Impact report 2023

Marketing communication

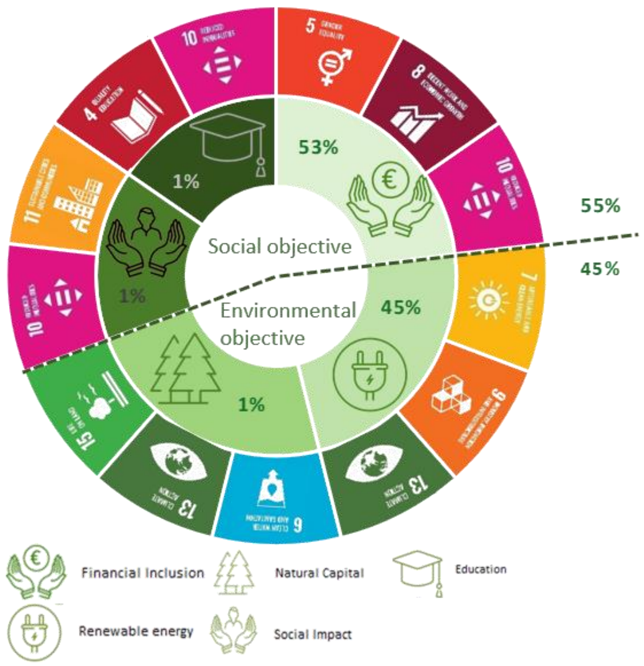
Privium Sustainable Impact Fund

2023 was another eventful year. The fastest rate hike cycle in modern times put pressure on local banks. Geopolitical risks increased as the conflict between Israel and Palestine escalated, on top of the ongoing war in Ukraine and US-China competition. Despite increasing tensions in the Middle East, oil and gas prices ended the year lower. While oil production was cut by OPEC+, it was more than offset by record production in mainly US and Brazil, at the same time as economic activity slowed. As politicians now must balance energy transition with short term energy security, the transition is seemingly going slower. Underneath the surface however, investments into renewables continue to grow. Through its investments, Privium Sustainable Impact Fund (the Fund, PSIF) supports multiple impact targets including the renewable deployment. This impact report discusses how the Fund has a positive effect in many areas.

With the challenging economic backdrop, PSIF had a financially difficult year, ending the year -4.6% lower. While financial inclusion funds benefitted from rising interest rates, renewable funds faced headwinds from falling energy prices. As capital markets more or less closed for these funds, they started to recycle capital or partner up with other investors to continue financing new projects. By continuing building new renewable energy capacity, the funds, and PSIF, continues to contribute to the energy transition.

PSIF is a Fund of investment funds. This means that the Fund invests in other funds that provide loans to local banks and other institutions. These then serve the ultimate borrowers. The Fund receives the impact data on which this report is based via the underlying funds. Unless otherwise stated, results refer to the Fund's actual interest in the underlying funds.

This is PSIF's annual impact report. Using the Sustainable Development Goals (SDGs) and with the help of case studies, the developments within the Fund and the impact achieved are made transparent.



Renewables to provide 1/3 of total electricity

According to International Energy Agency's (IEA) latest electricity report, demand for electricity is expected to grow by 3.4% per year between 2024-2026. Datacenters, AI and cryptocurrency are driving a significant portion of the growth.

While renewables are expected to be able to meet all of the increasing demand, the pace of electrification needs to accelerate. According to IEA, to meet Net Zero by 2050 and limit global warming to 1.5C, electricity's share in final energy consumption needs to be 30% by 2030. In 2023 it was 20%.

Most of the demand growth is coming from the East, notably China and India. Africa also sees demand growth in total, however per capita consumption has declined in recent years as electricity supply have not kept the pace of population growth. This dynamic is expected to persist for another few years.

PSIF is supporting renewable growth in the Global South where possible, mostly in Asia and Brazil. Investment options in Africa are limited, but PSIF remains on the lookout for ways to support renewable energy deployment there.

Foto by mariuszopole via Pixabay

The impact themes:

Each of the themes the Privium Sustainable Impact Fund invests in contributes to several SDGs. The match between SDG and theme is determined based on the definitions of the UN. The impact of the Fund is measured for each SDG using impact indicators. In selecting these indicators, the Fund dovetails as much as possible with the reports of the underlying funds and the guidelines published by the UN.

For the implementation of the indicators, the Fund uses information from the underlying funds. For example, within the education segment, the funds keep track of the percentage of students coming from countries with a relatively low gross national product. By paying particular attention to students from these types of countries when providing student loans, SDG 10: Reducing Inequality is supported. Where the reporting date of a fund deviates, the most current data is used.

Financial inclusion

To grow along with the economy in a country, people must have access to financial services. Globally, people without access to the financial sector are among the poorest, youngest and lowest educated in their country.

5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

Education

Quality education is a basic condition for both personal development and the development of a country. This goes beyond learning to read and write. High-quality education opens the way to local growth, entrepreneurship and future leadership.

4 QUALITY EDUCATION
10 REDUCED INEQUALITIES

Renewable energy

The switch from fossil to renewable energy is in full swing. But much still needs to be done before fossil energy generation is completely phased out.

7 AFFORDABLE AND CLEAN ENERGY
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
13 CLIMATE ACTION

Social impact

By tackling challenges such as care, juvenile delinquency, unhealthy living environments, homelessness and energy poverty as directly as possible, persistent social inequalities can be reduced and a positive effect on disadvantaged people's lives and society can be achieved.

10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES

Natural capital

Our global natural capital, including geology, soil, air, water and all living things, is under pressure. Protecting and regenerating soil and water quality and areas with biodiversity contributes to reversing this trend.

6 CLEAN WATER AND SANITATION
13 CLIMATE ACTION
15 LIFE ON LAND

Impact developments 2023

During 2023, the equity capital market closed for the renewable funds, and their pipeline projects had to be financed in other ways. The funds started to sell assets to recycle capital into new development projects. Some also partnered with other long-term investors through joint ventures. It is important not only from a financial but also from an impact perspective that the funds continue to develop new assets. Within Natural Capital, PSIFs investments planted a total of 950,000 new trees as afforestation projects progressed, and within Social Impact 276,000 people in need were served.

Demand for credit in financial inclusion

While increasing geo-political tensions led to higher food prices and inflation, financial inclusion funds see increasing credit demand as local economies grow.

Renewables and storage

Renewable funds continue to invest and develop into new projects despite capital market constraints, by recycling capital or co-investing.

Social impact

With food insecurity, energy poverty and increasing migration driven by geopolitical tensions and climate change, investing in solutions for disadvantaged groups remains as relevant as ever.

Natural capital

In the theme Natural capital, investments are made that work on the management and conservation of land, forests, water and biodiversity. In addition, forestry management can have various additional positive impacts.

Financial inclusion impact result 2023

69%

Female borrowers

Entrepreneurship is an important route to financial independence and a better future. This certainly applies to women in emerging countries where only about 17% own their own company. Institutional limitations, but also a lack of knowledge and financing mean that female entrepreneurs experience major barriers when setting up and growing their own business.

5 GENDER EQUALITY

Goal 5: Achieve gender equality and empower all women and girls.

117,326

Loans to entrepreneurs

Small entrepreneurs create jobs and support the economic development of their communities. In emerging countries, they provide 7 out of 10 jobs and 40% of the national income. But these entrepreneurs often find it difficult to obtain financing. There are an estimated 65 million medium and small companies in emerging countries that do not have enough capital to grow.

8 DECENT WORK AND ECONOMIC GROWTH

Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

56%

Rural borrowers

Economic development in emerging countries is usually not equally divided. Urban areas or regions with specific economic benefits are developing faster than rural areas. This can lead to large differences in prosperity.

10 REDUCED INEQUALITIES

Goal 10: Reduce inequality within and between countries.

Case study

Growth of Financial Inclusion and Its Institutions

Blue Orchard Microfinance Fund (BOMF) provides debt capital to institutions that focus on serving economically and environmentally vulnerable communities in the world. Since PSIF's launch BOMF has been part of the portfolio.

Since the early days of microfinance in 1970s, the sector has provided access to financial services – primarily loans – to underserved people. It has demonstrated that this group is reliable in their repayment and servicing the poor is possible at commercial terms. According to the World Bank, account ownership among the poorest in low- and middle-income countries has more than doubled from 30 % in 2011 to 67% in 2021. As countries develop economically, the financing needs of the underserved also shift. Micro and informal sectors recede, while formal SMEs become a larger share of the economy.

MSMEs play a critical role in the development and resilience of many low-income countries by being the largest employer and boosting job creation, raising income, reducing vulnerability, and increasing investments in human capital. Yet, access to capital is challenging and a limiting factor for growth and development for many of the MSMEs.

The evolution of BOMF over the last two decades reflects this transition in the needs of end beneficiaries. The manager has long-standing relationships with many of the FIs in its portfolio, which have grown from smaller microfinance institutions into banks, not only serving more end clients but also accompanying their clients on their growth. Many end clients who set out with a small loan to start their business are now employing several people and continue to expand their business.

At the same time, the spirit of financial inclusion stays the same. Micro enterprise loans are still the majority of MSME loans provided by BOMF, comprising 57 % of the total portfolio. The Fund primarily targets filling a gap in financing need, whether that is a need from micro enterprises or SMEs. Several of our investees demonstrate the story of growing and developing in line with their end clients and their needs, while staying true to their mission of providing financial services to the underserved.

Text and photo credit: [Schroders BlueOrchard Microfinance Fund]

Education impact result 2023

462

Student loans

4 QUALITY EDUCATION

Access to affordable and quality education is a prerequisite for participation in the economy and an indispensable link in the economic development in a country. However, there are many barriers to students including poverty, crisis and emergencies, high tuition fees, exclusive entrance exams, geographic mobility and institutional discrimination.

Goal 4: Ensure equal access to quality education and promote lifelong learning for all.

79%

Students from developing countries

10 REDUCED INEQUALITIES

Lack of education contributes to maintaining and even increasing economic and social inequalities. In emerging countries, education is often not available or affordable for large parts of the population. Inequalities can be reduced by lending to students in these countries.

Goal 10: Reduce inequality within and between countries.

Renewable energy impact results 2023

441,793 MWh

Renewable energy generated

7 AFFORDABLE AND CLEAN ENERGY

More clean energy is needed to be able to continue to meet our energy demand in a responsible way. Total renewable energy consumption has increases significantly over the past decade, but its share of total global energy consumption is below 20%

Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all.

270 MW

Renewable generation and storage capacity

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

The phasing out of fossil energy requires investments in sustainable generation capacity, new technology and energy infrastructure. To make our energy supply future-proof, more sustainable and cleaner, the amount of sustainable energy generation and storage capacity must be expanded. 250 MW of the renewable generation and storage capacity that the underlying investments were managing at the end of 2022 is attributable to the Fund.

Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization, and drive innovation.

198,895 tonnes

CO_2 emissions avoided

13 CLIMATE ACTION

The more CO_2 emissions that can be avoided, the more this contributes to limiting the effects of climate change. Based on the energy mix in the region where they operate, the underlying investments of the Fund determine how many tonnes of CO_2 emissions have been avoided thanks to their projects.

Goal 13: Take urgent action to combat climate change and its impact.

1, 2) CBS Statline 2021-2022

Case study

Biodiversity dependencies in the renewable energy sector

The renewable energy sector's growth is intrinsically linked to the mining of metals and minerals critical for producing wind turbines, solar panels and batteries. However, this dependency brings to the forefront potential environmental risks, particularly in water management. Octopus Renewable Energy Trust (ORIT), one of PSIF's investments in the renewable energy theme, has explored the risks relating to its mining sector exposure

The shift towards a low-carbon future is heavily reliant on the extraction of essential minerals and metals like lithium, nickel, graphite copper and silicon. The mining and metals industry's biodiversity conservation performance is under increased scrutiny. This is due in part to a growing awareness of the importance of biodiversity conservation, but also because the industry often operates in remote and environmentally sensitive areas.

The loss and/or depletion of biodiversity is increasingly being recognised as an issue of risk for mining companies as well as matter of corporate responsibility for the renewable energy sector. ORIT assessed the industry's biodiversity dependencies and identified that the mining industry has a high dependency on water.

For example, in mining, water can be used to extract the raw material from the ground, to extract the desired element from the raw material and in the transport and storage of excess slurry among other processes. This highlights the crucial role of water as an ecosystem service for renewable energy materials. Disruptions in this ecosystem service could lead to supply chain issues, potentially resulting in project delays, business plan upheavals, and increased long-term costs, thereby affecting the profitability of renewable energy projects.

While it's acknowledged that water provision represents a significant risk to the supply chain, the industry has strategies for managing this challenge. The International Council on Mining and Metals (ICMM), a prominent industry body representing a third of the global metals and mining sector, is at the forefront of defining approaches to mitigate this and broader biodiversity risks. The ICMM encourages its members to adopt robust and transparent water governance practices, manage water use efficiently at their operations, and collaborate to promote responsible and sustainable water use.

Although the Investment Manager's Supplier Code of Conduct already requires its suppliers to consider biodiversity, ORIT is supportive of the ICMM's aims for the mining sector to persist in enhancing its understanding and management of these risks as these in turn, help to mitigate the portfolio's own exposure. The Investment Manager aims to increase transparency of ORIT's supply chains so that more detailed analysis on these risks can be undertaken.

Text and photo credit: Octopus Renewable Infrastructure

Natural Capital impact results 2023

16 KM

Kilometers water-ways sustainably managed

A natural capital asset (e.g. a forest or agricultural area) is part of an integrated ecosystem which requires balance to function properly. Healthy waterways provide essential nutrients, hydration and habitats to local flora and fauna within the natural capital asset. Proper care of waterways improves biodiversity and the optimal functioning of the ecosystem.

Goal 6: Ensure availability and sustainable management of water and sanitation for all

1,610 tonnes

CO_2 sequestered

Biological carbon sequestration happens when carbon is stored in the natural environment. This includes what are known as 'carbon sinks', such as forests, grasslands, soil, oceans and other bodies of water. About 25% of global carbon emissions have historically been captured by carbon sinks on land. By properly managing, expanding and improving the health of our natural capital we will be able to sequester more CO_2.

Goal 13: Take urgent action to combat climate change and its impact.

175 HA

Hectares land sustainably managed

Sustainable land management refers to practices and technologies that aim to integrate the management of land, and other environmental resources to meet human needs while ensuring long-term sustainability, ecosystem services, biodiversity, and livelihoods. Ecosystems provide many of the basic services that make life possible for people.

Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Case study

Training the foresters of the future

Foresight Sustainable Forest Company (FSFC) has been part of the PSIF portfolio since 2021. FSFC invests in UK afforestation and forestry management. The environmental impact of this investment is evident, but forests also serve a social function for local communities. Next to recreation and research, they can also provide people with education and new employment opportunities as local economies shift to green jobs.

There is a widely recognised shortage of skilled labour in the UK forestry sector. A pilot of the Foresight Sustainable Forestry Skills Training Programme was launched in 2022. The pilot programme was aimed at helping young people in rural Wales to participate in new employment opportunities created in the forestry sector, through the provision of a fully funded three-week programme of training, certifications, health and safety equipment and mentoring.

Due to the 2022 pilot's success, with all four completing participants gaining employment into the forestry sector, the scale of the programme was more than doubled in 2023 to train ten further candidates. The scope of the programme was extended to also include Scotland.

The 2023 training programme is now completed. All ten candidates have completed the training and the majority have since been employed into the forestry sector, with several going on to work on FSFC's properties. Completing candidates secured important qualifications in chainsaw operating, tractor driving, tree planting and much more. The training has enabled the next generation, who live locally to FSFC's woodland creation and existing forestry properties, to directly participate in the jobs created to establish and then manage these forests.

The success of the 2023 programme helps to ensure that FSF is not just making direct contributions to the UK's twin fights against climate change and biodiversity loss through its afforestation programme, but is also doing so in a way that enables a just transition.

The programme has enabled FSFC to significantly strengthen its relationships within the rural communities where its forestry properties are located. Good relationships with rural communities help to ensure that there is local support for afforestation-related land use change, which can be contentious. Strong relationships with rural communities help to ensure that FSF has a sustainable afforestation development business model, considered the engine room of FSFC's returns.

More completing participants have helped ensure that FSFC has access to a sufficient level of skilled labour, required to fulfil the c.700 jobs created by its 4,500 hectare national afforestation programme, equivalent to one-third of the total amount of tree planting that the entire UK achieved last year, and that will see over 9 million trees planted. Looking forward, FSFC has started the 2024 training programme.

Text and photo credit: Foresight Sustainable Forest Company

Social Impact impact results 2023

12,472[1]

Disadvantaged people provided with essential services

10 REDUCED INEQUALITIES

The ability to access essential services is a critical prerequisite for social and labour market inclusion and an important determinant of well-being, especially for disadvantaged groups. Social issues such as energy poverty, access to care and the education gap cause people to become further excluded and vulnerable.

Goal 10: Reduce inequality within and among countries

1,252[1]

Disadvantaged people provided with affordable, quality homes

11 SUSTAINABLE CITIES AND COMMUNITIES

Housing instability encompasses multiple challenges, such as having trouble paying rent, overcrowding, moving frequently, or spending the bulk of household income on housing. Unsafe and unstable housing can have significant economical, social, physiological and psychological effect on all family members. It can also cause increased interactions with other social systems, like health care, child welfare and criminal justice, which further impacts their lives negatively.

Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable

[1] As the quantitative value of social impact may be challenging to measure specifically, the underlying fund is not yet able to allocate the impact made by its investee projects directly to the value of its investment. Therefore, the auditable full impact result of the projects rather than the estimated proportional impact generated by the underlying fund's investment into the projects is currently shown in their reporting. As with the other impact KPI's, this number is allocated proportionally to PSIF's holding in the underlying fund.

Case study

Outcomes for all: the benefits of social outcome contracts

The Schroders BSC Social Impact Trust (SBSI) was listed in December 2020 to provide investors public market access to a diverse portfolio of social impact investments addressing entrenched social issues in the UK.

Over ten years ago, the concept of a social impact bond was developed in the UK. Under such a structure, the government only pays for the successful delivery of pre-defined social outcomes for a specified cohort of individuals. For example, in 2018, the UK Ministry of Housing, Communities and Local Government launched Social Outcome Contracts (SOC) to tackle rough sleeping. This programme has housed over 90% more people than originally targeted at half the cost of similar interventions funded in other ways.

Local social sector organisations may raise the capital to deliver specific social outcomes from social impact focussed investors who are only repaid, by the government institution that launched the SOC, if outcomes are achieved.

As such, in cases where organisations chose to use external working capital, some of the financial risk sits with the social investors, not government or the local delivery organisations.

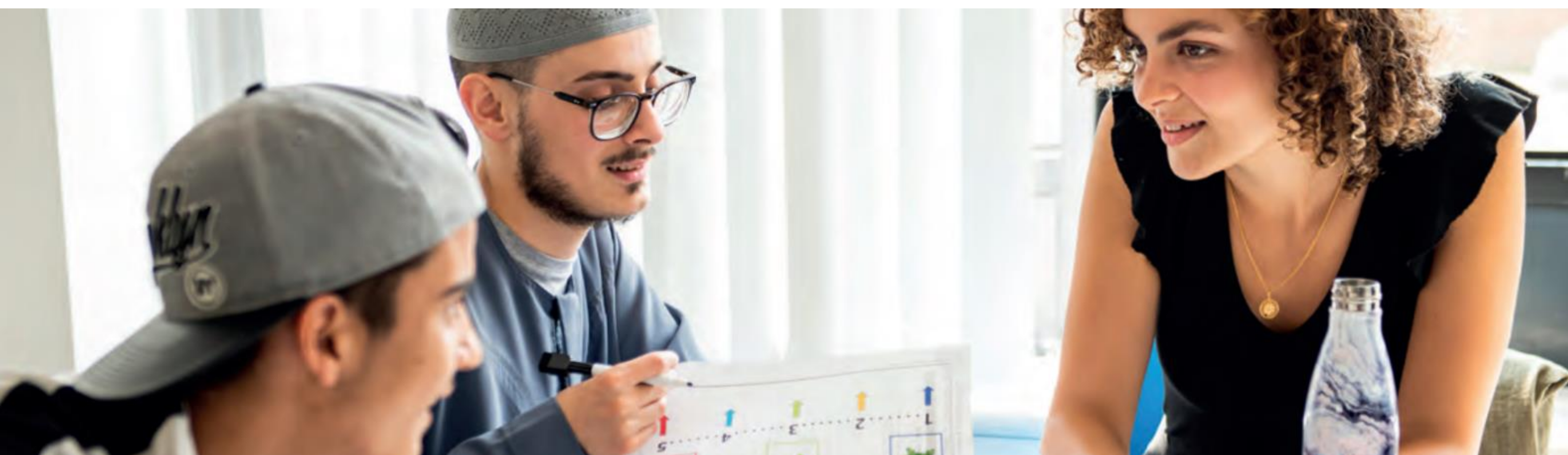
The UK has been the pioneer of social outcomes contracts since the model was first developed. To date this approach has been used by over 180 government departments, involving over 220 social sector organisations, and ultimately benefitting over 55,000 people.

Outcomes contracts have generated over £1.4bn of value, against a total cost to commissioners of £139m, meaning for every £1 spent SOCs have returned £10 in value for the public purse. Partnership between government, socially motivated investors and local organisations is crucial to unlocking this value.

Focus groups conducted to test the results of SOCs show that when it comes to public service delivery which is tackling complex issues, such as homelessness or children on the edge of care, being local matters most to people – that the service was delivered locally by local organisations who knew the area and were contributing to the local economy. This was more important to people than whether this was done via the public, social or private sector.

With its investment in Schroders BSC Social Impact Trust, PSIF is supporting high-quality UK services through social outcomes partnerships focusing on Education, Employment and Health. Currently, a Dutch variant of the SOCs does not exist for PSIF to invest in.

Tekst and photo credit: [Big Society Capital]



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Privium Sustainable Impact Fund

Impact allocation of invested capital 2023

Key facts Privium Sustainable Impact Fund

Investment Objective: The Fund invests in a diversified portfolio of listed and unlisted investment funds, companies and fixed income instruments.The goal is to make investments into companies, organizations, vehicles and funds with the intent to contribute to measurable positive social, economic and environmental impact alongside financial returns. The Fund is actively managed and does not have a benchmark index.

SFDR*	Article 9 Fund	Administrator	Bolder Fund Services (Netherlands) B.V.
Management fee	0.30% per annum	Custodian	ABN AMRO Clearing Bank N.V.
Ongoing Charges Figure**	0.90% per annum	Depositary	Apex Depositary Services B.V.
Minimum subscription	EUR 100,-	Auditor	EY - Ernst & Young LLP
Inception	August 1, 2014	Legal & Fiscal advisor	Van Campen Liem
Fund manager	Privium Fund Management B.V.	Trading	Monthly
Investment Advisor	ABN Amro Investment Solutions	Subscription notice	Before the 25th of the prior month
Reference index	Euribor + 2% per annum	Redemption notice	One month
Currency	EUR	* More information available on the website of the Fund	
ISIN code	NL0010763587	** including underlying investments	
Website	www.psif.nl		

Risk factors

The investments made by the Fund carry several risk factors. A limited number are listed below. See the prospectus for a more detailed overview of the risk factors.

- Illiquidity of the underlying investments
- Economic and political risk of emerging markets
- Counterpart risk
- Inflation risk

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