Livelihoods Carbon Fund SICAV-RAIF - Livelihoods Carbon Fund 3

Sustainability-related disclosures

Updated as of December 2022 – version 1

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a) Summary

Livelihoods Carbon Fund 3 (“**LCF3**”) is a sub-fund of Livelihoods Carbon Fund SICAV-RAIF (the “**Fund**”), an umbrella fund qualifying as an investment company with variable capital – reserved alternative investment fund according to the Luxembourg law of 23 July 2016. LCF3 has appointed Innpact Fund Management S.A. (the “**AIFM**”) to act as its external alternative investment fund manager pursuant to the Luxembourg law of 12 July 2013. Livelihoods Venture SAS shall provide the expertise, experience & network in the sourcing, structuring and implementation of investments as Investment Advisor to LCF3 (the “**Investment Advisor**”).

LCF3 aims to invest globally, with a focus on developing countries, in community-based solutions to restore natural ecosystems, facilitate access to rural energy, and establish agroforestry and regenerative agriculture systems that will ultimately reduce greenhouse gases (“**GHG**”) emissions, increase carbon sequestration, generate certified carbon offsets to climate-responsible corporates and contribute towards the United Nations Sustainable Development Goals (“**SDGs**”) while delivering a steady and positive financial return to financial investors (the “**Sustainable Investment Objective**”).

By helping local communities in restoring and protecting their ecosystems, thereby securing their livelihoods, LCF3 contributes to their empowerment and adaptation to climate change. Community-based projects will only be well stewarded and its assets (trees, etc.) well maintained over the long-run if they deliver tangible benefits for their local stakeholders.

LCF3 qualifies as an article 9 under the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (“**SFDR**").

The Sustainable Investment Objective of LCF3 also contributes to the following environmental objectives as defined in Article 9 of the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment (the “**Taxonomy Regulation**”): (i) climate change mitigation, (ii) climate change adaptation and (iii) the protection and restoration of biodiversity and ecosystems.

LCF3 has a reduction in carbon emissions as its objective and its Sustainable Investment Objective is in line with the long-term global warming targets of the Paris Climate Agreement. Nevertheless, considering LCF3’s target regions and specifics of the investment strategy, there is no EU Climate Transition Benchmark or EU Paris-aligned Benchmark available for LCF3. No other reference benchmark has been designated for the purpose of attaining the Sustainable Investment Objective.

As a result of its mission and Sustainable Investment Objective, LCF3 contributes to multiple SDGs, primarily SDG 7 “Affordable and Clean Energy”, SDG 13 “Climate Action” and SDG 15 “Life on Land”.

LCF3 relies on the specific methodology developed by the Investment Advisor to measure the attainment of the Sustainable Investment Objective through the implementation and tracking of the specific and precise sustainability indicators (the “**Sustainability Indicators**”). For each Sustainability Indicator, a baseline with relevant target is defined at the beginning of the project financed by LCF3 and surveys are realised to monitor growth/impact on a regular basis.

<u>Glossary:</u>

- "**Minimum Safeguards**” mean the principles and rights set out in (i) the Declaration of the International Labor Organization on Fundamental Principles and Rights at Work, (ii) the International Bill of Human Rights, (iii) the UN Guiding Principles on Business and Human Rights and (iv) the OECD Guidelines for Multinational Enterprises.
- “**Principal Adverse Impact**” means an adverse impact of investment decisions (i) on climate, or on other environment-related sustainability factors, and (ii) on social, employee, human rights, anti-corruption or anti-bribery sustainability factors, as measured by specific indicators outlined in Annex I of the

Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing the SFDR with regard to regulatory technical standards, as may be amended from time to time.

- "**Sustainability Risk**" means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.
- "**SFDR**" means Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
- "**Taxonomy Regulation**" means Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment.

b) No significant harm to the sustainable investment objective

LCF3 ensures that its investments (the "**Sustainable Investments**") do no significant harm throughout its investment process by screening, assessing and monitoring its Sustainable Investments against:

- An exclusion list based on the International Finance Corporation ("**IFC**") exclusion list,
- The IFC performance standards number 1, 2, 3, 4, 5, 6, 7 and 8 (version January 1st, 2012) (the "**IFC Performance Standards**"),
- The IFC Environmental, Health, and Safety Standards,
- The SFDR Principal Adverse Impacts on sustainability factors ("**PAIs**"),
- Minimum Safeguards,
- Good governance practices.

(i) Consideration of PAIs:

The AIFM will engage with the Investment Advisor to capture relevant PAIs data in relation to LCF3 for the first PAIs reporting in 2023 and to ensure that data on PAIs regarding the underlying projects financed by LCF3 is collected on a periodic basis depending on the investee's capacity to report and availability of proxies when needed. Due to the investment strategy of LCF3 and the nature of the projects financed by the Fund which are implemented by non-governmental organisations, LCF3 may not be able to report on all data required for reporting on the mandatory PAIs indicators. When it is the case, LCF3 will report ratios provided by a specialized provider able to generate relevant proxies based on the characteristics of each Sustainable Investment or proxies that LCF3 may deem reasonable.

LCF3 will report on the following two additional PAI indicators:

- Additional Environmental PAI Indicator: Deforestation,
- Additional Social PAI Indicator: Lack of grievance/complaints handling mechanism related to employee matters.

(ii) Alignment with minimum safeguards:

LCF3 aligns its Sustainable Investments with the UN Guiding Principles on Business and Human Rights by implementing the IFC Performance Standards and IFC Environmental, Health and Safety Standards, incorporating human rights due diligence for its potential Sustainable Investments. LCF3's due diligence assesses its potential investments against the International Bill of Human Rights and the declaration on Fundamental Principles and Rights at Work of the International Labour Organisation (ILO). Moreover, given its products' nature, LCF3 emphasizes indigenous and community rights assessment.

Given LCF3's Sustainable Investment projects, the nature of the investees (which are not multinational enterprises but non-governmental organisations), its implementation of the UN Guiding Principles on Business and Human Rights, LCF3 has assessed that the OECD Guidelines for Multinational Enterprises are not directly applicable to its operations. Nonetheless, LCF3 considers the underlying principles covered by such framework by assessing all underlying projects and investees against good governance practices alongside environmental and social aspects.

c) Sustainable investment objective of the financial product

LCF3 aims to invest globally, with a focus on developing countries, in community-based solutions to restore natural ecosystems, facilitate access to rural energy, and establish agroforestry and regenerative agriculture systems that will ultimately reduce GHG emissions, increase carbon sequestration, generate certified carbon offsets to climate-responsible corporates and contribute towards SDGs while delivering a steady and positive financial return to financial investors (the "**Sustainable Investment Objective**").

In other words, all projects financed by LCF3 will pursue a triple objective of (i) contributing to climate through certified offsets; (ii) creating a measured social and environmental value connected with SDGs targets; and (iii) proposing an attractive financial return.

LCF3 aims at mobilizing blended finance to invest in Nature-Base Solutions ("**NBS**") and accelerate transition towards a low carbon economy. LCF3 is driven by key principles of investors' cooperation to finance NBS to compensate a portion of their incompressible carbon footprint and the mutualization of this investment risk by joining forces in a single investment vehicle. LCF3 also aims at generating a tangible socio-economic and environmental impact for vulnerable communities most exposed to the effects of climate change.

As a result of its mission and Sustainable Investment Objective, the Sustainable Investments made by LCF3 mainly contributes to the following SDGs:

- SDG 7 "Affordable and Clean Energy"
- SDG 13 "Climate Action"
- SDG 15 "Life on Land".

More details on how the progress towards SDGs is achieved is included in section f) below.

LCF3 makes its investments in accordance with the core values and principles of the Livelihoods Charter available here.

LCF3 has defined the following economic, environmental, and social goals related to its Sustainable Investment Objective:

(i) Carbon Finance: LCF3 target fund-size of €150 million.
(ii) Climate: between 20m and 30m tCO_2 sequestered or avoided.
(iii) Natural resources and landscape: at least 90,000 hectares of land restored and 90m trees planted.
(iv) People: improved livelihoods for up to 2 million people.

The progress made to achieve the above objectives will be measure through appropriate Sustainability Indicators as further described in section f) below.

d) Investment strategy

The Investment Advisor is in charge of the sourcing, structuring and implementation of the projects financed by LCF3. Financing instruments used by LCF3 to support the projects include solely direct investment from LCF3 itself and, in some cases, grants by development agencies (e.g. USAID, AFD etc…).

The criteria described below are essential regarding the choice of the project, subject to review in the case of advancements in best market practices or developments in international law related to voluntary carbon offsetting:

Additionality	The recourse to LCF3's financing is accessible if, and only if, this financing makes the project possible, without which the project could not be carried out. LCF3 cannot finance actions a posteriori. LCF3 cannot engage in a restoration, which would take place in any case by natural regeneration, unless the project's activities enable the natural regeneration in a way that would not have otherwise taken place.
Environmental and social benefits for the communities	The restored / maintained agro-ecosystem is recognized by the local communities as necessary to maintain in order to develop their local activities in favour of food security. The restored ecosystem brings a positive impact on the environment and on the biodiversity taking into consideration standards of the UICN and the RAMSAR Convention among others.
Compliance to Environmental & social guidelines	LCF3's projects have to be in strict compliance with the SDGs and the IFC Performance Standards number 1, 2, 3, 4, 5, 6, 7 and 8 (version January 1st, 2012).
Methodologies	The activities eligible for LCF3's financing correspond to, amongst other, reforestation, ecosystem restoration on soil previously degraded, through over exploitation (pastoralism, crops, etc.), natural erosion, or wood fuel burning for energy generation etc. All these activities being covered by an already approved methodology (Verra or Gold Standards).
Sizing	Because of the fixed costs related to the carbon registration and the validation, LCF3 projects need to be large scale, i.e. a multiple of thousands of hectares for an agricultural, agroforestry or ecosystem restoration project and a multiple of tens of thousands of household cooking devices for small energy projects, for example.
Carbon right	Offset owners must be clearly identified and able to reassign these credits to, eventually, LCF3. The credit generation must be compliant with the national application of the Paris Agreement, if any. Besides the offsets, the whole benefit coming from the activities of restoration and/or conservation of the ecosystems belong to the communities.

For each contemplated new project to be financed by LCF3, the Investment Advisor defines a Theory of Change ("**TOC**") identifying the problem(s), strategy, inputs, activities, outputs, outcomes and generated impact of such investment and implements an associated matrix of relevant Sustainability Indicators.

LCF3 provides upfront milestone-based financing to project developers for large-scale project implementation and maintenance over periods of 10 to 20 years. The project developers' role is to manage the project implementation and monitoring but also to coordinate relationships with communities (the "**Project Developers**"). As an example, Project Developers make sure that projects financed by LCF3 are strongly backed by the local population, have a strong positive impact on their livelihoods and that local authorities are supportive. Project Developers are therefore selected for their long-standing relationships with the local communities, their track-record and their experience in the proposed type of Projects. In each case, the Project Developer will be required to capitalize on the revitalized ecosystems to generate economic activities for local people (e.g. fruit processing and export, charcoal production, fish processing, etc.) with assistance of LCF3 and its partners.

Besides the ecosystem restoration's strong direct benefits, the communities and Project Developers are entitled to share the potential upside of the projects' activities they are actively participating in. The Project Developers shall be entitled to an incentive, based on their real over-performance in the project, as defined by the Board of LCF3. Any incentive allocated to the Project Developer shall be fairly shared by the Project Developer with the local communities, upon rules to be determined by the Board, taking account of the input of the Advisory Committee. The Board shall decide on the distribution of 50% of this real over-performance to the Project Developer. The disbursed incentive will be invested, by the Project Developer, for the development of the Project Developer's structure and/or the financing of new projects and/or the financing of activities directly benefiting the project's local communities. The disbursed incentive will be effected in carbon assets so that there will be no additional cash contribution from LCF3. All collaboration agreements entered into between Project Developers and LCF3 shall stipulate these conditions, enabling LCF3 to make the transfers to the Project Developers when applicable. The Board and the Advisory Committee shall be notified where this occurs.

For each investment proposal, the investors shall be presented with an investment memorandum and shall have the opportunity to exchange views on its merits within the Advisory Committee. The investment memorandum shall include a description of each project’s compliance with the IFC Performance Standards number 1, 2, 3, 4, 5, 6, 7 and 8 (version January 1st, 2012). After a thorough review of the investment proposal, the Investment Advisor’s team notifies the Investment Committee and submits the investment proposal to the Advisory Committee.

As the case may be, the Investment Advisor may further analyse one or several aspects of the project at the Advisory Committee or Investment Committee's request before a final decision is made. No project may be selected if the Advisory Committee considers that it is materially inconsistent with any legal requirement and/or the requirements set out in IFC’s performance standards number 1, 2, 3, 4, 5, 6, 7 and 8 (version January 1st, 2012). The Investment Committee's decision is final.

Good governance practices include:

- due diligence on Project Developers management structures, to check adequate registration, clear shareholding identification and sound financial management;
- implementation of operational and/or steering committees at project level to follow up on project activities and related impact and financial management.

In addition, an international standards body validates that the projects qualify for offsets and then verifies and issues Verified Emission Reduction credits (“**VERs**”) on cyclical basis against a fee. Projects financed by LCF3 generate VERs to LCF3 which are then monetized and/or distributed to investors as their in-kind return.

e) Proportion of investments

LCF3 targets a minimum of 75% of Sustainable Investments out of its total assets. The remaining share of total assets that is not invested in Sustainable Investments is composed of cash.

All Sustainable Investments have an environmental objective and contribute to the following environmental objectives as defined in Article 9 of the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment (the “**Taxonomy Regulation**”): (i) climate change mitigation, (ii) climate change adaptation and (iii) the protection and restoration of biodiversity and ecosystems.

As no delegated acts are currently available for the objective of protection and restoration of biodiversity and ecosystems, percentage of alignment to the Taxonomy Regulation cannot be calculated in relation to this objective. Once the European Commission has outlined the requirements and technical screening criteria for such objective of the Taxonomy Regulation, Sustainable Investments will be assessed, monitored and reported on accordingly.

f) Monitoring of sustainable investment objective

A detailed monitoring plan is set up at pre-investment stage for each Sustainable Investment with a specific verification pace tailored to each project. Carbon, social and environmental monitoring are done jointly during the life of the Sustainable Investment.

Sustainability indicators are dimensions or characteristics measured by the Investment Advisor to assess whether desired results & impacts are being achieved. Sustainability Indicators must allow for a measure of progress over time and be SMART (specific, measurable, attainable, realistic and time-bound).

For each Sustainable Investment, a matrix of relevant Sustainability Indicators is defined and completed at pre-investment stage and then updated on a regular basis.

Each outcome and output as defined in the TOC of the Sustainable Investment may have more than one Sustainability Indicator if appropriate.

Below is an example of the types of Sustainability Indicators which are defined for each Sustainable Investment depending on the types of outcomes to be achieved:

Outcome	**Sustainability Indicator(s)**	**Alignment with SDG, ESG or verification standards**
Linked to Sustainable Investment Objective		
Reduction of carbon emissions (climate mitigation)	Number of tCO2-eq emissions sequestered or avoided through GHG avoidance mechanisms or increased carbon sequestration in biomass, soil, and sediments	SDG13
Enhanced, resilient productive landscapes	% of adoption of good agricultural / soil fertility and conservation measures Number of trees planted	SDG15
Enhanced ecosystem functions and resilience through diversification	% land with enhanced organic content Number of tree species diversity in plots Increase in species composition and relative abundance of pollinators, predators or else	SDG15
Reduce biomass extraction	Amount of total wood (tons) saved due to project interventions	SDG7
Soil Biodiversity	% land with enhanced organic content	SDG15
Linked to supplementary impact outcomes (social, economic)		
Empowerment	Number of farmer's skills developed and capacity enhanced (trained and coached) Number of of farmers implementing at least 30% of good agricultural/soil fertility and conservation practices	SDG1

	Number of people reached disaggregated by gender, age	
Women representation	Number of women represented in LCF3 project governance bodies (e.g. community groups, such as village committees, cooperatives)	SDG 5
Accountability and Grievance	Number of project-related accidents	
Project reach	Number of people receiving project derived benefits	
IFC PSE Occupational Health and safety	Number of workers of manufacturers with access to safety gear	
IFC PS4 Community Health and Safety	Policies and procedures in place	

Other examples of Sustainability Indicators (may differ depending on the Sustainable Investment) are:

- Number of Ha of land restored
- Number of trees planted on land
- Number of unique client individuals (HH) who were served by the project
- Hours saved per day by women due to the reduction of time on cooking related activities
- Number of employees working full-time / part-time jobs at the level of the Project Developer

A robust carbon estimation is also established for each Sustainable Investment based on estimations made by the Investment Advisor applying conservative assumptions tailored to each project. Carbon monitoring requirements will be fulfilled by a mix of external standardised expertise and also by the Project Developer.

All Sustainable Investments of LCF3 are also registered under the Verified Carbon Standard/Verra (VCS/Verra) or Gold Standard (GS) with an afforestation and reforestation methodology to measure the amount of total cumulative emissions reductions (in tCO2e) generated by the Sustainable Investment.

LCF3 verifies its offset generation according to the most reputable standard (as of today: Verra, Gold Standard). The relative merits of the different standards may change in the future, so that the board of LCF3 will wait until the last moment to make a choice on a standard.

During the due diligence phase for potential projects to be financed by LCF3, the development of an Environmental and Social Action Plan ("**ESAP**") is proposed and can be included in the project's contractual package before signature with relevant action deadlines for implementation. Regular monitoring of the ESAP implementation is then performed by the Project Developer with the support of the LCF3 dedicated team. A regular re-assessment of E&S risks is performed, in light of any relevant developments in the local contact (e.g. regulatory framework), to assess the E&S risk categorisation.

External audits are also carried out on a frequent basis depending on the core objective of the project, e.g. for reforestation projects, detailed annual external tree audits are to take place to closely monitoring the survival rates and growth of the planted tree species.

A final evaluation of each Sustainable Investment is conducted at the end of the project so as to assess the relevance and effectiveness of the project interventions, the efficiency of the undertaken execution, the future sustainability of the results and the lessons learned.

g) Methodologies

LCF3 relies on the specific methodology developed by the Investment Advisor to measure the attainment of the Sustainable Investment Objective through the implementation and tracking of the Sustainability Indicators as described above. For each Sustainability Indicator, a baseline with relevant target is defined at the beginning of the project and yearly surveys are realised to monitor growth/impact on an annual basis.

For each project, a risk assessment is conducted at pre-investment stage to identity the main E&S risks. The risk analysis is constructed around four blocks:

- An assessment of project Risks, an in-house template established through Livelihoods Venture experience in project structuring and management.
- An Exclusion List providing an analysis and description of a list of activities and outcomes that LCF3 projects shall avoid altogether; that Exclusion List, based on the IFC exclusion list serves as a checklist of what LCF3 and the project stakeholders will not engage into or will thoroughly mitigate.
- Guidelines on Performance Standards, adapted from IFC on ESG and in line with the Livelihoods Charter and objectives.
- A Due Diligence process to further assess the risk specific to the Project Developer. It provides further evidence that LCF3 only associate with investors, NGOs and companies that share LCF3's approach to ESG principles and also commit to comparable ethical, transparent and lawful investment principles.
- Political risk is evaluated at project sourcing and due-diligence phase.

To verify its offset generation, LCF3 aims to implement the Verra and Gold Standards' carbon offsetting methodologies as best market practice.

Depending on the project type, a range of carbon methodologies may be used to name a few such as Verra's methodology "AR-ACM0003: Afforestation and reforestation of lands except wetlands --- Version 2.0" which allows afforestation and reforestation of any land that does not fall into the category of wetland, or Verra's methodology AR-AM0014 "Afforestation and reforestation of degraded mangrove habitats", v. 3.0 which allows afforestation and reforestation of wetland that constitutes degraded mangrove habitat, or Gold Standard's Smallholder Dairy Methodology which covers project activities that decrease the GHG emissions intensity of milk production on smallholder dairy farms in a defined geographic region to achieve GHG emission reductions emanating from enteric methane emissions, emissions from manure management and/or emissions embodied in feed per kg of fat and protein corrected milk produced, or any other relevant and duly approved methodology under Verra or GS.

h) Data sources and processing

LCF3 sources and processes its data on Sustainable Investments as outline in the table below:

Data sources	surveys and interviews, sampling, LFIs and product validation, internal sources, agreements, registers and minutes, records, workshops, local government's rules and regulations, carbon verification, contracts and registration from partners, pictures (photographic evidence), public data
Data quality	definition of samples, internal checks done by Project developers and Investment Advisor, external checks done by external consultants and auditors.
Data processing	defined baseline at the beginning of the project and yearly surveys to monitor growth/impact, aggregation and analysis of database (for events, consultations, etc), aggregation and analyses of surveys, reporting and summary produced on regular basis, registration, agreements, review of external sources, carbon verification, practical action follow ups
Data proportion	At least 90% of the data come from LCF3 portfolio for KPI coverage At least 80% of the data come from LCF3 projects or relevant proxies for PAI reporting

i) Limitations to methodologies and data

Due to the investment strategy of LCF3, the types of financed projects and Project Developers organisations, as well as target countries of investment, key limitations to the methodologies and data used to analyse the attainment of the Sustainable Investment Objective are (i) availability of data, and (ii) quality of data covering the full range of PAIs data points.

j) Due diligence

Once a project has been identified, an E&S due diligence is conducted on each contemplated investment before presentation to the Advisory Committee of LCF3 according to the following steps:

(i) The LCF3 project team leads a multi criteria review of the project idea focusing on technical and financial assessment, carbon standard eligibility assessment and up-scaling potential assessment.

(ii) If considered in accordance with LCF3's strategy and investment criteria by the team, a Project Qualification Document ("**PQD**") is drafted for decision. The PQD is reviewed by the AIFM to confirm that the project meets the Investment Criteria and risk Profile of the Fund.

(iii) The Investment Advisor decides on whether or not to approve the project idea and, if so, qualifies it as a "Candidate" investment and grants authorization for further structuring work and field visits.

(iv) Further due diligence is conducted in collaboration with experts, internal or external. It always includes a site visit and personal consultations with all stakeholders, focusing on:
   - Technological risk;
   - Social risk;
   - Carbon ownership risk;
   - Carbon asset ownership and counterparty risk;
   - Carbon asset permanence risk;
   - Financial and operating capacity of the Project Developer, project investors, operators and public authorities;
   - Validation of technical assumptions (plantation conditions, implementation techniques, carbon equations).

The above due diligence is done through:

- Review of reports and other project-related documents by the Project Developer and the LCF3 dedicated project management team
- Interviews conducted by LCF3 ESG specialists
- On-site visits
- Review of administrative documents and files in relation to the project shared by the Project Developer
- Review of applicable national regulations and legal framework with the support of local legal advisers

For the purposes of such extensive due diligence, each project is screened against:

- IFC Performance Standards 2012 and applicable IFC guidance notes
- Applicable international, national and local environmental and social (including occupational health safety) related laws, regulations and standards on working conditions, agroforestry, forest management, among others
- Relevant IFC Environmental, Health and Safety ("**EHS**") Standards, including General EHS Guidelines
- All ILO conventions signed and ratified by the target country of the project as well as all ILO fundamental conventions in force covering core labour standards

Following the above assessment, E&S findings with associated recommendations to address the issues which have been identified, are presented in a report to the Advisory Committee and the Investment Committee of

LCF3. Such report also covers specific E&S risks identified in relation to the project and taking into account the safeguards already in place at project level as well as the nature, proportion and degree of mitigation of such risks, a certain level of E&S risk is attributed to the project.

For main risk factors identified in terms of Project Developer risk, financial and economic risk, natural and environmental risk, institutional and social risks, the Investment Advisor defines the risk significance (level), risk likelihood, risk level and planned mitigation actions.

E&S recommendations are identified for each E&S findings and Development of an Environmental and a Social Action Plan (ESAP) is proposed, with anticipated timeline and responsibilities, and can be included in the project's contractual package before signature.

For each organization acting as Project Developer that LCF3 collaborates with, LCF3 performs a reasonableness test to assess how the organization complies with social and environmental legislations, standards on governance. Adjustments might be needed in case of a significant development impact required by the circumstances of the country.

No external controls are done during due diligence on the Project Developers, however external controls are performed regarding the carbon generation of the projects during the due diligence phase with the support of external consultants. External verifications (carbon standards and operational audits) are then carried out during the life of the project, as mentioned in sections f) and g) above.

k) Engagement policies

Beyond efficient carbon management, monitoring and verification, one of the primary key success factors of the Sustainable Investments is a long-term maintenance of the restored ecosystem and the assurance that it brings long lasting value to local livelihoods. The Investment Advisor and its partners have identified three main areas of action to achieve this goal:

(i) Corrective action management with Project Developer within project boundaries:

LCF3's projects will rely on a continued and close follow-up from local Project Developer's and the Investment Advisor's teams. This follow-up is built and designed to ensure a quick response through corrective actions if an adverse situation materializes (higher than expected mortality, natural hazard, etc.).

(ii) Capacity building of Project Developer:

A number of capacity building actions may be launched for Project Developers over the first years of the projects. Such capacity building initiatives encompass, for example, follow-up on new methodologies and training to adapt them to the projects' reality, training for efficient monitoring actions and processes.

(iii) Value creation within the project boundaries:

Long-term sustainability of the projects significantly relies on the projects' ability to deliver long lasting benefits to local populations. The capacity building endowment provides for funding in order to identify the possible actions in that respect, e.g., creating an economic activity around a specific agricultural production in the existing projects. The LCF3 investors' technical capabilities in their respective fields are critical to upgrade local know-how in order to achieve that goal. Besides this technical assistance, when needed, external sources of funding (grants, loans, equity) will be sought to provide start-up finance to emerging local economic activities.

For each project, the Fund ensures that the Project Developer provides an appropriate grievance mechanism that is available to all workers and other stakeholders and that enables them to report any wrongdoing, misconduct in the workplace, or any other project-related complaint. In addition, a "Project ESG Focal Point" shall be appointed at the level of the Project Developer to, among other tasks, manage and report E&S grievances, E&S incidents and other emergency situations, in operational collaboration with the Investment Advisor and relevant stakeholders. These responsibilities are included in the relevant agreement with the Project Developer.

l) Attainment of the sustainable investment objective

LCF3 has a reduction in carbon emissions as its objective and its Sustainable Investment Objective is aligned with the long-term global warming targets of the Paris Climate Agreement. However, considering its target regions and the specifics of its investment strategy, LCF3 has no reference benchmark that qualifies as an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark as defined in Article 3, points (23a) and (23b), of Regulation (EU) 2016/1011.

Nonetheless, to verify its offset generation, LCF3 aims to implement the Verra and Gold Standards' carbon offsetting methodologies as best market practice. Information on their methodologies and carbon offsets calculation can be found by visiting https://verra.org/methodologies/ and https://www.goldstandard.org/project-developers/standard-documents , respectively. Those have been selected to act as index reference until appropriate benchmarks are available to ensure suitable alignment with LCF3's Sustainable Investment Objective.