



Sustainability-related product disclosure: Microfinance Initiative for Asia Fund

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

1. Summary

The Microfinance Initiative for Asia Fund (MIFA) or “the Fund” aims to support economic development and prosperity in Asia through the provision of additional responsible finance to micro-enterprises and low-income households, via qualified 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

Through its investments, MIFA targets to promote quality financial inclusion to underserved micro entrepreneurs in its target markets, by strengthening the financial structure and capacity of the MFIs it finances and thus improving their outreach and impact.

4. Investment strategy

The principal focus of MIFA is to invest into sustainable, commercially viable microfinance institutions (“MFI”s) providing responsible financial services to the poor in its target markets, with particular attention to tier II and tier III institutions. Sustainability risk is reflected in the overall impact investment process and makes part of the variable compensation scheme.

5. Proportion of investments

All MIFA 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 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 MIFA 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). MIFA engages with its investees through technical assistance, which is mainly provided through a technical assistance grant facility, external to the Company, available to provide funds in the form of grants for technical assistance to the Company's MFI Investments in addition to the funds provided in the form of Investments. The technical assistance has the strategic objective to provide specifically tailored locally or internationally sourced technical assistance to ensure the MFIs' medium term financial, economic and social viability

12. Attainment of the sustainable investment objective

The Fund has a specific mandate 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