Schroder International Selection Fund
BlueOrchard Emerging Markets Impact Bond[1]

Annual Impact Report 2024

[1]Schroder International Selection Fund is referred to as Schroder ISF throughout this document.

Schroder International Selection Fund BlueOrchard Emerging Markets Impact Bond was launched in December 2022 to accommodate a transfer of shareholders from the BlueOrchard UCITS Emerging Markets SDG Impact Bond Fund to the Schroder International Selection Fund SICAV. Prior to 14 December 2022, the Fund uses the track record of the BlueOrchard UCITS Emerging Markets SDG Impact Bond Fund (launched on 18 August 2018).

BlueOrchard
Impact Investment Managers
Member of the Schroders Group

Contents

Foreword

We are pleased to present our annual impact report, which highlights the continued effectiveness of Schroder ISF BlueOrchard Emerging Markets Impact Bond ("the Fund") in fostering positive change and driving sustainable progress in emerging markets.

This year, the Fund has continued to support underserved populations, microentrepreneurs, and SMEs in emerging markets, thereby contributing to financial inclusion and other essential social and environmental objectives. As we strive to create meaningful impact, we align our investments with key Sustainable Development Goals (SDGs), proving that impactful change can and does occur when finance is directed thoughtfully and strategically.

As we navigate through a time marked by increasing scepticism towards sustainability and ESG initiatives, it is crucial to reaffirm the resilience and relevance of impact investing.

Unlike traditional ESG investing which is typically geared towards sustainability risk mitigation and has faced criticism and disappointment from some stakeholders in the wider market for its lack of tangible outcomes and continued financing of controversial sectors.

> **Our B.Impact™ Framework approach to impact investing is focused on delivering and contributing to measurable results that directly address the pressing challenges of societal inequality and climate change in emerging markets.**

The realities of our world demand a robust response to the widening disparities and the escalating effects of climate change, and we are committed to being part of the solution.

We aim to actively contribute to tackling the pressing issues of societal inequality and climate change in emerging markets. Our approach to impact investing focuses on contributing to tangible and measurable results that directly address these issues and contribute to solutions, on top of mitigating sustainability risks.

The comprehensive data and insights presented in this report demonstrate our commitment to transparency and accountability. By quantifying the social and environmental impact of our investments using established indicators, we showcase the positive outcomes we have achieved through our investments and engagement with issuers.

At the time of writing this report in May 2025, we are pleased to report that we have received significant additional commitments from investors who value the Fund's financial resilience and positive impact, particularly as the current uncertain environment calls for it. As of April 30, 2025, we are thrilled to see our assets under management grow to USD 786 million, representing a significant increase since year-end 2024.

As we move forward, we are excited about the potential of impact investing to catalyse change and empower individuals, entrepreneurs, and micro, small, and medium enterprises (MSMEs) to thrive, and climate solutions to scale. We invite you to explore this report and find inspiration in the real-life results we are contributing to for the communities we serve.

Together, we can foster a more inclusive and sustainable future.

Veronika Giusti Keller
Head of Impact Management

Louis Bourgeois
Senior Impact Manager

Anne Danker
Associate Impact Manager

Executive summary[2]

During 2024, we celebrated several significant successes that underscore our commitment to impact investing and sustainability. In February, we received the results of the external verification from BlueMark, which confirmed that our impact management framework, B.Impact™, is fully aligned with the Operating Principles for Impact Management.

> **This external verification and achievement earned us top grades and a position on the BlueMark practice leaderboard, reflecting our dedication to rigorous impact measurement.**

Additionally, we were honoured with two prestigious awards at the Sustainable Investment Awards hosted by Investment Week, including the accolade for Best Impact Fund, which we value highly as we strive to democratise impact through liquid strategies[3]. Furthermore, we were recognised as the Best Sustainable Bond Fund[3], further highlighting our commitment to sustainability and the effectiveness of our B.Impact™ Framework; the jury specifically noted our engagement efforts and results as key differentiators.

BlueOrchard also received the Impact 50 Emeritus distinction from ImpactAssets, acknowledging our status as an excellence-driven impact investing specialist after five consecutive years of recognition. Moreover, on top of our impact management expertise, our strong emphasis on ESG and sustainability was also recognized, as our Fund ranked in the 98th percentile of the emerging market listed debt peer group in the MSCI ESG ratings. Lastly, we are pleased to report a 5-star rating from Morningstar for our five-year track record as of 31 December 2024, showcasing our commitment not only to sustainability and impact but also to achieving strong risk-adjusted returns.

External recognition for BlueOrchard's best-in-class impact management

BlueMark verification 2024
BlueMark's Practice Leaderboard

Sustainable Investment Awards
hosted by Investment Week
Best Impact Fund and
Best Sustainable Bond Fund

our Fund ranked in the
98th percentile
of the emerging market listed debt peer group in the MSCI ESG ratings

5-star rating
from Morningstar[4]

[2]Unless otherwise specified, the source for all information presented in the report is BlueOrchard as of 31 December 2024.
[3]https://event.investmentweek.co.uk/sustainableinvestmentawards2025/en/page/2024-winners
[4]Morningstar rating as of 31 December 2024, refers to the overall risk-adjusted performance of share class C USD, ranking in the top 10% of the Global Emerging Markets Bond peer group.
[5]https://event.investmentweek.co.uk/sustainableinvestmentawards2025/en/page/2024-winners

Pushing for climate target engagement

As climate challenges continue to escalate, we took proactive measures in 2024 with multiple engagements with our issuers, focusing on their accountability for climate targets and discussing their strategy to achieve these goals. The Schroders Net Zero Alignment Framework (NZAF) provided us with clear information on where the issuers stand, enabling us to identify meaningful next steps and objectives for improvement in each engagement. This strategic approach facilitated a significant wave of engagement, in which we encouraged issuers to not only uphold their commitments but also to consider new targets and broader target scopes, paving the way for ongoing efforts into 2025.

Continued search for efficiency in our impact and sustainability process

In our continuous pursuit of efficiency within the impact and sustainability process, the team has made significant strides, particularly through the enhanced use of artificial intelligence. By refining the prompt engineering for our extraction tool, we have strengthened our queries, resulting in improved output quality. Additionally, we are implementing new processes aimed at streamlining reassessments, thereby augmenting our overall workflow. A critical area of focus has been the exploration of data sources related to labelled bonds, which will boost our research efficiency and facilitate access to pertinent documents. This initiative aims to foster a better global understanding of the labelled bond universe and its associated impacts, ultimately enabling us to make more informed decisions in our investment strategies.

Strong impact performance and enhanced engagement in 2024

In 2024, the Fund's investment in impactful bonds experienced significant growth, reaching USD 490 million as of 31 December 2024, showcasing its commitment to making a positive difference. Engagements with stakeholders also saw a notable increase, reaching a total of 47 in 2024.

> **The Fund's impact extended across various fronts, including benefitting 21,272 MSMEs and financing of 124,068 megawatt-hours of renewable energy generation.**

The Fund continued to support women and minorities, positively impacting the lives of 59,8325 individuals, and providing access to financial services for 68,230 individuals. One million dollars invested in the Fund in 2024 has for example contributed to supporting 45 MSMEs, providing access to financial services for 145 individuals, and funding infrastructure to produce more than 264 MWh of renewable energy annually. These indicators underscore the Fund's dedication to creating positive change and making a meaningful impact throughout the year 2024.

Funds at a glance KPIs per million invested[6]

Fund indicators

241 Bonds

44 Countries

USD 470m Total amount invested

176 Issuers

55 Engagements

100% Bonds invested in emerging markets

Social impact KPIs (68% of invested bonds)

21,272 MSMEs reached

68,230 Individuals provided with access to financial services

180,352 Patients and students

59,325 Women and minorities supported

544,195 households with access to connectivity

Environmental impact KPIs (32% of invested bonds)

190,682 Tons of CO_2 emissions avoided (equivalent to removing 44,478 gasoline-powered passenger vehicles driven for one year)[7]

123,168 MWh of renewable energy generated (energy for more than 120,000 Indians in a year)[8]

504 MW of renewable energy capacity installed (India: 1015 kwh per year per capita)

[6]Source BlueOrchard as of 31 December 2024. [7]https://www.mospi.gov.in/sites/default/files/publication_reports/EnergyStatistics_India_publication_2024N.pdf.
[8]https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator-calculations-and-references#vehicles.

About BlueOrchard

BlueOrchard is a leading global impact investment manager and member of the Schroders Group. With a legacy of over 20 years as a pioneering impact investor, the firm has made a significant impact on a global scale, supporting more than 300 million people as of December 2024. Notably, BlueOrchard manages the largest commercial microfinance fund in the world, which also holds the industry's longest track record.

As an impact investment manager, our approach addresses social and environmental impact with the goal of generating a positive financial return. Our commitment to excellence has been acknowledged by our inclusion in prestigious rankings, such as the Impact Assets 50 list. In 2024, BlueOrchard has been selected as Emeritus Impact Manager which recognizes impact fund managers who have been on the IA 50 for at least five years, solidifying our position as one of the industry leaders[9]. Across its different asset classes, BlueOrchard has invested in more than 100 countries.

BlueOrchard's public asset funds currently provide financing to over 310 issuers in 62 countries. The listed debt assets under management of BlueOrchard have now crossed the one billion dollars as of May 2025, a significant growth over the past two years.

Across its private debt and blended finance strategies, BlueOrchard has made investments in more than 80 emerging and frontier markets since its inception. These investments have been facilitated through a network of over 550 financial institutions and other impactful companies and 16 investees in the climate insurance sector. BlueOrchard's impact investment areas are centred around fostering positive change in the following key areas: inclusive finance, gender equality, education finance, climate insurance, energy efficiency, renewable energy, affordable housing, health, and sustainable infrastructure. Through the impact generated in these eight thematic areas, we currently contribute to 16 out of the 17 United Nations' Sustainable Development Goals (SDGs). BlueOrchard is a proven investment platform with local experts, over two decades of experience, and extensive knowledge of various asset classes.

Our global team comprises over 140 professionals from diverse cultures, nationalities, and backgrounds, united by a shared belief in the transformative power of impact investing. BlueOrchard's dedicated Impact Team consists of eight professionals. While independent, the team collaborates with the investment and other teams to ensure that impact is integrated throughout the investment process.

BlueOrchard Impact Investment Managers | Member of the Schroders Group

[9]See https://impactassets.org/ia-50/

B.Impact™ Framework

BlueOrchard's **impact strategy** is a cornerstone of its commitment to responsible investing and is rigorously discussed within the Global Impact & ESG Steering Committee, comprising executive members of the firm. Central to this strategy is the articulation of fund impact intent and objectives, which are formalised in a Theory of Change. This strategic framework is meticulously crafted based on economic data, focusing on measurable outputs and outcomes designed to address identified challenges. The approach aims to ensure that every investment is directed towards generating maximum positive impact, thereby enhancing the value of each invested capital.

To support the impact strategy effectively, BlueOrchard has established an Independent Impact Structure with its Independent Impact Team (IM Team) which has developed proprietary ESG and Impact tools, both of which play vital roles in ensuring robust impact management and assessment.

B.Impact™ is a comprehensive impact management and ESG assessment framework, applicable across asset classes and impact themes. It is governed by dedicated policies, proceedures and propriety ESG and impact tools.

Impact strategy

Strategic impact intent and strategy must be clearly specified in a Theory of Change (TOC)

Independent governance structure

Impact and ESG ratings are approved by the IM Team or Impact committee. The impact strategy is discussed therough the Global Impact & ESG Steering Committee, that includes BO members

Standardised measurement

Dedicated ESG and Impact scorecards and ratings, developed to evaluate materials ESG and impact factors

Impact and ESG monitoring

After an investment is made, we ensure that ESG risks and impact performance are monitored and addressed

Robust and transparent reporting

Quarterly/annual reports to assess overall impact and ESG performance. For some funds, Impact Reports

Externally verified

We publicly disclose alignment with OPIM, including an independent verification, that put BO impact management system as a leader

BLUE MARK

To view the B.Impact™ Framework video please scan this QR code.

The Independent Impact Structure at BlueOrchard is designed to uphold the highest standards of rigour in the impact management process for funds, ensuring transparency and accountability.

This structure clearly separates responsibilities between teams, with the IM Team dedicated solely to sustainability and impact analysis to constitute the investable universe. This team functions as the gatekeeper, ensuring that every approved investment aligns with the impact strategy and meets established ESG and impact criteria. The structure also includes the BlueOrchard Impact Committee (IMCO) as a higher governance body responsible for approving ESG and impact guidance and procedures proposed by the IM Team. Additionally, IMCO can convene on an ad-hoc basis to address any controversies related to investment opportunities or where the minimum impact eligibility criteria cannot be met due to a lack of information.

BlueOrchard's IM Team has developed **proprietary ESG and Impact scorecards** to systematically assess key material ESG and impact factors for each investment. Every investment undergoes a thorough assessment using these scorecards, which require approval from the IM Team. This structured approach enhances the consistency and reliability of assessments and helps to minimise any potential conflicts of interest that could arise in a fund management model where portfolio managers address both financial and impact considerations.

After an investment is approved and made, BlueOrchard ensures that ESG risks and impact performance are actively monitored and addressed. External tools are utilised to continuously track the portfolio, complemented by periodic reassessments of the impact of investments by the Impact Management Team. Engagement with stakeholders to ensure that expectations and defined objectives are met and that impact performance is delivered as intended is also a critical aspect of this ongoing monitoring process. This diligence is crucial for maintaining the integrity of the impact strategy and ensuring that investments consistently align with established ESG criteria.

As an integral part of the B.Impact™ Framework, the disclosure of impact reports is essential. BlueOrchard produces quarterly and annual reports to assess overall impact and ESG performance, reflecting the commitment to transparency and measurability as impact investors. Reports aim to provide clear and comprehensive information to investors and stakeholders on the impact of investments over time. Reporting adheres to the following principles set out by the Impact Frontiers reporting norms: relevance, faithful representation (encompassing completeness, neutrality, and accuracy), verifiability, timeliness, comparability, and understandability. By upholding these principles, BlueOrchard underscores its dedication to delivering actionable insights and maintaining accountability in impact management efforts.

The last component of the B.Impact™ Framework is **External Verification**. BlueOrchard adheres to and aligns its processes with the Operating Principles for Impact Management (OPIM), emphasising the necessity of external verification. The latest verification, conducted in 2024 by the independent consultant BlueMark, confirmed that BlueOrchard's impact management aligns with the Impact Principles, scoring advanced and achieving the best assessment across all eight principles. This recognition positions BlueOrchard on BlueMark's Practice Leaderboard, highlighting a commitment to excellence in impact management. Ongoing dedication to refining processes, adopting innovative technologies, and seeking external validation underscores the focus on delivering positive impact and upholding industry-leading practices.

BlueMark verification results[8]

Externally verified: Blueorchard's Impact Management Framework[10] is best in class

BlueOrchard achieves highest rating across all categories in third-party verification by BlueMark.

	Operating principles for Impact management	BlueOrchard (all asset classes)	Peer Group median[11]
Strategic intent	1. Define strategic impact objective(s), consistent with the investment strategy	ADVANCED	ADVANCED
	2. Manage strategic impact on a portfolio basis	ADVANCED	HIGH
Origination & structuring	3. Establish the Manager's contribution to the achievement of impact	ADVANCED	HIGH
	4. Assess the expected impact of each investment, based on a systematic approach	ADVANCED	HIGH
	5. Assess, address, monitor, and manage potential negative impacts of each investment	ADVANCED	ADVANCED
Portfolio management	6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	ADVANCED	MODERATE
Impact at exit	7. Conduct exits considering the effect on sustained impact	ADVANCED	MODERATE
	8. Review, document, and improve processes based on the achievement of impact and lessons learned	ADVANCED	MODERATE
Independent verification	**9. Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment**		

[10] https://bluemark.co/app/uploads/2024/04/blueorchard-verifier-statement.pdf

[11] Median includes Impact only managers and allocators in Private Equity, Private Debt and Public Debt. Scoring hierarchy for external verification: Advanced: limited need for enhancement at present, High: a few opportunities for enhancement, Moderate: several opportunities for enhancement, Low: substantial enhancement required. Note: Logos are the property of their respective entities. As of February 2024. Source: BlueOrchard, BlueMark.

B.Impact™ scorecards

BlueOrchard's investment process revolves around the B.Impact™ Framework, a comprehensive approach to managing and measuring material sustainability risks and impact potential across asset classes and impact themes. The framework includes three assessment components covering sustainability performance, impact potential, and SDG alignment. The analyses are applied by BlueOrchard's independent Impact Team. Assessments are based on various sources, including companies' annual and sustainability reports, policies, impact reports, and external information such as RepRisk and MSCI ESG controversies flags and data.

– **The ESG scorecard assesses material sustainability** risks at the company level, considering environmental, social, and governance events or conditions that could negatively impact the investment's value. It also ensures that companies meet minimum safeguard standards. The ESG assessment includes metrics such as SFDR Principal Adverse Indicators related to environmental footprint, biodiversity, and corporate governance.

– **The impact scorecard evaluates the potential impact** of each investment based on the five dimensions of the Impact Management Project. It identifies the investment intent, establishes impact key performance indicators (KPIs), assesses stakeholders benefiting from the investment, and evaluates BlueOrchard's contribution to the intended impact. The impact scorecard also considers potential risks that may hinder the achievement of the intended impact.
– **Furthermore, BlueOrchard conducts an SDG mapping** at both the individual company and overall fund levels. This analysis maps impact indicators used in the impact scorecard to the relevant SDGs and their measurable targets. This mapping provides a comprehensive understanding of how investments align with the SDGs.

At every stage of the B.Impact™ Framework process, the Impact Team can independently reject investments if it does not meet the requirements of the steps listed above. Rejections can arise from the issuer involved in excluded activities or with high ESG risk, or low impact scores of the bond. Causes of eliminatory scores can for example be the lack of disclosure or unsatisfactory indicators. The Impact Team will typically try to engage with the issuer for more disclosure and to better understand certain metrics and the mitigation of ESG risks analysed. Similarly, the Impact Team can divest from investments if the issuer or bond ESG and impact profiles have deteriorated below satisfactory levels. Divestments are also sparked by potential controversies continuously monitored by RepRisk.

Proprietary ESG and impact tools

B.Impact™ tools

ESG	Impact	SDG Mapping
Assesses an investee's risks and practices in relation to three categories:	Assesses the potential impact of each investment along five dimensions:	Provides an SDG mapping and alignment at:
Environment	**What** – Investment intent	**SDG Universe**
Social	**How Much** – Impact KPIs	**SDG Material assessment**
Governance	**Who** – End beneficiaries	**SDG Impact KPIs matrix**
	Contribution – Value added	**SDG Reporting**
	Risk – Impact risks	

The assessment tools* consist of three components covering sustainability performance, impact potential, and SDG alignment.

Net Zero Alignment Framework

Climate change poses significant risks to the environment, economies, and societies worldwide. Its impacts are increasingly evident, including rising temperatures, extreme weather events, loss of biodiversity, and disruptions to food and water supplies. These changes not only threaten the well-being of current populations but also jeopardise the prospects for future generations.

Recognising the inherent financial materiality of integrating climate factors into the investment process, it is both prudent and advantageous to finance the transition towards a greener future. In this context, climate action is increasingly relevant, as reducing greenhouse gas emissions and enhancing resilience are vital for long-term economic stability. Financial institutions, including the Fund, play a significant role in facilitating this transition by investing in green technologies, promoting sustainable business practices, and supporting initiatives that address climate risks.

> **Through strategic investments and responsible stewardship, the Fund aims to contribute to building a more sustainable and resilient future, aligning financial performance with environmental stewardship.**

We have developed a Net Zero Alignment Framework (NZAF) which can be applied to both individual investments and funds and aggregated to portfolios, providing a consistent view of climate transition across asset classes. The NZAF evaluates the extent to which a company or asset is aligned to global decarbonisation goals based on its targets, actions and progress. It is designed to assess investments using common principles, recognising the differences in data availability and the expectations we would have of each investment.

The Net Zero Alignment Framework (NZAF) is designed to transition investment portfolios in line with the Paris Agreement's decarbonisation goals. While defining companies' contributions to real economy decarbonisation is complex, the NZAF seeks to signal the strength of companies' climate actions, facilitating their classification towards Net Zero objectives.

By scoring issuers against criteria relevant to their asset class, the NZAF generates an alignment score ranging from 'not aligned' to 'achieving Net Zero.' This framework serves multiple purposes:

- Provides a clear and consistent method for reporting portfolio alignment, usable across various asset classes
- Helps set future objectives to improve portfolio alignment by specific dates, such as increasing exposure to 'aligned' or 'achieving Net Zero' assets by 2040
- Supports engagement prioritisation on transition metrics, focusing on companies with lower scores to foster improvement

The NZAF methodology assesses three core pillars of company action: ambition, integrity, and progress. Each pillar features specific metrics and thresholds for alignment ratings, assessed against a large cohort of publicly listed companies to gauge their maturity from 'not aligned' to 'aligned.'

- The ambition pillar evaluates issuers based on their near- and long-term emissions reduction targets spanning scopes 1, 2, and 3
- The integrity pillar assesses the coverage of these targets, measuring actions on operational and value chain emissions
- The progress pillar focuses on actual decarbonisation practices by monitoring carbon intensity (tCO2e/$M sales) for scopes 1 and 2 over a six-year period, comparing performance to industry peers

Net Zero Alignment Framework

Ambition
How ambitious are the issuer's targets?

Integrity
Do the targets have credibility?

Progress
Is the issuer decarboniszing in practice?

Not Aligned — Aligning — Aligned — Net Zero

	Ambition What is the company's level of net zero ambition?	**Integrity** Do the targets have integrity, in terms of emissions coverage?	**Progress** Are they achieving emissions reductions in practice
Net Zero			Issuer has achieved net zero emissions intensity
Aligned	Issuer has near and long term targets that are aligned with net zero by 2050 (cumulative emissions reductions, temperature score or SBTi status)	Targets cover material company emissions	Issuer emissions intensity trend indicates that it is decarbonizing, and is ahead of industry average or has an intensity that is below the industry net zero pathway
Aligning	Issuer has near and long term targets that are aligned with net zero by 2050 (cumulative emissions reductions, temperature score or SBTi status)	Targets cover at least half of company emissions	Issuer emissions intensity trend show decarbonization is underway through reduced emissions intensity or better than industry average
Committed to align	Issuer has committed to setting targets or has existing targets of some ambition (cumulative emissions reductions, temperature score or SBTi status)	Indication that some company emissions are covered by targets	Issuer emissions intensity trend may not yet demonstrate decarbonization
Not aligned	Either very weak emissions reduction targets or none exist	Targets, if any, do not cover material emissions	No evidence of decarbonization or lack of evidence

In 2024, the Fund and the impact team have actively leveraged the NZAF framework to enhance engagement with issuers. This strategic approach allows for tailored discussions that fit the specific profiles of each issuer, fostering more successful and targeted conversations. Throughout the year, we conducted a dozen core engagements focused on climate targets. These discussions varied from encouraging issuers not yet aligned with climate goals to consider setting climate targets, to urging those with existing commitments to strengthen their goals and pursue Science Based Targets Initiative (SBTi) verification. Additionally, we monitored the progress of issuers already aligned with SBTi targets, facilitating ongoing dialogue to ensure they remain accountable and on track to achieve their net-zero objectives. This methodical engagement process not only deepens our relationships with issuers but also contributes significantly to driving impactful climate action.

Nevertheless, there are significant and complex challenges faced by issuers in emerging markets, specifically regarding climate targets and Science Based Targets Initiative (SBTi) verification. Throughout our engagements, we have encountered considerable apprehension surrounding SBTi verification, particularly among financial sectors where expectations often do not align with the realities of emerging markets. For instance, many decarbonisation pathways adopted by developed markets, such as rail freight electrification, are economically unfeasible in emerging economies. Furthermore, the standards, expectations, and guidance offered by SBTi are frequently tailored to contexts that are predominantly "developed markets" focused, overlooking the unique characteristics of emerging markets. This discrepancy necessitates a different approach in areas like agriculture and forestry. Additionally, large banks in these markets play a structural role in their economies and face challenges in divesting from and ceasing activities in sectors that are polluting, especially when clear transition pathways are not established. Issuers often align their strategies with their countries' decarbonisation targets, which are frequently set for dates later than 2050, as seen in India. Despite these obstacles, it is worth noting that we have observed numerous positive actions and practices; many banks are actively engaging with their clients, offering green products, and adopting sectoral approaches with specific decarbonisation objectives.

As we look to the future, our role as impact investors remains crucial in the context of climate change. It is imperative that we continue to engage with issuers and advocate for ambitious targets and actionable steps towards further decarbonising economies.

Successful engagement practices include sharing best practices and successes from other companies, providing education, and equipping organisations with resources, know-how, and tools to help measure and manage their emissions reduction efforts. We are committed to pushing companies to proactively manage exposure to climate risks and opportunities, fostering a culture of accountability and progress. Furthermore, we will leverage labelled bonds as a powerful tool to drive positive impact in the decarbonisation process. By collectively championing these initiatives, we can contribute to a more sustainable future while supporting our partners in their transition towards low-carbon economies.

Impact Investing in public debt markets

Investing in listed debt can have a significant impact, both in terms of scale and democratization of impact investing. Companies and sovereigns issuing listed debt have the ability to undertake large-scale projects that can create meaningful change while still being able to report detailed quantitative impact indicators.

Public markets can absorb large-scale investments, hence the capability of public markets to attract a significant amount of global assets for impact investments. Moreover, investors in listed debt have access to smaller investment minimum requirements that can be redeemed typically daily, opening up impact investing to retail and smaller investors. This accessibility makes impact investing more inclusive, enabling a wider range of individuals to participate in financing projects with environmental and social benefits.

In the past few years, doubts regarding the feasibility of measuring impact in public markets have been effectively addressed.

> **The industry has made significant progress in developing powerful tools for measuring and managing impact of listed debt strategies.**

Today, investing in listed debt offers an even stronger alignment with impact investing principles.

Additionally, investing in listed debt provides a strong alignment to impact investing principles, and its three pillars: intent, contribution, and measurement. The International Capital Market Association (ICMA)[12] promotes best practices and standards in the global capital markets and plays a significant role in the labelled bond market by providing guidelines and principles for issuers to follow when issuing green, social, or sustainable bonds. This helps ensure transparency and credibility in the market.

These bonds have defined eligible use of proceeds, which allows impact investors to determine whether the impact intent and planned use of proceeds align with their own impact objectives at the issuance or due diligence stage. This ring-fencing element also enables investors to finance specific impactful projects from a company or country.

The contribution pillar is considered in particular with investor engagement and by selecting investments benefitting underserved individuals and communities. Sustainable finance frameworks focused on social projects define target populations as part of their eligibility criteria. This ensures that projects with positive impact, such as affordable housing or essential services, specifically target underserved individuals, households, or SMEs. Engaging with issuers to share advice and enhance impact outcomes along with mitigating sustainability risks represents another form of investor impact contributions and additionality available in this asset class.

To view the Impact Investing in Public Debt Markets video please scan this QR code

[12] https://www.icmagroup.org/sustainable-finance/

Furthermore, these bonds align with impact investing through their impact reporting requirements as they disclose pre-defined impact key performance indicators (KPIs). After one year of issuance, impact and allocation reports are disclosed, presenting the bond's actual impact KPIs. This ensures the measurability component of impact investing is met and helps investors evaluate the level of impact they can have, both at investment and fund levels and to calculate their contribution to the SDGs.

The sustainability and impact bond market continues to evolve, experiencing strong growth and the emergence of new innovative instruments. Overall, the ongoing evolution of the sustainability and impact bond market presents promising opportunities for investors to contribute to addressing sustainability challenges and bridging the funding gap for SDGs.

These advancements play a major role in expanding the range of investment opportunities available to impact investors. The growth and increasing credibility of impact-focused debt markets have widened the scope of listed debt impact investing strategies, allowing them to scale more easily and remain competitive in the market. The expansion provides impact investors with a broader and more diverse set of options to align their investments with their desired social and environmental outcomes.

With this Fund, BlueOrchard has developed a solution that contributes to meaningful and scalable impact, while remaining competitive in terms of risk-adjusted returns and democratising access to impact investing through a liquid product. A crucial factor in the Fund's long-term success is its flexible investment guidelines. Given the typically narrower universe of impact strategies, increased flexibility through benchmark-agnostic guidelines or the inclusion of additional issuers not present in the comparator benchmark facilitates the creation of a resilient strategy. Furthermore, the governance structure, which combines two independent teams focused on impact and portfolio management with clearly defined and separate roles enable the teams to focus fully on their respective responsibilities. This ensures proper governance for both objectives while minimising the risk of conflicts of interest.

How to select the best labelled bonds?

Labelled bonds are important sustainable finance instruments designed to raise capital for projects with positive environmental or social outcomes. They attract investors seeking investments with measurable impacts on society and the planet. The main categories of labelled bonds include green, social, and sustainability bonds. Each adheres to principles established by the International Capital Market Association (ICMA)[13], which plays a crucial role in standardising frameworks, disclosure, and reporting practices for labelled bonds. Its guidelines promote transparency and accountability and reinforce market integrity.

To view the How to select the best bonds video please click on this QR code

However, despite the ICMA's efforts, disparities in frameworks and reporting persist. Many issuers do not consistently follow established guidelines, leading to inconsistencies in impact reporting. Therefore, investors should conduct thorough due diligence, as not all labelled bonds are equal, with varying degrees of credibility and impact.

Two main analyses are needed throughout a labelled bond's lifecycle to identify high-quality options. At bond issuance, the focus is on the bond framework, which outlines the rules for the use of proceeds. A year after issuance, bond allocation and impact reports provide crucial information for evaluating the bond's use of proceeds actual impact.

Labelled bond framework analysis

Today, nearly all labelled bond frameworks claim adherence to ICMA guidelines and often include a second-party opinion for credibility, yet significant detail variations exist. Scrutinising each category in the use of proceeds section is essential as discrepancies can affect fund usage expectations. Loosely defined categories may result in negative impacts or conflicts with investor intent and exclusion lists, such as including contentious sectors like nuclear energy. Pre-allocation reports, though rare, can offer clarity on intended impacts, ensuring objectives align and reducing misalignment risks.

For social use of proceeds, well-defined target populations ensure funds reach individuals or communities lacking investment access, enhancing additionality.

For instance, directing affordable education to low-income families is more beneficial, whereas vague definitions may wrongly fund those who do not need assistance. Assessing the materiality of financed activities to the issuer's business model reflects true commitment to outcomes and reduces greenwashing risks.

The planned impact reporting section is critical. Disclosing planned impact indicators aligned with standards and ICMA principles reassures investors, as they can gauge whether reporting will meet expectations, and that standardised metrics can be aggregated at the portfolio level. Some bonds offering only qualitative reports or lacking impact KPIs hinder transparency and understanding, signalling potential reporting weaknesses. Engaging with issuers to adopt best practices is essential, especially given the one-year gap between issuance and impact reporting, allowing for meaningful changes to improve quality.

Key framework analysis factors include additional factors such as exclusion lists to identify ineligible sectors and plans for external verification and future reporting assurance, which differentiate robust frameworks.

[13] https://www.icmagroup.org/

Impact and allocation reporting analysis

One year post issuance, issuers disclose allocation and impact reports. Allocation reports transparently show how proceeds are distributed across categories, ensuring alignment with the bond framework.

When analysing impact reporting quality, examining the KPIs used is crucial. Investors should ideally compare impact per million issued across similar bonds, necessitating clear, comparable indicators. Developing scales from extensive data on labelled bonds helps evaluate a bond's "impact efficiency." Discrepancies often arise, with some bonds providing specific impact reports with the most accurate assessment closest to the invested capital, which reduces the need for approximations and proxies but posing complexities for issuers. Other options include portfolio-level reports that attribute impact to groups of bonds, risking approximations about a specific bond's capital usage. At worst, reports may merely share project examples, offering an incomplete impact view.

Another critical aspect is whether financial issuers report the allocated impact rather than the total project impact, avoiding double counting. Properly allocated reporting reduces misrepresentation risks.

In addition, it is important to distinguish between financed and refinanced projects, as new projects boost impact investors' additionality and contribution requirements. External verification also adds credibility to impact reporting; independent audits enhance governance, especially under scrutiny, bolstering trust in issuer claims.

Conclusion

Labelled bonds are effective tools for impact investors seeking credible outcomes in listed debt markets. Their structured approach ensures clear impact intent through frameworks and allocation reports. Measurability is reinforced by well-defined indicators, and considerations like target populations enhance their contribution. Timing is important, as investors often prioritise primary issuance to maximise impact.

However, not all labelled bonds are equal, and thorough analysis is essential to gauge their true impact. Few bonds will meet all best practices, so investors must define their selection criteria.

While the market has made strides towards standardisation, discrepancies in disclosure practices remain. These inconsistencies necessitate scrutiny, and investors must signal issuers regarding the quality of impact reporting they expect. By advocating for higher standards and engaging with issuers, investors can improve the effectiveness of labelled bonds, driving better outcomes in sustainable finance.

Navigating SFDR

Discussion on new regulation and their impact (ESMA & PAB exclusions)

At BlueOrchard, our B.Impact™ Framework process and tools are specifically designed to ensure compliance with the Sustainable Finance Disclosure Regulation (SFDR) and the requirements of Article 9 funds. We have taken great care to align our process to comply with the regulation, by building strong in-house knowledge and expertise. For example, our process to quantitatively calculate impact indicators of our portfolio fully aligns with the SFDR and the sustainability indicators disclosure requirements.

In line with the SFDR Principle Adverse Impacts (PAIs), we leverage Schroders' resources, using multiple PAI dashboards to monitor and assess any adverse impacts at the portfolio and issuer levels.

Additionally, we are following Schroders Do No Significant Harm thresholds set on PAIs since November 2023.

These indicators are designed to screen out a part of the issuer universe which is strongly misaligned with the Fund's objective. These thresholds are closely monitored by our Risk Team to avoid issuers causing significant harm.

To continue our disclosure and compliance efforts, we have recently published our second periodic report, providing transparency on our sustainability practices and the impact of our investments.

With our robust processes and ongoing commitment to improvement, we are confident that we can continue to claim SFDR Article 9 status in the future. We remain dedicated to refining our tools and practices to ensure we adhere to best practices and meet the evolving regulatory requirements.

> **In 2024, the emergence of the ESMA Fund Naming Guidelines marked a significant development in the landscape of sustainability regulations for funds.**

The new ESMA fund naming guidelines mandate that fund names must accurately reflect their investment strategies and characteristics, particularly concerning environmental, social, and governance (ESG) factors. Funds using sustainability-related terms must demonstrate a minimum of 80% alignment with relevant investment criteria, ensuring that they invest meaningfully in these areas. The guidelines prohibit misleading use of terms related to transition, environmental, social, governance, impact, and sustainability, with specific Paris-aligned benchmark (PAB) exclusions for funds involved in controversial weapons, tobacco, and certain fossil fuel activities.

One important caveat is the special treatment of use of proceeds instruments which are able to ring fence their proceeds to specific projects, like the green or sustainability bonds. The regulations regarding green bonds specify that European Green Bonds issued under the European Green Bonds Regulation do not require assessment against the PAB exclusions. Other use of proceeds instruments, such as green bonds not regulated under this framework, must undergo a look-through assessment to ensure they do not finance activities listed in the PAB exclusions. Labelled bonds issued by companies that violate United Nations Global Compact (UNGC) principles or OECD guidelines are always excluded from this look-through.

Being part of Schroders, with access to a dedicated sustainability legal team, allowed us to closely monitor these new guidelines, which are set to be fully implemented by May 2025. Throughout the year, the EU regulation evolved, and our Fund capitalised on our affiliation with Schroders to engage in dialogue with the regulators. The Schroders public policy team advocated for a nuanced approach regarding labelled bonds – specifically, those with ring-fenced use of proceeds – highlighting that they should be treated differently from general bonds. Initially, this differentiation was not recognised, but ESMA ultimately adjusted the regulation in response to the voiceful market participants. As for the potential impact of the ESMA Fund Naming Guidelines on our Fund and its universe, we anticipate no disruption. The clarification on use of proceeds instruments helped, as some utilities issuers of green bonds could have potentially been at risk otherwise. Our existing exclusion policy already encompasses all Paris-aligned benchmark exclusions, and the SFDR pre-contractual disclosure was already changed to require a minimum of 80% of sustainable investments in mid-2024.

Impact strategy

Schroder ISF BlueOrchard Emerging Markets Impact Bond ("the Fund") is a liquid strategy that focuses on investing in impactful bonds issued by governments, government agencies, supranationals, and companies in emerging markets. The investments are carefully selected based on their positive contribution to advancing the SDGs, with a particular emphasis on financial inclusion, economic and social development, and environmental themes.

From its inception, the Fund has been deeply committed to its impact strategy, especially in the area of financial inclusion. BlueOrchard, with its extensive 20+ years of experience in managing the largest microfinance fund globally and its longstanding relationships with financial institutions, has played a crucial role in shaping this strategy.

> **The Fund was created to support institutions that have outgrown the microfinance space and require a different type of financing.**

By investing in bonds, the Fund not only provides the necessary financing but has also allowed BlueOrchard to expand its target group from microfinance institutions to a more diverse set of sectors and institutions, contributing to the development of capital markets in emerging and frontier markets. The Fund was also established in response to investor demand for more liquid financial inclusion strategies that offer attractive returns.

As of December 31, 2024, the Fund has received an "A" ESG fund rating and 98th percentile from the sustainability-focused rating agency MSCI.

The Fund's exposure is twofold. Firstly, it invests in emerging market financial institutions that aim to increase underserved populations' access to financial services. Secondly, it invests in listed purpose bonds, such as social, green, or sustainability bonds, with the primary objective of expanding access to financial services, essential services, basic infrastructure, or affordable renewable energy for underserved populations. The Fund demonstrates the significant potential of impact investing in listed debt to contribute to the sustainable development of countries in emerging markets.

The Theory of Change underpins the mechanisms by which the Fund is addressing its key themes:

Impact	Reduced inequalities and greater economic inclusion for all	Sustainable economic growth through jobs created in MSMEs	Effective mitigation of climate change	Improved health, education, and overall quality of life for people in emerging markets	Greater inclusions and increased economic activity through better access to information and enhanced productivity
Outcome	Increased access to financial services for the most underserved populations	Increased access to finance for MSMEs	Reduced GHG[20] emissions in line with a net-zero economy by 2050	Improved availability and access to essential services such as affordable housing, basic healthcare, quality education, and water and sanitation	Improved availability and access to basic infrastructure such as mobile networks

Output	Investment universe consisting of highly impactful businesses screened against strict ESG criteria	Improved sustainability practices and maximised impact potential at investee companies	Transparent reporting to demonstrate investees' progress towards impact objectives	Long-term investment and support for impactful businesses
Activity	ESG and impact assessments to select most impactful businesses	Active engagement to drive positive change	Diligent monitoring of progress against impact targets and for sustainability practices	Provide capital with preference for primary issuances

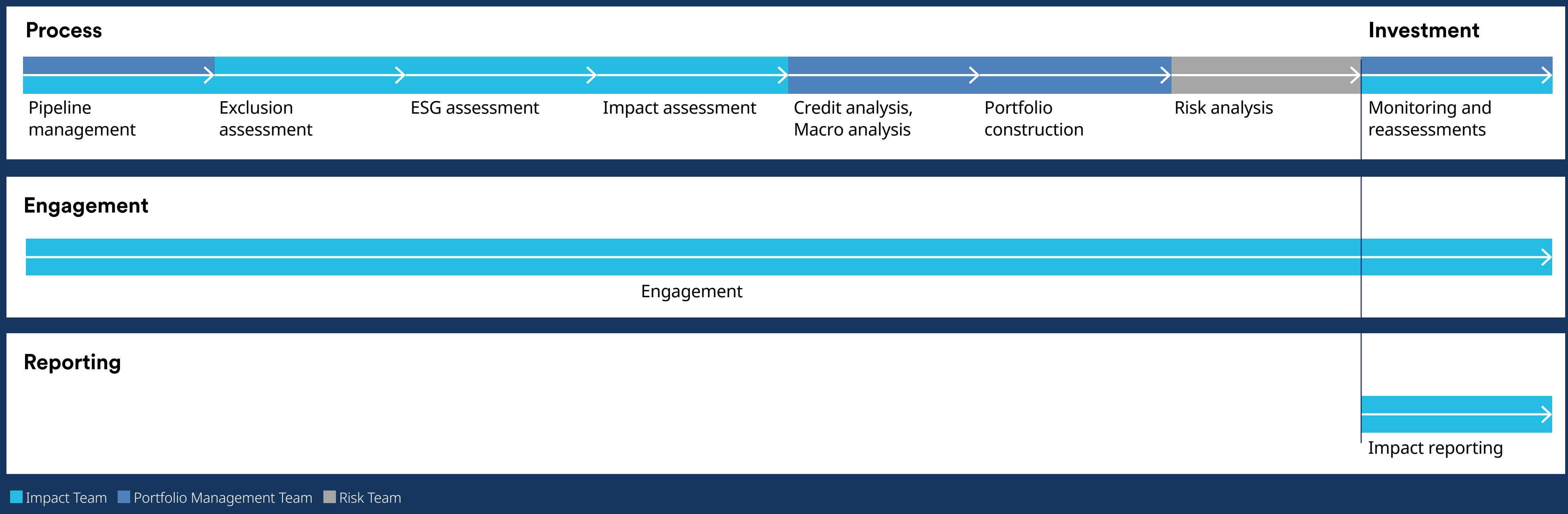
Input	Proprietary and externally verified impact framework B.Impact™	Dedicated and independent Impact Team with eight sustainability & impact experts	Capital

Problem	Globally, 1.4 billion adults are unbanked, mostly women, poorer, less educated, and living in rural areas[12]. Unequal access to financial services drives inequality and prevents economic opportunities	$5.2 trillion annual financing gap for MSMEs[13], which play a significant role in job creation and economic development in emerging markets[14,15]	Annual investment gap of $1+ trillion for clean energy in emerging and developing economies to reach net-zero by 2050[16]	50% of population lacks access to basic health services[17],and low- and lower-middle-income countries face an $148 billion annual investment gap for education[18]	Globally, 2.7 billion people lack internet access[19]. Overall there is $15 trillion infrastructure investment gap until 2040 gap until 2040[20]

[12]World Bank, 2022. [13]MSMEs = Micro, small, and medium enterprises. [14]7 out of 10 formal jobs in emerging markets are created by SMEs. [15]World Bank, 2023. [16]International Energy Agency, 2021. "Financing Clean Energy Transitions in Emerging and Developing Economies". [17]GHG = Greenhouse gas. [18]World Health Organization, 2017. [19]UNESCO, 2021. [20]GHG = Greenhouse gas.

Impact methodology

BlueOrchard has a dedicated Impact Team that operates independently from the Investment and Portfolio Management teams and plays a crucial role in the investment decision-making process. The team is responsible for managing the impact of all BlueOrchard's mandates, conducting ESG and impact assessments, and continuously improving the B.Impact™ Framework and its assessment tools. The Impact Team also monitors and reports on the impact performance of investments. Before an investment can be approved, it must have a minimum ESG and impact score approved by the Impact Team.



The following chart illustrates the impact calculation process:

Impact Monitoring and Reporting

Measuring and reporting on impact performance is crucial to ensure the Fund delivers on its impact strategy and to transparently communicate the Fund's impact contribution to stakeholders. For this purpose, BlueOrchard has developed a comprehensive monitoring methodology that emphasizes regular review and clear attribution of impact achieved to the financing provided by the Fund. It also considers the particularities of labelled bonds compared to general-purpose bonds.

Similarly, investors of the Fund can also calculate their own funded impact, by multiplying a factor of their investment over the total fund size by the Fund's impact indicators reported on page 6.

Pre-investment		→	Annually	
Issuance level	**Impact scorecard** – Identify impact themes – Select impact KPIs – If available: fill with impact data from issuers' impact reports – Approve for investment if minimum score is obtained	→	**Issuance level**	**Impact scorecard re-assessment** – Review if impact themes remain valid – Fill with impact data from issuers' updated impact reports – Verify if impact score still meets minimum thresholds

			→	
Portfolio level	**Step 1**	Extract information from scorecards and consolidate all impact data in one database	→	Overview of total impact achieved by issuers
	Step 2	Calculate impact attributable to the Fund, using different methodologies for general purpose bonds and labelled bonds	→	Overview of impact attributable to the Fund
	Step 3	Prepare quarterly and annual impact reports	→	Transparent communication of impact to stakeholders

Step 2: Fund level impact calculation methodology

The robustness and conservative approach of our listed debt fund-level impact calculation methodology is extremely important for the credibility of our reporting and funds. The principle is to gather standardized impact indicators at bond level for labelled bonds, and at issuer level for general bonds and sustainability-linked bonds. An allocation based on the level of investment and either the bond value outstanding or the enterprise value including cash is then applied to calculate the impact that can be claimed for each bond. Those individual allocated impact indicators are then summed up at portfolio level to get the fund-level impact indicators.

Labelled Bonds

$$\text{Bond Impact KPI's} \times \frac{\text{Amount invested}}{\text{Bond value outstanding}}$$

General Bonds & SLBs

$$\text{Issuer Impact KPI's} \times \frac{\text{Amount invested}}{\text{Amount invested EVIC}}$$

Impact claimed at holding level

Sum of all bond-level allocated impact KPI's = Aggregated fund-level impact

As of June 2024. Source: BlueOrchard.

Funnel from universe to fund
How much is filtered out

The Fund investment universe is composed of emerging markets issuers, completed with AAA rated supranational issuers with development activities in developing and emerging economies. While the universe is, by definition, reduced by the B.Impact™ Framework, with the exclusions, ESG and impact filters, having a heterogeneous universe and flexibility around portfolio construction compensates for this loss of degrees of freedom and allows to be more agile in different economic environment relative to a more static and homogeneous benchmark.

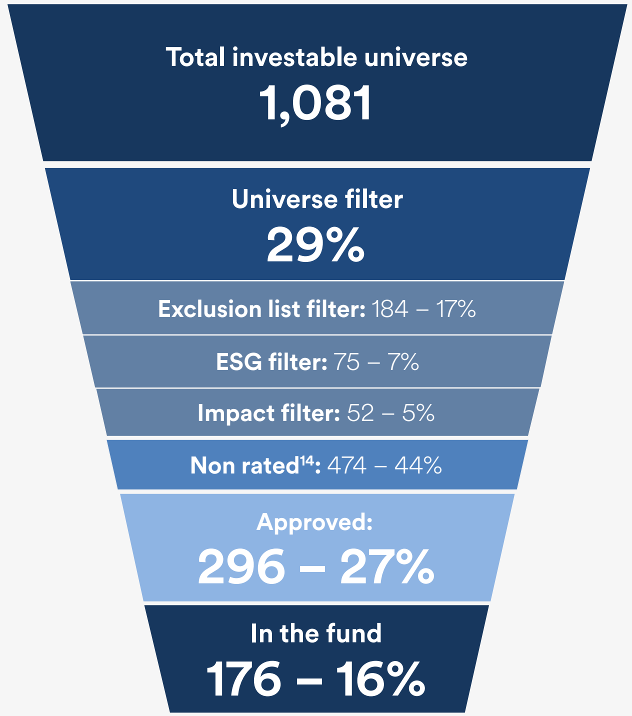
In evaluating our Fund's composition, we start with a total investible universe comprising 1,081 potential issuers in emerging markets, after screening for factors such as size of issuance, currency or credit rating. Through various screening processes, we filter out a significant portion of this universe to come up with an investible universe that meets our exclusionary, ESG and impact criteria.

Initially, 184 issuers are excluded due to our predetermined exclusion list[13]. To further illustrate our exclusion list results, it is insightful to look at the breakdown of the exclusion reasons, which consists of 184 issuers. The reasons for exclusion are varied: About 9% are excluded for violation of the UN Global Compact, while the most significant category with 84% of the rejections is attributed to our exclusions and approach on fossil fuels. These exclusions range from coal to conventional/ unconventional oil & gas or nuclear energy. It is important to note that the fossil fuel sector represents the largest segment of our exclusions, reinforcing our dedication to addressing climate change and promoting sustainable investments. Other categories include 4% associated with alcohol (excl. beer & wine), 2% linked to gambling and cannabis.

Following this and after the full B.Impact™ process and analysis by the Impact Team, additional screenings based on our Environmental, Social, and Governance (ESG) criteria remove 75 more issuers, while our impact assessment results in the exclusion of another 52 issuers that do not meet our impact objectives. 474 issuers are non-rated by the process. These are either ones that have not yet been reviewed or those deemed unlikely to provide impactful investments, prompting the team to refrain from spending time on probable rejections.

After the rigorous assessment process, through the exclusion policy and the ESG and impact scorecards, 296 issuers are approved for the Fund, representing about 27% of the initial universe. From this pool of issuers, the portfolio management team strategically selected 176 issuers for inclusion in the Fund. The availability and issuance of labelled bond issuances such as green, social or sustainability bonds by a growing number of issuers allows the Fund to increase its approved universe of issuers, as these ring-fenced instruments provide strong impact and outcomes from issuers that might not have been approved with general issuances only.

This careful selection process reflects our commitment to aligning our investments with both material sustainability standards and the positive impact we aim to achieve.



Exclusion list filter[15]
UNGC 9%, Weapons 0%, Fossil Fuels 84%, Tobacco 0%, Alcohol 4%, Gambling 2%, Cannabis 2%, Adult Entertainment 0%

[13] https://www.blueorchard.com/wp-content/uploads/20220520-BlueOrchard-Exclusion-Policy_Public-Assets.pdf.
[14] Issuers deemed unlikely to contribute impact or not yet reviewed.
[15] Percentage of the 184 issuers excluded by type of exclusions.

Engagement

Objectives

Engagement is a core part of BlueOrchard's investment process, in particular in the context of ESG and impact assessments. Engagement is a tool to build partnerships with our issuers, gain a better understanding and visibility of their sustainability strategies, and support, encourage, and guide them towards best ESG practices and maximized impact potential. Thus, engagement is an integral component of the Fund's theory of change, playing a crucial role in achieving impact.

> **Engagements may be insight-driven (to collect ESG and impact-related information) or outcome-driven (to mitigate negative sustainability practices and improve disclosures).**

Insight-driven engagements involve the collection of information needed for ESG and impact assessments. The Impact Team will carry out the following engagement activities: **Roadshow engagements** for which BlueOrchard participates in calls with the issuer 1-on-1 or as part of a larger group of investors. It allows the Impact Team to ask sustainability and impact-related questions, raise awareness about material sustainability topics among investors and the issuer, and gather data to enhance ESG and impact assessments. The Impact Team also engages with issuers on their **sustainability and impact reporting** to gain a better understanding and fill the information gap on sustainability practices, indicators, and disclosure. The Impact Team closely monitors impact reporting on use of proceeds bonds and will engage with issuers that are not reporting within the expected timeline of the framework. During an investor meeting with a Latin American financial group, we were for example able to discuss multiple subjects and gain a deeper understanding of their strategy and how their activities are generating positive impact. With this active discussion spanning from understanding corporate policies to their future strategy on climate targets, the company also understood better our expectations as impact investors, both on ESG and impact subjects. We received further information and data on their financial inclusion and sustainable portfolio, with granularity on their Women-led SME lending portfolio or outreach to vulnerable populations.

Outcome-driven engagements take place after the Impact Team has identified a lack of or negative sustainability practices with an issuer. The objective is to mitigate these risks by sharing actionable suggestions and best practices with issuers. There are two types of engagement activities in this case. First, **Disclosure engagements** take place when the Impact Team identifies important gaps in policies and sustainability disclosures. Issuers often have the required documents but may not appreciate enough the value for investors and other stakeholders to have them publicly available. In other instances, they need resources, suggestions, and guidance to create positive outcomes and disclose information such as impact reports, environmental footprint disclosures, or key governance-related policies. **Second, Sustainability practices** engagements arise following a RepRisk alert, or when an issuer of a very impactful bond is nonetheless considered as "high ESG risk" and the impact management committee recommends further engagement to mitigate and improve the negative practices.

Engagement

Case studies

Philippine National Bank

Philippine National Bank is one of the oldest and largest commercial banks in the Philippines, dedicated to providing a range of financial services while prioritising sustainability and social responsibility. The Fund is invested in its sustainability bond focused on various environmental and social categories of projects.

In our engagement with the Philippine National Bank (PNB) this year, we focused on their sustainability bond framework to gain deeper insights and drive better outcomes regarding disclosure and reporting. We had productive discussions regarding their pre-allocation reporting, which was found to be relatively vague, providing only general categories such as solar, wind, waste, water, small and medium enterprises (SMEs), and women. However, there was a lack of clarity regarding the percentage breakdown of green and social allocations. Recognising the need for improved impact reporting and key performance indicators (KPIs), PNB announced plans to hire an external party to assist with quantitative KPI reporting. It became evident that their current framework and reporting practices were below industry best practices. Consequently, we advocated for changes to enhance their commitment to sustainability, aiming to align PNB's framework with more rigorous standards in the market.

Itau Unibanco

Itau Unibanco combines innovative banking solutions with a strong commitment to sustainable practices. The Fund is invested in its sustainability bond focused on MSME and women entrepreneurs financing, along with renewable energy assets.

Our engagement with Itaú Unibanco this year centred on the need for Science Based Targets initiative (SBTi) verification and the reduction of emissions within their operations. The discussions delved into environmental issues, predominantly focusing on the bank's current climate strategy and sectoral approach, alongside the challenges they face in aligning with the SBTi framework. A significant concern highlighted was the applicability of SBTi's methodology to agriculture in tropical climates, as it is primarily tailored for temperate regions. Company representatives mentioned their ongoing collaboration with SBTi to navigate these challenges and demonstrated openness to considering verification, contingent upon the suitability of the expectations and methodologies proposed by SBTi. Engaging with their ESG professionals provided valuable insights into their climate strategy and the proactive steps they are taking to harmonise their approach with global standards while addressing the challenges posed by geographical context.

BTG Pactual

BTG Pactual is a leading investment bank in Latin America, with strong expertise in asset management and investment banking, while also advocating for environmental sustainability through its financing of green projects. The Fund is invested in its green bond focused on sustainable water management and renewable energy financing.

During our engagement with BTG Pactual, we explored three main topics: climate targets, deforestation commitments, and financial inclusion. Our discussions regarding climate targets revealed the company's difficulties in estimating financed emissions, prompting us to propose the Joint Impact Model (JIM) Tool which is used by BlueOrchard private debt impact teams as a viable solution to enhance their measurement capabilities.
In the context of deforestation commitments, we stressed the importance of developing an overarching policy, and the representatives from the company expressed a willingness to consider this approach moving forward.
The engagement also addressed social considerations, particularly focusing on financial inclusion. We highlighted BTG Pactual's renewed emphasis on small and medium enterprises (SMEs) and their established financial education and literacy programmes, recognising these initiatives as critical steps in promoting inclusive financial practices.

Engagement
New developments in 2024

Climate targets engagement focus

Engagement is a core part of BlueOrchard's investment process, in particular in the context of ESG and impact assessments. Engagement is a tool to build partnerships with our issuers, gain a better understanding and visibility of their sustainability strategies, and support, encourage, and guide them towards best ESG practices and maximized impact potential. Thus, engagement is an integral component of the Fund's theory of change, playing a crucial role in achieving impact.

> **In 2024, we made significant strides in engaging with our issuers on their climate targets and strategies to achieve them, emphasising their accountability in meeting existing commitments and establishing bolder new ones.**

Recognising that climate issues are central to sustainable development and that climate change remains a pressing challenge, we leveraged new tools and developments to assess the current standing of our issuers and to identify incremental steps to enhance their climate strategies. The Schroders Net Zero Alignment Framework (NZAF) played a pivotal role in this process, enabling us to tailor our engagements to ensure meaningful conversations about objectives and next steps.

Throughout the year, we launched a substantial wave of engagement focused on climate targets, utilising data from the NZAF to encourage our issuers to improve their performance, consider setting new targets with wider scope, and showcase their progress. This momentum will continue into 2025. One key insight from these engagements was on the Science-Based Targets initiative (SBTi), highlighting the complexities faced by financial institutions in emerging markets, where the reliance on fossil fuels complicates the establishment of ambitious targets. However, we witnessed encouraging case studies where institutions actively engaged with their clients, providing solutions for transition and developing sectoral targets to enhance efficacy. By learning from these best practices and success stories, we are better positioned to engage with additional issuers moving forward.

ActiveIQ

Since 2023, the Impact Team has leveraged Schroders' new ActiveIQ engagement tool to enhance the tracking and effectiveness of active ownership activities. ActiveIQ is a powerful platform designed to enable users to log and monitor engagement efforts with issuers, focusing on forward-looking engagement plans and progress measured through a milestone approach.

Engagement is critical in assessing investor contributions, as it allows for the systematic recording and monitoring of interactions with portfolio companies. With ActiveIQ, the Impact Team can develop collaborative engagement plans, set clear objectives, and document insights and outcome-driven engagements. The platform incorporates well-defined milestones and goals, facilitating the tracking of progress over time.

ActiveIQ also features an analytics portal, providing users with the ability to monitor engagement activities and assess whether key performance indicators (KPIs) are being met at the corporate, desk, and individual levels. This comprehensive tool not only supports enhanced engagement strategies but also fosters accountability and transparency in the active ownership process.

Engagement statistics

BlueOrchard is tracking all engagements to have a better overview of engagement themes and results.

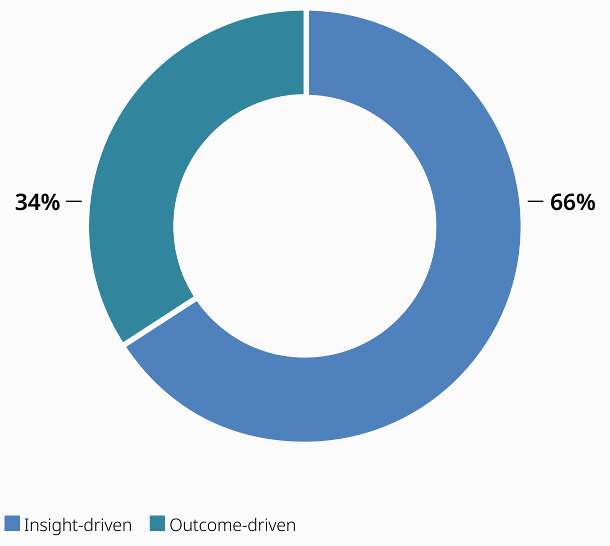
In 2024 | 47 engagements | 35 issuers in the Fund

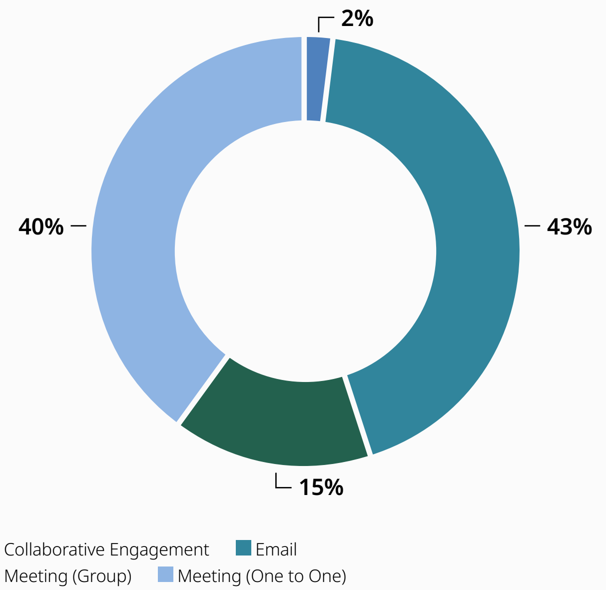
This represents more than a fourth of all issuers in the portfolio

Engagement Statistics

About 90% of engagements were insight-driven, and 10% outcome-driven.

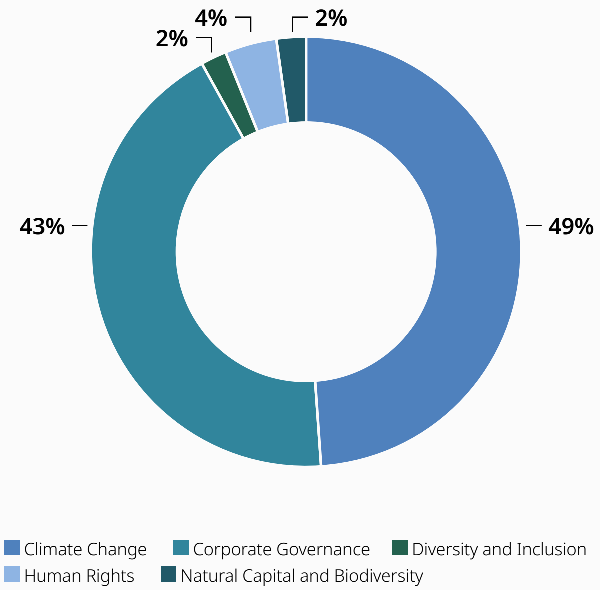
The engagement format was mostly conversation via email, led by insight-driven engagements, and roadshow investor calls during which the Impact Team shared concerns and asked for, before following up on the issue if needed after this first contact.





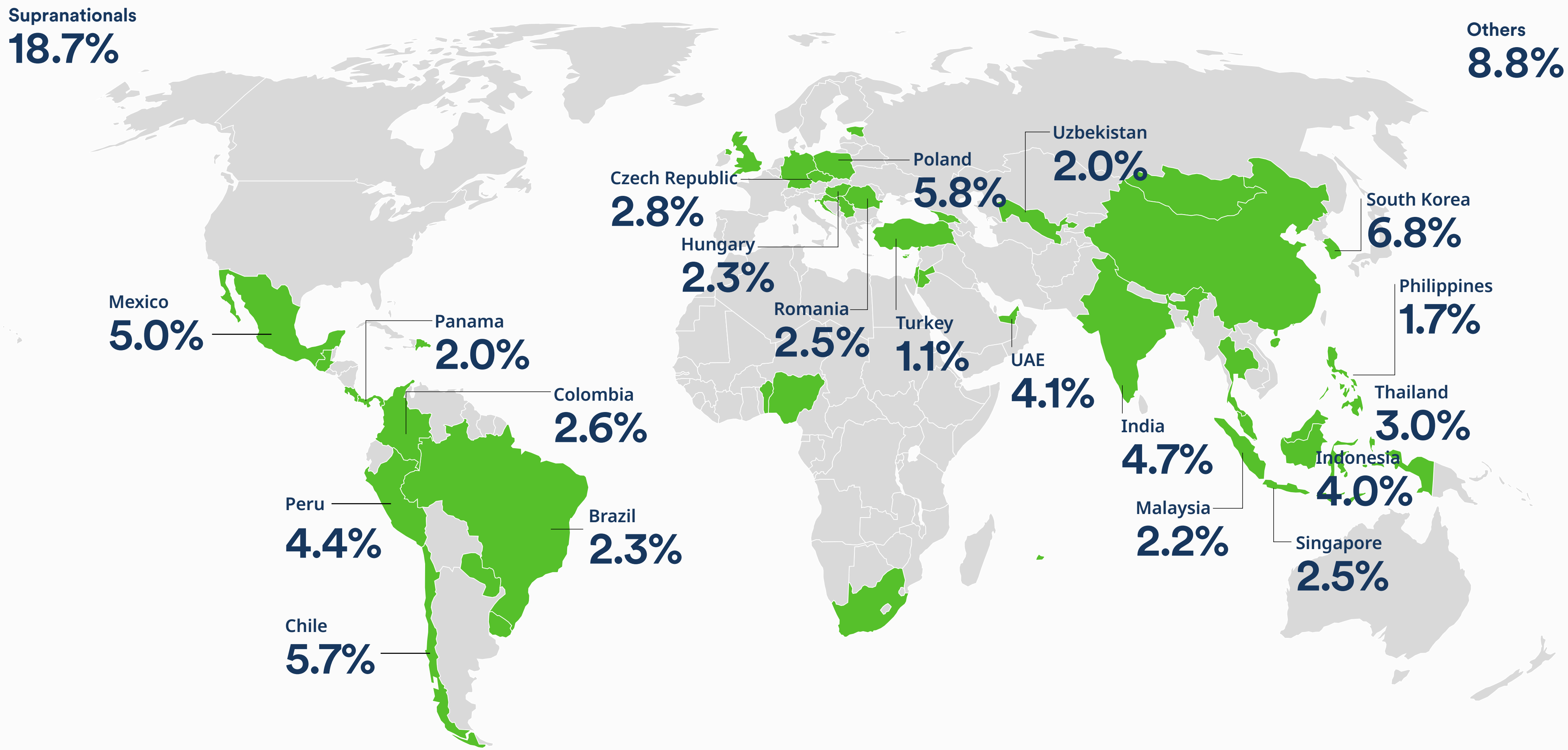
Engagement Themes

Engagements can be categorized by themes, including:



Portfolio breakdown

Geographic exposure by region[16,17,18]



[16]Standard Chartered sustainable bond: **United Kingdom** is the country of risk but the countries benefitting from the use of proceeds are included in the CEMBI Index.
[17]ProCredit Holding: situated in **Germany** with activities in Eastern Europe and Latin America.
[18]**Luxembourg**: Eleving Group, country of operations in Eastern Europe, Kenya, and Uganda.

Portfolio Breakdown[19]

The impact assessment performed at the investment level measures the impact potential and performance leveraging the five dimensions of impact as defined by the Impact Management Project. The 235 bonds in the portfolio demonstrate an average score of 66 out of 100 which translates into a high-impact portfolio.

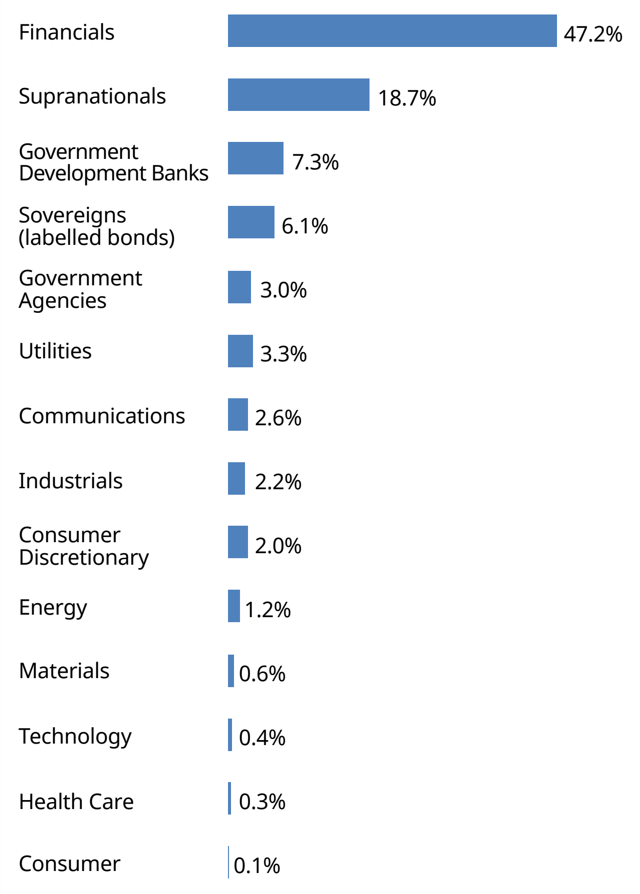
Exposure by Region for Corporates and Sovereigns

Region	Percentage invested	Average impact score
Asia	33%	67.7
Latin America	25%	71.3
Europe	16%	65.9
Africa	2%	81.5
Supranational	19%	76.2

Exposure by Region for Supranationals

Supranational	18.2%
Africa	7.1%
Global	2.7%
Asia	2.5%
Latin America	3.6%
Europe	2.1%
Middle East	0.2%

Exposure by Sector



Exposure by Bond Category

Bond type	Percentage invested	Average impact score
General Bond	53.6%	69.8
Green Bond	19.4%	66.9
Sustainability Bond	16.4%	73.4
Social Bond	4.4%	74.2
Sustainability-linked Bond	1.1%	59.9

The Fund's primary impact Intent being financial inclusion leads to a strong focus on financials and supranationals

[19]Source: BlueOrchard as of 31 December 2024

The Fund has significant exposure to general bonds as a result of its investments in financial institutions that facilitate inclusive finance for MSMEs and underserved populations in emerging markets. Nevertheless, this exposure has significantly decreased over the Fund's life. It has decreased from 66.2% in 2022 and 55.3% in 2023 to 53.6% in 2024. Sustainability bonds provide a diversified type of impact exposure, mostly to affordable housing, basic infrastructure, and essential services such as education and healthcare investments. Green Bonds are exposed mostly to renewable energy, energy efficiency and clean transportation. The impact intents of the Fund's social bonds are mostly in inclusive finance, women empowerment, and essential services.

Impact scores vary depending on the type of bond, with the social bond category typically achieving the highest impact score average.

This is unsurprising, as the objectives of these purpose bonds are often fully aligned with the Fund's objectives. Social bonds and the social component of sustainability bonds typically define a population target to which the use of proceeds is dedicated. This often includes underserved segments of the population, such as low-income individuals benefiting from sovereign social bonds and their associated social programs, or specific types of MSMEs, such as those led or owned by women. Such documented and disclosed population targets highly increase the impact potential and the additionality of such projects and use of proceeds.

The Fund's primary impact Intent being financial inclusion leads to a strong focus on financials and supranationals that provide access to financial services and funding to SMEs and micro borrowers. Sovereigns score on average higher in terms of impact than any other sectors, mostly due to the scale of impact of countries and the granularity of reporting for their use of proceeds instruments.

Impact and SDG alignment

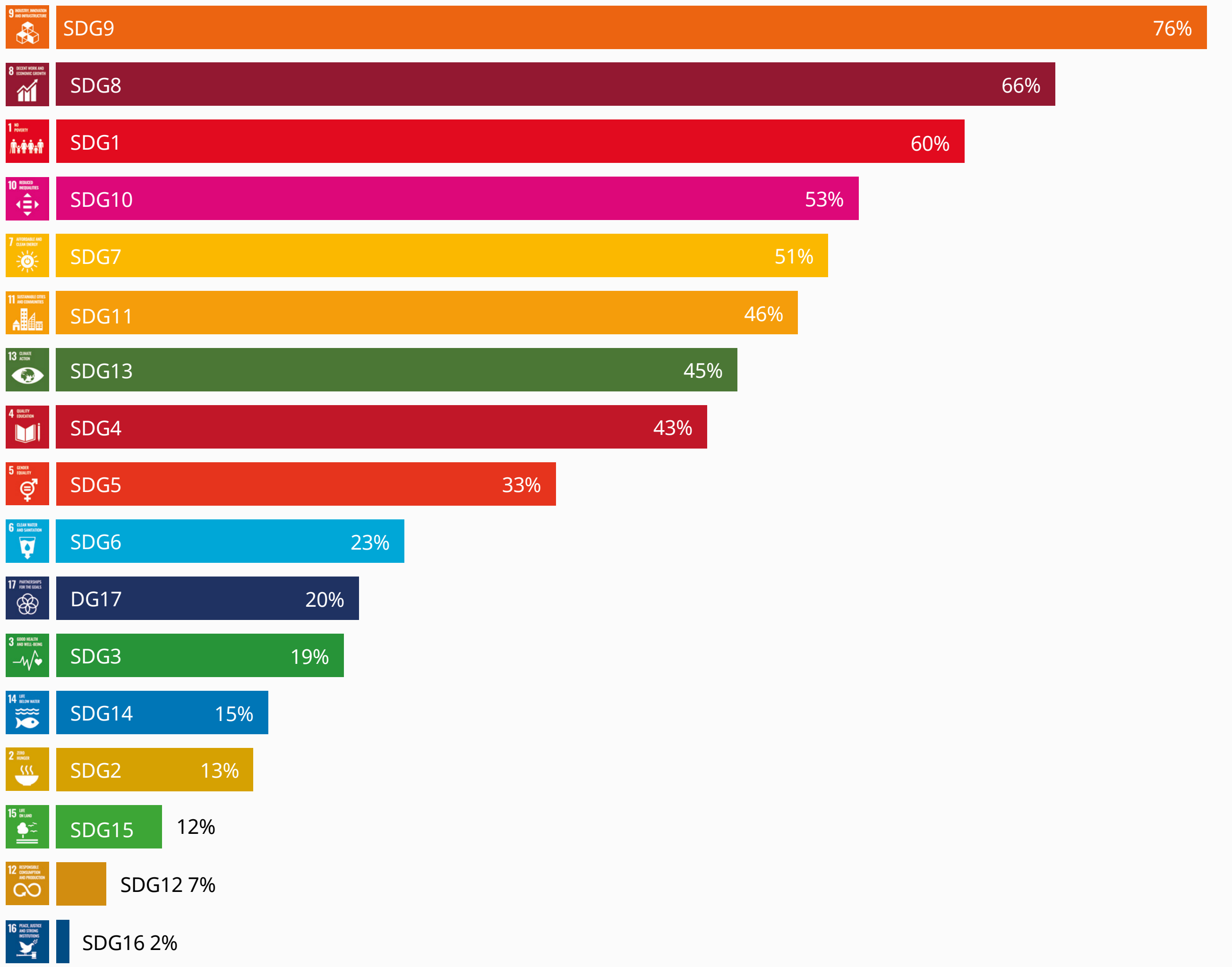
Impact themes and SDG alignment

In 2024, the Fund was primarily focused on the impact themes of inclusive finance as well as renewable energy and energy efficiency, which together made up more than half of the Fund's portfolio:

Impact Focus	%
Inclusive Finance (micro, SME)	36.39%
Renewable and energy efficiency	23.03%
Employment generation	12.13%
Basic Infrastructure	8.23%
Essential Services	7.90%
Sustainable Infrastructure	6.25%
Inclusive Trade	1.81%
Resilience towards climate risks	1.14%
Affordable Housing	0.93%
Inclusive Trade	0.76%
Waste management and recycling	0.61%
Water and marine resources	0.61%
Food security	0.11%
Women Empowerment	0.10%
Total	**100%**

The Fund contributes to the advancement of multiple UN SDGs

Percentage of invested portfolio



Portfolio spotlights

Case studies

Banque Ouest Africaine de Développement

The Banque Ouest Africaine de Développement (BOAD) is a regional development bank established in 1973 to foster economic development and integration in West Africa. Its primary mission is to support projects that promote economic prosperity, social well-being, and environmental sustainability among its member states within the West African Economic and Monetary Union (WAEMU). The bank is composed of eight member countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo, and it operates across the WAEMU region, focusing on sustainable projects aimed at improving the overall socio-economic conditions of the area.

To view the BOAD video please click on this QR code

BOAD's mission encompasses financing economic and social development projects, promoting regional integration, and enhancing quality of life for the citizens of its member countries. The bank finances a diverse range of sectors, including infrastructure, agriculture, health, and education, contributing to national and regional development goals. This multifaceted approach allows BOAD to address key challenges faced by member states while aiding in their collective growth and development.

The bank follows its Djoliba plan which aims to develop, transform and integrate West Africa, and establish the BOAD as the bank for development impact in the region. It focuses investments sectors such as infrastructure, agriculture and food security, access to affordable and clean energy, and access to education and healthcare. The objectives of the plans are to create 244,000 jobs, particularly for young people and women. The plan includes significant infrastructure development, such as 12,700 km of roads to improve transportation, and aims to facilitate agricultural production by developing 12,170 hectares of land to yield 170,300 tons of rice annually.

The BOAD has established a dedicated team and comprehensive tools to measure and manage the impact of its projects and investments effectively. Central to this effort is the impact evaluation tool, which aligns closely with the vision of BlueOrchard, ensuring a robust framework for assessing development outcomes. Each project undertaken by the bank is grounded in a clear theory of change, outlining the expected pathways from activities to outcomes. To facilitate this process,

Image Champs de coton, supplied by BOAD

BOAD has established Key Performance Indicators (KPIs) that track both outputs and outcomes, enabling systematic monitoring and evaluation. This structured approach not only supports accountability but also enhances the bank's ability to adapt and improve its project strategies in real-time, ensuring that they deliver meaningful benefits to the communities they serve.

Sustainability bond

The sustainability bond issued in 2021 by BOAD is fully allocated and demonstrates a strong commitment to social and environmental responsibility. A notable 89% of the proceeds are directed towards social projects, while the remaining 11% supports green initiatives. Almost half of the funds are allocated to enhancing access to essential services, such as healthcare and education. Furthermore, one-third of the proceeds focus on providing affordable basic infrastructure, particularly clean water and sanitation. An additional 10% is dedicated to renewable energy projects, agricultural insurance for smallholder farmers, and financing for small and medium-sized enterprises (SMEs) and women entrepreneurs. This bond has successfully funded around 100 projects across all eight countries of the West African Economic and Monetary Union (WAEMU), including Benin, Togo, Mali, and Senegal, contributing significantly to sustainable development in the region.

Access to education

In Senegal, BOAD is constructing 1,528 classrooms to replace temporary shelters, benefiting nearly 200,000 students. In Côte d'Ivoire, the focus is on promoting excellence and increasing enrolment and completion rates for young girls. This includes building four high schools and one senior high school of excellence, featuring 25 classrooms each for 1,000 female students, as well as a junior high school with 16 classrooms for 640 female students.

Agriculture insurance

Another project funded was around agricultural insurance and the implementation of an index-based crop insurance mechanism in the Republic of Côte d'Ivoire. This project aims to reduce the vulnerability of producers to climatic events by providing index-based crop insurance products. It targets the improvement of food security and the well-being of producers in the medium and long term. The project will provide an index-based crop insurance policy to cotton, oil palm, and rice producers, improve the systems for collecting and managing meteorological and agricultural data for these crops, and build the capacity of agricultural stakeholders in index-based crop insurance. The beneficiaries include 30,000 cotton producers, 10,000 palm producers, and 600,000 rice producers.

Clean and affordable energy

The renewable energy project in Togo focuses on extending the grid to connect more rural households to electricity. It includes a solar photovoltaic power plant with a production capacity of 50 MWp, which produces approximately 90,255 MWh of power annually, providing energy to 158,333 households and helping to save over one million tonnes of CO_2 emissions. Additionally, a planned 42 MW solar power plant will increase annual production by 65 GWh, raising the number of people with electricity access to 253,350 and increasing the share of renewable energy in the country's energy mix from 27% in 2021 to 40% by 2024. This project significantly contributes to environmental benefits by reducing CO_2 emissions and enhances social impact by improving electricity access in rural areas

KPIs

1.5 million
new beneficiaries of new clean water connections

324,225
beneficiaries with new access to sanitation

84,794
beneficiary students, among which 52% are girls

1,026
classrooms constructed

158,333
households supplied with solar energy

92MW
of solar energy capacity installed energy

1,052,328tCO2e
of emissions avoided

Globe Telecom

Globe Telecom is a leading telecommunications company in the Philippines, providing a comprehensive range of services including mobile, fixed-line, and broadband connectivity. Founded in 1935, Globe has evolved into one of the country's foremost telecommunications providers, serving millions of customers nationwide. The company is known for its commitment to innovation and digital transformation, continually expanding its network infrastructure and enhancing customer experiences through various technological advancements.

Globe Telecom enhances access to connectivity primarily by building new cell sites, upgrading existing mobile sites to LTE, and expanding its 5G infrastructure. In 2023, the company constructed 1,217 new cell sites, upgraded 6,975 mobile sites to LTE, and built 894 new 5G sites, connecting over 5.8 million devices to its 5G network. This extensive infrastructure is crucial as it provides faster internet experiences, supports digital innovation, and improves the overall online experience for customers.

Globe Telecom reaches a substantial customer base, including 57 million mobile customers, 1.8 million home broadband customers, and 828 thousand landline customers. Additionally, it serves 36.2 million mobile data users, highlighting its significant role in the telecommunications landscape. The basic infrastructure provided by Globe is vital for maintaining connectivity for Filipinos, especially in underserved areas. It fosters a digital nation that is accessible and equitable, ensuring that individuals and businesses can stay connected, which is essential for promoting digital enablement and inclusion.

A key aspect of Globe's mission is to promote financial inclusion leveraging its extensive network, particularly in underserved areas. By expanding its telecommunications network across the archipelago, Globe enables millions of Filipinos to engage in mobile payments and access digital financial services, which are increasingly vital for economic participation. Its GCash platform stands out as the leading finance superapp in the Philippines, having disbursed over $2 billion in loans and attracting millions of registered users for savings and investment features, thus empowering communities with essential financial services.

Globe is also committed to fostering financial literacy, especially among women entrepreneurs. Through partnerships like that with SME Financial Empowerment, Globe provides vital training for micro, small, and medium enterprises (MSMEs), equipping participants with the skills needed to thrive in the digital economy. Initiatives such as the Hapag Movement further support vulnerable families by providing training for sustainable livelihoods.

Additionally, Globe's participation in the Philippine Domestic Submarine Cable Network (PDSCN) project has further strengthened connectivity by laying 2,500 kilometres of submarine fibre optic cable, greatly enhancing mobile and broadband access.

By focusing on digital inclusion programs for underserved communities, Globe Telecom is effectively bridging the digital divide and reshaping the financial landscape in the Philippines, thereby promoting economic empowerment and participation across the nation.

KPIs

57 million mobile customers

828,000 landline customers

1.8 million Home Broadband customers

1,217 new cell sites constructed

199,000 Fiber-to-the-home lines deployed

Looking ahead

As we conclude this annual impact report, we are excited about the opportunities that lie ahead. Our ongoing engagements across various themes, particularly in relation to climate targets, remain a priority. We are steadfast in our efforts to hold issuers accountable and encourage them to adopt new or enhanced climate strategies.

> **Our dedication to advocating for meaningful climate action underscores our commitment to fostering sustainable practices within our portfolio and the wider community.**

In our pursuit of delivering meaningful impact, we recognise the importance of comprehensive data analysis. We plan to expand our focus on impact bond data, drawing insights not only from our extensive dataset of over 1,500 bonds and issuers but also integrating information from leading external data providers. This approach will empower us to refine our methodologies and enhance our analysis of impact metrics, ultimately allowing us to deliver real-world positive outcomes with greater precision. Alongside this, we are dedicated to maintaining the highest standards of quality impact reporting, ensuring transparency and accountability in all our disclosures. Our commitment to enhancing our tools for data and technology will play a pivotal role in increasing the efficiency and reliability of our processes. By leveraging advanced technology, we aim to streamline our operations while ensuring that our impact assessments are robust and data-driven.

The impact of our investments continues to grow, with disclosure practices becoming ever more robust, featuring increased granularity and standardised metrics. Financial inclusion remains a cornerstone of our strategy, especially within emerging markets financial institutions. Initiatives focused on financial literacy, SME and microentrepreneur financing are essential for the sustainable development of these regions. We take pride in the tangible impact we have created thus far and the successful proof of concept that demonstrates the scalability of impact through listed debt without sacrificing credibility. This progress can be attributed in part to the rise of labelled bonds and the strong framework surrounding this market. Looking ahead, we are optimistic about our ability to deliver strong and transparent impact in emerging markets, continuing to contribute positively to the communities we serve.

Annex

Limitations to methodology and data

9.7% of the portfolio are use of proceeds bonds from primary issuances that took place in 2024. Such bonds do not yet have impact reporting until the first year of the bond being issued, reducing the amount of impact data available for this report.

Additionally, as a result of the continuous issuance of use of proceeds bonds throughout the year, the impact reporting and data used for this report and impact assessments generally cover the period of between late 2023 to end of 2024. While the Impact Team gathers and analyses these reports and data, they do not reflect the exact impact achieved during a specific annual calendar year, but rather the impact achieved over a year. This method serves as a good proxy for the calendar year impact, but it is important to note that it is a limitation of investing in use of proceeds bonds.

Abbreviations

ESG = Environmental, Social and Governance
m = million
MW = Megawatt
MWh = Megawatt hours
tCO2e = Tonnes of carbon dioxide equivalent
USD = US Dollar

PAIs table

As part of the EU Sustainable Finance Disclosure Regulation (SFDR), BlueOrchard is required to disclose the negative effect of investments on various sustainability factors, including environmental, social, and governance matters. Those so-called Principal Adverse Impact (PAI) indicators are listed in the table below. PAIs are assessed during the ESG assessment of all issuers: We review the company's disclosure practices and availability of data, as well as compare the disclosed information to industry benchmarks. Moreover, trends are assessed, e.g., whether a company's GHG emissions have been reduced over the previous years.

Type of PAI	Result	Coverage
GHG Emissions Scope 1	2,219.7	84%
GHG Emissions Scope 2	1,227.2	84%
GHG Emissions Scope 3	42,649.9	60%
GHG Emissions Scope 1, 2, 3	45,996.5	60%
Carbon Footprint	117	60%
GHG Intensity of Investee Companies (Scope 1, 2, 3)	726	82%
Exposure to Companies Active in Fossil Fuel Sector	1.1%	81%
Share of non-renewable energy consumption and production	79.1%	77%
Activities negatively affecting biodiversity-sensitive areas	0%	84%
Emissions to water	0.0%	1%
Hazard Waste Ratio	0.2%	64%
Hazardous Waste Exposure	0%	82%
Violator of UN Global Compact Principles	0%	82%
Lack of Processes and Compliance Mechanisms to Monitor Compliance with UN Global Compact Principles	4.7%	82%
Unadjusted gender pay gap	13.0%	65%
Board Gender Diversity	29%	51.36%

Risk disclosure

Counterparty risk	The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole
Currency risk	The fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates
Derivatives risk	Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund
Emerging markets & frontier risk	Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets
High yield bond risk	High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk meaning greater uncertainty of returns
Liquidity risk	In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares, meaning investors may not be able to have immediate access to their holdings
Market risk	The value of investments can go up and down and an investor may not get back the amount initially invested
Operational risk	Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund
Performance risk	Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve
Sustainability risk	The fund has the objective of sustainable investment. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor
Currency risk	If the fund’s investments are denominated in currencies different to the fund’s base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in currency rates
Default risk	If a debt instrument in the portfolio defaults or breaches the debt instrument covenants, this may reduce interest and/ or capital repayments and could impact the value of the fund

Important information

EST. 1804

Schroder Investment Management (Europe) S.A.
5, rue Höhenhof | L-1736 Senningerberg | Luxembourg
T +352 341 342 202

schroders.com
@schroders

BlueOrchard Finance Ltd
Seefeldstrasse 233 | 8008 Zurich | Switzerland
T +41 44 441 55 50 E info@blueorchard.com

blueorchard.com
BlueOrchard Finance Ltd
@blueorchardfinance