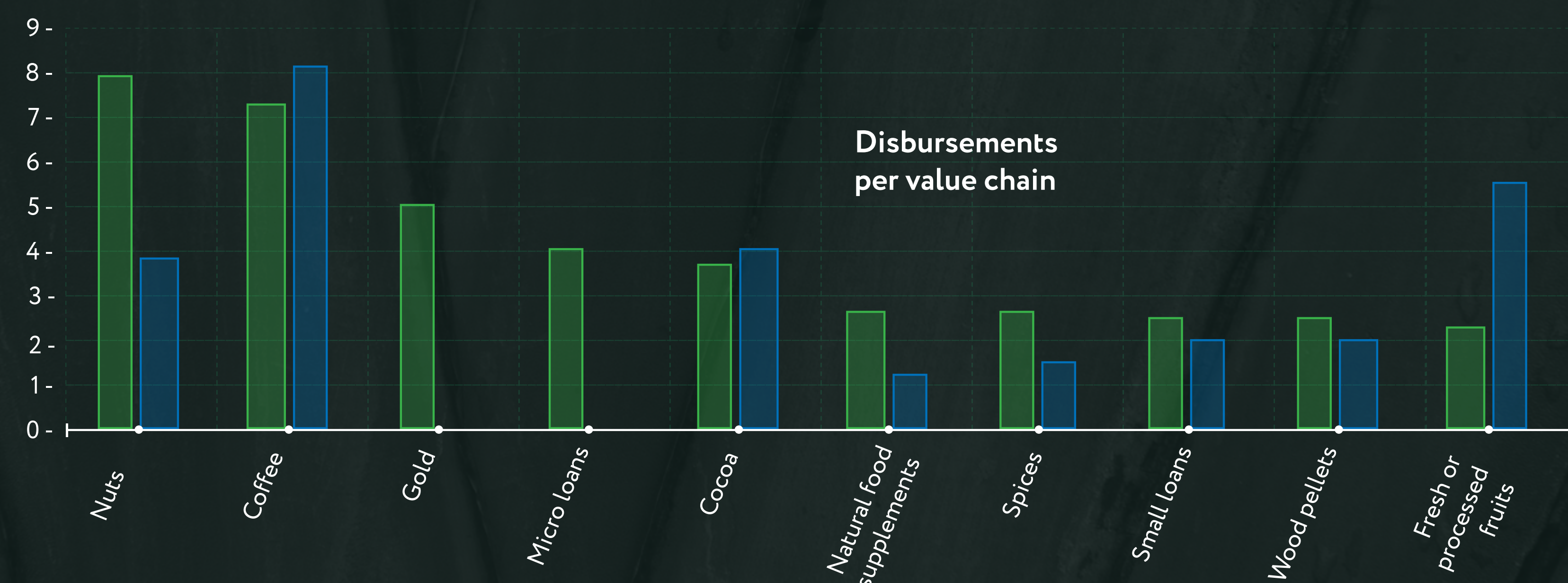
Moreover, as the pandemic left many Nicaraguans unemployed, more people turned towards artisanal gold extraction. At the same time, due to the volatility of the global markets, there is a growing demand for gold, as it is considered a safe investment. Also, there is an increased demand for a more sustainable gold extraction, with positive social impact. Both represent a huge growth opportunity for the company that we finance.

Financial Activity in 2021 in USD million









Disbursed in 2021
USD 40M

Disbursed in 2020
USD 28M

Repaid in 2021
USD 28M

Repaid in 2020
USD 31M

Evolution of the industry

Sustainable Investing: Lost in Ambiguity?

Less than twenty years into its existence, the term ESG has reached a crossroads. The concept was coined by the UN in 2004 when it called for 'better inclusion of environmental, social and corporate governance factors in investment decisions'. ESG was born. Still, it would take more than a decade for ESG investing to become a factor of importance in corporate investment decisions.

These tides changed in the past years, with ESG investing gaining popularity. The growing attention to the threat of climate change steered many investors to take the environment into account. Also, the pandemic and widespread demonstrations against social and racial injustices put social factors higher on the investor's agenda. A growing base of investor groups now demands that investments also profit people and the planet, beyond just generating revenue.

By last year ESG had become mainstream. More than 2,900 ESG funds now manage more than 2.7 tn of assets, according to data provider Morningstar. However, this does not necessarily mean that these ESG investments are making any positive difference to our planet. On the contrary: science shows that we are far from stopping global warming or reversing biodiversity loss. Also, during the pandemic, social inequalities and injustices have increased, rather than the opposite.

What is happening? First, over the years the significance of the term ESG has become diluted, an all-inclusive package for whoever intends or claims to invest sustainably and responsibly. With asset managers and companies eager to meet the rising demand of ESG investors, new sustainable investment funds were launched, and others were marketed as such. This has made ESG an easy prey to the 'greenwashing' of business operations and investments that make false, unrealistic or misleading sustainability claims.

Meanwhile, ESG has become the subject of criticism and outright attacks from different sides. Allegations of greenwashing, culminating in German and American authorities investigating the ESG credentials of asset managers DWS in Germany, and Goldman Sachs and NY Mellon in the US, have stoked the anti-ESG fire of all opponents ranging from Republicans to right-wing populists and skeptics from the finance industry, all united in the fight against 'woke capitalism'.

Exemplary in this regard is Elon Musk who called ESG 'a scam', after S&P removed Tesla from the ESG index, due to its questionable performance on social and governance factors. "Corporate ESG is the devil incarnate," tweeted Musk, while accusing the index of complying with a 'leftist agenda.'

The other extreme are those who consider that capitalism and the finance industry inevitably lead to a deterioration of our planet. These 'romantics' distrust by principle any initiative coming from the private sector.

Part of the criticism on ESG is justified. The ample but ambiguous concept has facilitated false sustainability claims. Yet that does not mean that ESG and stakeholder capitalism should be abandoned altogether. ESG is a work-in-progress and still needs refining. The current radicalization of the discussion by no means contributes to solutions. For finance to become more responsible, accountability and common sense are key.

One step in that direction is improving and standardizing regulation on principles of ESG investing. In this regard, the European Union has made important steps implementing the Sustainable Finance Disclosure Regulation (SFDR), setting rules for what sustainability-related information financial market participants in the EU should disclose. Also, the US Securities and Exchange Commission recently implemented measures to prevent greenwashing.

From investor's impact to impact investing

Another obstacle is the misuse of the term impact. The SFDR so far has been limited to the first level of sustainable investment: Act to Avoid Harm, through obliging financial actors to disclose information on the sustainability risks of their investment decisions. The funds that qualify as the most sustainable need to provide information on the Principal Adverse Indicators of the companies they finance – most of which are related to Green House Gas (GHG) emissions.

But, a company acting to avoid harm to people and the planet does not necessarily generate positive environmental or social impacts - in addition to making profits. Yet, many sustainable asset managers claim their investments have a positive impact without measurable proof of these outcomes.

It is important to make a distinction between investor impact and impact investing. The first, as explained by Eurosif in their 2021 report, is 'the means by which the financial sector can contribute to ensuring that human activity becomes more sustainable and thereby remains within the natural limits imposed by our planetary boundaries.'

Impact investing, on the other hand, refers to 'investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return'.

The importance of additionality

So, how to translate sustainable investments into positive social and environmental impacts? Into outcomes that make a real difference to people and the planet?

To us, the answer is additionality. What are the positive impacts achieved by an investment? Intentions alone do not generate impact. Therefore, positive impact claims should be based on measurable outcomes, more than just standards for sustainable financing.

At Impact Finance, we scrupulously select companies that fit our different investment sub-strategies, followed by close monitoring of their growth and impact.

When we invest in a company, our financing directly influences the impact of the company by contributing to its growth and, consequently, its intended positive impacts. This is what we call additionality. And, it is where we make a real difference.

Here we distinguish between investing in listed companies vs. financing private companies. When investing in private markets, the money received by the company is fresh money, able to generate a direct impact. But when investing in the listed market the investor's money is used to buy shares from a previous investor. The money does not directly reach the company, which lowers the potential impact of the investment.

Therefore, we consider financing private companies more effective when it comes to additionality. To invest in a listed company just because in terms of sustainability it performs better than others, will usually generate little additional impact.

When investing in listed companies, additionality can only be achieved by direct engagement of the investors with the management of the company. The potential impact of an investor through engagement, according to Eurosif, will generally depend on the amount of shares the investor holds, and its capacity to build a strong relationship with the company's management.

Impact investing

Impact investing is a subset of sustainable finance. The common feature of different sustainable finance strategies is acting to avoid harm. Impact investing takes this approach a few steps further by adding intentionality and additionality into the mix. More than ensuring that an investment 'avoids harming' people or the planet, impact investing actively seeks to make positive changes to our world, alongside making profits.

In the context of expanding regulation on sustainable investment, we consider it crucial for investment managers like Impact Finance to differentiate ourselves from mainstream sustainable finance funds by having intentional and measurable positive impact.

Impact investing is defined by two concepts: Intentionality and additionality

Intentionality: What social or environmental problem does the company and/or investment intends to address? To measure the intended positive impacts within each of our sub-strategies we use the impact reporting methodology of the Impact Management Project. This methodology refers to the intentionality of an investment with three dimensions: What? Who? How much? The aimed outcome should be integrated into the investee company's business model.

Additionality: What are the concrete outcomes achieved by the investment, and are these the intended positive impacts?

The Impact Management Project refers to additionality with two dimensions: Contribution and Risk. Contribution is the change that occurred as a result of the company's actions, compared to a situation in which the company would not have existed. Risk explores the risk that the intended impact does not take place because of the failure of the company and naturally the consequent failure of its impact promise.

These two concepts of impact investing are intrinsically linked to one another. The combination of the two results in the impact of an investment. If an investor claims to have a higher purpose than doing no harm, then its intentions should go along with additionality.

What is impact investing?

	Act to avoid harm	Benefit stakeholders	Contribute to solutions	
Impact investing	✓	✓	✓	Private markets
Sustainable private debt and private equity	✓	✓	–	Private markets
Engagement / Stewardship	✓	✓	–	Listed markets
Thematic	✓	–	–	Listed markets
Best in class	✓	–	–	Listed markets
Exclusion	✓	–	–	Listed markets

Update on methodology

In 2021, we adapted several fronts of our methodology in response to the evolution of market practices.

Sustainability:

We have integrated the indicators for adverse impact on sustainability factors of EU's Sustainable Finance Disclosure Regulation (SFDR) into our Kharmax monitoring tool.

Impact:

Since 2020, using the Impact Management Project we reported on the intended positive impact of each sub-strategy. We initially reported on the positive impact specific to each company. Now, we have incorporated the Fund's attribution and the USD 1M investment attribution.

SDGs:

The Sustainable Development Goals of the UN (SDGs) were adopted by the United Nations in 2015. As a universal call to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. The SDGs have progressively become the universal tool for investment managers to report on impact. In this section we contextualize our use of six SDGs:

NO POVERTY

According to the UN Economic Commission for Latin America and the Caribbean (ECLAC), 32% of the region's population lived in poverty in 2021. It is companies serving this population, providing access to technology and the know-how, that will contribute to increasing productivity.

DECENT WORK AND ECONOMIC GROWTH

This SDG is at the heart of our entrepreneurial strategy, and a common feature of our five sub-strategies. Over half (54.4%) of the region's workers are in the informal sector, 9 out of 10 workers are living in poverty, and nearly a third are self-employed. Encouraging economic growth and quality job creation will lead to the recuperation of the middle class, which is crucial to strengthening political stability.

REDUCED INEQUALITIES

Inequalities include the gap between rich and poor, urban and rural opportunities, and issues related to race, gender, and other forms of discrimination. Despite the progress of upward mobility in Latin America in the past decades, inequalities still remain. Persisting inequalities were brought to the surface by the recent economic recession and sanitary crisis caused by the pandemic. Financial inclusion and quality employment in rural areas can improve opportunities and contribute to reducing the gaps.

RESPONSIBLE CONSUMPTION AND PRODUCTION

According to a 2018 report by UNEP called "Waste Management Outlook for Latin America and the Caribbean", the region generates 10% of all global waste. About a third of this waste, 145,000 tons per day, is discarded in open rubbish dumps, and it is estimated that only 10% of the waste generated is recycled. This demonstrates the huge opportunity for private investments in companies to retrieve valuable materials or biproducts from waste.

CLIMATE ACTION

The effects of global warming are experienced in all parts of the world. However, it is the population at the base of the pyramid that is the most affected. States continue to struggle to agree on concrete policies, such as a CO_2 taxes. Despite numerous climate summits, government progress has remained minimal despite the stakes. However, at the current pace of global warming, the region will be forced to adapt. Improved agricultural practices, forest preservation together with circular industries are all providing business-driven solutions to climate change issues.

LIFE ON LAND

Deforestation and desertification represent huge challenges to sustainable development. These degradations negatively impact the livelihood of communities that rely on forest-related ecosystem services, such as erosion control and wild food production. Businesses have a role to play to conserve habitats. Viable means of production such as agroforestry and integrated agriculture can effectively contribute to the protection of forest ecosystems.

At the center of our strategy

26

Companies reporting impact

With accumulated sales of

USD 367M

In 2021, the sales of these companies grew by 9.2%, however, their net income was down by 25%.

8 DECENT WORK AND ECONOMIC GROWTH

Contribution

100% of salaries are either above or comparable to the local standard

58% [15 companies] with a fair and transparent salary policy

81% [21 companies] with a fair and transparent hiring policy

35% of the companies provided well-designed staff training programs , with 58% considered moderate staff training programs

66% women employees/over total employees

9,029 total employees as of end of 2021

25% employee growth since the Impact Finance investment

2,820 additional employees since the Impact Finance investment

15% of growth of the assets of investees in 2021

5% employee growth in 2021

450 net jobs created in 2021

Fund attribution

1,101 employees as of end of 2021

788 women employees as of end of 2021

58 jobs created in 2021

USD 1M investment attribution

21 employees as of end of 2021

15 women employees as of end of 2021

1 job created in 2021

Our five sub-strategies

Integrated farming

Creating job opportunities in rural areas and optimizing resources. **Page 17**

Financial inclusion

Reinventing financial intermediation to generate economic growth. **Page 15**

Small-scale producers

Working directly with small-scale producers in a win-win collaboration. **Page 13**

Circular industry

Converting waste into resources. **Page 16**

Agroforestry

Regenerating ecosystems thanks to economic activities. **Page 14**

2021: Exploring additionality

When considering impact, we distinguish three levels: the impact of the company, the fund and the investor.

1. **The company:** what is their specific impact?
2. **The Fund attribution:** how does the Fund contribute to the activity of the company?
3. **The USD 1M investment attribution:** how does the investor contribute to the activity of the Fund?

To infer the Fund's impact, we take the percentage based on the average outstanding investment in the company during the year and the company's average total assets. For example, an average outstanding investment of USD 2M, in a company with USD 10M average total assets, calculates the impact of the Fund at 20% of the company's total impact.

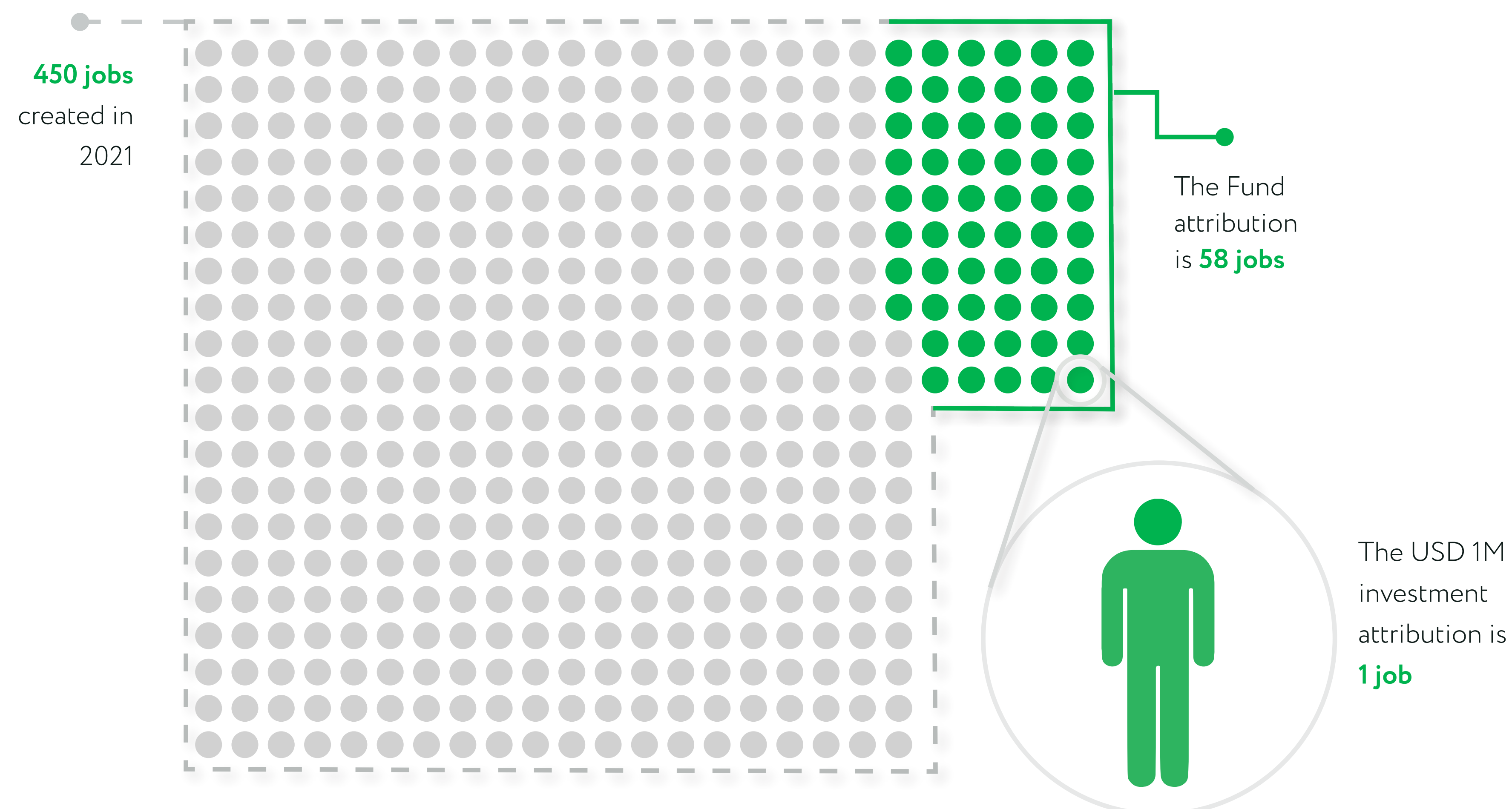
When it comes to the impact of a USD 1M investment we divide it by the Fund's average assets under management. Given the current size of the Fund and the carefully selected companies we invest in, we consider that every investor has a significant impact.

In our vision, every investor should be able to choose the kind of impact that he or she would like to generate, based on the investor's concerns and values. It is through transparent investments with clear intentions and measurable outcomes that we can drive the positive changes needed in our world today.

ATTRIBUTION: concrete example for a contribution indicator

In order to get closer to the idea that the fund creates positive impact, one can use the methodology suggested by the EU regulator in the SFDR methodology it recommends to calculate the GHGs emissions of a fund.

$$\sum_{n}^{i}\left(\frac{current\ value\ of\ investment}{investee\ company's\ enterprise\ value}\ \text{x}\ result\ of\ the\ company\right)$$



Kharmax Score

69
Total indicators

2.23
Average score

Rating:

B

Dimension	Category	# of indicators	Score	Rating
Environment		**27**	**2.22**	**B**
	GHG emissions	6	2.34	A
	Energy performance	3	1.77	B
	Biodiversity	2	2.33	A
	Water usage	5	1.79	B
	Waste and materials	6	2.14	B
	Land use	5	2.95	A
Labour practices		**11**	**2.17**	**B**
	Diversity & equality	3	1.90	B
	Health and safety	4	2.14	B
	Discrimination and complaints	4	2.46	A
Human rights		**12**	**2.52**	**A**
	Respect of HR	8	2.07	B
	Corruption	4	2.96	A
Governance		**5**	**2.24**	**B**
	Transparency and accountability	2	2.35	A
	Diversity & representativity	3	2.13	B
Product responsibility		**8**	**2.63**	**A**
	Product tranparency	4	2.68	A
	Product quality	4	2.57	A
Economics		**6**	**1.60**	**B**
	Sustainability	4	1.29	C
	Profit sharing	2	1.92	B

Small-scale producers

# of companies reporting: 15

Portfolio share in 2021: 44%

Average attribution: 0.12

Who: Small Scale Producers

How Much: 71,025

What

Our small-scale producers' sub-strategy defines companies working directly with small producers in a win-win collaboration. These companies generally offer small-scale producers' better access to markets and fair prices for their products, by focusing on smart marketing strategies like fair trade, organic, origin, and quality. Furthermore, they can provide producers with access to technology to increase productivity. This allows them to sustainably increase their production by making improved use of their land and resources achieving economic stability over time.

Risk Rating

B[27] Companies working with small-scale producers represent a higher risk, as their supply can be informal and price sensitive. Typically, these companies can be relatively small and have a limited skilled workforce and/or weak governance. This sub-strategy has been affected in 2021 by the erratic markets as a result of the Covid crisis.

Contribution

1 NO POVERTY	15 LIFE ON LAND
0.5% growth of total small-scale providers compared to last year 207% growth of total small-scale producers compared to the year preceding Impact Finance investment 19% paid above the market price on average to producers 26,823 tons of product with the fair trade and/or an organic certification 73% of the total production of the small-scale producers purchased by the companies 15,153 small-scale producers that received technical assistance in 2021 (21% of the small scale producers) 37% of increased yield per ha as a result of technical assistance compared to local average production per ha 60% of the companies pay upfront for the product, either on the day of reception or earlier	85,869 ha with an organic certification 197,479 ha managed according to the principles of regenerative agriculture, but without certification 735 kg of mercury avoided as a result of the industrial process of gold extraction during the period [25]

Fund attribution

1,807 small-scale producers	1,700 ha with an organic certification 7,708 ha managed according to the principles of regenerative agriculture, but without certification

USD 1M investment attribution

35 small-scale producers	33 ha with an organic certification 150 ha managed according to the principles of regenerative agriculture, but without certification

Agroforestry

# of companies reporting: 3

Portfolio share in 2021: 25%

Average attribution: 0.31

Who: The planet

How Much: N.A.

What

Our Agroforestry sub-strategy defines companies that manage plantations or operate in forests focusing on biodiversity conservation. Agroforestry is an ecologically based land management system, which integrates trees and shrubs into agricultural landscapes. The benefits of this combination of forestry and agriculture include increasing biodiversity, mitigating climate change, and furthermore reducing soil erosion. Our portfolio companies strive to restore ecological habitats or protect primary forests. Enabling forests to become an economically viable asset for communities.

Risk Rating

B[27] The Agroforestry sub-strategy typically involves long-term projects, these retain a level of uncertainty, yet they are represented by solid assets. To compensate the risk, they pay higher IRR (Internal Rate of Return) and are backed by strong guarantees.

Contribution

15 Life on Land	13 Climate Action
86% Less water used than the standard of the industry	120,858,161 tons of CO_2 sequestrated in the protected portions of forest and in the plantations [19]
161,494 ha of protected forest, of which 161,119 is in the Amazon basin	17,531 tons of CO_2 sequestrated during the period [20]
661 ha of planted forest	
19.5 ha of planted forest during the period	
0 species reappeared	

Fund attribution

15 Life on Land	13 Climate Action
4,565 ha of protected forest	3,260,202 tons of CO_2 sequestrated in the protected portions of forest and in the plantations
311 ha of planted forest	2,198 tons of CO_2 sequestrated during the period

USD 1M investment attribution

15 Life on Land	13 Climate Action
89 ha of protected forest	63,490 tons of CO_2 sequestrated in the protected portions of forest and in the plantations
6 ha of planted forest	43 tons of CO_2 sequestrated during the period

Financial inclusion

# of companies reporting: 6
Portfolio share in 2021: 19%

Average attribution: 0.05

Who: Micro-enterprises (< 10 employees), small enterprises (> 10 employees), and students
How Much: 85,092 (78,351 micro-enterprises, 590 small enterprises and 6,151 students)

What

Our Financial inclusion sub-strategy defines companies that provide access to financial services for micro and small enterprises. Furthermore, these companies may finance education loans, improving access to the labor market for younger generations and in turn strengthening the economy. Funding is accessible through loans with fair interest rates, and often flexible repayment schemes to facilitate businesses' cash flow cycles. Technology is used to mitigate the risks of loans and advice is offered to clients to further their own financial literacy.

Risk Rating

A [27] Financial inclusion companies are considered to be relatively robust under the supervision of local regulators. Together with the management of these companies having a higher degree of education. The IRR is reflective of the lower risk in these companies. The Fund has seen an increase in opportunities within this sub-strategy as a result of the Covid pandemic.

	1 NO POVERTY	10 REDUCED INEQUALITIES
Contribution	40% offering varied financial training and 60% offering specific loan-associated training to their customers 64% of the outstanding loan portfolio were extended to productive companies, the remaining extended to trading companies 4% unique client base. Only one company out of 6 could report on the data [21] 12,735 of the company's clients are small-scale producers, representing 15% of the clients underlying portfolios 112,264 employees (approximation) [26] of clients of the 6 financial institutions financed	USD 154,623 is the average small loan size USD 5,001 is the average education loan size USD 1,669 is the average micro loan size 14% of clients of one small enterprise lender were able to access the banking sector 57% of the clients are women leading businesses or female students 1 hour or less in fintech loan issuance. The small enterprise lenders and education loan take between one to two weeks to be approved 20.8% net margin for the underlying clients. Could only be reported by small enterprise lenders
Fund attribution	308 small-scale producer clients 5,898 employees in the underlying companies	258 students financed through the underlying portfolio 31 small enterprises financed through the underlying portfolio
USD 1M investment attribution	6 small-scale producer clients 115 employees in the underlying companies	5 students financed through the underlying portfolio 0.6 small enterprise financed through the underlying portfolio

Circular industry

# of companies reporting: 1

Portfolio share in 2021: 6%

Attribution: 0.05

Who: Planet

How Much: N.A.

What

Our Circular industry sub-strategy defines companies which are working to create innovative solutions for waste recovery. The optimization of materials and energy derived in the circular industry aid in reducing the use of natural resources.

Risk Rating

BB [27] The sole company in this sub-strategy maintained a viable business model with a strong local demand of the product in an energy market that was shaken by the effects of Covid.

	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION
Contribution	183 GWh produced out of recycled sources [22] 10 liters of water used per ton of production 39,807 tons of recuperated waste	2,511,692 eq. households heated with pellets [23] 50,857 tons of CO_2 avoided[24]
Fund attribution	9.2 GWh produced out of recycled sources 2,008 tons of recuperated waste	126,694 eq. households heated with pellets 2,565 tons of CO_2 avoided
USD 1M investment attribution	0.2 GWh produced out of recycled sources 39 tons of recuperated waste	2,467 eq. households heated with pellets 50 tons of CO_2 avoided

Integrated farming

# of companies reporting: 1
Portfolio share in 2021: 6%

Attribution: 0.53

Who

Rural employees and the planet

How Much

673 employees from rural areas

What

Our Integrated farming sub-strategy defines companies that combine the use of modern technologies and natural processes to increase productivity and minimize the use of agrochemicals. Practices such as regenerative agriculture and hydroponic systems are some of the measures employed. Furthermore, the focus of these companies is to create quality employment, especially for women.

Risk Rating

BBB [27] Integrated farming are generally solid companies with strong assets and good management.

	10 REDUCED INEQUALITIES	15 LIFE ON LAND
Contribution	256 women employed, who are the primary provider of the family 66% of employees living in rural areas 100% provide transportation to employees	100% employ primarily natural solutions to control plagues. Any use of chemical pesticides is well controlled. 100% have a mixed used of artificial fertilizer and alternative/natural techniques 200 ha of cultivated land (direct and indirect) 150 ha of technified cultivated land 83% productivity level above the standard production in Florida 36% reduction in water usage compared to the standard usage in Florida
Fund Attribution	135 women employed, who are the primary provider of the family	105 ha of cultivated land (direct and indirect) 79 ha of technified cultivated land
USD 1M investment attribution	2.6 women employed, who are the primary provider of the family	2 ha of cultivated land (direct and indirect) 1.5 ha of technified cultivated land

SFDR table

Number	Category	Dimension	Status	Indicator	Note	Result
				Cumulated company value	2	USD 640,527,727
				Portfolio value	3	USD 40,239,253
				Cumulated company income	4	USD 366,836,926
1	Environment	GHG Emissions	Mandatory	Scope 1 GHG emissions	5	-779 tons of CO_2
1	Environment	GHG Emissions	Mandatory	Scope 2 GHG emissions	5	324 tons of CO_2
1	Environment	GHG Emissions	Mandatory	Scope 3 GHG emissions	5	19,258 tons of CO_2
1	Environment	GHG Emissions	Mandatory	Total GHG emissions	5	18,803 tons of CO_2
2	Environment	GHG Emissions	Mandatory	Carbon footprint	6	544 tons of CO_2/€M
3	Environment	GHG Emissions	Mandatory	GHG intensity of investee companies	7	-325 tons of CO_2/€M
4	Environment	GHG Emissions	Mandatory	Share of investment in companies in the fossil fuel industry		None
5	Environment	Energy performance	Mandatory	Share of non-renewable energy consumption	8	77%
6	Environment	Energy performance	Mandatory	Energy consumption intensity	8	No portfolio company with high impact climate sectors
7	Environment	Biodiversity	Mandatory	Activities negatively affecting biodiversity-sensitive areas	9	25% of the portfolio [4 companies] focus on improving biodiversity or have a no direct or indirect negative impact on biodiversity-sensitive areas; 75% of the portfolio [22 companies] have a low potential for direct or indirect negative impact on biodiversity-sensitive areas, due to small scale and environmentally friendly agricultural activities
8	Environment	Water usage, waste and materials	Mandatory	Emissions to water		Very limited emissions to water given the high production standards of portfolio companies
9	Environment	Water usage, waste and materials	Mandatory	Hazardous waste and radioactive waste ratio	10	No hazardous waste generated
10	Labor Practices	Diversity & Equality	Mandatory	Violations of UN Global compact principles (Principles 3-6)	11	100% of the portfolio [26 companies] have experienced no violation of the principle 3 to 6 of the Global Compact but have not signed the Global Compact. Their size permits having a satisfactory internal control
10	Human Rights	Respect of HR	Mandatory	Violations of UN Global compact principles (Principles 1, 2 and 10)	12	100% of the portfolio [26 companies] have experienced no violation of the principle 1, 2 and 10 of the Global Compact but have not signed the Global Compact. Their size allows a satisfactory internal control

SFDR table

Number	Category	Dimension	Status	Indicator	Note	Result
10	Environment	Water usage, waste and materials	Mandatory	Violations of UN Global compact principles (Principles 7-9)	13	100% of the portfolio [26 companies] have experienced no violation of the principle 7 to 9 of the Global Compact but have not signed the Global Compact. Their size permits to have a satisfactory internal control
11	Labor Practices	Diversity & Equality	Mandatory	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles (Principles 3-6)		100% of the companies of the portfolio are conscious of their obligations regarding the principles 3 to 6 of the Global Compact. They ensure adequate supervision and internal controls
11	Human Rights	Respect of HR	Mandatory	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles (Principles 1, 2 and 10)		100% of the companies of the portfolio are conscious of their obligations regarding the principles 1, 2 and 10 of the Global Compact. They ensure adequate supervision and internal controls
11	Environment	Water usage, waste and materials	Mandatory	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles (Principles 7-9)		100% of the companies of the portfolio are conscious of their obligations regarding the principles 7 to 9 of the Global Compact. They ensure adequate supervision and internal controls
12	Labor Practices	Social & employee Matters	Mandatory	Unadjusted gender pay gap	14	Women employees of the companies are paid 9% less on average than men
13	Labor Practices	Social & employee Matters	Mandatory	Board gender diversity		On average 18% of the companies board members are women
14	Labor Practices	Social & employee Matters	Mandatory	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)		No companies of the portfolio manufacture of sell any weapons
1A	Environment	Water usage, waste and materials	Additional	Emissions of inorganic pollutants		1.3 tons/€M
2A	Environment	Water usage, waste and materials	Additional	Emissions of air pollutants		0
3A	Environment	Water usage, waste and materials	Additional	Emissions of ozone-depleting substances		0
4A	Environment	GHG Emissions	Additional	Investment in companies without carbon emission reduction initiatives		100% of the companies are reducing their emissions yet have no clear emission reduction targets
5A	Environment	Energy performance	Additional	Breakdown of energy consumption by type of non-renewable sources of energy	15	Not applicable
6A	Environment	Water usage, waste and materials	Additional	Water usage	16	1,689 m^3/€M
6A	Environment	Water usage, waste and materials	Additional	Water recycled and reused		5% of the water consumed is recycled. 3 companies are recycling their water.
7A	Environment	Water usage, waste and materials	Additional	Share of investments without water management policies		60% of the portfolio [15 companies] monitors and records the usage of water with specific reduction targets. 3% [4 companies] met their specific reduction targets; 37% [7 companies] do not monitor or record usage

SFDR table

Number	Category	Dimension	Status	Indicator	Note	Result
8A	Environment	Water usage, waste and materials	Additional	Exposure to areas of high water stress		96% of the portfolio [23 companies] are not exposed to high water stressed areas, 4% of the portfolio [3 companies] are located in high water stressed areas and monitor water usage with reduction targets in place
9A	Environment	Water usage, waste and materials	Additional	Investment in companies producing chemicals		0% of the companies of the portfolio are producing chemical products
10A	Environment	Water usage, waste and materials	Additional	Share of investments in companies that are actively contributing to soil degradation, desertification and soil sealing		0% of the companies of the portfolio or their suppliers have activities causing land degradation, desertification or soil sealing
11A	Environment	Water usage, waste and materials	Additional	Share of investment in companies without sustainable land/agriculture practices		0% of the companies of the portfolio are working with suppliers that are not working with sustainable agriculture practices
12A	Environment	Water usage, waste and materials	Additional	Share of companies without sustainable ocean/sea practices practicies		0% of the companies of the portfolio are working with products related to oceans
13A	Environment	Water usage, waste and materials	Additional	Non-recycled waste ratio		0.04 ton/€M
14A	Environment	Biodiversity	Additional	Share of investment whose operations affects threatened/ endangered species		41% of the portfolio [10 companies] have no direct or indirect negative impact on endagered species; 59% of the portfolio [16 compamies] have a low potential direct or indirect negative impact on endangered species
14A2	Environment	Water usage, waste and materials	Additional	Share of investment without biodiversity protection policy		0% of the companies in the portfolio have a biodiversity protection policy. 16% of the portfolio [5 companies] are focused on the reintroduction of endemic species or in forest conservation
15A	Environment	Water usage, waste and materials	Additional	Deforestation		0% of the portfolio companies have an explicit policy to address deforestation. However, 76% of the portfolio [16 companies] have no direct or indirect deforestation risk related activies. 24% of the portfolio [10 companies] have a activities with potential deforestation risks, yet have effective certificiations and controls to avoid deforestation
1AS	Labor Practices	Social & employee matters	Additional	Investments in companies without workplace accident prevention policy		58% of the portfolio [17 companies] have effective systems and controls in place to ensure a safe workplace environment
2AS	Labor Practices	Social & employee matters	Additional	Rate of Accidents	17	1.4
3As	Labor Practices	Social & employee matters	Additional	Numbers of days lost due to injuries, accidents, illness	18	7.29
4AS	Labor Practices	Social & employee matters	Additional	Lack of a supplier code of conduct		4% of the portfolio [1 company] has the evaluation on human rights of key suppliers by way of procedures and written agreements. 73% of the portfolio [20 companies] proceed with a systematic evaluation on human rights of key suppliers with informal reporting. 23% of the portfolio [5 companies] proceed with a random evaluation of key suppliers on human rights with minimal reporting
5AS	Labor Practices	Social & employee matters	Additional	Lack of grievance/ complaints handling mechanism related to employee matters		37% of the portfolio [11 companies] have informal handling mechanisms for employee grievances/complaints. 63% of the porfolio [15 companies] have handling mechanisms for employee grievances/complaints
6AS	Labor Practices	Social & employee matters	Additional	Lack of whistleblower protection policy		7% of the portfolio [1 company] has no policy, yet has a dedicated channel for complaints. 48% of the portfolio [13 companies] have an informal whistleblower policy with a dedicated channel for complaints. 45% of the portfolio [12 companies] have a formal whistleblower policy

SFDR table

Number	Category	Dimension	Status	Indicator	Note	Result
7AS	Labor Practices	Social & employee matters	Additional	Incidents of discrimination		0 discrimination incident
8AS	Labor Practices	Social & employee matters	Additional	Excessive CEO pay ratio		The CEOs of portfolio companies have on average 5.89 times higher compensation than the median employee compensation
9AHR	Human Rights	Human Rights	Additional	Lack of human rights policy		54% of the portfolio [14 companies] have no human rights policy. The remaining 46% [12 companies] have a human rights policy including formal remediation processes
10AHR	Human Rights	Human Rights	Additional	Lack of due diligence on human rights		74% of the portfolio [21 companies] have no due diligence on human rights. 26% of the portfolio [5 companies] perform a due diligence on human rights.
11AHR	Human Rights	Human Rights	Additional	Lack of processes and measures for preventing trafficking in human beings		100% of the portfolio [26 companies] have no process or measures for preventing trafficking in human beings. However, they do not face significant risks related to trafficking in human beings
12AHR	Human Rights	Human Rights	Additional	Operations and suppliers at significant risk of incidents of child labor		100% of the portfolio [26 companies] have written working contracts and ID controls to avoid incidents of child labor. 54% of the portfolio [15 companies] perform an evaluation of suppliers regarding child labor and they are randomly controled. 45% of the portfolio [10 companies] have no systematic evaluation, but perform random evaluation of their suppliers to avoid child labor. 1% of the portfolio [1 company] does not perform any kind of control of their suppliers regarding child labor.
13AHR	Human Rights	Human Rights	Additional	Operations and suppliers at significant risk of incidents of forced or compulsory labor		100% of the portfolio [26 companies] have written working contracts and ID controls to avoid incidents of forced and compulsory labor. 51% of the portfolio [16 companies] are doing an evaluation of their suppliers regarding forced or compulsory labor and they are randomly controled. 34% of the portfolio [4 companies] have no systematic evaluation, but perform random evaluations of suppliers to avoid forced or compulsory labour; and 15% [5 companies] do not perform any evaluation of their suppliers regarding forced and compulsory labor.
14AHR	Human Rights	Human Rights	Additional	Number and nature of identified cases of severe human rights issues and incidents		0 incident
15AHR	Human Rights	Human Rights	Additional	Lack of anti-corruption and anti-bribery policies		84% of the portfolio [23 companies] have a comprehensive internal control system described in written procedures, verified by an independent and controled at the Board level. 16% of the portfolio [3 companies] have a comprehensive internal control system described in written procedures, but not audited.
16AHR	Human Rights	Human Rights	Additional	Cases of insufficient actions taken to address breaches of standards of anti-corruption and anti- bribery		0 incident
17AHR	Human Rights	Human Rights	Additional	Number of convictions for violation of anticorruption and anti-bribery lwas		0 conviction
17AHR	Human Rights	Human Rights	Additional	Amount of fines for violation of anticorruption and anti-bribery laws		Not applicable

Notes

1. All the numbers are calculated on the base of the average outstanding loans in each sub-strategy during the year. Taking the total outstanding amount as of the end of each quarter divided by 4. Throughout the year there were 26 reporting companies. Companies in the portfolio at risk are not reporting.
2. Sum of assets of all the portfolio companies as of the end of December 2021
3. Sum of the average outstanding loans as defined in Note 1
4. Sum of the cumulated sales of all the portfolio companies as of the end of December 2021
5. The companies of the portfolio were not able to provide data on Scope 3 emissions. For each product, the data on Scope 3 emissions was inferred from the litterature with some assumptions related to the specific context of each company. The specific amount of Scope 3 emissions was then calculated according to the volume of product sold. For Scope 2 emissions we applied an annual proxy of 834 kWh per employee for companies that did not have activity data. To convert that into CO_2 emissions, we used the "carbon intensity of energy production" of each country (source: https://ourworldindata.org/co2-and-other-greenhouse-gas-emissions). In line with European standards, the formula used to calculate Scope 1, 2 and 3 emissions is the following:

$$\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{investee\ company's\ enterprise\ value_i}\times investee\ company's\ Scope(x)\ GHG\ emissions_i\right)$$

6. $$\frac{\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{investee\ company's\ enterprise\ value_i}\times investee\ company's\ Scope\ 1,2\ and\ 3\ GHG\ emissions_i\right)}{current\ value\ of\ all\ investments\ (€M)}$$

7. $$\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{current\ value\ of\ all\ investments\ (€M)}\times\frac{investee\ company's\ Scope\ 1,2\ and\ 3\ GHG\ emissions_i}{investee\ company's\ €M\ revenue_i}\right)$$

8. The portfolio companies were unable to provide this data. As a proxy, we used for each investee the country's "renewable share in final energy consumption (SDG 7.2)" (source: https://www.iea.org/fuels-and-technologies/renewables). The result is the average of all 26 portfolio companies..
9. We use a scale from 0 to 3 that enable us to obtain more value to the binary SFDR question. Impact Finance visits all companies in order to physically see the operational activities and gain better understanding of their values and working environments. It allows for any questions related to the different criteria of SFDR to be discussed in person.
10. The only company that could be considered as generating hazardous waste is our gold processor in Nicaragua. However, its tailings are being processed by a third party following the highest standards of the industry. Those tailings are reported as inorganic pollutants under indicator 1A.
11. The UN Global compact principles related to 'Labor' are: Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: Businesses should advocate the elimination of all forms of forced or compulsory labor; Principle 5: Businesses should advocate for the effective abolition of child labor; Principle 6: Businesses should advocate the elimination of discrimination with respect to employment and occupation.
12. The UN Global compact principles related to 'Human Rights' are: Principle 1: Businesses should support and respect the protection of internationally declared human rights; Principle 2: Companies should ensure that they are not participants in human rights violations; Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.
13. The UN Global compact principles related to 'Environment' are: Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: Companies should undertake initiatives to encourage greater environmental responsibility; Principle 9: Businesses should promote the development and diffusion of environmentally friendly technologies.

14. Salaries are divided into two categories: employees with undergraduate studies; and employees without undergraduate studies. Despite the data collected, it is difficult to obtain a clear picture on gender-related salary distributions.

15. As mentioned in Note 8, to determine the use of non-renewable energy we use the data provided by the IEA. This breakdown could not be provided by portfolio companies. However, the main non-renewable energy source of portfolio companies is the diesel used for vehicles and generators.

16. In addition to reported data, we added a proxy of 13 m^3 per employee per year.

17. The rate of accidents is calculated by multiplying the number of yearly accidents by 200,000, divided by the number of employee hours worked.

18. The lost time injury rate is calculated by multiplying the hours of lost time injuries by 200,000, divided by the number of employee hours worked. The value in days is obtained by dividing the result by 9.

19. The CO_2 sequestrated has been calculated as follows: 25 kg of CO_2 annually per tree, in the case of plantations. Each hectare of amazonian forest preserved represents a stock of 750 tons of CO_2.

20. The CO_2 sequestrated in the period has been calculated as follows: For plantations: the number of trees per ha multiplied by the plantation ha, and multiplied by 25 kg of CO_2. For the forests preserved; the number of ha preserved multiplied by 90 kg of CO_2.

21. The unique client base is defined as clients with no further debt obligations to other financial institutions. An important data collection, particularly where financial institutions claim financial inclusion.

22. 1 kg of wood pellets generates 4.6 kWh

23. A household needs approx. 100 liters of fuel per month, 5 months a year. Each liter of fuel generates 10 kWh. 27,301 tons of pellets were sold locally in Chile.

24. Pellets produced under the Forest Stewardship Council (FSC) are considered by the EU authorities as renewable energy. However, there is an existing debate around the renewable reasoning of this product. On one hand it could be considered renewable with the re-planting of trees; on the other hand it can take up to 20-25 years before the mature trees are able offset the level of CO_2 released from burning pellets. In the case of our investee's pellets, they are made from wooden waste from FSC plantations. 12,506 tons of pellets were exported to Europe to replace coal in power plants. The emission factor for coal is 960 Kg of CO_2 per MWh. Scope 1 and scope 2 emissions of the investee were substracted along with shipping emissions.

25. According to the litterature (https://www.sciencedirect.com/science/article/abs/pii/S0959652605000752), artisanal miners can release between one and two grams of mercury per gram of gold produced. We considered that 1.5g of mercury was avoided for each gram of gold sold by our investee.

26. The number of employees used is 1.35 per micro-enterprise and 11 per small enterprise.

27. Impact Finance proprietary risk rating considers internal and external risks of the companies around three pillars:

- **Organization risk (17 ratings):** shareholders, governance, management, human resources
- **Economic risk (33 ratings):** assets, liabilities, income, statement, cash flow
- **Value chain risk (15 ratings):** supply, product, process, market

Rating	Quality
AA	Outstanding
A	Very good
BBB	Good
BB	Average
B	Mediocre
C	Not satisfactory
D	Bad
F	Terrible

IMPACT FINANCE

IMPACT REPORT 2021

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