

Disclosure Statement

Operating Principles for Impact Management

SIFEM (Swiss Investment Fund for Emerging Markets)

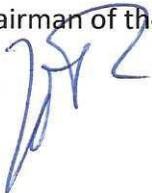
March 26, 2021

The Swiss Investment Fund for Emerging Markets (SIFEM) is a founding signatory to the Operating Principles for Impact Management (the Principles). The Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

This Disclosure Statement affirms that SIFEM's core/client business, including (a) impact management systems; (b) policies and practices; and (c) investments (fund investments and loans) are managed in alignment with the Principles. Total assets under management in alignment with the Principles is **US\$ 883.6 million**¹ as of December 2020.²

Jörg Frieden,

Chairman of the Board



¹ Portfolio exposure includes equity and quasi-equity instruments, as well as current income earning instruments, and represents total active commitments as of December 31, 2020.

² The sole purpose of this Disclosure Statement is to fulfill SIFEM's obligations pursuant to Principle 9. This document shall not constitute and should not be construed as an offer, solicitation or invitation to buy or sell any securities, financial instruments or services whether described herein or otherwise, or as any prospectus or investment-related advice in relation thereto, nor is it intended to form the basis of a decision to participate in any investment. SIFEM makes no guarantee or other promise as to any outcomes, including any financial or development impact results that may be obtained from the practices disclosed in this statement. While past performance may be analyzed in this Disclosure Statement, past performance should not be considered indicative of future performance. Accordingly, SIFEM shall not have any liability to any of the recipients of this Disclosure Statement, nor to any other party in connection with or arising in any way from, or in relation to, the information or any opinions expressed in this Disclosure Statement, and SIFEM does not accept any responsibility whatsoever for any action taken, or omitted to be taken by any party on the basis of any matter contained in, or omitted from, the Disclosure Statement.

Principle 1 – Define strategic impact objective(s), consistent with the investment strategy: The Manager shall define strategic impact 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.

- *As the development finance institution of the Swiss Government, SIFEM belongs to the instruments of bilateral development assistance financed by the Swiss government to foster private sector development in developing and emerging countries, complementing other measures of economic development assistance.*
- *Since the establishment of SIFEM in 2011, the Swiss Government has set strategic objectives to SIFEM including specific development impact objectives. The current strategic framework assigned to SIFEM for the period 2018-2020 includes a variety of development objectives aligned with the Agenda 2030 for Sustainable Development (SDGs). The same apply to the next strategic cycle, i.e. 2021-24.*
- *As reflected in its impact policy adopted in 2017, all SIFEM investments are made with the specific intent to generate a measurable development impact, with specific monitoring indicators. For this purpose, SIFEM bases its work on a specific theory of change linked to a results framework to assess, analyze and monitor its investments. This framework is based on the SDGs, and used in a consistent manner to maximize the development effects linked to SIFEM's investment decisions throughout the whole investment cycle, starting with the analysis of investment opportunities.*

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.

- *The result measurement framework used by SIFEM is composed of three different levels. First, an internal rating tool, is used to appraise investments and track their development performance over time. In order to do this, a benchmark is established prior to investment to reflect the expected development effects. Second, a number of indicators are collected for each investment to measure development effects, which are aggregated at the portfolio level and reported to the Swiss Parliament. Third, case studies are conducted on an annual basis to take a closer look at the effects and value-add of SIFEM's investments in specific contexts.*
- *Performance against the achievements of the strategic objectives -including development impact- is built into the staff incentive system.*

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

- *As per its mandate and strategic framework, all SIFEM investments need to respect the principles of sustainability, financial additionality, value additionality and leverage. A scoring system against these principles is used to qualify each investment proposal submitted to SIFEM’s investment committee.*
- *Each investment proposal contains a detailed development impact section, which establishes the expected contribution to specific development outcomes, as per SIFEM’s impact policy. SIFEM’s development role and expected contribution is part and parcel of the presentation of each transaction to the Investment Committee, including a description of the financial and value additionality of SIFEM.*

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.

- *Each investment proposal submitted to SIFEM’s investment committee contains a development impact section, which establishes the expected contribution to specific development outcomes, as per SIFEM’s Impact Policy. Opportunities to enhance the impact – as recognized by SIFEM’s Impact Policy – are also part of the investment committee decision process.*
- *SIFEM uses a corporate impact rating tool, which provides a standardised rating based on a qualitative assessment. SIFEM has been using this tool to evaluate and measure the development effects of SIFEM’s investments since 2006. This system allows a comparison of the impact of any SIFEM investment on an indicator-by-indicator basis, but also on an aggregate investment-by-investment basis. The index also provides a way to benchmark each investment against the average score of the entire portfolio and to monitor its evolution over the entire investment lifecycle.*

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.

- *SIFEM commits all financial intermediaries to observe its Responsible Investment Policy and requires those intermediaries to ensure compliance with that policy at the level of their respective investees and clients. Portfolio companies adhere to national regulations and work towards the adoption of the relevant international standards defined in the Responsible Investment Policy¹.*
- *In line with its procedures, SIFEM regularly monitors the ESG performance of its investments and intervenes when-ever necessary to ensure compliance with the Responsible Investment Policy*

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.

- *Each year, SIFEM collects and monitors data on the key development effects of the underlying portfolio companies. Underlying portfolio companies report on the direct effects of their operations, using indicators which are harmonised, to the extent possible, with other Development Finance Institutions and with the standardised metrics developed by the impact investing community. These metrics capture portfolio-wide effects applicable to all investments, and sector-specific effects (for example: clean energy production, access to healthcare) whenever applicable.*
- *In order to track the progress of an investment over time, the corporate rating tool described in Principle 4 is used to establish an ex-ante benchmark at the investment appraisal stage. After the execution of an investment, assessments are conducted every second year to monitor and track the occurrence of actual development effects (ex-post process).*

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.

- *SIFEM considers the effect on maintaining development impact when making exit decisions in its equity portfolio. This can affect the timing, structure, and choice of who to sell to.*
- *SIFEM invests primarily in local or regional investment funds as a limited partner. When a particular fund reaches the end of its expected life with no underlying assets remaining, the fund structure is dissolved.*
- *Direct debt investments are self-liquidating without exit decisions.*

¹ https://sifem.ch/fileadmin/user_upload/sifem/pdf/en/Other_Documents/200303__SIFEM_Approach_to_Responsible_Investment.pdf

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.

- *SIFEM uses its corporate impact rating tool to analyse the expected development effects of SIFEM's new commitments, compares actual development effects measured through ex post data collection of the active investments versus expectations formed prior to investment, and presents conclusions for investments exited during the year.*
- *SIFEM conducts various cases studies on an annual basis to take a closer look at the effects and value-add of SIFEM's investments in specific contexts. Since 2018, SIFEM's Impact Reports take specific thematic issues and report on the lessons learned. External reviews, evaluations or thematic studies are also carried out during each strategic cycle, which are either commissioned by the Board or the Shareholder.*

Principle 9 – Publicly disclose alignment with the 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 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 re-affirms the alignment of SIFEM's procedures with the Principles and will be updated annually.*
- *SIFEM will conduct the independent verification of its alignment with the Principles every second year. The first assessment will take place in 2021. SIFEM is currently analysing the best option to carry out the independent verification.*
