



BlueOrchard
Impact Investment Managers

Member of the
Schroders Group

Disclosure Statement

Operating Principles for Impact Management
("Impact Principles")

November, 2021

Disclosure statement

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BlueOrchard Finance Ltd (“BlueOrchard”) hereby affirms its status as Signatory of the Operating Principles for Impact Management (the “Impact Principles”).

This Disclosure Statement applies to the BlueOrchard Microfinance Fund (“BOMF”) as well as all BlueOrchard’s listed debt strategies.

The total assets referred to in this statement (the “Covered Assets”) equal to USD 3.2 billion as per the Net Asset Value rounded of the BlueOrchard Microfinance Fund, BlueOrchard UCITS Emerging Markets SDG Impact Bond Fund and Schroder International Selection Fund BlueOrchard Emerging Markets Climate Bond as of September 2021.



A handwritten signature in black ink that reads "Maria Teresa Zappia".

Maria Teresa Zappia

Deputy CEO

Chief Impact & Blended Finance Officer

BlueOrchard Finance Ltd

16 November 2021





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Principle 1

Define strategic impact objective(s), consistent with the investment strategy

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

About BlueOrchard

BlueOrchard is a leading global impact investment manager and member of the Schroders Group. As a pioneering impact investor, the firm is dedicated to generating lasting positive impact for communities and the environment, while providing attractive returns to investors. BlueOrchard was founded in 2001, as the world's first commercial manager of microfinance debt investments and today manages the largest microfinance fund in the world: the BlueOrchard Microfinance Fund. Twenty years later, the firm offers impact investment solutions across asset classes, connecting purpose driven capital with millions of entrepreneurs in emerging and frontier markets. Being an expert in innovative blended finance mandates, the firm has a sophisticated international investor base and is a trusted partner of leading global development finance institutions.

BlueOrchard has always placed a strong emphasis on maintaining first class in-house due diligence capabilities. The firm's high quality investment and risk management processes are the foundation of a twenty year track record of stable returns. All BlueOrchard diligence tools have been internally developed and benefit from the accumulated experience of its talented professionals. The BlueOrchard Scorecard and Financial Strength Rating (BOSCO FSR) and the B.Impact Framework have been regularly evaluated by investors and are consistent with industry best practice.

As an impact investment manager operating on a global scale, BlueOrchard promotes an inclusive company culture. With more than 35+ nationalities represented and 30+ languages spoken, BlueOrchard considers the cultural diversity of its team to be a core strength and asset. Furthermore, the firm grants equal career development opportunities to women (50% of staff) and men, with fair, non-discriminatory promotion criteria in place. BlueOrchard remains close to its portfolio and the communities it serves by maintaining permanent local staff presence in key emerging markets with staff who understand both the cultural and market environments.

B.Impact Framework

Over time, BlueOrchard has developed, implemented and refined a strong ESG and impact performance management practice with unique management tools that track its impact and ESG footprint in terms of enhanced social and environmental impact and financial returns for both its investors and investees.

To systematically assess the impact of each current and prospective investee and identify potential for improvement, BlueOrchard has developed its proprietary B.Impact framework. The main pillars of the B.Impact framework include the expansion of BlueOrchard's long-standing and innovative SPIRIT tool into dedicated SPIRIT ESG and SPIRIT Impact scorecards. These scorecards have been developed to evaluate relevant and material ESG and Impact factors across all BlueOrchard's asset classes and impact themes.

The SPIRIT ESG Scorecard assesses the ESG risks of each portfolio company considered for investment and produces a rating that is used as a key input for the origination and monitoring of investments. The SPIRIT Impact Scorecard assesses the potential impact of each investment opportunity and follows the five dimensions of the Impact Management Project. The Scorecard combines the investment intent with impact KPIs and information on the end beneficiaries. It also assesses BlueOrchard's investment contribution while factoring potential unintended negative effects. The impact KPIs are mapped against the UN's SDGs at both an individual company and overall fund level.

A Holistic Design for ESG and Impact Management – the B. Impact Framework

SPiRiT ESG Assessment

ESG Scorecard

Assesses an investee's risks and practices in relation to:



Environment



Social



Governance

The ESG rating is used as an input for origination and monitoring of investments

SPiRiT Impact Assessment

Impact Scorecard

Assesses the potential impact of each investment along five dimensions:



What
Investment Intent



How Much
Impact KPIs



Who
End Beneficiaries



Contribution
BlueOrchard's Value Added



Risk
Impact Risks

SDG Mapping & Alignment

SDG Mapping

Provides an SDG mapping at investee and fund level:



- SDG Universe
- SDG Material Assessment
- SDG Impact KPI's Matrix
- SDG Reporting

Aligned with



The BlueOrchard Microfinance Fund

The BlueOrchard Microfinance Fund (BOMF), founded in 1998, was the first private and fully commercial microfinance investment fund in the world. BOMF aims to foster financial inclusion of low-income groups and Micro, Small and Medium Enterprises (MSMEs) through private loans to Microfinance Institutions and other financial intermediaries serving the MSME segments in emerging and frontier markets (collectively, the MFIs).

BOMF supports MFIs in expanding their outreach, improving the quality and suitability of their financial products, and encouraging the development of new products such as savings, insurance and payment services. BOMF was developed based on a triple bottom line approach, evaluating all investment opportunities under the risk, return and impact perspectives.

BOMF's alignment with the SDGs reflects its contribution to 11 of the 17 SDGs, as presented below:



The BlueOrchard Listed Debt Strategies

BlueOrchard's listed debt strategies incorporate issuers with strong ESG practices and an impactful business purpose as well as thematic bonds (Green, Social, Sustainable and Sustainability-linked) that target a specific topic at the heart of the fund's impact investment strategy. Through investments in listed debt, BlueOrchard aims to catalyze an impact focus in the public capital markets and offer a tangible social and

environmental benefit to investors seeking a combination of impact potential and high liquidity.

Our listed debt strategies currently focus on increasing financial inclusion and support the transition to a low carbon economy, primarily contributing to the following nine SDGs:





Principle 2

Manage strategic impact on a portfolio basis

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

Investing in private debt

BOMF provides debt financing to MFIs in emerging markets throughout Africa, Latin America, Central and Eastern Europe, and Asia. Through BOMF, BlueOrchard invests in institutions that provide positive social and/or environmental impact, through financial inclusion.

As the first commercial manager of microfinance debt investments worldwide, BlueOrchard has built an unparalleled degree of expertise in fixed income impact investments in frontier and emerging markets. BOMF's network and longstanding global relationships have enabled consistent selection of strong and socially valuable investment opportunities to deliver financial returns and social and environmental impact.

Investing in listed debt

Since 2018, BlueOrchard has expanded its investment strategy into listed debt. With greater liquidity than private debt instruments, listed debt represents an alternative asset class, while also enabling tangible social and environmental impact. Listed debt is one of the largest asset classes with a high capacity to absorb capital inflows with an ever-expanding and highly liquid investment universe. Similar to its private debt funds, BlueOrchard's public debt strategy currently invests mainly in bonds from emerging and frontier markets, covering Africa, Latin America, Central and Eastern Europe and Asia. BlueOrchard's presence and network in frontier and emerging economies has been developed over 20 years with our team presence across all continents. We invest in institutions that share our values and that consider positive social and environmental impact essential to their mission.

A dedicated team

BlueOrchard has a dedicated Investment Solutions team which collaborates closely with the Investment, Impact Management and Risk Management teams. The Investment Solutions team is responsible for the optimization and management of the portfolios of all BlueOrchard managed funds and mandates. The team's main goal is to achieve target returns while ensuring adherence to investment guidelines and portfolio strategies in respect of both financial and impact performance.

The Investment Solutions team ensures that BlueOrchard's investment activities are in line with its target portfolio allocations and leads the monthly Global Portfolio Meeting which provides insight into the portfolio, investment, and financial and impact performance developments for all BlueOrchard funds and mandates.

The independent Impact Management Team is responsible for managing ESG and impact assessments for each investee and works closely with the Investment Team to ensure the impact management process (as presented below) is fully integrated in the overall investment process at both investee and fund levels.

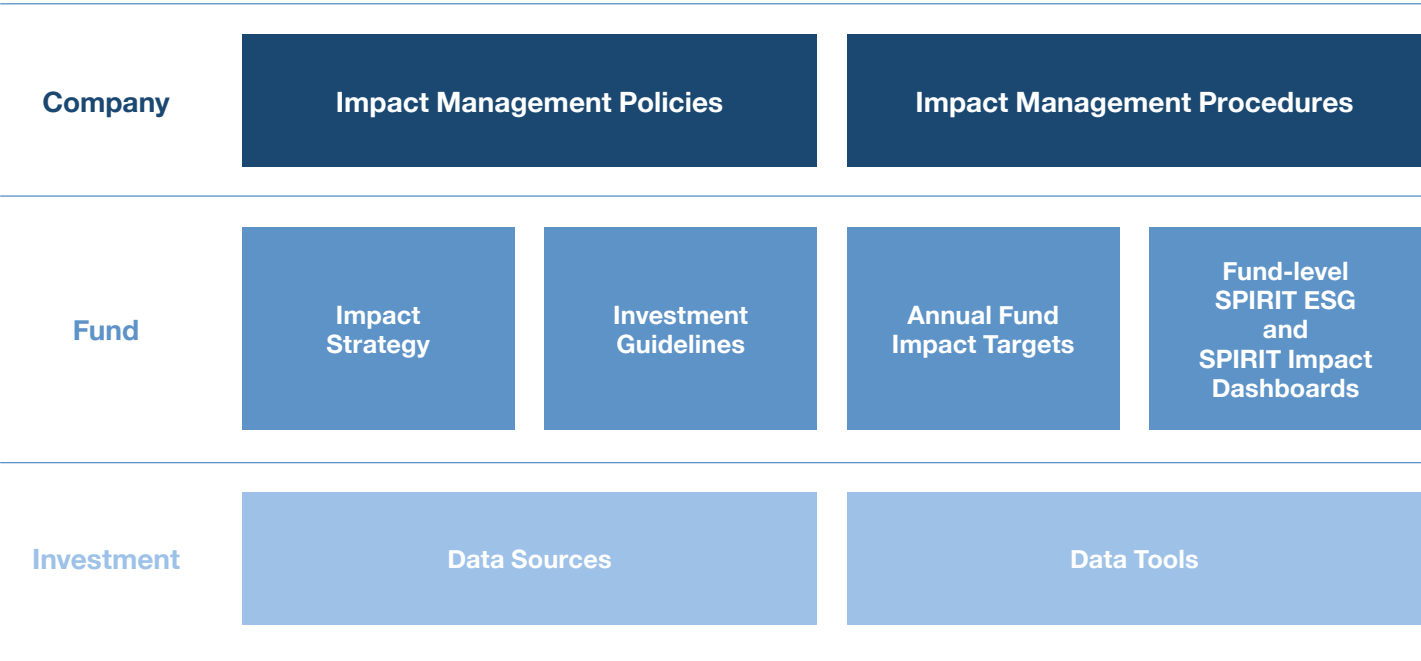
Clear impact process

BlueOrchard has a well-defined process to monitor impact performance at a portfolio level.

On the private debt side, BOMF's individual investment impact key performance indicators (impact KPIs) are aggregated through BlueOrchard's proprietary management information system, BlueOrchard Financial Solution (BOFS). To ensure uniqueness and integrity of the financial and impact investee's data, KPIs are available at each investment level and can be easily aggregated to monitor their performance on a portfolio level.

On the listed debt side, the impact management process evaluates the impact on people and/or planet of the bond investments by collecting specific impact key performance indicators (KPIs) as well as classifying investments in defined impact categories. The bottom-up proprietary SDG mapping tool, based on the impact KPIs, combined with an aggregated view on the impact categories allows to monitor the impact.

Impact & ESG management process



The B.Impact Framework is applied across the BlueOrchard's portfolio be it in private assets and in listed debt strategies.

For BOMF, portfolio level impact KPIs are regularly reported to senior management, to the BOMF Board of Directors, to investors in the fund, and to other key stakeholders.

For listed debt strategies, the SDG mapping and the alignment with the impact categories as well as aggregated results of the proprietary ESG and Impact Scores of the portfolios are regularly communicated to senior management, to the funds' boards as well as to investors and other key stakeholders.

BlueOrchard's commitment to incentivizing impact is reflected in the variable component of staff remuneration, which is calculated based on both financial and impact performance. In addition, the completeness and accuracy of the ESG and Impact performance assessments is included among the KPIs evaluated during the annual review of BOMF's Investment Officers as well as the annual review of the Impact Management Team.



Principle 3

Establish the manager's contribution to the achievement of impact

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels¹. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

Measurable impact

BlueOrchard is and has always been an impact focused asset manager and the commitment to making sustainable and responsible investments remains its key operating focus. Since inception, BlueOrchard has invested more than USD 8bn across more than 90 countries (as of 31 September 2021). Over 216mn poor and vulnerable people in emerging and frontier markets received access to financial and related services with the support of BlueOrchard as of September 2021.

The BlueOrchard Microfinance Fund

BOMF is BlueOrchard's flagship product and represents the largest proportion of its assets under management. The Fund's strategy is to invest in institutions that are delivering a positive social and environmental impact through the expansion of financial services to those who have historically not been able to access them.

For more than 20 years, BOMF has identified promising socially responsible MFIs around the world and contributed to their growth and institutional development by providing competitively priced financing and hands on client support. The fund has done this while maintaining a remarkably low rate of loss and delivering stable returns for investors by way of a highly controlled and effective investment selection process.

BOMF's contribution to achieving impact

BOMF's contribution to each investment is assessed in the SPIRIT Impact scorecard, performed independently by the Impact Management Team, and its results are outlined in each respective investment memo defining the opportunity, presenting the financial and impact case and seeking approval from the specialized investment selection committees within the company.

BOMF's contribution is presented in detail within BlueOrchard's Impact Report. BOMF investees featured in these reports often speak directly about the fundamental role the fund has played in allowing their MFIs to provide capital for thousands of borrowers who traditionally lacked access to the financial system and thus lacked capacity to grow as entrepreneurs.



¹ For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards



Listed Debt Strategies' contribution to achieving impact

With its listed debt strategies, BlueOrchard aims to support the growth of impactful companies and to support the market for trading of impactful, thematic bonds that deliver tangible benefit for emerging and frontier markets and in parallel work to tackle key environmental and social challenges. BlueOrchard is at the forefront of working to develop a rapidly growing market for sustainable, impact-focused listed debt instruments.

The investments potential and actual impact is an integral part of the B.Impact Framework for listed debt, using proprietary assessment tools that focus on financial as well as non-financial elements for each individual bond. The results are summarized in a respective document, including a conclusion for approval or rejection of a specific listed instrument.

BlueOrchard's public debt funds report on their sustainability and impact results in separate impact reports and/or monthly factsheets. In addition, the impact managers of the listed debt strategies frequently present to investors individual case studies of the portfolio to illustrate the investment's contribution to the fund's impact intent.

The BlueOrchard Academy

BlueOrchard is committed to increasing awareness of the need for broader financial inclusion and sharing its unique expertise in the field of impact investing. To that end, BlueOrchard has established the BlueOrchard Academy to provide knowledge, educational engagement, and access to research to graduate students with a demonstrable commitment to advancing the field of impact investment.

The Academy is committed to developing BlueOrchard's partners and investors by means of continuous learning and education. Examples of BlueOrchard Academy initiatives include events such as investor field trips, white papers, impact reports, etc. Furthermore, the Academy actively partners with leading universities and research institutions to support academic research programs and the work of individual graduate students who have chosen to focus their studies on themes that BlueOrchard has pioneered throughout its 20-year history.

Principle 4

Assess the expected impact of each investment, based on a systematic approach

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact² potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact?³ (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards⁴ and follow best practice⁵.

Impact assessment – BlueOrchard Microfinance Fund

BOMF assesses the expected impact of all individual investments in its portfolio via its SPIRIT Impact scorecard and on-site due diligence. The process follows clear impact and ESG procedures and is done as described in the fund investment guidelines. The investment decisions are taken by internal investment selection committees and decisions are based on the information presented by specialist investment officers in the investment and country memos.

The investment memo articulates key impact aspects of each investment:

- The intended impact is presented in the recommendation section for each investee. The loan purpose, if approved, is formalised, and documented during the life of the loan.
- The result of the SPIRIT Impact scorecard approved by the Impact Management Team.

The SPIRIT Impact Scorecard is an assessment of the potential impact that each investment is expected to achieve at the time of disbursement for the duration of the investment period. The Scorecard follows the five dimensions of the Impact Management Project and market best practices in impact management. It combines the investment intent with impact KPIs and information on the end beneficiaries. It also assesses BlueOrchard's investment contribution while factoring potential unintended negative effects. The impact KPIs are mapped against the UN's SDGs at both an individual company and overall fund level.

The country memo outlines on the geographical, social stability, and economic context. It also includes characteristics of the MSME environment and highlights the sectors that continue to have limited access to financing. The country analysis is performed by the Investment Team, based on external sources and on-site due diligence trips.

Key impact indicators are collected quarterly in BOFS, through an external web interface that allows investees to enter their impact data into the system. This data is reviewed and validated by the Investment Team and used to generate monitoring reports and investors updates.

Impact assessment – Listed debt strategies

Prior to disbursement, BlueOrchard conducts both an ESG assessment at the issuer level and an assessment of an investment's potential impact through use of the Impact Bond SPIRIT Scorecard. This is a critical step in defining and quantifying the impact of a prospective investment.

The Impact Bond SPIRIT assesses each issuance on the five dimensions of the Impact Management Project, structured around (1) impact intent, (2) relevant impact KPIs, (3) End-beneficiaries, project scale and outreach, as well as effects on stakeholders, (4) contribution of BlueOrchard, and (5) relevant impact risks.

After a listed debt investment is made, issuers are closely and regularly monitored by the Impact Management Team and, when necessary, the Risk Team, to ensure identification of ESG risks and ongoing compliance with impact KPIs.

The Impact Bond SPIRIT and the ESG assessment are updated on a yearly basis. As such, through the updating of the impact KPIs, the assessment provides insights into achievement and progress of positive impact of the investment.

Theory of change

BOMF demonstrates consistency between investment and impact strategy towards the achievement of the SDGs.



2 Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

3 Adapted from the Impact Management Project (www.impactmanagementproject.com)

4 Industry indicator standards include HIPSO (<https://indicators.ifipartnership.org/about/>); IRIS (iris.thegiin.org); GIIRS (<http://b-analytics.net/giirs-funds>); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.

5 International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

6 Impact Management Project (Home | Impact Management Project)

Principle 5

Assess, address, monitor, and manage potential negative impacts of each investment

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)⁷ risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice⁸. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

The main pillars of the B.Impact framework include the enhancement of BlueOrchard's historic proprietary SPIRIT tool into dedicated SPIRIT ESG and SPIRIT Impact Scorecards. These Scorecards evaluate relevant and material ESG and Impact factors across all BlueOrchard's asset classes and impact themes. Each investee must reach minimum SPIRIT Impact and ESG scores to be included in the investment universe. This is also clearly stipulated in the investment guidelines for each fund product.

BlueOrchard Microfinance Fund

The SPIRIT ESG Scorecard is completed prior to the investment by BlueOrchard's investment officers together with the investees during a comprehensive due diligence process. To ensure quality of data and avoid conflict of interest across BOMF's global portfolio, SPIRIT ESG Scorecards are reviewed and approved by the Impact Management Team prior to evaluation by the internal investment selection committees. The SPIRIT Impact Scorecard review is performed independently by the Impact Management Team, with input on impact potential provided by the investment officers.

The approved SPIRIT Scorecards are included in the investment memo and submitted to the relevant investment selection committees in anticipation of a final investment decision.

Post-investment, ESG and impact data are collected on a quarterly basis for the monitoring of impact KPIs across the portfolio. The SPIRIT ESG Scorecard is updated based on information from follow on due diligence visits, along with the overall assessment of financial and social performance of the investee.

In cases of ESG underperformance, and when there is commitment for improvement from an investee, BOMF actively engages with and supports the institution in improving or developing missing policies or procedures. In our experience these engagements have a meaningful influence on the investee and support the investment decision making process within BlueOrchard.

Listed debt strategies

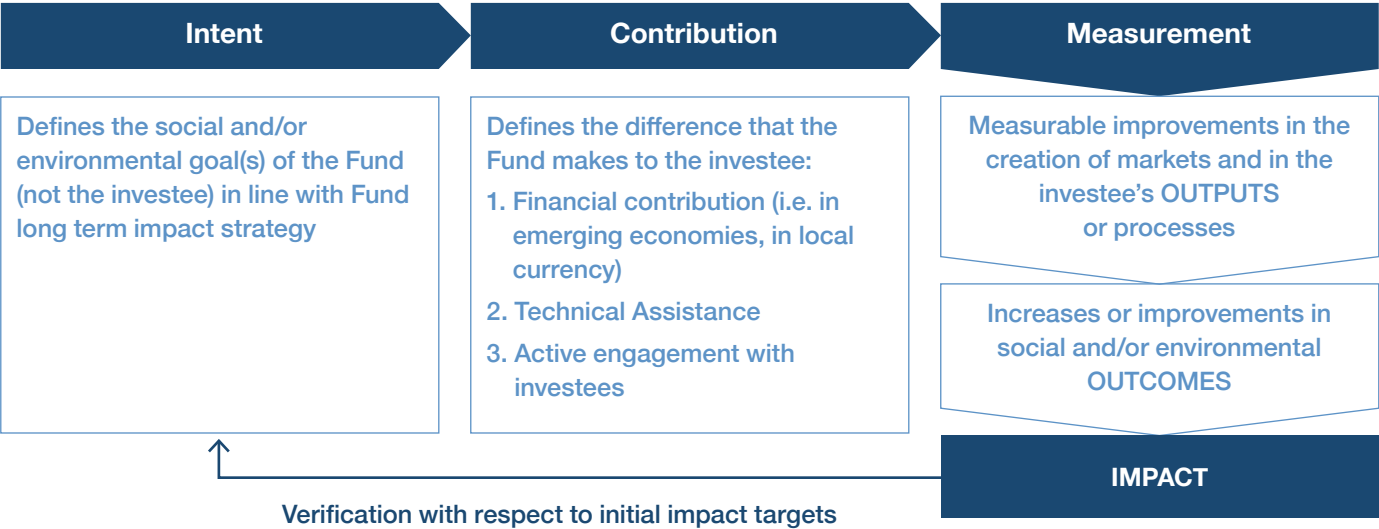
Prior to any investment, the Investment Solutions Team needs to seek approval by the Impact Management Team for validation of the impact and ESG elements of each security. The ESG and impact assessments are performed independently by the Impact Management Team. Proposed securities are included in the investment universe only if minimum eligibility scores are achieved.

The ESG analysis entails a sustainability risk assessment, looking at environmental, social and governance characteristics that could cause an actual or a potential material negative effect. It guarantees that the company meets certain minimum safeguards standards. The impact analysis assesses the potential impact of an investment and considers possible negative consequences on investment level.

The respective Scorecards are stored with restricted access and editing rights, and the results are documented in a specific database for listed debt. ESG and impact risks are monitored through an annual reassessment combined with a real-time monitoring based on an external data provider. If minimum inclusion criteria are no longer met, the Impact Management Team will notify the portfolio managers of the need to either (a) engage with the issuer to determine a remediation strategy or (b) divest the instrument.

The Impact Management Team can challenge issuers on ESG and Impact characteristics identified during the analysis. Such engagement can take the form of oral or written communication and can be incorporated into a respective issuer assessment, in case the issuer has additional documentation available or credible demonstrates its approach further. BlueOrchard also sees engagement as a useful tool to communicate to companies any weaknesses identified in their ESG and impact performance and possible measures to improve both their ESG practices and impact performance.

Three distinct attributions of impact



7 The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

8 Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (<https://mneguidelines.oecd.org/>).

Principle 6

Monitor the progress of each investment in achieving impact against expectations and respond appropriately

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action⁹. The Manager shall also seek to use the results framework to capture investment outcomes¹⁰.

BlueOrchard Microfinance Fund

Impact and ESG data on the BOMF portfolio are collected on a quarterly basis through BOFS. The system gives the user multiple views and enables tailored analysis on single investments as well as the overall fund portfolio.

Prior to any investment, regular reporting requirements are agreed with all investees and are built into the loan agreement. As such, the failure to provide this information can trigger a breach of agreement and can prevent future business between BOMF and the investee.

In addition to regular data reporting requirements, all investees are monitored for financial and social covenant compliance and are subject to follow on due diligence visits, on average, every 24 months.

BOMF provides a monthly update to its investors, which includes a section giving an overview of the impact and ESG data at a portfolio level as well as an update on a specific investee, highlighting recent social and environmental achievements.

Listed debt strategies

Once the bond ESG and Impact assessments are made, the Impact Management Team records the analysis in the listed debt database. This database is BlueOrchard's proprietary monitoring dashboard and reflects the different steps of the bond assessment from an impact perspective. The database is the source for impact reporting and monitoring of investments, a responsibility held by the Impact Management Team.

All Impact and ESG assessments are typically updated on a yearly basis. An important part of this assessment is the collection of updated impact KPIs, which allows to monitor the progress of the expected impact. If performance falls below minimum thresholds or the issuer fails to meet disclosure requirements, engagement with an issuer can occur, or, if needed, divestment.

⁹ Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.

¹⁰ Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).



Principle 7

Conduct exits considering the effect on sustained impact

When conducting an exit¹¹, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

BlueOrchard Microfinance Fund

BOMF is a fixed income fund and its investments consist of senior and subordinated loans with fixed maturity and amortization dates. The timing, structure, and process of exiting these investments are set at the beginning of the financing relationship with the investee. The terms of each agreement are reached in consideration of the repayment capacity, risk level and liquidity needs of each investee.

The repayment schedules represent our consideration of the investee's capacity to abide by the financing terms and conditions, and the sustainability of its impact on the end-beneficiaries.

A significant number of the investees in BOMF's portfolio are repeat borrowers, demonstrating the strong and very long-term relationships with investee companies (i.e. 20+ years). The fund stays engaged and grows with its investees, aiming to support their growth and development as contributors of economic and social value in the communities they serve.

For investees that no longer require BOMF financing at maturity, the B.Impact Framework includes an exit questionnaire. A fundamental part of this questionnaire is to determine if the end beneficiaries will continue to receive the products and services of the investee, so that impact remains in the medium and long term.

Listed debt strategies

Given the sustainable investment objectives of BlueOrchard's listed debt strategies, the investments are typically selected with the intention to "buy and hold." When a bond matures, or a fund exits a position for other reasons, the Impact Management Team conducts an Exit assessment to have visibility over the impact achieved. In addition, BlueOrchard intends to support a long-lasting impact by reinvesting in highly impactful companies and to continue the relationship with such issuers.

¹¹ This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.



Principle 8

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

BlueOrchard maintains a self-evaluation framework that allows continuous improvements in product impact management and follows the recommendation and guidance by the Impact Steering Committee (Impact SteerCo). The Impact SteerCo is chaired by BlueOrchard's CEO and includes senior management members. The SteerCo's objective is to reflect on lessons learned from past impact management practice and ensure that the impact management framework in place complies with industry best practices.

Throughout its history, BlueOrchard has updated and improved its impact management tools regularly, first by reviewing its impact results, secondly by following the latest industry standards and thirdly by leveraging the experience of the Investment Teams in the regional markets.

In December 2019, and based on the above process, the Impact SteerCo approved the implementation of the new impact management framework called 'B.Impact'. B.Impact includes major enhancements in policies, procedures and the tools used for impact and ESG assessment. The framework is being implemented on an ongoing basis throughout 2021 and has been tailored to suit the needs of BlueOrchard's evolving range of investment asset classes.



Principle 9

Publicly disclose alignment with the Impact Principles and provide regular independent verification¹² of the alignment

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for an independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

As a signatory of the Principles, BlueOrchard is committed to disclosing the degree of alignment of its impact management system with the Principles. This Disclosure Statement affirms the alignment of BlueOrchard's policies, tools and procedures with the Impact Principles for the BlueOrchard Microfinance Fund as well as BlueOrchard's Listed Debt strategies and is updated on an annual basis and published on BlueOrchard's website.

BlueOrchard engaged BlueMark, a Tipline company, to independently verify the alignment of BlueOrchard's impact management practices with the Operating Principles for Impact Management, an industry standard for integrating impact throughout the investment lifecycle. BlueMark's assessment findings cover both areas of strength and areas for improvement, as reflected in the Verifier Statement.

The Tipline Verifier Statement for the BlueOrchard Microfinance Fund, dated 8 April 2020, and the BlueMark Verifier Statement for the Listed Debt Strategies, dated 14 October 2021, can be found in the appendix to this document.

The independent verification will be updated every four years.

¹² The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.



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articles, the interim and annual reports, the list of purchases and sales and other information can be obtained free of charge from the representative in Switzerland: 1741 Fund Solutions AG, Burggraben 16, 9000 St. Gallen. The paying agent in Switzerland is Bank Tellco AG, Bahnhofstrasse 4, 6430 Schwyz.

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Appendix

Timeline Verifier Statement for the BlueOrchard Microfinance Fund, dated 8 April 2020

T I D E L I N E

VERIFIER STATEMENT

Independent Impact Management Verification

Prepared for BlueOrchard: April 8, 2020



BlueOrchard
Impact Investment Managers

Member of the
Schroders Group

BACKGROUND

As a signatory of the Operating Principles for Impact Management (the Principles), BlueOrchard is committed to disclosing the degree of alignment of its impact management (IM) system with the Principles.¹ BlueOrchard engaged Timeline to undertake the assessment.

ASSESSMENT METHODOLOGY

Timeline reviewed BlueOrchard's set of IM tools and processes for the purpose of assessing its degree of alignment with the Principles.² To do so, Timeline used a proprietary rubric informed by:

1. The text of each Principle and associated implementation guidance;
2. Timeline's proprietary process assessment criteria, which are mapped to each Principle; and
3. Timeline's retained knowledge of the state of IM practices

SUMMARY ASSESSMENT

Timeline conducted an assessment to verify the BlueOrchard Microfinance Fund (BOMF) IM system's degree of alignment with the Principles. As of 31 December 2019, BlueOrchard's AUM covered by the Principles comprises the entirety of BOMF and totals US\$2,414,291,450. Key takeaways from the assessment are:

- **Areas of strength:** BOMF has clear and defined social and environmental impact objectives that are mapped to the UN Sustainable Development Goals (Principle 1) and has integrated impact considerations into the screening, diligence, and execution phases of its investment process (Principles 2 and 4). The Fund has also established a clear narrative on its contribution to the achievement of impact (Principle 3) and a thorough approach to the identification and management of ESG risks, driven by its SPIRIT tool (Principle 5).
- **Areas for improvement:** Timeline identified opportunities for further alignment, including establishing a process to compare expected and actual impact on an ongoing basis and engage with investees in the case of impact underperformance (Principle 6), as well as incorporating the comparison of expected and actual impact into the Fund's existing impact management review processes (Principle 8). With the implementation of the B.Impact framework currently under development, BlueOrchard will be well-placed to actualize these opportunities for further alignment with the Principles.

ABOUT TIMELINE

Timeline Advisors, LLC is a certified women-owned advisory firm in impact investing. Since its founding in 2014, Timeline has become a recognized leader in impact measurement and management, focused on the design and verification of IM systems with leading asset owners and managers. In 2020, Timeline established a subsidiary with a separate, dedicated team focused on impact management verification.

Timeline has offices in New York, NY and San Francisco, CA and is headquartered at 915 Battery St, San Francisco, CA 94111, USA.

¹ Principle 9 states that signatories shall "publicly disclose alignment with the Principles and provide regular independent verification of the alignment: The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns."

² Timeline's full assessment for BlueOrchard states each of the Principles, describes the BlueOrchard IM processes covered by the Principles, and identifies areas where further alignment is appropriate and feasible. The scope of Timeline's assessment procedures does not include the verification of the resulting impacts achieved. Timeline's assessment is based on its analyses of publicly available information and information in reports and other material provided by BlueOrchard. Timeline has relied on the accuracy and completeness of any such information provided by BlueOrchard. The assessment results represent Timeline's professional judgment based on the procedures performed and information obtained.

Appendix

BlueMark Verifier Statement for the Listed Debt Strategies, dated 14 October 2021



Verifier Statement

Independent Verification Report

Prepared for BlueOrchard: October 14, 2021

Introduction

As a signatory of the Operating Principles for Impact Management (the Impact Principles)¹, BlueOrchard engaged BlueMark to undertake an independent verification of the alignment of BlueOrchard's Public Assets impact management (IM) system with the Impact Principles. BlueOrchard's assets under management covered by the Impact Principles (Covered Assets) total \$626.6 million², for the period ending 08/2021.

Summary assessment conclusions

BlueMark has independently verified BlueOrchard's extent of alignment with the Impact Principles. Key takeaways from BlueMark's assessment are as follows:

Principle 1: BlueOrchard has formulated clear impact theses for the Climate Bond Fund ("CBF") and Impact Bond Fund ("IBF"). The firm has formulated six impact categories that it assesses for each fund and has aligned its goals to SDGs at the target level. To align further with the principle, BlueOrchard should build an evidence base underlying the impact theses for the funds.

Principle 2: BlueOrchard has developed a structured processes to integrate impact considerations throughout the investment process. BlueOrchard centrally stores all relevant impact DD and monitoring information, which includes internal reporting against a limited subset of KPIs at the portfolio level. The firm has linked its staff incentive systems to impact performance at the firm level.

Principle 3: BlueOrchard has integrated a structured contribution assessment into its SPIRIT Impact Scorecard, which it uses to assess elements of financial and non-financial additionality for each bond. The firm also engages with issuers on investor calls and in 1-on-1 settings around relevant impact and ESG issues. To further align with the principle, BlueOrchard should seek to assess the results of its contribution and build out an evidence base to support its assessment methodology.

Principle 4: BlueOrchard uses its SPIRIT Impact Scorecard to assess a bond's expected impact prior to selection, leveraging the five dimensions of impact as defined by the IMP. To further align with this principle, BlueOrchard should incorporate supplemental considerations into the Impact Scorecard, as well as explicitly map the impact KPIs collected in the Impact Scorecard to industry metric standards.

Principle 5: BlueOrchard uses its SPIRIT ESG Scorecard to identify and assess a bond's expected ESG risk in advance of selection. BlueOrchard monitors ESG risk through annual reassessments of the ESG Scorecard and real time monitoring using RepRisk. BlueOrchard only allows bond's with ESG risk ratings of low or medium into the investment universe to become available for selection.

Principle 6: BlueOrchard monitors impact performance on an annual basis through the reassessment of each bond's SPIRIT Impact Scorecard. To further align, BlueOrchard should formalize an engagement protocol when monitoring suggests impact underperformance, ensure the prospective monitoring process is well-defined, and explore methods for assessing impact outcomes associated with the portfolio's impact performance.

Principle 7: BlueOrchard has processes to review impact prior to any exit and seeks to embed considerations into its investment strategy where possible, such as long-term holds and reinvestment to further support impact. To further align with this principle, BlueOrchard should formalize its investment philosophy related to exits into a policy and related process that ensures various considerations and steps are systematically taken at exit/sale to encourage the long-term sustainability of impact.

Principle 8: BlueOrchard reviews the impact performance of each bond annually as part of a standardized process to update each Impact Scorecard. Improvements and refinement of impact processes based on lessons learned are done on a recurring basis. To further align, BlueOrchard should standardize its protocol for using the impact findings from the scorecard review process to improve strategic investment decisions, as well as incorporate a consistent review of broader positive and negative impacts.

¹ Principle 9 states that signatories "shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns."

² Assets under management figure as reflected in BlueOrchard's Public Assets Position as of August 31, 2021. BlueMark's assessment did not include verification of the AUM figure.

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