Disclosure statement

Operating Principles for Impact Management ("Impact Principles")

June, 2023

Mikro Kapital Management SA (the “Signatory”) hereby affirms its status as a signatory to the Operating Principles for Impact Management (the "Impact Principles"). This disclosure statement applies to the following assets: Mikro Fund, Alternative, MKI SA (the "Covered Assets"). The total assets in alignment with the Impact Principles is USD 1,365 millions as of 31 December, 2022.

The Impact Principles are defined as following:

**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 Mikro Kapital**

Founded in 2008, Mikro Kapital has since grown into a multi-national corporation specialized in microfinance financial services supporting small businesses located in developing countries around the world. We focus our microcredit activities solely on micro, small and medium-sized enterprises (MSMEs) as we believe this is where we can execute the greatest social impact: by assisting those who have historically been unable to access traditional sources of funding from financial institutions. We also consider that small and medium-sized enterprises (SMEs) have significant growth potential as a result of the deleveraging that has occurred in the banking sector over the last decade. By strengthening this business, we aim at identifying opportunities that allow us to engage in a more comprehensive approach to address critical economic and societal developments sustainably.

Mikro Kapital has formally defined strategic impact objectives that guide the investment strategies of each Special Purpose Vehicle (SPV). These objectives are aligned with the IRIS+ framework developed by the GIIN (Global Impact Investing Network) and the Sustainable Development Goals (UN SDGs) defined by the United Nations. In the definition of these objectives, it is recognized that in order to achieve and assess the expected impact objectives, each objective must be realistic, and thus takes into account external factors such as the relative size of the challenge addressed, the geographical context, and the likelihood of achieving the impact when defining each objective.

The following table explains the Impact Objectives for each segment and link with the relevant SDGs.

**Mikro Kapital’s impact objectives linked with SDGs**

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<tr>
<th>Investment segment</th>
<th>Impact Objectives</th>
<th>SDGs</th>
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| Micro Credit       | • Improve access to and use of responsible financial services for underserved populations  
                      • Improve earnings and wealth through employment and entrepreneurship | • SDGs 5 (Gender Equality)  
                                                                              • SDG 8 (Decent work and economic growth),  
                                                                              • SDG 9 (Industry, innovation and infrastructure)  
                                                                              • SDG 10 (Reduced inequalities) |
**Micro Leasing**

(particularly for disadvantaged and excluded groups)

- Improve rural economies through financial inclusion
- Increase farm profitability
- Increase financial health of farmers
- Increase gender equality through financial inclusion
- Support decent jobs and foster economic development

**Sharing Economy**

- Mitigate Climate Change through Clean Mobility

- SDGs
- 5 (Gender Equality)
- 8 (Decent work and economic growth)
- 10 (Reduced inequalities)
- 11 (Sustainable cities and communities)
- 12 (Responsible consumption and production)
- 17 (Partnerships for the Goals)

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**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.

A critical element of Mikro Kapital’s strategy is to retain controlling ownership of portfolio companies, which enables the company to invest in its own network continuing to grow inorganically through acquisitions.

Mikro Kapital has a formal process in place that defines the rules, procedures and governance to be followed throughout the investment decision-making process (from initial screening to exit) for all investments made via the SPVs. 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. It is composed by five distinct phases: pre-screening, due diligence, monitoring and engagement, reporting, and exit. There is a formal policy that establishes procedures for responsible investment and impact management that all relevant Mikro Kapital employees must adhere to throughout the process’s five stages.

**Five stages of Mikro Kapital’s investment decision-making process**

1. **Pre-screening**
   - Prior to due diligence procedure, we assess a target company against SPV’s impact objectives and Mikro Kapital’s exclusion list (MK ESEL)

2. **ESG and Impact Due Diligence**
   - After pre-screening, we assess sustainability risks and expected impact from investment in a target company
   - Once investment is made, we ensure the achievement of impact objectives defined and manage relevant sustainability risks by organizing constant engagement environment

3. **Monitoring, Engagement, and Remedial Action**
   - We require our portfolio companies to systematically provide us with actual and transparent information on ESG risks and impact achievement

4. **Reporting**
   - A portfolio company continues to have a positive impact even after Group’s exit due to a formalized and consistent exit strategy:
     - Comprehensive portfolio company assessment
     - Screening of potential buyers
     - Formal operational process

5. **Responsible Exit**

Mikro Kapital plans to establish ambitious yet realistic qualitative and quantitative targets for portfolio companies at the start of each financial year and work with them to determine and, where possible, quantify the expected positive impact of the portfolio company’s investment. These targets to assess the portfolio’s impact at the end of the period are defined using IRIS+ and portfolio companies’ performance.
Furthermore, during 2021 an Impact-based Remuneration Scheme has been considered, and will be discussed and implemented at a later stage, once MK has advanced on ESG topics.

**Mikro Kapital Responsible Investment Approach**

- Responsible Investment Policy
- Environmental and Social Exclusion List (ESEL)
- Impact management approach based on IRIS+ framework

**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 channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

Mikro Kapital, as a responsible impact investor, is dedicated to disclosing the impact of the investments in an open and transparent way. It is a priority for us to communicate explicitly how each investment contributes to impact creation, to provide case studies for illustration reasons, and to report on non-financial key performance metrics to demonstrate Mikro Kapital's and portfolio companies' contributions.

The business model of Mikro Kapital is to be the main shareholder investor and therefore control the majority of its operative companies in the territories. Representatives of Mikro Kapital are also sitting on the Advisory Board of those companies, being able in this way to advice and guide the Management in their decisions, to be aligned with Mikro Kapital principles.

To ensure maximum openness, applicable policies and current reporting on Mikro Kapital's sustainable impact are made public. The Annual ESG Report and other relevant reports and disclosures demonstrating Mikro Kapital's commitment to reporting on impact systematically and transparently, such as the PRI report and the SFDR disclosure, are examples of this type of documentation.

**Impact achieved during 2022**

- Number of countries invested: 14
- Number of micro, small & medium enterprises (MSME) served by our institutions: ca. 160 thousand
- % of female end-borrowers: 31%
- % of female employees in portfolio companies: 59%
- % rural end-borrowers: 38%
- % of clients in agriculture: 46%
- Car sharing fleet: ca. 20 thousand
- Car sharing registered users (MAU): ca. 9 million

**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 impact 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? (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 standards and follow best practice.

There is pre-investment analysis in place to determine the expected impact of an investment in a target. Mikro Kapital evaluates and quantifies the investment’s concrete and realistic positive impact potential, utilizing available evidence and a suitable results measurement methodology, taking into account various external factors.
The framework for Impact Management Projects (IMPs) addresses the following:
• What: positive/negative impact and its importance to stakeholders;
• Who: stakeholders and how underserved are they;
• How much: how many stakeholders, degree of change, how long is change happening, how significant is the impact;
• Contribution: better/worse outcome;
• Risk: risk factors, likelihood of risks to occur and their effect on the initial impact expectations.

After assessing the target's current impact management activities and gaining a good understanding of the differences in approach and maturity of impact management between the target and the other portfolio companies in the SPV, Mikro Kapital identifies concrete capacity building opportunities for one or both parties.

In what concerns maximizing the investment's impact, Mikro Kapital evaluates new opportunities and the significance of negative impacts as low, medium or high. For all issues classified as medium or high (i.e. "relevant"), concrete plans for mitigating them are formally defined. Additionally, expected negative direct, indirect, and systemic impacts associated with the target firm and the investment (i.e. adverse impacts) are assessed. The process is described in more details in the Mikro Kapital's Responsible Investment Policy.

Mikro Kapital has as priority to define ambitious but nevertheless realistic quantitative impact objectives that are consistent with those proposed by the IRIS+ framework.

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) 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 practice. 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.

As previously stated, Mikro Kapital monitors portfolio companies, the effectiveness of ESG initiatives, impact objectives, and the effectiveness of their positive and negative impact management and has established a process to identify, mitigate or manage and monitor ESG risks throughout the entire investment decision-making process. A diligent monitoring both keeps Mikro Kapital informed about the portfolio company's performance and potential ESG or impact risks, but also identifies concrete areas for improvement.

During this process, being in a unique position to engage with portfolio companies, influence their practices, and, as a result, amplify positive impact while mitigating risk and negative impact, Mikro Kapital engages with portfolio companies for differing reasons. It is one of Mikro Kapital's objectives to assist them in becoming even more responsible. For example, whenever the centralized risk management department identifies inconsistencies between current investee systems, processes, and standards regarding Sustainability Risks process and steps necessary to close these gaps are agreed through technical assistance, trainings and adoption of relevant tools and systems. This is described in the Mikro Kapital's Sustainability Risk Policy.

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 action. The Manager shall also seek to use the results framework to capture investment outcomes.

Mikro Kapital consolidates the information on impact performance that portfolio companies are required to provide on a semi-annual basis, by filling special data collection forms. ESG data collection is performed by portfolio companies themselves, which enjoy direct access to first-hand data. In particular, they fill in Mikro Kapital’s ESG data collection templates and share them with Mikro Kapital semi-annually. Mikro Kapital can therefore be reported with valid and reliable ESG data and assess impact and progress made by portfolio companies. Once received, Mikro Kapital’s ESG Department critically review the necessary documentation and self-assessments on
impact progress made by portfolio companies. Progress of each fund and underlying portfolio company in achieving impact is duly monitored.

At the beginning of each financial year, Mikro Kapital engages with portfolio companies to determine and, where possible, quantify the expected positive impact deriving from the investment into the portfolio company. Specific attention is given to monitoring that newly developed impact targets for upcoming periods are aligned with the short, medium and long term objectives initially defined in the section referred to above. The objectives identified and how their achievement is monitored is described in the Mikro Kapital's Responsible Investment Policy.

Mikro Kapital then performs a first mid-term assessment at the end of the first half of the period to identify potential impact performance gaps, red flags and areas for improvement, with the aim to meet the qualitative and quantitative objectives defined by the second half of the period. A final backward-looking evaluation is made at the end of the period.

Where impact expectations are not reached during the period, Mikro Kapital engages with portfolio companies to understand the reasons why the objectives could not be met, identify and document potential action points to increase impact in future periods. Only where Mikro Kapital concludes that the expected impact is unrealistically high can the quantitative measures be decreased in the following period. Lastly, even if impact objectives are reached by the portfolio company, Mikro Kapital, as part of the monitoring process, systematically identifies opportunities to increase positive impact, through active bi- or multilateral discussions with portfolio companies.

**Principle 7: Conduct exits considering the effect on sustained impact.**

*When conducting an exit, 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.*

Should an exit from a portfolio company result necessary, Mikro Kapital has developed an impact exit strategy that follows a strict three-fold process to ensure the exit is responsible and that, eventually, the portfolio company will continue to have a positive impact even after Mikro Kapital has existed.

Firstly, Mikro Kapital performs a comprehensive assessment on the global impacts achieved by the portfolio company (accomplishments, lessons drawn, useful tips, etc.) as well as the ongoing situation of the portfolio company in view of the exit. Wherever possible, Mikro Kapital will engage with the portfolio company and any other current relevant shareholder, to present the accomplishments and examine how to pursue successes and efforts. The assessment also includes a projective high-level assessment of the impact of the exit both on Mikro Kapital's SPVs and the to-be-exited portfolio company. Ultimately, depending on the outcome of the analysis, the timing, structure and processes of the exit are to be adapted, to ensure sustainability impacts of the portfolio company is not negatively affected.

Once the pre-assessment is done, and after ensuring the impact objectives of the portfolio company are clearly stated to potential buyers, Mikro Kapital screens them based on a suitability checklist that takes into account non-financial characteristics, along with financial ones.

Finally, a consistent operational process is put in place to ensure all stakeholders are informed and formalities duly performed.

**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.*

Mikro Kapital performs regular assessment on the effectiveness and efficiency of its investment process with regards to responsible impact. Following such assessments, Mikro Kapital’s top management determines improvements to be implemented within the investment decision-making and monitoring processes.

Parallelly, Mikro Kapital requests portfolio companies to monitor their own impact performance at least two times per financial year, using the IRIS+ frameworks aligned with the selected strategic impact objectives. The review and monitoring serve as a basis for improvement of the decision-making process and engagement to maximize
impact. An ESG report is produced annually. It reviews and documents the impact performance of Mikro Kapital and its activities, including the funds’ impact objectives and update of processes and activities.

The ESG Department monitors Mikro Kapital’s progress towards its impact objectives and provide recommendations to the rest of the teams. The ESG Department also reviews ESG indicators to ensure the monitoring process remains up to date and efficient.

**Principle 9: 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.

As a signatory of the Impact Principles, Mikro Kapital commits to align its procedures, policies and tools with the Impact Principles. Such alignment is re-affirmed publicly in an annual Disclosure Statement.

The latest Verification of Mikro Kapital’s alignment to OPIM Principles was received in 2022. In accordance with the Impact Principles’ requirements, Mikro Kapital will engage again with an external and independent verifier in 2025 once it significantly advances in its impact maturity.

**Links**


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