

Environmental and Social Management System (ESMS)

Innpact Fund Management S.A.

Alternative Investment Fund Management (AIFM)

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Regulatory references

the "AIFM Law"	Means law of 12 July 2013 on Alternative Investment Fund Manager, as amended from time to time.
the "AIFMD"	means Directive 2011/61/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 8 June 2011 on Alternative Investment Fund Managers and amending 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.
the "AIFMD-CDR"	means the Commission Delegated Regulation n°231/2013 of 19 December 2012 supplementing Directive 2011/61/EU with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.
the "Circular"	means CSSF Circular 18/698 on authorization and organization of investment fund managers incorporated under Luxembourg law.
the "SFDR" (L1)	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, Apply from 10/03/2021
The « Benchmarck regulation »	means Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 on EUR Climate Transition Benchmarks.
the "Taxonomy Regulation or TR"	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, and amending Regulation (EU) 2019/2088. Apply from 01/01/2022. Environmental extension of SFDR.
the "SFDR RTS" (L2)	means Regulation (EU) 2022/1288 of the European Parliament and of the Council of 6 April 2022 on the SFR and Regulatory Technical Standards (RTS). Apply from 01/01/2023. Amending SFDR: principle of "DNSH", and disclosure on "PAIs"
The "SFDR and Taxonomy Law" (L3)	The Luxembourg law of 25 February 2022 implementing a.o. the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation (TR) has been published in the Official Journal of the Grand Duchy of Luxembourg on 03/03/22 CSSF SFDR FAQ https://www.cssf.lu/wp-content/uploads/FAQ_SFDR.pdf

Glossary and Definitions

Term	Definition
AIF	Alternative Investment Fund, as per Art. 1 of the AIFM Law, managed by the AIFM.
AIF – IC	The Investment Committee of the AIF (Delegation model)
AIFM	Innpact Fund Management S.A., an Alternative Investment Fund Manager, as per Art. 1 of the AIFM Law.
AIFM – IC	The Investment Committee of the AIFM (Advisory model)
Article 8 SFDR Fund ESG fund	An Article 8 Fund under SFDR is defined as “a Fund which promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.”
Article 9 SFDR Fund Sustainable fund	A Fund that has sustainable investment as its objective, or a reduction in carbon emissions as its objective
Additionality	Impact Finance is an investment or financing strategy that aims to accelerate the just and sustainable transformation of the real economy, by providing evidence of its beneficial effects. It is based on the pillars of intentionality, additionality and impact measurement
Board/ BoD	Board of Directors of the AIFM shall be understood as the Governing Body of the AIFM, as per Art. 1 of the AIFMD- CDR.
Business Plan	The Business Plan of the AIF as required in Article 19 of the AIFMD-CDR.
CO - COF	Conducting Officer(s) responsible for the Compliance (AML) function.
CO - PM	Conducting Officer(s) responsible for the Portfolio Management function.
CO - RM	Conducting Officer(s) responsible for the Risk Management function.
CPs	Conditions Precedents to be addressed prior to the execution of the transaction documents for an approved investment.
Do No Significant Harm Principle (DNSH)	Investment should not be supporting or carrying out activities that make a significant harm to any of the six environmental objectives, within the meaning of preamble 17 of the SFDR, on the establishment of a framework to facilitate sustainable investment; 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, and amending Regulation (EU) 2019/2088 (Text with EEA relevance)
Environmental and Social Management System (ESMS)	Policies and practices to be used by an organisation to consistently and effectively identify and manage Environmental & Social Governance (ESG) safeguard issues and mitigate related risks. The ESMS should be customized and periodically adjusted to the nature and scale of the company and should be used as a dynamic tool with continuous updates. The ESMS aim to comply with relevant safeguards set by EU 2020/852 SFDR regulation as amended from time to time.
ESG factors	ESG factors” or “Sustainability factors” mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Article 2, Regulation (EU) 2019/2088 of the European Parliament and Council.
EXT PM	External Portfolio Manager, in the Delegation Model.
FMP	Financial Market Participant, as per SFDR, the AIFMs
FP	Financial Products, as per SFDR, the AIF
Good Governance Practices	Sound policies, structures, systems, and procedures in place to ensure sound board oversight, sound management and staffing, market-based remuneration and compliance with applicable laws and regulations.
Graduation	Process at which AIFs move from been a sustainable fund to been an impact fund with the support of the AIFM which requires knowledge and tool creation.
IA	Investment Advisor appointed by the AIFM to provide investment recommendations in the Advisory Model.
IMM	Impact Measurement and Monitoring, defined as “the ongoing practice of measuring, assessing and improving impacts on sustainability issues” (Impact Management Project, n.d. Retrieved from https://impactmanagementproject.com/).
Impact Funds	A fund whose goal is to implement investments that generate a measurable, beneficial social, governance and/or environmental impact, in addition to a financial return
Impact Investing	Impact investing defines investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return, according to the GIIN definition.
Impact Management Principles (IMP)	Impact management principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

Investment Guidelines	Collectively for each AIF, the sustainable objective, the investment strategy consistent with the sustainable objective, investment criteria, divestment criteria, asset and liability management risk profile, risk limits, restrictions, conditions, and covenants.
Investment Proposal (IP)	Document prepared by the assigned IA on a proposed investment and submitted to the IC for approval.
Marketing	A direct or indirect offering or placement, at the initiative of the AIFM or on behalf of the AIFM of units or shares of an AIF it manages to or with investors domiciled or with a registered office in the European Union, as defined in the AIFM Law.
Material Risk	Material risks are those risks that are recognized by management as having the potential to materially impact the Fund's business performance
Minimum Sustainability Safeguards	Sustainability safeguards set by EU 2020/852 Taxonomy Regulation which include: <ul style="list-style-type: none"> - OECD Guidelines for Multinational Enterprises - UN Guiding Principles on Business and Human Rights - International Labour Organisation (ILO) - International Bill of Human Rights
Operating Principles for Impact Management (OPIM)	Impact management principles developed by the impact fund industry, officially launched at the World Bank Group-IMF Spring Meetings in Washington, DC on April 12, 2019.
PM Function (PMF)	The Portfolio Management function of the CO-PM or EXT-PM (if delegate)
PPM	Private Placement Memorandum (also known as Prospectus, offering memorandum or issue document)
PAB	Paris Aligned Benchmark as defined by the Commission delegated regulation (EU) 2020/1818
Principal Adverse Sustainability Impacts (PASI/PAI)	Impacts identified within the SFDR framework which may have a negative, material, or likely to be material effect on sustainability factors that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity.
RM Function (RMF)	The Risk Management function of the CO-RM
Stakeholder Group	Refers to professional investors, financial service providers and asset managers which include delegates what are EXT PM
Sustainability Factors	Factors used to measure sustainability which include environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
Sustainability Risk	Risk defined as environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential negative impact on the value of the investment.
Sustainable Development Goals (SDG)	Set of 17 goals defined by the United Nations to encourage sustainable development and provide a shared blueprint for peace and prosperity for people and planet, now and into the future.
Sustainable Finance Disclosure Regulation (SFDR)	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, as amended.
Sustainable Investment	Investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance; Article (2) Reg. EU 2019/2088.
Sustainable Objective	For the purpose of this policy, a Sustainable Objective means any well-defined social and/or environmental goal set by an AIF and defined in its Mission and Vision Statement, Theory of Change, Investment Guidelines, ESG Policy, ESMS or any other relevant source of information.
Taxonomy	EU taxonomy for sustainable activities is a classification system, establishing a list of environmentally sustainable economic activities.

Innpact Fund Management serves its mission through the capabilities and human relationships of its co-workers. Clear governance structures aim to support and enhance those capabilities and relationships and should never be seen as a goal in itself.

1. INTRODUCTION

1.1 Purpose of the ESMS

Innpact Fund Management S.A. (*The AIFM or the Company*) is a public liability company (Société anonyme), organized and existing under the laws of the Grand Duchy of Luxembourg, hereinafter referred to as “the AIFM”.

The AIFM seeks to contribute to the mobilization of capital to address the challenges of sustainable economic development and create a world where environmental and social initiatives are sustainable. ESG and impact factors are an integral part of the AIFM’s strategy. By checking and conforming the set-up and implementation of investment strategies targeting sustainable objective(s) alongside financial return, which is referred as the definition of impact investing.

This document describes *the Environmental and Social Management System (ESMS)* defining the policies and practices to be used by the AIFM to identify and manage Environmental, Social, and Governance (ESG) safeguard issues and mitigate related risks consistently and effectively.

The ESMS defines the AIFM’s vision and sets out the general principles for how ESG and impact factors are integrated in the investment strategies for funds where Innpact Fund Management SA act as alternative investment fund manager. The ESMS sets the methodology for AIFs’ on-boarding, monitoring and progress assessment in all present and upcoming AIFM’s operations. It guarantees that all AIFM activities are subjected to comprehensive sustainability and impact due diligence.

The policy is structured as per the following sections*:

1. Introduction.
2. AIFM dynamics, including the Theory of Change (ToC)
3. AIFM Implementation Criteria
4. ESG standards and policy
5. ESG Impacts
6. ESG and Impact Management System for the Investment Process.
7. Monitoring and supervision with guidance on reporting.
8. Responsibilities and capabilities

*Sections 6-8 have not been included in the public version of this ESMS as they constitute proprietary information.

The ESMS aims to comply with relevant safeguards set by SFDR and TR regulations, as amended from time to time. The ESMS should be customized and periodically adjusted to the nature and scale of the AIFM and should be used as a dynamic tool with continuous updates upon occurrence of relevant external events (e.g. promptly upon the issuance of a new industry guidance or applicable laws).

The ESMS serves as a complementary document to the Portfolio Management Policy (“PM Policy”) and the Risk Management Policy (“RM Policy”). It integrates additional specifications on ESG and Impact aspects throughout all the stages of the Investment Process defined in the PM Policy.

In case of discrepancy between this document and the Portfolio Management Policy or Risk Management Policy, the PM Policy and RM Policy should be considered as the governing documents.

The ESG policy is an summary of the ESMS available to external parties.

For avoidance of doubt, the ESMS will refer to the following categorization of an ESG, Sustainable and Impact Fund.

Term	SFDR Categorization and Definition	Source
A. ESG Fund	<ul style="list-style-type: none"> - Article 8 targeting E&S characteristics and not considering PAIs - Article 8 targeting E&S characteristics and partial consideration of PAIs 	Innpact, adapted from SEC ¹
Environmental Fund	<ul style="list-style-type: none"> - Article 8 targeting E characteristics and not considering PAIs - Article 8 targeting E characteristics and partial consideration of PAIs 	Innpact
Social Fund	<ul style="list-style-type: none"> - Article 8 targeting S characteristics and not considering PAIs - Article 8 targeting S characteristics and partial consideration of PAIs 	Innpact
B. Sustainable Fund	<ul style="list-style-type: none"> - Article 9 with a S sustainable investment objective - Article 9 with an E sustainable investment objective aligned to one or more Taxonomy Objective(s) - Article 9 with S&E sustainable investment objectives, where the E objective is aligned to one or more Taxonomy Objective(s) 	Innpact, adapted from SEC
Green Fund	<ul style="list-style-type: none"> - Article 9 with an E sustainable investment objective aligned to one or more Taxonomy Objective(s) 	Innpact, adapted from SEC
C. Impact Fund	<ul style="list-style-type: none"> - Article 9 with an S, E or E&S sustainable investment objective(s), in alignment to one or more Taxonomy Objective(s) if relevant, as well as: <ul style="list-style-type: none"> • Implementing an internationally approved development Exclusion List (IFC, EDFI, KfW and PAB) • if investing in Low-Income, Lower-Middle-Income and Upper-middle-income economies², implementing the IFC Performance Standards (IFC PS) as well as the World Bank Environmental, Health and Safety Guidelines (WB EHS) • consider impact risks within the Risk Management Framework alongside ESG risks 	Innpact, adapted from SEC & GIIN

¹ [Securities and Exchange Commission \(SEC\) Consultation Response \(2022\)](#)

² [World Bank Economies Income Classification](#)

2. AIFM DYNAMICS

2.1 Background

As per the AIFM Directive (EU Regulation 2011/61) and the AIFM Law (Luxembourg Law of 12 July 2013), an AIF regulated (e.g., SIF, SICAR, Part II UCI) or unregulated (RAIF) must appoint an external authorised AIFM, unless it is an AIFM is self-managed or under the AIFM threshold.

In this context, the AIFM assists regulated and unregulated AIFs in achieving their mission by providing the two core functions, Risk and Portfolio Management, and other complementary services as: Compliance and AML regulatory oversight, Valuation, reporting to the CSSF and to the Board of the AIF, oversight of delegates and service providers, support to the fund operational setup, ESG and impact measurements services.

The AIFM ensures the AIF is in compliance with the relevant regulations in place, allowing the project initiators of the AIFs to focus on fundraising, deal sourcing, investments, and investor relations.

By providing support for AIFs to be compliant with regulatory requirements, the AIFM enables and participates in the operations of ESG, sustainable and impact finance vehicles to achieve economic and environmental and/or social returns alongside financial returns.

In addition, the AIFM draws on benefits of Innpect Group's expertise on the sustainable and impact investing landscape and its services, as the ESG and impact measurements services, thus multiplying the value and range of its services for AIFs.

2.2 AIFM Vision, Mission and Theory of Change

The AIFM's vision is "*a world where environmental and social initiatives are sustainable*".

The AIFM works towards its vision through its mission, defined in the *AIFM Internal Code of Conduct and Ethics* as "*managing sustainable impact finance funds by providing innovative fund management services*". This means that the AIFM will seek to deliver fund management services based on robust sustainability principles to financial products falling under the scope of Art. 8 or Art. 9 SFDR included in the regulatory reference summary and set up as AIFs with a regulated AIFM in the Luxembourg context.

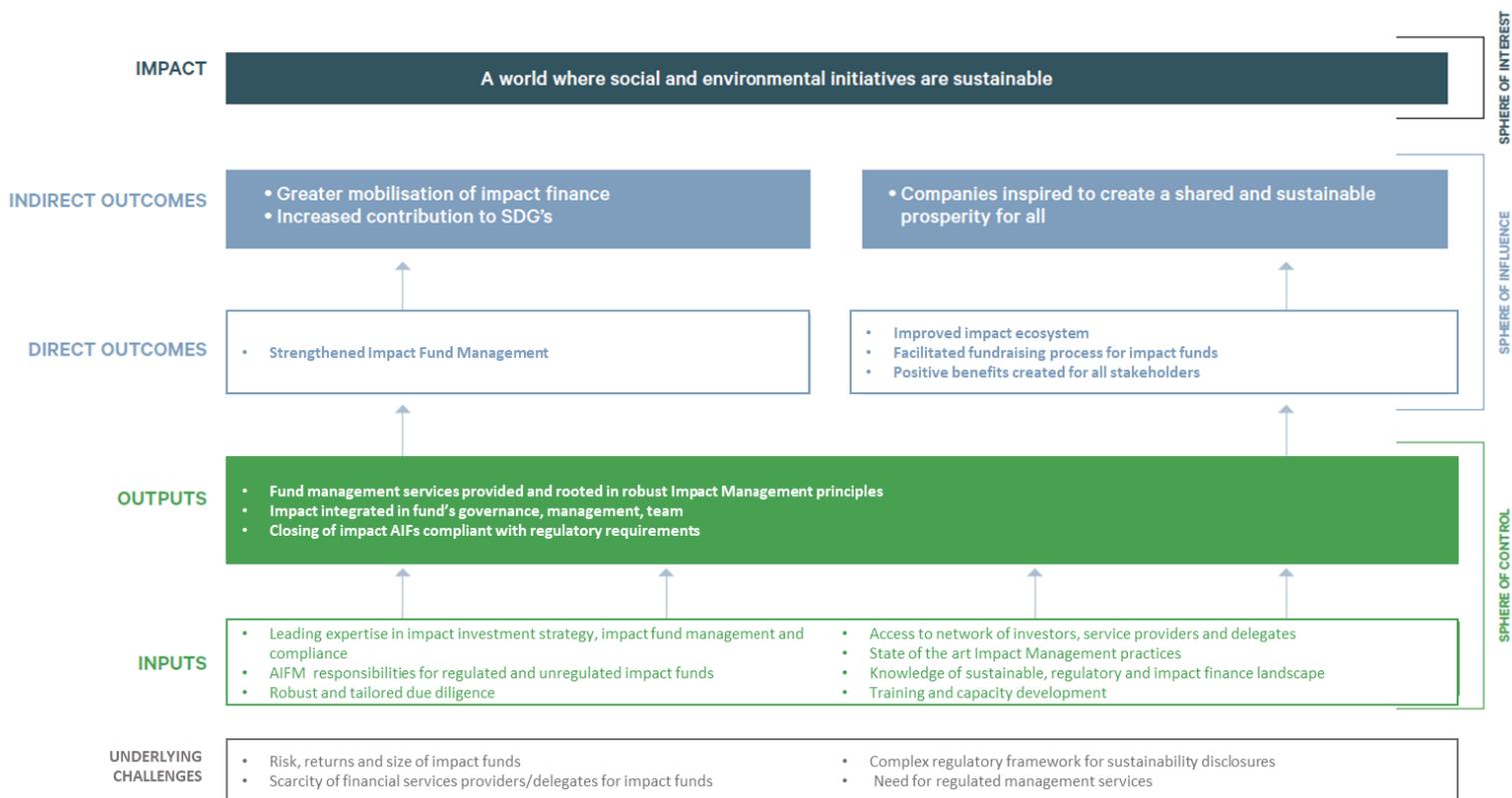
Innpect Theory of Change ("ToC") portrays how the AIFM's financial, technical, and organizational resources are expected to be converted into the desired positive outcomes and impact.

Innpect ToC explains how the AIFM vision and mission fit into the ToC of Innpect SA, addressing the related challenges and contributing to the same outcomes and impact.

Innpect ToC main elements:

- I. Underlying challenges
- II. Input
- III. Output
- IV. Direct outcomes
Indirect outcomes
- V. Impact

Figure 1: Innpact Theory of Change ("ToC")



Inputs

The AIFM will bring its expertise in fund management, structuring and compliance to facilitate the set-up of AIFs targeting ESG characteristics, sustainable or impact objective(s). Particularly, the AIFM will:

- Provide the core AIFM functions, portfolio and/or risk management functions, and other activities in line with Annex I of the AIFM Law. A differentiating factor are the Impact Measurement and Monitoring principles (IMM) at the core of these functions. By integrating ESG factors³ in each aspect of fund management, the AIFM will ensure the respect of its fiduciary duty to act in the best interest of the AIF investors and beneficiaries⁴.
- Support sustainability fund initiators by providing leading expertise in impact investment strategy, impact fund management and regulatory compliance, confirmed by the several impact finance projects designed, structured and/or managed by Innpact's advisory team.
- Perform the oversight of the AIFs delegates and services providers based on due diligences, to ensure that adequate human, organisational and financial resources are dedicated to the AIFs. The AIFM proposes two investment models to the AIFs:
 - **Advisory model:** the AIFM is the PMF and the IC (AIFM- IC) and the investments are priced by the Investment Advisor (IA)

³ ESG factors" or "Sustainability factors" mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters Article 2, Regulation (EU) 2019/2088 of the European Parliament and Council.

⁴ In line with the responses of the [Public Consultation on institutional investors and asset managers' duties regarding sustainability](#) launched by the EU Commission on 13 November 2017, according to which acting in the beneficiaries' best interest means having a long-term approach to business and fully factoring in ESG issues in investment decisions as these are material to the business.

- **Delegated model:** the AIFM delegates the PMF to the external (EXT PM) and the IC (AIF – IC).

The due diligence on EXT PM/IA has a particular focus on resources and capacities on the *Impact Measurement and Monitoring (IMM)*. This ensures that, for each investment, the EXT PM/IA will thoroughly assess, in addition to all the other required aspects, ESG risks and contribution to ESG characteristics, sustainable or impact investment objectives. Thanks to robust but customizable due diligence templates, the AIFM team will build tailor-made due diligence to ensure that key challenges and peculiarity of each fund are addressed.

- Access to a dedicated network of investors, delegates, and service providers, facilitating the access of the AIFs whose investment strategy might be perceived highly risky from the depositary or administrative agent (AA), or whose size might be considered too small compared to the depositary or AA's usual clients.
- Provide access to ESG and Impact Management practices, expertise on sustainable, regulatory and impact finance landscape, and training opportunities to enable funds deploy their investment strategy making use of the best market practices available, always compliant with regulatory requirements.

Outputs

The AIFM's delivery of fund management services to ESG, Sustainable and Impact funds will lead to a series of outputs:

- Ensuring that fund management by the AIFM will go together with robust Sustainability and/or *Impact Management Principles (IMP)*
- Integrating Sustainability or *Impact Management Principles* in the team, governance, and management of AIFs to guarantee that all business operations are aligned and contribute to the AIF's ESG characteristics or sustainable objective(s). For instance, the risk management function will be enhanced thanks to the integration of ESG and impact risks. The AIFM is responsible for identifying, measuring, managing, and monitoring appropriately all risks relevant to each AIF investment strategy and to which each AIF is or may be exposed. In this context, the AIFM puts a strong emphasis on ESG and impact risks, given their materiality for the investment strategy of the AIFs managed. The focus on ESG risks also ensure and facilitate compliance with the new legislative requirements coming from the SFDR and the Taxonomy Regulation. Similarly, the portfolio management function will integrate ESG factors to monitor, manage and maximise the attainment of the ESG characteristics or sustainable objective(s) alongside financial returns.
- AIFs will reach successful closing after fulfilling regulatory requirements, finding the required service providers, delegates, and investors thanks to the AIFM network and support.

Outcomes

These outputs will lead to a series of positive outcomes, such as:

- **Improved sustainable and impact investing ecosystem and greater mobilisation of impact finance:** first, the combination of due diligence, monitoring and oversight performed by the AIFM will give investors the assurance that the AIFs managed by the AIFM integrate IMM in a robust and systematic manner. This will limit the risk of green washing and impact washing and provide a guarantee for investors looking for impact returns, alongside financial returns. Funds managed by the AIFM will also have the European passport and therefore will be available for marketing to investors, directly contributing to the mobilisation of capital for sustainable and impact finance.
- **Positive benefits created for all stakeholders:** from AIF initiators, investors to target beneficiaries, integrating IMM practices will increase the likelihood that the targeted ESG characteristics or sustainable investment objective(s) will be attained alongside ensuring the financial sustainability of the investment vehicle.
- **Strengthened impact fund management:** by disseminating knowledge, capacity and contributing to develop best practices to manage funds integrating strong IMM principles.
- **Companies inspired to create a shared and sustainable prosperity for all:** by increasing stakeholders' oversight on ESG and impact issues, ensuring transparent and verified disclosures to investors, sponsors, and general public, and by managing AIFs according to strong IMM principles, stakeholders will have the opportunity to understand the case for embedding ESG factors⁸ in a company's business plan. This will also increase the accountability of managers, advisors, and service providers on ESG performance.
- **Increased contribution to the SDGs:** impact vehicles managed by the AIFM will link their ESG characteristics or sustainable objective(s) to the SDGs and contribute to the achievement of the goals on the agenda 2030.

Underlying Challenges

Sustainable and Impact investing⁵ are expected to play a pivotal role in channeling private capital into projects and companies that seek to address key social and environmental challenges. Impact investing industry has a great potential to grow and tackle the SDGs financing gap. However, a series of challenges is preventing impact funds to reach mainstream finance:

a. Risk, returns and size of impact funds:

Impact funds are perceived as risky by investors, thus struggle to mobilize sufficient capital for scaling, due to the risks and returns of their ESG investment strategy combined with the size of the funds. Impact investment funds often target risky geographies (e.g., developing countries, emerging markets), sectors, asset classes (often private equity over private debt). Returns can widely vary from deeply concessionary to risk-adjusted, market-rates returns. Impact investment, by design, requires patient capital (10-12 years) and thus is illiquid by nature. In addition, impact finance vehicles may be initiated by first- or second-time fund managers, or first-time impact strategy fund managers, and target a smaller AUM than traditional funds.

b. Scarcity of financial services providers and delegates:

For impact investment vehicles, it is hard to find "mainstream" financial services provider that can serve their opportunity. These include fund managers, administrative agents, custodian banks,

⁵ Impact investing defines "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return". The GIIN, n.a..

distributor agents, management companies, auditors, and other service providers which are key to enable the operation of the fund. Such service providers may hesitate to sign agreements with impact finance vehicles due to several factors, as mentioned above:

- the perceived risks associated with the investment strategy and/or
- the size of the investment vehicle
- the returns associated with the investment strategy.
- the first-time nature of the team or of the impact strategy

c. Complex regulatory framework:

Impact funds must comply with increasingly stringent disclosure requirements set by new regulatory frameworks such as SFDR and Taxonomy. Impact funds will have to disclose detailed description on the ESG objectives of their investment strategies in a manner that is compliant with the requirements and terminology of SFDR and the Taxonomy. As the regulation applies to EU and non-EU financial market participants and financial products, it will be crucial to facilitate the understanding of the regulations and its implementation.

The AIFM will address the above challenges by serving ESG, Sustainable and Impact *investment funds*⁶ despite the higher risks associated with such investment vehicles. The AIFM has identified different relevant AIFs that can be managed⁷, which include funds of funds, private equity and/or debt investments in non-listed companies or in local debt instruments not listed on a stock exchange nor dealt in a regulated market. The AIFM is willing to take on the higher risk associated with these types of investment strategies to work toward its mission and vision, managing ESG, Sustainable and Impact funds and making social and environmental initiatives sustainable.

In addition, the AIFM team, supported by Innpact SA, will bring proven expertise and knowledge of investors' requirements. It will therefore oversee the AIFs' capacity to meet the requirements of their investors and provide advice where necessary.

2.3 Overview of Stakeholders and Interactions with the AIFM

Stakeholders include any person that will be affected by the AIFM's outputs, outcomes, or impact as per defined in the Theory of Change and are classified as direct and indirect.

2.3.1 AIFs direct stakeholders

Direct stakeholders include: the AIFs directly managed by the AIFM, the AIFs' initiators, delegates, advisors, service providers and investors.

⁶ See section 1 of this document for the description of an ESG, Sustainable and Impact Fund.

⁷ Please refer to the AIFM Risk Management Policy, section 5.1 "Risk management framework"

Figure 2: Direct Stakeholders and Impact Contribution



Source: Author's creation based on Inn pact's Vision & Mission

AIF's Investors

For the AIF's Investors, the AIFM seeks to facilitate higher-quality investment due diligence in ESG, Sustainable, and Impact AIFs, where the AIF's targeted ESG characteristics or sustainable investment objective(s), and the strategy put in place for its attainment, is formalized and accountable.

AIFs Initiators

The AIFM enables the realization of the AIF's ESG characteristics or sustainable objective through the provision of all core responsibilities and the regulated structure for an AIF to operate in the Luxembourg investment fund hub.

The AIFM enables AIFs to integrate sustainability and impact into their investment process and achieve environmental and social returns alongside financial returns. From providing fund management services, and, where relevant, advise on impact management and monitoring, connection to the sustainable and impact investing network and access to knowledge and best practices, the AIFM integrates Inn pact S.A.'s knowledge of sustainable finance into its core services. Thus, the AIFM can provide AIFs with a full set of tools to realize the impact intention.

AIFs delegates and/or advisors

The AIFM, by overseeing the duties of all its delegates, ensure that good IMM principles are integrated into their day-to-day operations.

AIFs service providers

The AIFM takes a high level of risk by managing “types of AIFs⁸” usually perceived as highly risky by financial services providers, in particular custodian banks.

The AIFM provides management services rooted in IMM principles and performs strong due diligence on the AIF, all its delegates and advisors to ensure that appropriate technical, financial and resources are dedicated to each task. The focus on IMM also ensures that all material risks for the fund are properly identified and addressed. The management and control performed by the AIFM creates a guarantee for the financial services providers that the AIF, notwithstanding its risky profile, is managed with state-of-the-art skills and in the best interest of all its stakeholders.

Additionality of the AIFM for its direct stakeholders

The AIFM brings non-financial additionality (i.e., regulatory guidance) by strengthening and facilitating the distribution of ESG, Sustainable and Impact funds in the mainstream financial markets. The AIFM engages only with SFDR Article 8 or 9 funds and seeks to actively support clients⁹ graduation through a transformational pathway defined with each AIF.

Such a **transformational pathway** begins at the **AIF level** by managing the fund through improved policies (such as ESMS, IMM framework etc..), providing guidance, offering technical support, training opportunities, and facilitating compliance with regulation, international best practices, and standards.

This engagement is expected to translate into a **system change**, which is for:

- the AIFM and AIF: improved impact and performance of the investment vehicles, and facilitation of achievement of the ESG characteristics or sustainable objective(s).
- investors and service providers: availability of quality assurance for sustainability and impact finance vehicles, with greater oversight on ESG risks, proven accountability of ESG KPIs thanks to measurable criteria, regulated and available for marketing to a broader audience. By combining impact AIFs with impact investors, the AIFM creates a “bridging effect” that constitutes the AIFM additionality.

The AIFM maintains an internal *Client Acceptance Process (CAP)* from the onboarding to the *Graduation*, to incorporate additionality when accepting a new client, which includes:

- Before signing the AIFM’s Engagement Letter and Agreement, the AIF prospect must be approved by the Initial Eligibility Committee (IEC) screening of Innpact S.A. and the AIFM onboarding committees (S&A CAP 2 and 3)
- the AIFM onboards the AIF after performing satisfactory due diligence, including the ESG & Impact aspects on the IA/EXT PM. The conclusion of the due diligence review may lead to the implementation of condition precedents (in case of gaps identified that are deemed to be serious enough to be cured prior to on boarding the client) or condition subsequent (minor gaps) in the AIFM agreement.

⁸ Please refer to the AIFM Risk Management Policy, section 5.1 “Risk management framework”. Types of AIFs relevant to the AIFM include closed- and open-end funds making equity and/or debt investments in non-listed companies or in local debt instruments not listed on a stock exchange nor dealt in a regulated market.

⁹ “Clients” refers to Alternative Investment Funds, their teams and promoters, which already signed either i) an engagement letter with the AIFM or ii) an AIFM agreement

- Lastly, graduating AIFs using the *SFDR due diligence tool* (which includes the IMM due diligence questionnaire as described further below) towards compliance with AIF Article 9. The *SFDR DD tool* serves as a gap analysis to identify where the EXT PM/IA may require training and advisory or AIFM support for policies, procedures, checklists, KPIs etc.

2.3.2 Indirect Stakeholders

Indirect stakeholders include all *final customers* that are not directly involved in the AIFM services but are believed to benefit from them.

These include, but are not necessarily limited to, all initiators of projects with clear social and environmental vision, mission, or goals, for which the AIFM aims to facilitate access to finance and capacity development opportunities. Through improved monitoring and evaluation frameworks at AIF level, the AIFM seeks to increase the likelihood of desired impact generation. By monitoring the due diligence tools on how the AIFs select, approve, and monitor each investment, the AIFM contributes to ensuring that capital flows to the benefit of the target vulnerable groups, thus accelerating broader societal changes towards improved livelihood and economic models.

- **Figure 3: AIFs Indirect Stakeholders**



Source: Author's creation based on Innpac's Vision & Mission

The AIFM will ensure that the Theory of Change is fully communicated to, understood by, and implemented by all stakeholders' groups defined in Section I.

3. AIFM IMPLEMENTATION CRITERIA

This section defines the AIFM objectives and the AIF eligibility criteria

3.1. Objectives

The AIFM performs the initial and ongoing due diligences on the delegated parties of the AIFs. The due diligence has the purpose of ensuring that the AIF and its EXT PM/IA conform to the AIFM regulatory requirements.

The diagram below displays how the relationship between the AIFM and AIFs evolves on the Clients Acceptance Process (CAP) from the acceptance of the prospect to the onboarding of the client and the delivery of the AIFM services. Each stage of the CAP integrates ESG and impact considerations, with respect to the SFDR and the Taxonomy Regulation, and according to the criteria set out in the section below.

ID	AIFM Client Acceptance process (CAP) : phases and tasks
1	CAP 1-2 Engagement
1.1	Initial Eligibility Screening
1.2	Signature of the Engagement Letter
2	CAP 3 Acceptance and Onboarding
2.1	Explanation of the AIFM IMM & SFDR Requirements
2.2	Due Diligence
2.3	Action Plan
2.4	Signature of the AIFM Agreement

3.2 Eligibility criteria at AIF level

The next section sets forth the criteria applicable at each stage, to select the AIF, evaluate progress and monitor the achievement of the desired impact.

Objective

The AIFM performs the core functions (RM and/or PM) for AIFs that employ management systems which effectively address ESG-impact risks and ESG-impact factors and realize opportunities for improvements on ESG performance over the investment period as a fundamental part of a portfolio company's value.

In the view of closer alignment with the SFDR, the AIFM accepts to onboard only Article 8 and Article 9 funds SFDR. The AIFM facilitates compliance with Art.9 by actively supporting the AIF's initiators, delegates, and advisors to navigate the regulatory requirements of SFDR and Taxonomy Regulation.

The AIFM is dedicated exclusively to AIFs that demonstrate a *"clear intent of making a positive impact by defining targeted ESG characteristics or sustainable investment objectives, and robustly monitoring and measuring such impact."*

AIFs are considered eligible for the AIFM's services if compliant with the following eligibility criteria:

Positioning and Impact Thesis		
11.0.1	SFDR Positioning	The fund is clearly positioned as Art 8 or 9 SFDR

11.0.2	Sustainable Objectives / ESG Characteristics	The Fund has identified a sustainable investment objective/ESG characteristics linked to the SDGs
11.0.3	Taxonomy Positioning	In the case of an Article 9 fund with an environmental sustainable investment objective, the Fund has identified alignment with one or more Taxonomy objectives
11.0.4	Theory of Change	The fund defines a framework, e.g., a Theory of Change (art.9)/framework(art.8) to identify targets, baseline, timeline, and stakeholders affected.
11.0.5	Methodology/ Key Performance Indicators (KPIs)	The Fund has identified a methodology/set of KPIs aligned with the sustainable objective/ ESG characteristics.
11.0.6	Index	The Fund uses or intends to use an EU-approved index as reference benchmark (if available). If no index is available, the fund will identify an appropriate benchmark and explain.
Investment Policy and Strategy		
11.1.1	Investment policy	The fund has, or is working towards, an investment policy integrating ESG Eligibility Criteria.
11.1.2	Investment Strategy	The fund's investment process demonstrates sufficient integration of Eligibility Criteria/Investment Parameters/Restrictions or Guidelines as applicable related to ESG aspects.
11.1.3	Exclusion List	The fund has an exclusion list, preferably aligned with IFC's exclusion list and applying the Paris Aligned Benchmark exclusion list as defined in the commission delegated regulation (EU) 2020/1818. If not aligned with IFC, the fund's exclusion list present sufficient safeguards to be considered commensurate to the fund's investment strategy and risk profile.
11.1.4	Minimum Safeguards	The fund's investment strategy integrates, or is working towards integrating, the applicable SFDR Minimum Safeguards, incl. assigning responsibilities for assessing compliance in DD and for monitoring. If minimum safeguards do not apply, the fund will work towards ensuring compliance of investees with other relevant safeguards.
11.1.5	Good Governance	The fund will assess and monitor good governance practices in investees companies, as per IFC Corporate Governance & Business Integrity sections.
Environmental & Social Management System (ESMS) Policy		
11.2.1	ESG Policy and Investment Process	The fund has, or is working towards, an ESMS. ESG policy and ESG risk framework have to be defined and approved before investment decision
11.2.2	Standards, Principles, Certifications	The fund's ESMS integrates/will integrate standards, principles and frameworks considered appropriate to its investment strategy/targeted investor.
11.2.5	ESG Risk Management	The fund adopts, or is working towards adopting, adequate instruments to identify and assess ESG risks of each IP and ongoing investment, alongside other material risks, and categorize investees as high, medium, or low ESG risk. Such categorisation will set the basis to determine the appropriate level of management and monitoring.
11.2.6	ESG Issues	The fund will address any identified shortcoming in relation to ESG matters with ESG action plans (ex-ante or ex post).

Innpact AIFM is a third-party management company exclusively dedicated to managing ESG, **Sustainable and Impact alternative funds**, based on the following eligibility criteria:

I. Compliance with Article 8 or Article 9 of SFDR:

The AIFM aims to contribute to the achievement of the *European Green Deal objectives*¹⁰. To be fully aligned with the *European Union Commission's* goal of channeling private investments towards sustainable activities, it commits to collaborate **only with AIFs falling under Article 8 or Article 9 of SFDR**. AIFs shall also demonstrate to be preparing for compliance with the disclosure requirements set out in the Taxonomy Regulation.

II. Compliance with good governance national laws and regulations

¹⁰ The European Green Deal is a package of policy initiatives, which aims to set the EU on the path to a green transition, with the ultimate goal of **reaching climate neutrality by 2050**. It supports the transformation of the EU into a fair and prosperous society with a modern and competitive economy.

The AIFs must have set out good governance guidelines, which should serve as a Code of Conduct for everyone that works for the AIF. The AIF will assess good governance practices in investee companies as part of the investment process.

III. Formal integration of sustainability in the decision-making process:

Adapting the guidelines set by the *Operating Principles for Impact Management (OPIM)*, the AIFM considers AIF acceptable if it:

- Articulate the AIF's sustainable objective.
- Articulate the AIF's investment principles and values from an ESG and/or impact perspective.
- Identify and realize business opportunities relating to ESG and/or impact themes.
- Clearly map the fund's AIF's ESG characteristics or sustainable objective against the SDGs at investee level and fund level.
- Put in place a system to screen investments on the basis of the expected ESG risks and contribution to the AIF's ESG characteristics or sustainable objective.
- Have developed procedures to measure, monitor and manage ESG risks and contribution to the AIF's ESG characteristics or sustainable objective of each investment position and fund level. The procedures for assessing and monitoring the ESG risks and impact should be prepared by the AIF before the first investment is proposed to the IC.

IV. Exclusion list*: defining the sectors/activities where the AIF will not invest in:

AIFs shall have an exclusion list compliant with one of the followings:

- The AIF commits to adopt Innpact *AIFM's Exclusion List*, which is specified in **Annex 1** of this ESMS and is based on the *International Finance Corporation ("IFC") Exclusion list as well as the Paris Aligned Benchmark*.
- The AIF's exclusion list could be also compliant with the exclusion list of other *Development Finance Institution (DFIs)*, e.g., the African Development Bank "AfDB", the European Investment Bank "EIB", the German Development Bank "KfW" or the exclusion list of the Association of bilateral European Development Finance Institutions "EDFI". In this case, the AIF shall clearly explain why the exclusion list chosen can be considered appropriate to the investment strategy. The AIFM will review the exclusion list to ensure that sufficient safeguards are in place.
- If the AIF does not have an exclusion list, it shall adopt IFC's exclusion list as well as the Paris Aligned Benchmark.

**The IA/PM agreement includes a clause for the AIF to have an exclusion list;*

Minimum Sustainability Safeguards and standards of Good Corporate Governance

The AIFM providing the risk management and/or the portfolio management function(s) will require that each Investment Proposal (IP) submitted to the Investment committee ("AIFM-

IC” in the Advisory model or “AIF – IC” in the Delegation model) is compliant with the following safeguards¹¹:

- *OECD Guidelines for Multinational Enterprises*
- *ILO Declaration on Fundamental Principles and Rights at Work*
- *UN Guiding Principles on Business and Human Rights*
- *International Bills of Human Rights*
- *International standards of Good Corporate Governance*

*IFC Performance Standards*¹² may apply in case an investment is classified as *medium ESG risk* according to the specific risk categorisation framework adopted by each AIF, which is then reviewed by the AIFM.

V. AIFM Geographical differentiation

This policy complies with the applicable Luxembourgish laws and jurisdictions in which it is being undertaken. The standards delineated in this *ESMS Policy* might vary according to the geographical application of each investment.

¹¹https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/draft-report-minimum-safeguards-july2022_en.pdf

¹² Available at https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

4. ESG STANDARDS

4.1 Innpact AIFM Standards

The AIFM *ESG & impact policy* governs this ESMS. these policies and procedures are aligned with the *IFC standards*. The *AIFM ESG risk policy*¹³ incorporated into its operating and investing activities, and institutionalizes these through legally binding mechanism to operations and investing activities of its Fund Managers, so as to ensure that they are fully observed at investee project-level

According to the *ESG & impact policy*, all operations shall comply with SFDR regulations as well as abiding by the minimum safeguards and standard of good corporate governance.

For the AIFM, the funds under management will be subject to an ESG risk procedure if they are likely to have significant and material impacts and risks on the environment, human health and well-being and interfere with human rights. The ESG risk procedure must be consistent with the principles contained in the SFDR directives and best international practice. The entity in charge of executing the fund(s) (i.e., Fund Managers) shall be responsible for putting in place its own systems that will allow for a comprehensive and rigorous ESG assessment of impacts and risks, using an integrated approach in order to achieve a high level of protection of the environment taken as a whole.

The AIFM implements its *ESG & Impact Principles* through its ESMS and all other key institutional policies and ensure compliance with the respective governing laws and regulations as well as international standards specified in the ESMS. The AIFM's ESMS is designed to guide its implementation of the ESG, and Impact commitments contained in *this ESMS*.

The AIFM will establish and maintain the following sustainability operational requirements:

- Integrate ESG considerations across each step of the investment process, from screening to exit, in alignment to the Applicable Standards and Guidelines
- Screen all potential investments against the IFC Exclusion List, as set out in Annex A.
- Adopt the AIFM ESG Risk policy in assessing ESG risk and impact risk.

¹³ Available and part of the AIFM Risk Policy

5. ESG IMPACTS

The ESG impact is a construct for fund managers to understand how to manage ESG and impact risk issues. It's based on backward-looking measures resulting from the normal course of business activities. ESG impact is not an investment strategy but a safeguard for measuring impacts in a fund. There are two spectrums of ESG impacts, and they are the potential adverse impacts and the positive impacts.

I. Potential Adverse Impacts (PAI)

Impacts of investment decisions and advice that result in negative effects on sustainability factors (i.e., environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters).

II. Positive Impacts

Positive Impact means attributive factors such adoption of equal pay transparency, that could actively promote or improve equality of opportunity and help improve the fund operation across the community.

III. Environmental, Social, and Governance Impact Assessment

The ESG impact assessment of the AIF will be conducted by the AIFM and will be applied at the early planning stages of AIF screening in order to assess the environmental and social acceptability and what conditions, if any, should be applied to control potential risks and impacts so that the relevant authorities can form a view on the AIF. The assessment will give a balanced and integrated view of risks and impacts that will cover both environmental, social and governance issues. Innpect AIFM will use the regulatory guidance of EU SFDR principle adverse indicators (PAIs) on collecting and monitoring potential adverse impacts of funds managed.

IV. Impact Risk Assessment

Innpect AIFM will also conduct an impact risk assessment at the early stages of the AIF screening, to identify impact risk and see the mitigation strategies provided by the fund manager. Impact risk is defined as the likelihood that a fund's impact on people and planet will be different than expected, and that the difference will be material from the perspective of people or the plant who experience impact. The figure below showcases examples of impact risk and their meaning. On the IP template, there is a ranking system that helps monitor impact risk. If above 5, the fund manager should provide some mitigation strategy.

Figure 4. Impact Risk & Definition

Impact Risk	Definition
1 Evidence risk	→ The probability that insufficient high-quality data exists to know what impact is occurring
2 External risk	→ The probability that external factors disrupt our ability to deliver the impact
3 Stakeholder participation risk	→ The probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account
4 Drop-off risk	→ The probability that positive impact does not endure and/or that negative impact is no longer mitigated
5 Efficiency risk	→ The probability that the impact could have been achieved with fewer resources or at a lower cost
6 Execution risk	→ The probability that the activities are not delivered as planned and do not result in the desired outcomes
7 Alignment risk	→ The probability that impact is not locked into the enterprise model
8 Endurance risk	→ The probability that the required activities are not delivered for a long enough period
9 Unexpected impact risk	→ The probability that significant unexpected positive and/ or negative impact is experienced by people and the planet

*Source: Impact Management Project