

# Independent Verification

Alignment with the Operating Principles for Impact Management

*April-14-2021*

## GEF Capital Partners

## Scope and Opinion

As a signatory of the Operating Principles for Impact Management ('Impact Principles'), GEF Capital Partners ('the Investor' or 'GEF') is committed to disclosing the alignment of its Impact Management System with the Impact Principles. Impact Principles standardizes best practices for Investors and institutions to manage impact investments.

The Investor engaged SITAWI to undertake the assessment. This Disclosure Statement applies to the whole portfolio that accounts for USD 114.7 million of assets under management.

SITAWI used its proprietary assessment method, based on the Operating Principles for Impact Management, to conduct the assessment and form its opinion.

The information used to develop this Verification Statement came from various sources, including information and documents provided by the Investor (some of them confidential), desk research, as well as other elements acquired via interviews with the Investor's staff. This process was carried out between March 1<sup>st</sup>, 2021 and April 6<sup>th</sup>, 2021.

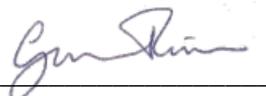
SITAWI had access to all requested documents and key-staff, thus being able to provide an opinion with a reasonable level of assurance regarding completeness, precision, and reliability.

**Final opinion:** SITAWI states that GEF's Impact Management System is highly aligned with the Impact Principles.



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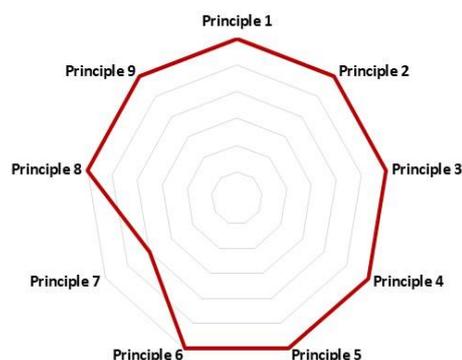
## Overall assessment

**Investor:** GEF Capital Partners

**Country:** Brazil

**AUM:** USD 114.7 MM

**Overall Alignment** **High**



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### Main strengths

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- ✓ Mostly high alignments identified for all Principles
- ✓ Well-defined strategic impact objectives, that are consistent with its investment strategy
- ✓ Internally-developed, robust and systematic ESG and Impact framework is used to assess potential impact of invested companies
- ✓ Robust engagement practices used to guarantee impact achievement by invested companies
- ✓ Impact achievements and Principles alignment are publicly disclosed and independently verified

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### Improvement opportunities

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- ! Exit strategy and decision-making shall be more affected by sustained impact considerations
- ! Expected impact shall be estimated and compared to baseline and actual impact to improve monitoring practices and impact achievement
- ! Risks of not achieving impact shall be assessed through likelihood and severity approach

## Alignment to the Principles

This section provides a summary of the alignment assessment for each Principle:

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### Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

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The Investor has well-defined strategic impact objectives for the portfolio, which aim to achieve positive impact aligned to the SDGs and consistent with investment strategy, combining Private Equity, ESG and Impact approaches. GEF identifies three key trends as a credible basis for both its investment thesis and impact investing mandate. These trends (Clean energy to move the world; Healthy food and sustainable agriculture practices; and Urban solutions to improve the flow of people and resources) represent potential positive outcomes and relevant investment needs in Latin America.

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### Principle 2: Manage strategic impact on a portfolio basis.

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The Investor has both formal and tacit practices in place for assessing impact achievement on a portfolio basis. Fund's ESG and Impact management framework (ESGEF) standardizes and systematizes each portfolio company analysis under the ESG and Impact lens. The Investor states that it aligns staff variable compensation with the achievement of impact.

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**Principle 3: Establish the Manager's contribution to the achievement of impact.**

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The Investor has both internal tools and publicly available documents that provide a credible narrative on its impact generation via each investment. This evidence demonstrates that each investment is assessed under the ESG and Impact lens. As a result, each investee has a 'shared value strategy' in which the Investor's contribution goes beyond financial channels (e.g. active stewardship, technical assistance on ESG and impact).

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**Principle 4: Assess the expected impact of each investment, based on a systematic approach.**

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The Investor assesses and, when possible, quantifies each investment's potential impact in advance, since the Origination of potential investees. The impact assessment follows frameworks of the Impact Management Project (IMP) and the United Nations' Sustainable Development Goals (SDGs). ESG risks and positive effects derived from the investment are also assessed. The Investor considers the findings of such analyses in its decision-making process, by designing Action Plans to all investees and declining high-risk transactions.

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**Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment**

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The Investor uses a systematic and documented process to identify, avoid, mitigate and manage ESG risks of each investment. GEF's ESG and Impact Management Framework follows a process of identification and assessment of the investee's ESG performance at the Due Diligence stage, according to international best practices (such as those provided by IFC, OECD and ILO). Based on the results of this stage, the Investor designs and monitors an ESG Action Plan for each investee.

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**Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.**

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The Investor monitors the implementation of specific measures and the impact performance indicators for each investee. The monitoring processes are standardized and documented in ESG Committee monthly meetings and investee's forms. Thus, it is able to adjust practices in case it identifies that a company is not evolving satisfactorily.

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

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The Investor does not have formal practices to incorporate the risks related to impact sustainability as a deal-breaker when deciding to exit. However, it has tacit practices for considering the sustained impact at exits. Also, the Investor committed to publicly disclose key considerations on ESG and impact issues to all exits since from the Annual Report 2020.

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**Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.**

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The Investor reviews and documents the impact performance of each of its investments through monthly internal meetings and quarterly reporting to the limited partners. Also, Impact and ESG performance – at both investee and Fund level – is publicly available in GEF's Annual Report. The Investor uses findings from impact performance revisions to update and improve its ESG and Impact management framework.

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**Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification of the alignment**

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GEF was the first Brazil-based investor to adhere to the Impact Principles, in 2020. In line with Impact Principles' requirements, the Investor states that it will publicly disclose, on an annual basis, a report on its alignment to the Impact Principles to accompany its Disclosure Statement. GEF engaged SITAWI as the independent verifier and committed to disclose the summary of conclusions, as provided above.

## Method

### About the verification requirements

The Operating Principles for Impact Management state that: *“Signatory must provide regular independent verification of the alignment of its impact management systems with the Principles. The verification may also highlight aspects of the systems and processes where alignment may be enhanced. Independent verification may be conducted in different ways, for example, as part of a financial audit or through a portfolio/Investor performance evaluation.*

*The verification may be performed by an external third party or by an internal unit of the Signatory. If the verification is performed by an internal unit, the Signatory must provide a description of the verification process and how it is separate from the operational units.*

*The frequency of the verification report may vary, depending upon the type of organization. If it is not performance on an annual basis in conjunction with the annual disclosure report, then the Signatory must disclose the frequency of the independent verification and the underlying rationale.*

*If the first verification report is not available when the first disclosure statement is submitted, then the Signatory must provide the date that it will be provided, how frequently it will be provided, and the name and qualifications of the independent verifier.”*

### Verification assessment procedures

SITAWI's assessment is based on a proprietary methodology, aligned to the Operating Principles for Impact. SITAWI also considers Impact Management Project (IMP) and IRIS+ as relevant references. The assessment consists of the following stages:

- 1) Application of SITAWI's methodology for the verification of the Investor's performance level for each of the nine Impact Principles. The methodology developed divides each Principle into two or more Components and assesses the level of alignment of the Fund's impact management practices, tools, policies and responsibilities to each of these Components. Our opinion is based on desk research of publicly available information, interviews with staff and assessment of internal documents.
- 2) Alignment can be:
  - a. **Low**, when there are no practices in place that correspond to the demands of each Component;
  - b. **Medium**, when there are tacit practices in place that correspond to the requirements of a Component OR when the formal practices partially meet the requirements; and
  - c. **High**, when there are formal practices in place that meet the Component requirements.
- 3) The average of the Components level of alignment make up each Principle's level of alignment. The final result is the average of the nine Principle's level alignment that represents the level of alignment of the Investor.

## Declaration of responsibility

SITAWI has not provided any previous services nor is a shareholder, client, supplier or subsidiary of the Investor or from its affiliates, being therefore able to provide an independent opinion regarding its alignment with the Impact Principles.

The assessment contained in this Verification Statement is based on a series of documents, part of which are confidential, provided by the Investor. We cannot attest to their completeness, accuracy or even veracity. Therefore, SITAWI is not responsible for the use of the information contained in this opinion. This assessment focuses on the impact management integrity and does not include the verification of the resulting impacts achieved.

**THIS IS NOT A RECOMMENDATION:** We reinforce that the analysis and opinion in this report shall not be taken as an investment recommendation or a proxy for liquidity or returns.

## About SITAWI

SITAWI Finance for Good is a Latin American-based organization whose mission is to mobilize capital for positive environmental and social impact. We develop financial solutions for social impact and advise the financial sector on how to incorporate environmental and social issues into strategy, risk management, investment decisions. We are one of the 5 best ESG research houses for investors according to Extel Independent Research in Responsible Investment - IRRRI 2018.