Principal Adverse Impact Statement

FMO Privium Impact Fund

Purpose & scope

This is the Principal Adverse Sustainability Impacts report of FMO Privium Impact Fund as of **June 30, 2024**, as per SFDR article 4.

This report provides insights into the sustainable investment objective of the fund. This is not marketing material. This statement is required by law and gives an overview of how each Principal Adverse Impacts (PAI), mandatory and voluntary was addressed and reported on during the reporting period January 1 – December 31, 2023.

This Principal Adverse Impact statement concerns the following classes of the Fund

CLASS A
ISIN CODE: NL0011765904
VALOREN: CH31830495
BLOOMBERG: FPIFAUA NA

CLASS B -A
ISIN CODE: NL0013691314
VALOREN: 49111857
BLOOMBERG: FPIFBAE NA

CLASS B -D
ISIN CODE: NL0011765912
VALOREN: CH31833958
BLOOMBERG: FPIFBED NA

CLASS F
ISIN CODE: NL0012135750
VALOREN: CH035027128
BLOOMBERG: FPIFFEA NA

CLASS I -A
ISIN CODE: NL0012818223
VALOREN: CH40798031
BLOOMBERG: FPIFIEA NA

CLASS I -D
ISIN CODE: NL0012939029
VALOREN: CH42104370
BLOOMBERG: FPIFIDE NA

CLASS U -A
ISIN CODE: NL0013380173
BLOOMBERG: FPIFUAU NA

CLASS U -D
ISIN CODE: NL0013380181
BLOOMBERG: FPIFUDU NA

Summary

FMO Privium Impact Fund considers the principal adverse impacts (PAI) of its investment decisions on sustainability factors as part of its investment due diligence process and procedures. This is the consolidated statement on principal adverse impacts on sustainability factors of the Fund's underlying investments.

This statement covers the reference period of **1 January 2023 to 31 December 2023**.

During the reference period, the Fund made both socially and environmentally responsible investments, thereby aiming to provide investors with an attractive financial return while at the same time endeavouring to create impact in Developing and Emerging Economies. Impact was measured according to FMO's impact methodology. In the context of the Sustainable Finance Disclosure Regulation ("SFDR"), the Fund is classified as an Article 9 Fund. The related periodic disclosure is available as an annex to the Fund's annual report, publicised on the Fund's website.

The Fund strives to achieve positive impact. But it is part of the Fund's investment approach to understand and mitigate where possible the negative impacts that the investments may cause. These negative impacts are also called adverse impacts, whereby the most significant adverse impacts are referred to as principal adverse impacts by the SFDR. These impacts can occur in different areas, such as related to environmental, social and employee matters, human rights, corruption, or bribery matters. The Fund aims to address, by avoiding or reducing, principal adverse sustainability impacts when investing.

In addition to the Fund's PAI datapoints over the reference period, we provide more information on the Fund's overall approach to identifying, prioritising, and addressing principal adverse impacts of its investment decisions on various sustainability factors. In line with the Fund's strategy, FMO is responsible for sourcing the investments as well as the required analysis of PAI, the collection of related data and engagement. This means that this statement contains mainly references to FMO materials. Prior to making its investment decision, the Fund's investment committee reviews FMO's analysis on the principal adverse impacts of the proposed investment as well as any mitigating factors and engagement actions for alignment with its own policy on principal adverse impacts. FMO's overall approach and process is reviewed annually by the Fund Manager.

The statement consists of the following sections:

A. Description of the principal adverse sustainability impacts on sustainability factors
   This section documents the indicators related to principal adverse impacts on sustainability factors over the reporting period. This is done by way of an explanatory matrix containing both the mandatory and voluntary PAI datapoints, as well as how each specific indicator is embedded in the data collection and monitoring process. In addition, the matrix contains information regarding the actions taken and planned by the Fund to obtain missing information or further improve the data quality.

B. Description of policies to identify and prioritise principal adverse sustainability impacts
   This section provides information about the Fund's approach to Impact investing and relevant policies on the identification and prioritisation of principal adverse sustainability impacts and indicators. As the Fund is an impact fund, sustainability indicators, factors and risks are considered even before investing, and throughout the investment process. All investments made by the Fund are screened against sustainability factors and are linked to positive and

negative investment impacts and indicators to ensure that our investments contribute to positive change.

Given the diverse nature of the Fund's investments, PAI are prioritized on the individual project level. For each investment, FMO assesses the environmental, social and governance risks, and identifies where improvements can and should be made. If deemed necessary, an Environmental and Social Action Plan (ESAP) is agreed upon before contracting and becomes part of the financing conditions which are legally binding. Compliance with and material completion of the ESAP is considered by the Fund before making an investment decision.

C. Engagement policies

The Fund does not directly engage with an underlying borrower or in any industry or public policy. Engagements are carried out by FMO on behalf of the Fund. FMO starts engaging with a borrower at the earliest phase and will include improvements on environmental, social and governance issues as a conditional in the contracting documentation when applicable.

FMO has implemented multiple management tools for tracking ESG performance. The principal adverse impacts are considered in each stage of the engagement process and inform the applicable engagement track and subsequent progress monitoring. The Fund considers new investments only when progress has been demonstrated sufficiently on the engagement issues and therefore does not do significant harm to an environmental or social objective.

D. References to international standards

The Fund's ESG policy requires that all borrowers comply with FMO's responsible finance approach. This defines the exclusion of certain consumer finance activities, and the adoption of the Borrower Protection Principles (CPPs) which define the minimum standards that end-borrowers should expect to receive when doing business with an entity providing financing to natural persons. In addition, FMO upholds the following standards, amongst others as applicable: IFC Performance Standards, World Bank Group Environmental Health and Safety Guidelines, Equator Principles, OECD Guidelines on Multinational Enterprises, UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work, UN Principles for Responsible Investment, EDFI Principles for Responsible Financing, SMART Campaign Borrower Protection Principles

E Historical comparisons

A. Description of the Principal Adverse Impacts on Sustainability Factors

Description of the Principal Adverse Impacts

The following section describes the principal adverse impacts on sustainability factors, the indicators related to principal adverse impacts on sustainability factors, additional indicators the Fund intends to report on as well as how each specific indicator is embedded in FMO's data collection and monitoring process. The first table contains a description of how the metric is integrated into FMO's data collection. The second table contains the PAI data over the reporting period as well as any actions taken or planned to improve the reported data.

It should be noted that as FMO's and thus the Fund's investments are made outside the EU in emerging and frontier markets, none of the counterparties are in scope of the EU Sustainable Finance Regulation and thus are not required to disclose information by regulation or law. All PAI data for this reporting period is based on what FMO has collected from its investments or modelled through existing methodologies and processes. These PAIs are also the indicators FMO considers most material for its investments. They were in most cases already being collected before the SFDR was implemented.

Even though the gathering of the data and/or information is challenging, FMO and the Fund fully underscore the intentions of the EU regulation, progress is being made to gather more data, or create modelling where there are currently non sufficiently reliable models available.

Adverse sustainability indicator		Metric	Description of policy and measurement.
GHG Emissions	1. GHG Emissions	Scope 1 GHG emissions	Amount of greenhouse gases (GHG) emitted through the organisation's operations from direct emissions sources during the reporting period. The GHG Protocol defines direct emissions as emissions from sources that are owned or controlled by the reporting entity. Scope 1 emissions are calculated by dividing the current value of investment by the investee company's enterprise value multiplied with GHG emissions from the investee company. The usage of enterprise value to calculate the "fair share" or "attributed amount" is in line with the PCAF standard. For non-listed companies, the sum of total debt and equity is used to calculate the total value. FMO uses the Joint Impact Model (JIM) to calculate GHG emissions. JIM is a publicly available model, which enables the quantification of indirect jobs, value added, and greenhouse gas (GHG) emissions related to investments of financial institutions with operations in developing countries such as FMO. Using input data such as revenue and power production from investment portfolios, JIM enables users to estimate financial flows through the economy and its resulting economic (value added), social (employment) and environmental (greenhouse gas emissions) impact.
		Scope 2 GHG emissions	Amount of greenhouse gases (GHG) emitted through the organisation's consumption of purchased electricity, heat, or steam during the reporting period.
		Scope 3 GHG emissions	Amount of greenhouse gases (GHG) emitted by the organisation's suppliers and suppliers of suppliers during the reporting period, except from direct energy providers (i.e. scope 2).
		Total GHG emissions	Total of scope 1, scope 2 and scope 3 emissions.

	2. Carbon Footprint	Emissions of investee companies expressed as tCO2/€M invested	The carbon footprint are emissions expressed as tonnes of scope 1, 2 and 3 emissions per EUR million invested (tCO2/€M). FMO uses the Joint Impact Model (JIM) to calculate the carbon footprint of investee companies.
	3. Green House Gas intensity	GHG intensity of investee companies	FMO uses the Joint Impact Model (JIM) to calculate GHG intensity of investee companies.
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	The Fund does not directly invest in loans to any non-renewable energy project or company. Any exposure to fossil fuel is indirect, thus via financial institutions which may have a portfolio in which fossil fuel business may be present.
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage	Production: FMO monitors energy production from its direct investments/investee companies in the (renewable) energy sector. FMO currently does not monitor renewable energy production supported by the financial institutions it finances. The Fund does not have direct exposure to companies or projects in non-renewable energy production. Consumption: FMO currently does not administer the energy consumption of its borrowers. FMO intends to use the JIM for energy consumption and intends to start data collection.
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	FMO monitors energy production from its direct investments/ investee companies in the (renewable) energy sector. It does not monitor renewable energy production supported by the financial institutions it finances. Currently, FMO does not administer the energy consumption of its customers. FMO intends to use the JIM for energy consumption and intends to start data collection

Biodiversity	7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas	FMO applies IFC Performance Standard 6 on biodiversity and living natural resources. FMO is using screening tools, such as the Integrated Biodiversity Assessment Tool (IBAT). IBAT contains data on “biodiversity sensitive areas” within the meaning of SFDR. The screening may be complemented with external consultants’ advice and site visits. An "adverse effect" can be inferred from the client's performance assessment on IFC Performance Standard 6. Underperformance may indicate "adverse effect on biodiversity-sensitive areas". This information is reviewed by FMO. FMO makes this assessment for high-risk direct customers. Low-risk direct customers are customers who do not have facilities/operating activities in or near biodiversity-sensitive areas where the activities of those customers would have a negative impact on those areas.
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	FMO's data collection is based on the World Bank's Environment, Health, Safety (EHS) Guidelines. Although this is best practice in emerging markets, these guidelines do not provide data as required by the Sustainable Finance Disclosure Regulation (SFDR). Therefore, FMO cannot currently report on this indicator of emissions to water generated by investee companies.
Waste	9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average	FMO's data collection is based on the World Bank's Environment, Health, Safety (EHS) Guidelines. Although this is best practice in emerging markets, these guidelines do not provide data as required by the Sustainable Finance Disclosure Regulation (SFDR). Therefore, FMO cannot currently report on this indicator of hazardous waste generated by investee companies.

Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	FMO is adopter of the OECD Guidelines for Multinational Enterprises. Violations of OECD Guidelines cover Disclosure, Human Rights, Employment and Industrial Relations, Environment, Combating Bribery, Bribe Solicitation and Extortion, Consumer Interests, Science and Technology, Competition and Taxation. Customers are contractually obliged to report violations. In addition, violations may also be made known to FMO by external stakeholders such as civil society organisations and affected communities. Furthermore, FMO is considering a specialized third party since violations may not be self-reported by FMO borrowers. The third party's results are manually complemented with FMO's own monitoring information where appropriate.
	11. Lack of processes and compliance mechanisms to OECD Guidelines for Multinational Enterprises monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	FMO’s external policy commitments include, among others, the IFC Performance Standards, the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. Having an Environmental & Social (E&S) Management System (including a Grievance Mechanism) is a requirement under the mentioned policy commitments. FMO has taken a risk-based approach to implement policy commitments in the portfolio and records a qualitative analysis of the E&S Management System, including the External Grievance Mechanism, of high-risk customers at the time of onboarding and periodic reviews.

	12.Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	As FMO collects data on number of male and female employees and employee wages but not wages of male and female employees separately, FMO cannot report the unadjusted pay gap. FMO is discussing this topic for alignment and progress with other European Development Finance Institutions (EDFIs). FMO has committed to gender equality in its Sustainability Policy, which is its leading policy instrument in guiding positive impacts on environmental, social and governance issues. Assessment and management of gender impacts and risks are guided by the IFC Performance Standards. Performance Standard 2 requires investee companies to ensure non-discrimination and equal employment opportunities (including pay) and the occupational health and safety of both women and men.
	13. Board gender diversity	Female board members expressed as a percentage of all board members.	FMO has committed to gender equality in its Sustainability Policy, which is its leading policy instrument in guiding FMOs positive impacts on environmental, social and governance issues. Assessment and management of gender impacts and risks are guided by the IFC Performance Standards. Performance Standard 2 requires investee companies to ensure non-discrimination and equal employment opportunities and the occupational health and safety of both women and men. To contribute positively to the inclusion of women as participants in the economy, FMO proactively seeks investments that support women as entrepreneurs, reach women as end-users of goods and services and include women in the labour market. Additionally, FMO supports initiatives and networks for women in leadership positions, such as the Global Banking Alliance for Women, and are actively seeking opportunities to consider female candidates to nominate to the Boards of investee companies.

	14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	Following FMO's exclusion criteria, FMO will not finance any business or trade involved in weapons and munitions if these form a substantial part of a company's primary operations, or a financial institution, investment fund or company's financed business activities. "Substantial" means more than 10 % of a financed institution's/company's consolidated balance sheet or earnings. For Financial Institutions, "Substantial" means more than 10% of a Financial Institution's underlying portfolio volume.
Voluntary PAI 1	Rate of accidents	Number of accidents	Borrowers are contractually obliged to report serious incidents such as fatalities, serious injuries and accidents. In addition, serious incidents are reported by NGOs and via FMO's Independent Complaint Mechanisms. The Serious Incidents Register is used to monitor serious incidents across FMO's portfolio. In all such cases, a root cause analysis (RCA) is requested from the borrower in order to promote learning and prevention. FMO may also conduct portfolio level RCAs to improve processes with respect to borrower incident management.
Voluntary PAI 2	Emissions of ozone-depleting substances	Tonnes of ozone depleting substances equivalent per million EUR invested, expressed as a weighted average	Following FMO's exclusion criteria, FMO will not finance any business or trade involved in ozone depleting substances.

As this is the Fund's inaugural PAI statement, no calculations or historical comparisons are available. Initial reporting on the PAI metrics will be done in June of 2023 at the latest concerning the 1 January 2022 to 31 December 2022 reference period.

In below overview distinction is made between direct and indirect borrowers or financing. All borrowers in the Renewable Energy and Agribusiness, food and water sectors are considered as direct investments. Financial institutions are considered as indirect, thus indirect financing, as many of the PAIs refer to their portfolio vs their own organisation.

Adverse Sustainability Indicator		**Metric**	**Impact 2023**	**Impact 2022**	**Actions taken/planned**
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	4,220tCO2e	4,488	FMO is a member of the Joint Impact Model Foundation and supports the continuous development of the model. In the coming years, the JIM will continue to add datapoints and become more complete.
		Scope 2 GHG emissions	2,972tCO2e	2,770	
		Scope 3 GHG emissions	83,329tCO2e	84,010	
		Total GHG emissions	90,521tCO2e	91,268	
	2. Carbon footprint	Carbon footprint	0.000709tCO2e/€M invested	0.000691	
	3. GHG intensity of investee companies	GHG intensity of investee companies	0.005202tCO2/€M revenue	0.001486	This PAI uses the revenue of a project or company in its calculation. Revenue of a company or project is part of a broad set of information reviewed annually by FMO for each client. In 2022 this was not yet commonly registered in the systems of FMO. Therefore, for the 2022 PAI calculation, a modelling method was applied to supplement the missing data points based. During 2023 a significant effort was made to increase registration of the latest available revenue for each client in the applicable FMO system.

FMO Privium **IMPACT FUND**

					This results in a higher outcome for 2023 compared to 2022. In 2024 we will continue improving the data quality.
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	14.2%	7.3%	The Fund does not invest directly in any fossil fuel business or project. Any exposure to fossil fuel is indirect, thus via financial institutions which may have an existing portfolio in which fossil fuel business is present. By the end of 2023 the Fund held loans to 8 financial institutions which also have exposure to the fossil fuel sector in some form. Most have very little exposure, except for 2 which have a substantial exposure in the sector. The 14.2% number is the full weight of the loans in the Fund portfolio and is significantly lower on a look though basis as it does not account for a) the fact that the actual exposure of the financial institutions is much lower, b) any exposure to the fossil fuel sector is counted even if they are further downstream and c) the loans in the Fund have a specific use of funds clause and/or are earmarked for a green (SDG13) and/ or reducing inequality (SDG10) label qualification in addition to the Fund's objective to support the growth of the SME segment of a financial institution's portfolio (SDG8). Therefore, the loans are not used for the financing of the fossil fuel sector.
	5. Share of non-renewable energy	Share of non-renewable energy consumption and non-renewable energy	N/A	N/A	As per 2024 the Joint Impact Model version 3.1 will be implemented at FMO. After this, reporting on this PAI will be possible.

	consumption and production	production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as percentage			
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	N/A	N/A	As per 2024 the Joint Impact Model version 3.1 will be implemented at FMO. After this, reporting on this PAI will be possible.
Biodiversity	7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	2.69%	3.13%	The percentage reported reflects the loans where FMO is collecting additional information for full compliance with IFC Performance Standard 6 (Biodiversity). IFC PS 6 has a broader scope then biodiversity sensitive areas only. Therefore, this additional analysis does not necessarily mean that the investment negatively affects biodiversity sensitive areas.
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	N/A	N/A	
Waste	9. Hazardous waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR	N/A	N/A	

FMO Privium IMPACT FUND

		invested, expressed as a weighted average			
	Optional Environmental PAI: Emissions of ozone-depleting substances	Tonnes of ozone depleting substances equivalent per million EUR invested, expressed as a weighted average	0%	0%	Following the exclusion criteria, FMO will not finance any business or trade involved in ozone depleting substances.
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0%	0%	as per 31 dec 2023 no violations are known and confirmed as per the knowledge of FMO.
	11. Lack of processes and compliance mechanisms to monitor compliance with UN	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling	11.4%	5.6%	In alignment with FMO's minimum standards, the Fund does not invest if there are known violations of the UNGC or the OECD Guidelines or if controls are deemed too weak. The 11.4% are loan clients where FMO is working with them to improve controls beyond the minimum threshold for investment via an action plan, ongoing engagement, and other operations support.

	Global Compact principles and OECD Guidelines for Multinational Enterprises	mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises			
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	N/A	N/A	FMO has committed to gender equality in its Sustainability Policy. Therefore, this topic has high priority. Data collection has started, but it may take multiple years before
	13. Board gender diversity	Average ratio of female to male board members in investee companies	20%	20%	39 reporting investees on average report 20% of women in board positions. Data from 20 investees is not available, of which 5 are SPVs that do not have staff and therefore cannot report (last year 4 SPVs and 23 not available). While the information on board members is known thanks to the KYC process which every customer goes through, this gender balance information is not yet consequently registered in the sustainability and impact system of FMO. It is expected that the coverage will increase during 2024 as more effort is made to register this data point.
	14. Exposure to controversial weapons (anti-personnel mines,	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0%	0%	There is no exposure to controversial weapons. Neither direct, nor indirect

	cluster munitions, chemical weapons and biological weapons)				
	Optional Social PAI: Rate of accidents	Number of accidents per million Euro invested.	1.28%	0.53%	In 2023 one serious accident occurred at one client who self-reported this. Steps have been taken by the client both in researching how the incident could have happened and to prevent any new incidents.

B. Description of policies to identify and prioritise principal adverse impacts

This section provides information about the Fund's approach to impact investing and relevant policies on the identification and prioritisation of principal adverse sustainability impacts and indicators. As the Fund is an impact fund, sustainability indicators, factors and risks are considered before investing, and throughout the investment process. All investments made by the Fund are screened against the principal adverse impacts to determine if they do any significant harm and are linked to positive and negative investment impacts and indicators to ensure that they contribute to positive change.

Identifying principal adverse impact

The Fund considers principal adverse impacts of its investment decisions on sustainability factors as part of its investment due diligence process and procedures. For sustainable investments this means ensuring that the investments do no significant harm to any environmental or social objective. By mapping the Principal Adverse Impact framework to FMO's extensive analysis of local and international environmental, social and human rights regulations, each investment is screened on potential significant harm and excluded from FMO's portfolio and therefore FPIF's portfolio if the criteria are not met.

FMO requires that all borrowers comply with applicable environmental, social and human rights laws in their home and host countries. In addition, FMO upholds multiple international standards as included in FMO's Sustainability Policy and its Sustainability Policy Universe.

With respect to the management of environmental and social impact, the primary standards that guide FMO's relationship with borrowers are the IFC Environmental and Social Performance Standards and the associated World Bank Group Environmental Health and Safety Guidelines. They cover the larger part of the ESG requirements in the OECD Guidelines on Multinational Enterprises, which also reference the UN Guiding Principles on Business and Human Rights.

Subject to its applicability criteria, FMO also applies the Equator Principles which are based on the IFC Performance Standards. The IFC Performance Standards guide FMO's human rights due diligence with respect to borrowers. FMO requires borrowers to assess the likelihood and severity of impact on human rights as part of their assessment of social and environmental impact, and to implement mitigation measures in line with the IFC Performance Standards. As part of the Sustainability Policy Universe FMO has published several position statements including ones on Human Rights, and Gender which aim to further clarify FMO's views and actions.

The Fund Manager reviews FMO's investment policies at least annually. In addition, the Fund Manager reviews FMO's related processes and policies to identify and prioritize principal adverse impacts as well as their application in the Fund's investments on an annual basis.

Prioritizing principal adverse impact

For each investment, FMO assesses the environmental, social and governance risks, and identifies where improvements on top of the minimum requirements for a positive Do No Significant Harm analysis can and should be made. If deemed necessary, an Environmental and Social Action Plan (ESAP) is agreed upon before contracting and becomes part of the financing conditions which are legally binding. Compliance with and material completion of the ESAP is considered by the Fund before making an investment decision.

The PAIs on which the Fund has reported for this period, are also the PAIs which are deemed to be most material. Next to these, FMO is making progress towards gathering more data points. The voluntary PAIs were selected based on the same principle: these are already deemed material topics by FMO and data and/or information is gathered. If data is not directly available from the borrower, information may be modelled for example via the Joint Impact Model (JIM), or information may be gathered via third party providers. In section A of this document the data source is explained, and reference is made to underlying models, methodologies or third-party providers (when available).

The JIM measures indirect jobs supported of the investments and the footprint effects of such investments. It calculates how a capital investment is expected to influence production, economic growth, jobs and greenhouse gas emissions in a country. The JIM uses macroeconomic and greenhouse gas emission databases, giving fair estimations – based on historic country averages – of the impact of FMO's investments on the economy and GHG emissions levels of a country. The JIM is a portfolio-level tool that relies on modelling, using statistics reflecting sector and country averages. Impact results from the JIM can be considered robust at the portfolio level.

C. Engagement policies

Borrower engagement

The Fund itself does not directly engage with an underlying borrower. Engagements are carried out by FMO (as representative of the Fund).

As described in FMOs Annual Reports, FMO has implemented five management tools for tracking ESG performance. The principal adverse impacts are considered in each stage of the engagement process and inform the applicable engagement track and subsequent progress monitoring:

1. The **ESG performance target** applies to the high-risk portfolio and aims to have at least 90% of high and medium risks managed at a satisfactory level. A loan is not eligible for the Fund's portfolio until it passes FMO's Principal Adverse Impact analysis and ESG performance target.
2. For borrowers with contractually agreed **Environmental and Social Action Plans** (ESAPs), FMO monitors progress towards ESAP implementation to ensure that FMOs investments comply with FMOs enhanced policies and standards within a reasonable time-period. Compliance with and material completion of the ESAP is considered by the Fund before making an investment decision.
3. All high and medium E&S risks of high-risk borrowers, which are not yet managed at a satisfactory level, are included in **the E&S Management gap table**. By identifying gaps, FMO is able to focus FMOs attention on engaging with FMOs borrowers to resolve these. A client with insufficient management of E&S risks is not considered for inclusion in the Fund portfolio.
4. The **Serious Incidents Register** is used to monitor borrower reports of adverse events across FMOs portfolio such as fatalities, serious injuries and environmental accidents. In all such cases, a root cause analysis (RCA) is requested from the borrower in order to promote learning and prevention. FMO may also conduct portfolio level RCAs to improve FMOs processes with respect to borrower incident management. A satisfactory result from the RCA and sufficient mitigation is required to keep the borrower eligible for inclusion in the Fund portfolio.
5. FMOs **Independent Complaint Mechanisms** enables the resolution of disputes, organizational learning and the improvement of FMOs current and future operations.

FMO accepts that when it first starts working with a borrower, the ESG performance may be below standard. FMO does, however, expect performance to improve over time in line with agreed action plans. Most borrowers show good progress towards these plans. FMO works with these borrowers to address such gaps, in order to fully realize their positive impact potential. The Fund accepts new participations in FMO loans when progress has been demonstrated sufficiently on the most material PAIs and therefore does not do any significant harm to an environmental or social objective.

In case insufficient progress is made, FMO will attempt to bring the borrower back on track within a reasonable timeframe. In some instances, however, E&S impacts are irreversible. In other cases, a management gap may be the result of a bigger (financial) problem the borrower is facing which requires the restructuring of a loan or a full exit.

Beyond financing, FMO also offers advisory services and technical assistance to support borrowers in building profitable and sustainable businesses. This consists of support in the design and implementation of ESG risk mitigation measures, master classes and events, capacity development and sector initiatives that enhance ESG industry standards.

Data received by FMO from its borrowers is stored in a dedicated Sustainability Information System or in the Serious incidents Register. Reporting is based on the data and information stored in these systems.

The Joint Impact Model is used to calculate the Fund's attainment of its sustainable objectives as well as its progress on the principal adverse indicators and is based on data available in the Sustainability Information System or otherwise modelled where specific data is not (yet) available. The JIM methodology is publicly available via its dedicated website. In the Sustainability Information System adherence to the exclusion list is also registered as well as progress on any potential ESAP.

Industry and Public Policy Engagement

The Fund itself does not directly engage in any industry or public policy engagement. Engagements such as these are carried out by FMO (as representative of the Fund).

FMO works closely with other Development Finance Institutions (DFIs) to ensure ESG approaches are more harmonized. Greater harmonization creates a level-playing field, helps to create greater impact, and leads to efficiencies for borrowers working with multiple DFIs. The various European Development Financial Institution (EDFI) harmonization work streams range from topics on how to include the Fossil Fuels exclusions, EU Sustainable Finance Regulation effects and the update of the Direct Investments E&S harmonized standards.

Furthermore, FMO is a member or signatory of many industry initiatives or sector organisations for the same purpose: to enhance harmonization and find solutions for often challenging requirements for the markets in which it operates. Industry organisations range from the Nederlandse Vereniging van Banken (NVB), the Global Impact Investing Network (GIIN), the Partnership for Carbon Accounting Financials (PCAF), to the UNEP FI / EBF Working Group on Banking and Taxonomy. A comprehensive list is made available in the FMO Annual Report. The FMO Annual Report also includes examples of topics addressed. In the 2023 report, FMO stated it participated in various EDFI harmonization work streams, including the Fossil Fuels exclusions and the update of the Direct Investments E&S harmonized standards. Furthermore FMO worked closely with other EDFIs towards improving alignment on human rights DD and it has been an active member of the EDFI Human Rights Working Group.

D. Reference to international standards

The Fund's ESG policy aligns with FMOs policies and procedures in full. The FMO Sustainability Policy formulates that FMO requires all borrowers to comply with applicable social and human rights laws in their home and host countries. FMO's responsible finance approach defines the exclusion of certain consumer finance activities, and the adoption of the Borrower Protection Principles (CPPs) which define the minimum standards that end-borrowers should expect to receive when doing business with an entity providing financing to natural persons. In addition, FMO upholds the following standards, including in its own operations, as applicable:

- IFC Performance Standards
- World Bank Group Environmental Health and Safety Guidelines
- Equator Principles
- OECD Guidelines on Multinational Enterprises
- UN Guiding Principles on Business and Human Rights
- ILO Declaration on Fundamental Principles and Rights at Work
- UN Principles for Responsible Investment
- EDFI Principles for Responsible Financing
- SMART Campaign Borrower Protection Principles

With respect to the management of social impact, the primary standards that guide FMO's relationship with borrowers are the IFC Environmental and Social Performance Standards and the associated World Bank Group Environmental Health and Safety Guidelines. They cover the larger part of the ESG requirements in the OECD Guidelines on Multinational Enterprises, which also reference the UN Guiding Principles on Business and Human Rights. Subject to its applicability criteria, FMO also applies the Equator Principles which are based on the IFC Performance Standards.

The IFC Performance Standards guide FMO's human rights due diligence with respect to borrowers. FMO requires borrowers to assess the likelihood and severity of impact on human rights as part of their assessment of social and environmental impact, and to implement mitigation measures in line with the IFC Performance Standards. In case environmental, social or human rights impacts are identified that the IFC Performance Standards do not sufficiently address, FMO will identify and agree on mitigants by referring to the other standards above as relevant.

FMO Position Statements formulate FMO's choices in relation to a societal issue. These position statements further define what FMO will do, in relation to for example gender or human rights. With these Position Statements FMO further clarifies how it approaches its social responsibility.

Pursuant to Dutch law and regulations, FMO's investee companies – including their owners, directors, managers, and other key staff – need to comply with FMO's policies on business integrity and anti-money laundering. Guided by the OECD Convention on Combating Bribery and the UN Convention against Corruption, FMO maintains a zero-tolerance policy regarding bribery and corruption. FMO's Know Your Borrower (KYC) Policy describes these policies.

E Historical comparisons

As this is the Fund's second report, the data from this year and the previous year are displayed below.

Adverse Sustainability Indicator	Impact 2023	Impact 2022
1.GHG emissions	4,220tCO2e 2,972tCO2e 83,329tCO2e 90,521tCO2e	4,488 2,770 84,010 91,268
2. Carbon footprint	0.000709tCO2e/€M invested	0.000691
3.GHG intensity of investee companies	0.005202tCO2/€M revenue	0.001486
4.Exposure to companies active in the fossil fuel sector	14.2%	7.3%
5.Share of non-renewable energy consumption and production	N/A	N/A
6.Energy consumption intensity per high impact climate sector	N/A	N/A
7.Activities negatively affecting biodiversity sensitive areas	2.69%	3.13%
8.Emissions to water	N/A	N/A
9.Hazardous waste ratio	N/A	N/A
Optional Environmental PAI: Emissions of ozone-depleting substances	0%	0%
10.Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	0%	0%
11.Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	11.4%	5.6%
12.Unadjusted gender pay gap	N/A	N/A
13.Board gender diversity	20%	20%

14.Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	0%	0%
Optional Social PAI: Rate of accidents	1.28%	0.53%