BLUEORCHARD’S IMPACT & ENVIRONMENTAL, SOCIAL AND GOVERNANCE FRAMEWORK

Investment Level

This document describes the Impact Management and Environmental, Social and Governance framework ("Impact & ESG framework") for the investment process at BlueOrchard Finance ("BlueOrchard" or the "Company").

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<tr>
<th>Latest Update</th>
<th>June 2021</th>
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<tbody>
<tr>
<td>Status</td>
<td>Approved</td>
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1. Introduction and Purpose

BlueOrchard\(^1\) (the Company) is a leading global impact investment manager and a member of the Schroders Group. BlueOrchard’s mission is to generate lasting positive impact for communities and the environment, while providing attractive returns to investors.

BlueOrchard was founded in 2001, by initiative of the United Nation ("UN"), as the world’s first commercial manager of microfinance debt investments and manages today the largest commercial microfinance fund in the world. The firm has built a distinct track record in offering premium impact investment solutions across multiple asset classes and themes with a core expertise in private debt, private equity, sustainable infrastructure and emerging markets impact bonds. Being an expert in innovative blended finance mandates, the firm is a trusted partner of leading global development finance institutions worldwide.

As an impact investor dedicated to fostering the ideals of inclusion and responsible economic development, BlueOrchard requires that all members of its corporate team maintain a core focus on professional ethics. The BlueOrchard team operates within a comprehensive framework of policies and procedures, aligned with the global requirements of the Schroders Group, to ensure the highest possible standard of personal and professional conduct across all facets of our business.

BlueOrchard has always been committed to supporting and implementing market best practices in the Impact & Environmental, Social and Governance ("ESG") space. The Company’s engagement is demonstrated by its long-lasting involvement as active member and signatory to organizations and principles promoting and setting market standards in Impact & ESG. Since 2008, BlueOrchard has been signatory to the UN Principles for Responsible Investment ("UNPRI"), to incorporate and transparently report on ESG factors on a voluntary basis while supporting other investors to develop a sustainable global financial practice. BlueOrchard is an active member and advocate of organizations and initiatives such as the Social Performance Taskforce ("SPTF") and the Smart Campaign, or any other equivalent national law and/or regulation, to ensure the respect of the Client Protection Principles by BlueOrchard’s investees. Finally, a number of BlueOrchard’s products have successfully been awarded industry recognized ESG and sustainability labels for its private assets and public assets mandates such as the Luxflag, the Climate LuxFlag and “towards sustainability”.

In 2019, BlueOrchard became signatory to the Operating Principles for Impact Management ("OPIM" or “the Principles”) with its flagship fund the BlueOrchard Microfinance Fund (“BOMF”). This led to the first independent external impact verification of the Company’s Impact & ESG processes and tools and in particular of BOMF alignment to the OPIM.

The BlueOrchard Impact & ESG Framework outlines the underlying principles, framework and practical implementation of BlueOrchard’s impact and ESG guidelines in its investment process.

2. Roles and Responsibilities

The Impact & ESG Framework shall be understood as a policy and practice of the Company that must always be followed and respected by all BlueOrchard’s employees. The document is prepared and updated by the Blended Finance and Impact Management (“BFIM”) Team and includes inputs from various teams. The policy is ultimately approved by BlueOrchard’s Risk Committee, Executive Management Team and is presented to the Board of Directors for their acknowledgement.

\(^1\) “BlueOrchard” or “the Company” refers to BlueOrchard Finance Ltd. and BlueOrchard Asset Management (Luxembourg) SA
The scope of the investment’s Impact & ESG policy applies to all asset classes. Its implementation must be detailed in the Impact & ESG procedures. The Impact & ESG procedures are split between private assets and public assets. BlueOrchard may prepare product specific Environmental & Social policy and procedure, including specific additional requirements based on the impact strategy. Any additional policy and procedures prepared at product level must comply with this company wide policy.

The Impact & ESG Framework is periodically reviewed to ensure its compliance with best market standards and to incorporate any improvements found during the analysis of impact and ESG achievements.

This policy is proprietary to BlueOrchard and is made available to the employees of the Company and is published on the Company’s website.

3. Integration of ESG and Impact

BlueOrchard is committed to the full integration of ESG and Impact best practices across all its investment activities.

ESG integration is defined as the consideration of environmental, social and governance (ESG) factors as part of the investment process to identify issues that can potentially materially impact an asset’s risk or return profile.

To integrate ESG factors the Company developed the B.Impact Framework (see section 4) through which ESG risks and opportunities are integrated in the management of all Funds. This provides a broad assessment of the investee’s environment, social and governance practices and performance in managing different stakeholders, giving a fuller understanding of future opportunities and risks than traditional financial analysis alone.

The Company’s overall investment management processes include the consideration of Sustainability Risks and Impact opportunities alongside other factors in investment decision making. A Sustainability Risk is defined as an ESG event or condition that, if it occurs, could cause an actual or a potential Material Negative Impact on the value of an investment and the returns of the Fund. In addition, a Sustainability Risk could hinder the probability of achieving the intended social or environmental impact.

4. B.Impact Framework

B.Impact is BlueOrchard’s holistic approach on impact & ESG management across asset classes and impact themes. It is based on BlueOrchard’s definition of impact, that was adopted from the IFC definition, namely:

Impact investments are “investments made in companies or organizations with the intent to contribute measurable positive social or environmental impact, alongside a financial return”²

² The-Promise-of-Impact-Investing.pdf (ifc.org) (page 2)
The main pillars of the B.Impact framework include:

- An ESG assessment using a dedicated tool called the SDGs, Practice, Impact Rating & Intelligence Tool ESG Scorecard (hereafter the “SPIRIT ESG Scorecard”). The ESG Scorecard is an evaluation of the practices of the investees that could result in ESG and sustainability risks.

- An impact assessment using a dedicated tool called the SDGs, Practice, Impact Rating & Intelligence Tool Impact Scorecard (hereafter the “SPIRIT Impact Scorecard”). The SPIRIT Impact scorecard assesses the potential impact of each investment and follows the five dimensions of the Impact Management Project (IMP).

- Both scorecards are complementary in helping BlueOrchard’s investment decisions, in monitoring, engagement decisions and impact at exit.

- Impact KPIs are mapped against the UN SDGs at both an individual company and overall fund level.

### B. Impact Framework and the Operating Principles for Impact Management
The B.Impact Framework is aligned to the Operating Principles for Impact Management (OPIM)\(^3\). The Impact & ESG assessment methodologies and tools developed are in line with market best standards and are clearly mapped against the requirements of each of the OPIM.

### ii. ESG Management

BlueOrchard believes that sound ESG practices are critical to the long-term success and sustainability of our Company, but also of our investees. Following these principles leads to better financial and impact performance. As such, ESG factors are integrated throughout the entire lifecycle of our investment processes. BlueOrchard’s ESG framework has been developed in alignment with the IFC Performance Standards\(^2\) and IFC’s Interpretation Note on Financial Intermediaries\(^3\).

All counterparties in BlueOrchard managed and advised funds are thoroughly assessed through a dedicated tool called the SPIRIT ESG Scorecard. The SPIRIT ESG Scorecard evaluates environmental, social, and governance risks and practices and provides an ESG rating. The SPIRIT ESG Scorecard is filled based on both internal and external sources of information including materials provided by the RepRisk ESG risk database.

The ESG rating becomes an input for origination and monitoring of investments and defines the frequency of monitoring and reporting. The SPIRIT ESG Scorecard rating also determines the need for additional monitoring of the investee to ensure that ESG requirements are being adhered to, and risks addressed.

The approval of the SPIRIT ESG Scorecard is prepared by BlueOrchard’s Blended Finance and Impact Management team and is independent from the investment team, and the underwriting process.

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\(^3\) [The 9 Principles | Operating Principles for Impact Management (impactprinciples.org)](http://impactprinciples.org)
iii. Impact Management

All investments in BlueOrchard’s managed and advised funds are assessed through the SPIRIT Impact Scorecard, that evaluates the impact objective of an investment based on the five dimensions of the Impact Management Project.¹ It results in an Impact rating which is an input for origination and monitoring of investments.

The five dimensions of impact as defined by the Impact Management Project⁴ (IMP) are:

<table>
<thead>
<tr>
<th>Dimension</th>
<th>IMP Description</th>
<th>In BO SPIRIT Impact Scorecard</th>
</tr>
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<tbody>
<tr>
<td>WHAT</td>
<td>What outcome the enterprise is contributing to, whether it is positive or negative, and how important the outcome is to stakeholders.</td>
<td>Defines the impact intent(s) / impact objective(s) of an investment.</td>
</tr>
<tr>
<td>HOW MUCH</td>
<td>Which stakeholders are experiencing the outcome and how underserved they are in relation to the outcome.</td>
<td>Lists the impact key performance indicators (impact KPIs) to report for each impact intent claimed in the 1st dimension. The impact KPIs collected are subsequently used for the SDG mapping.</td>
</tr>
<tr>
<td>WHO</td>
<td>How many stakeholders experienced the outcome, what degree of change they experienced, and how long they experienced the outcome for.</td>
<td>Describes the main characteristics of the end-beneficiaries of BlueOrchard’s disbursement/investment.</td>
</tr>
<tr>
<td>CONTRIBUTION</td>
<td>An enterprise’s and/or investor’s efforts resulted in outcomes that were likely better than what would have occurred otherwise.</td>
<td>Evaluates BlueOrchard’s additionality by assessing a number of factors measuring the development impact and financial additionality.</td>
</tr>
<tr>
<td>IMPACT RISK⁵</td>
<td>The likelihood that impact will be different than expected.</td>
<td>Assesses the probability of not achieving the impact intent by evaluating how likely the materialization of nine overarching impact risks is.</td>
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The Impact & ESG procedures include a detailed overview of the SPIRIT impact assessment.

5. ESG and Impact Universe

i. ESG eligibility criteria

Though application of criteria may vary, depending on asset class, our assessment is centered on certain core requirements which include, but may not be limited to, the following:

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<tbody>
<tr>
<td>1</td>
<td>Systematic KYC check</td>
</tr>
<tr>
<td>2</td>
<td>Anti-money laundering and combat of terrorist</td>
</tr>
<tr>
<td>3</td>
<td>No financing of prohibited activities by the IFC exclusion list</td>
</tr>
<tr>
<td>4</td>
<td>Compliance with E&amp;S national laws and/or regulations</td>
</tr>
<tr>
<td>5</td>
<td>Compliance with national employment regulations / Fundamental ILO Conventions</td>
</tr>
<tr>
<td>6</td>
<td>Code of Conduct</td>
</tr>
<tr>
<td>7</td>
<td>Ensure implementation of Client Protection Principles and / or consumer protection regulations</td>
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¹ Impact Management Project webpage [here](#).

⁴ Please refer to the Impact management project page [here](#) for further information.
BlueOrchard will not make an investment which is expected, or is determined, to cause Material Negative Impact on social or environmental factors.

ii. BlueOrchard ESG Universe
BlueOrchard’s investment universe consists of organizations that have low or medium risk ESG ratings, as indicated by the ESG rating scale below. ESG risks and opportunities in investees in BlueOrchard managed and advised funds are thoroughly assessed through a dedicated scorecard called the SPIRIT ESG Scorecard. Disbursements into “high ESG risk” are possible but require an Impact Committee approval (as defined in the Private and Public Assets Impact and ESG Procedures) and might require additional engagement with the investee, or additional monitoring. “Very high ESG risk” organizations are excluded from BlueOrchard’s investment universe.

![SPIRIT ESG Investment Universe]

- Low Risk
- Medium Risk
- High Risk
- Very high Risk

iii. BlueOrchard’s Impact Universe
BlueOrchard considers investments with potential of very high impact, high impact and medium impact, as indicated by the SPIRIT Impact Scorecard. Investments with low impact will be excluded from the investment universe.

![SPIRIT IMPACT Investment Universe]

- Very high impact
- High impact
- Medium impact
- Low impact

6. Engagement
BlueOrchard encourages and requires investees to follow best ESG practices and BlueOrchard managed and advised funds reserve the right to perform follow on diligence of these and other practices of every investee in our portfolios. Engagement activities will vary depending on the business activity and asset class. Possible engagement activities include but are not limited to:

- In person meetings or email exchanges with senior management; and
• Capacity building offering to improve ESG practices; and
• Organization of training for staff on specific ESG topics of interest; and
• Becoming a member of an investee Board of Directors (in case of a private equity investment)
• 1-to-1 investor meetings with the opportunity to challenge issuers regarding ESG and Impact related questions identified during our analysis.

In case a Material Negative Impact is identified concrete mitigation measures need to be in place, or the Company must actively engage with investees to put in place operational safeguards that can effectively ensure a low level of expected Material Negative Impact. Specific guidelines are developed in the separate public asset and/or private asset Impact & ESG procedures.

7. Monitoring
It is BlueOrchard’s duty to continuously ensure that ESG risks and impact targets are monitored and addressed. For this purpose, all investees receiving funding from BlueOrchard managed and advised funds are closely and regularly monitored by the investment, risk and impact management teams.

All investees are required to regularly report a set of pre-defined KPIs informing BlueOrchard of their impact and ESG progress. Any material negative or positive change in the business model potentially affecting the E, the S and the G factors or the impact objective(s) of an investee can trigger an extraordinary review of the impact and/or ESG assessment.

Finally, BlueOrchard has a clear set of mitigation measures in case an investee is confronted with significant impact & ESG risks or underperforms on previously agreed impact & ESG targets (set out in the Impact & ESG procedures). All mitigation measures are coordinated in collaboration with the investment and risk teams.

8. Reporting and Transparency
This ESG and Impact Policy will be published on BlueOrchard website.

In addition, BlueOrchard is committed to be transparent towards its investors. Therefore, the Company prepares regular updates to stakeholders on material impact & ESG parameters of the managed Funds. These include but are not limited to:
• A summary of the Impact and ESG KPIs
• Bi-annual company impact report across asset classes, products and impact themes
• Fund’s monthly/quarterly investors’ updates (i.e. factsheets), including Impact KPIs and a statement on Material Negative Impacts
• Fund specific Impact & ESG impact reports
• Investees specific Impact & ESG evaluation studies
• Ad-hoc impact & ESG reporting

All the communication materials prepared must comply with the Company communication policy.

BlueOrchard is a strong advocate for transparency and demonstrates this engagement by taking an active role to impact & ESG working groups.
Annexes

IFC Exclusion List
All investments in both the private and public asset universe must be in compliance with the IFC Exclusion list at all times. The IFC exclusion list is available here and below.

Under no circumstances will BlueOrchard finance any of the activities listed below:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB’s, wildlife or products regulated under CITES
- Production or trade in weapons and munitions, such as cluster munitions, land mines, biological weapons and chemical weapons
- Production or trade in weapons and munitions.
- Production or trade in alcoholic beverages
- Production or trade in tobacco
- Gambling, casinos and equivalent enterprises
- Production or trade in radioactive materials
- Production or trade in unbonded asbestos fibres
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length
- For all financial intermediaries (FIs):
  - Production or activities involving harmful or exploitative forms of forced labour/harmful child labour
  - Commercial logging operations for use in primary tropical moist forest
  - Production or trade in wood or other forestry products other than from sustainably managed forests
- When investing in microfinance activities, FIs will apply the following items in addition to the IFC Exclusion list:
  - Production or activities involving harmful or exploitative forms of forced labour/harmful child labour
  - Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products
  - Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples
- Trade finance projects, given the nature of the transactions, FIs will apply the following items in addition to the IFC Exclusion List:
  - Production or activities involving harmful or exploitative forms of forced labour/harmful child labour
Definitions

ESG integration: the consideration of environmental, social and governance (ESG) factors as part of the investment process to identify issues that can potentially materially impact an asset’s risk or return profile.

Sustainability Risk: an ESG event or condition that, if it occurs, could cause an actual or a potential Material Negative Impact on the value of an investment and the returns of the Fund. In addition, a Sustainability Risk could hinder the probability of achieving the intended social or environmental impact.

Impact Investing: investments made in companies or organizations with the intent to contribute measurable positive social or environmental impact, alongside a financial return

Material Negative Impact: relevant sustainability risks that might have a material negative impact on the financial return of an investment