

## **Sustainability-related product disclosure: BlueOrchard Microfinance Fund**

In accordance with Chapter IV, Article. 45-57 and Article 9(1), (2) and (3) of Regulation (EU) 2019/2088

### **1. Summary**

The BlueOrchard Microfinance Fund (BOMF) or the “Fund” was founded in 1998 as a private and fully commercial microfinance investment Fund. Since its inception, the Fund has been managed strategically as a fixed-income Fund, investing in microfinance institutions in emerging and frontier markets, with systematic currency hedging. This allows investors to obtain stable and attractive financial returns while fostering financial inclusion. It is open to institutional and private investors in a variety of currencies. The Fund has been subject to its first independent impact verification with very positive results. The public disclosure is publicly available on BlueOrchard’s webpage.

### **2. No significant harm to the sustainable investment objective**

The fund does not directly invest in sectors, which are prohibited by the IFC Exclusion List. Furthermore, inherent to the investment process is an ESG and Impact assessment (B.Impact Framework). The ESG Spirit Scorecard developed by BlueOrchard is a dedicated tool and process to assess investees’ environmental, social and governance risks and practices. It is aligned to international standards like the ILO Labor Convention. The Impact Spirit Scorecard verifies, amongst others, that the potential investment side effects do not cause significant harm to other sustainable investment objectives. BlueOrchard’s proprietary tools are based on the Operating Principles for Impact Management.

### **3. Sustainable investment objective of the financial product**

The Fund’s investment objective is to contribute to the financing of investees of various types involved in impact investment activities, across global emerging and frontier markets. Investees may be involved in activities such as micro, small, and medium enterprise lending directly or through downscaling programs targeting the productive sector, affordable housing, affordable education, health, agriculture or clean energy.

### **4. Investment strategy**

The investment strategy of the BlueOrchard Microfinance Fund is to contribute, directly or indirectly, to the financing of investees of various types involved in impact investment activities. The portfolio is broadly diversified across regions, countries as well as individual investments. It consists primarily of Tier I investees. Sustainability risk is reflected in the overall impact investment process and makes part of the variable compensation scheme.

### **5. Proportion of investments**

All investments (100%) are screened according to BlueOrchard’s proprietary ESG and Impact screening methodology. The remaining is invested in cash or money market funds.

### **6. Monitoring of environmental or social characteristics**

All investments of the BlueOrchard Microfinance Fund are regularly monitored for their social component by a dedicated team of monitoring specialists. Specific impact related indicators relevant for the Fund, e.g gender, portfolio activity, location of clients, average loan size, lending products & methodology or client protection practices, are monitored at the investee level on quarterly basis throughout the life of the investment. Additionally, the ESG Spirit Scorecard is updated on a biennial frequency and the Impact Spirit Scorecard in case the impact objective may not be attained.

### **7. Methodologies**



The Fund combines a top-down approach of strategic asset allocation with a rigorous bottom-up credit analysis and underwriting process. ESG and impact measurement and management is an integral part of the investment process. Each prospective investment is analyzed via a three-step ESG and Impact assessment framework consisting of (1) ESG assessment: a dedicated tool and process to assess a project's environmental, social and governance risks and practices, (2) Impact Assessment: a dedicated tool and process to assess a project's potential impact, (3) SDG Mapping & alignment: a dedicated SDG methodology allowing for SDG mapping at fund and investment level.

#### **8. Data sources and processing**

The B.Impact framework consists of a holistic approach to manage and measure ESG risks and impact potential across asset classes and impact themes. The two separate developed scorecards are looking at ESG risks and practices of a company and the impact generated by the investment. Most information is collected through direct contact with potential investees and their information on the underlying portfolio, policies and procedures, organizational structure, business plans, etc. which will form part of the proprietary tools and processed accordingly.

#### **9. Limitations to methodologies and data**

Given the fast-paced development of ESG and Impact management tools and methodologies across the industry, BlueOrchard's proprietary tools are reviewed and updated on a regular basis to drive industry best-practice. The last update was reviewed and launched in December 2020. Using a proprietary tool eases comparability across the investments based on the same metrics and standards.

#### **10. Due diligence**

Each investee financed by the BlueOrchard Microfinance Fund needs to go through a rigorous on-site Due Diligence process. The Due Diligence process focuses on financial and social performance and can be broken down into two components: (1) Industry information collected through meetings with local regulators, associations, rating agencies, other lenders, etc., and (2) the on-site due diligence of the investee where the investment officers assess in detail policies, procedures, processes and practices of the investee. The on-site due diligence visit typically lasts for 2-3 days and is comprised of a visit to headquarters office for interviews with the senior management and directors and branch visits to perform loan file reviews and more broadly assess credit underwriting and risk management tools and processes.

#### **11. Engagement policies**

Engagement policy is part of the ESG framework (Investment Process Level). Active participation in and support to industry-wide initiatives such as the Client Protection Principles, the Smart Campaign, and the United Nations Principles for Responsible Investment, among others. Engagement, on an ad-hoc basis, also takes place at the portfolio level to strengthen the social performance practices of the investees when weaknesses are identified by the impact team.

#### **12. Attainment of the sustainable investment objective**

The fund represents an innovation in the market with a strong impact focus; a direct comparison of the Fund with available benchmarks is not the case (Article 9 (2) no index designated as its reference benchmark). The fund maps its impact to the Sustainable Development Goals (SDGs) via a dedicated SDG methodology allowing for SDG mapping at fund and investment level.

For more information on BlueOrchard's proprietary ESG & Impact measurement tool in relation to this sustainability-related product disclosure please contact: [info@blueorchard.com](mailto:info@blueorchard.com)