

Independent Verification

Alignment with the Operating Principles for
Impact Management

April-29-2022 - 2nd Year of Verification

GEF Capital Partners Latam

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.

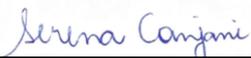
The Investor engaged SITAWI to undertake the assessment. This Disclosure Statement applies to the whole portfolio that accounts for USD 115 million of assets under management as of 27 April 2022.

SITAWI used its proprietary assessment method, based on the Operating Principles for Impact Management, to conduct the assessment and form its opinion. This is the second independent verification of GEF Capital Latam's alignment with the Operating Principles for Impact Management. The first verification was also conducted by SITAWI in April 2021¹. It was published on the Operating Principles for Impact Management website².

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 28th, 2022 and April 29th, 2022.

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 Latam's Impact Management System is highly aligned with the Impact Principles.



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¹ <https://gefcapital.com/capital-partners/wp-content/uploads/2021/05/Independent-Verification-Statement-GEF-Capital-Partners-Latam.pdf>

² <https://www.impactprinciples.org/signatories-reporting>

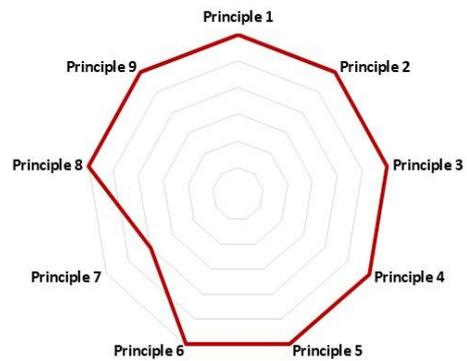
Overall assessment

Investor: GEF Capital Partners
Latam (GEF Latam)

Country: Brazil

AUM: USD 115 MM

Overall Alignment **High**



Main strengths

- ✓ High alignment with most of the Impact Principles (8 out of 9)
- ✓ 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 Impact Principles alignment are publicly disclosed and independently verified

Improvement opportunities

- ! Exit strategy 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 the likelihood and severity approach

Alignment to the Impact Principles

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

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

Level of alignment

High

The Investor maintains well-defined strategic impact objectives for the portfolio, aiming to achieve a positive impact aligned with the SDGs and consistent with its 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. For the opportunities filtering process, internal tools are used, based on international frameworks and standards. The impact of key opportunities identified by GEF can be measured by the Investor from the GHG inventory, resource efficiency assessment and social metrics.

Principle 2: Manage strategic impact on a portfolio basis

Level of alignment

High

The Firm has tacit practices for assessing impact achievement on a portfolio basis and a formalized practice for assessing and managing the impact performance of each investee (on a case by case basis). Following its proprietary methodology (TrueValue), GEF has a solid ESG and Impact management framework that standardizes and systematizes each portfolio company analysis under the ESG and impact lenses. Through its Early Assessment and ESG Assessment tools, the Firm analyses and manages each company's impact individually. All the impacts are reported in GEF's Annual Report.

GEF's shared value strategy includes an assessment that scores executives based on their participation in ESG Committees, progress of their companies on ESG front, B-scoring improvements and others, following GEF's Sustainable Finance Policy. These variables are reviewed annually and the variable compensation is decided on the basis of these factors among other business-related variables.

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

Level of alignment

High

The Investor has both internal tools and publicly available documents that provide a credible narrative on its impact generation via each investment. GEF uses its Early Assessment Tool, applied in the Origination phase of its ESG and Impact Management Framework (TrueValue) to identify each potential investee's theory of change. In this way, each investment is assessed under ESG and Impact lenses. The actions established for the investees' impact achievement are made through a systematic framework based on international best practices and references.

Since most of GEF's portfolio companies are not expected to be purely social enterprises, this assessment aforementioned is extremely important to GEF's impact objectives. GEF works closely with the invested companies building a strategic plan and supporting them to implement ESG and Impact actions, as necessary. 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).

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

Level of alignment

High

In the Origination phase of the investment cycle, GEF assesses and, when possible, quantifies each investment's potential impact in advance, supported by its Early Assessment Tool. The main references of this tool are the Impact Management Project (IMP) and the United Nations' Sustainable Development Goals (SDGs). However, the Early Assessment Tool also follows the Task Force on Climate-related Financial Disclosures (TCFD), Paris Agreement and GEF's exclusion list.

The aforementioned Tool enables the Investor to conduct a preliminary assessment of the potential impact, through the five dimensions of the IMP (What, Who, How Much, Contribution and Risk), and also supports the Investor to assess ESG risks and positive effects derived from the potential investment. Following this assessment, GEF does not invest in high risk transactions even if it is aligned with its impact goals.

The next step after the Origination phase is the Due Diligence, when GEF assesses the potential investees' performance regarding ESG factors and risks. The last phase of the investment cycle is the Shared Value Creation, where some indicators are established to manage and monitor ESG and impact issues. The indicators are aligned with industry standards and best practices such as IRIS+ metrics. Currently, GEF implements three categories of metrics: 1. GHG inventory emissions (scopes 1, 2 and 3 which are measured by external consultants); 2. resources efficiency (which may occasionally use SASB metrics); 3. social metrics. Other metrics can also be used to complement each investee's Action Plan.

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

Level of alignment

High

The Investor uses a systematic and documented process to identify, avoid, mitigate and manage ESG risks of each investment. GEF Capital's ESG and Impact management framework follows a process of identification and assessment of the investee's compliance with ESG factors and relevant ESG risks at the Due Diligence stage, which is based on international good practices. There is also a Fit Index that offers a preliminary rating based on various aspects, including compliance with key ESG factors.

Based on the results of this process, the Investor designs and monitors an ESG Action Plan with all investees, which will address the identified gaps and define who is responsible for each mitigation activity. At the negotiations phase, GEF's E&S team will seek commitment from the Company management towards implementing the E&S action plan. After the investment, in the Shared Value Creation phase, the ESG action plan application is monitored monthly.

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

Level of alignment

High

The Action Plan and impact performance indicators established in the Shared Value Creation phase for each investee are monitored by the Investor through monthly ESG Committee meetings. The portfolio companies are also monitored on a quarterly basis by GEF. This monitoring process enables the Investor to adjust practices in case it identifies that a company is not evolving satisfactorily.

It is worth mentioning that in its Annual Report³, GEF provides information regarding the completeness of the implementation of each investee's ESG Action Plan (how much of its ESG action plan is completed, in progress, or unrealized).

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

Level of alignment

Medium

The Investor has tacit practices for considering the sustained impact at exits. The impact is not considered as a deal-breaker in the divestment phase but GEF takes into consideration the shared value creation process built with the companies along the investment period. GEF's E&S Team will verify if all E&S matters were satisfactorily addressed before disbursement.

Upon exiting an investment, GEF expects not only that resources spent on maximizing impact throughout the investment cycle will have driven superior risk-adjusted returns, but also that the positive legacy will be maintained.

³ <https://gefcapital.com/capital-partners/impact/>

In both its Annual Report 2020⁴ and 2021⁵, GEF publicly disclosed key considerations on ESG and impact issues to all exits (one made in 2019, in an industry of health sector and logistics services, and the other in 2020, in a company of green and energy efficient construction).

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

Level of alignment

High

GEF does not provide an expected impact rating or impact targets to each company invested. Instead, the Investor monitors and reviews each company's actual performance through the Shared Value Creation phase. During this phase, GEF conducts monthly internal meetings and quarterly reports to its Global Investment Committee and its limited partners. The actual impact and ESG performance of both the Fund and of each invested company are publicly reported by GEF in its Annual Report. The Investor uses findings from impact performance revisions to update and improve its ESG and Impact management framework.

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

Level of alignment

High

GEF was the first Brazil-based investor to adhere to the Impact Principles, in 2020. In line with Impact Principles' requirements, the Investor has been publicly disclosing, on an annual basis, a report on its alignment to the Impact Principles to accompany its Disclosure Statement. Since 2020, GEF has been engaging a third-party to provide an independent verification of its alignment to the Impact Principles. As part of the commitment to the Impact Principles, GEF has also been disclosing the summary of conclusions, as provided above.

⁴ https://gefcapital.com/capital-partners/wp-content/uploads/2021/07/GEF_Latam_ImpactReport_2020.pdf

⁵ <https://gefcapital.com/capital-partners/wp-content/uploads/2022/04/GEF-Latam-Impact-Report-2021.pdf>

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 Management. 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 Impact Principle's level of alignment. The final result is the average of the nine Impact Principle's level alignment that represents the level of alignment of the Investor.

Declaration of responsibility

SITAWI is not a shareholder, client, supplier or subsidiary of the Investor or its affiliates, being therefore able to provide an independent opinion regarding its alignment with the Impact Principles. In 2021, SITAWI provided the first-year independent verification of GEF Capital Latam's alignment with the Operating Principles for Impact Management.

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 2019.