



Sustainability-related product disclosure: BlueOrchard COVID-19 Emerging & Frontier Markets MSME Support 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 COVID-19 Emerging & Frontier Markets MSME Support Fund or the “Fund” was established in 2020 at the outbreak of the global spread of the Coronavirus (COVID-19) to support micro, small and medium-size enterprises (MSMEs) that have been impacted disproportionately by the pandemic. The Fund is backed by prominent public and private investors and is the first Fund of its kind to provide support funding to financial institutions.

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 is a dedicated mandate to respond to the implications of the global COVID-19 pandemic and with the clear goal to sustain previous positive progress on poverty alleviation. Funding is injected in the markets via financial institutions and to reach micro, small, and medium enterprises. It is expected to finance 20 institutions, serving three million micro-entrepreneurs and maintain 60 million jobs per each USD 100m.

4. Investment strategy

The Fund aims to support entrepreneurs (with a focus on female entrepreneurs) and their households as income and consumption are interrupted and put at risk by COVID-19. In doing so, the Fund will provide financing to a range of Financial Institutions to ensure that these are strengthened and resilient to the damaging economic consequences of the pandemic.

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 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, 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. Social performance measurement and management is an



integral part of the investment process. B.Impact is applied to every assessment entails an ESG and Impact analysis using our proprietary tools and is mapped against the SDGs.

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 COVID-19 Emerging & Frontier Markets MSME Support 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) due diligence of the investee where the investment officers assess in detail policies, procedures, processes and practices of the investee. The due diligence is comprised of interviews with the senior management and directors and 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).

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