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## DISCLOSURE STATEMENT

### OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

*31 March 2021*

AlphaMundi Group Ltd (“AlphaMundi” or the “Group”) is a founding signatory to the Operating Principles for Impact Measurement (the “Impact Principles”). The Impact Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

AlphaMundi hereby affirms that its investment assets are managed in accordance with the Impact Principles. The total assets under management (AUM) in alignment with the Impact Principles is USD 59 million as of 31 March 2021.<sup>1</sup>

DocuSigned by:

*Tim Radjy*

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Tim Radjy  
Founder & Managing Partner  
AlphaMundi Group Ltd

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<sup>1</sup> The information contained in this Disclosure Statement has not been verified or endorsed by International Finance Corporation, the World Bank or any member of the World Bank Group or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of International Finance Corporation, the World Bank or any member of the World Bank Group. None of International Finance Corporation, the World Bank or any member of the World Bank Group shall be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, “Affiliate” shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

**Principle 1 - Define strategic impact objective(s) consistent with the investment strategy:**

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- AlphaMundi has embedded impact in its DNA since inception. This is legally reflected in the Fund offering documents for both the SocialAlpha Investment Fund (SAIF) and the AlphaJiri Fund. Both Funds' investment strategies specify that investments must be in impact ventures with the following language in the private placement memorandum (PPM): "Social enterprises may include commercial companies, cooperatives, non-profit institutions or projects, and will be selected on the basis of, inter alia, the following criteria: established operational track record over many years, financial profitability and growth perspectives, quality of products and services when compared to their peers, quality and stability of management team, soundness of governance structure, measurability of the economic, social and/or environmental impact of their activities, responsible corporate behavior, reporting capacity, alignment of vision between the aspirations and objectives of their main shareholders and those of the Sub-Fund, as well as country and sector risk."
- AlphaMundi's investment strategy aligns most closely with 6 of the UN Sustainable Development Goals (SDGs), including SDG 1 (No Poverty), SDG 4 (Quality Education), SDG 5 (Gender Equality), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth) and SDG 12 (Responsible Consumption and Production).
- Independent verification takes place through organizations like GIIRS annually (in the past) and an independent Advisory Committee (in the future) on a biennial basis.

**Principle 2 - Manage strategic impact and financial returns at portfolio level:**

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- The impact of AlphaMundi's prospective investees is evaluated before companies are presented to the Investment Committee (IC). Due diligence memos include a section dedicated to describing the economic, social and environmental impact elements of the company, including direct impact with clients (e.g. consumer of the good or service) and indirect impact with beneficiaries (e.g. family members of the consumer of the good or service).

- Impact and governance metrics are identified across the portfolio and quarterly reporting requirements are agreed upon with portfolio companies and outlined in promissory notes that legally require companies to report on their impact. AlphaMundi considers the failure to submit on time their impact data as an event of default. In some instances, AlphaMundi assigns specific pledges or milestones around impact, depending on the company and context.
- These metrics span a broad range of indicators that include sex-disaggregated data for board members, staff and clients, and also units sold, agriculture yields, impacts on livelihoods, CO2 reduction and other environment indicators, etc. Indicators are selected based on business model, sector, geography and other considerations and largely drawn from IRIS+, the generally accepted system for measuring, managing and optimizing impact.
- To gauge and monitor progress at the portfolio level, AlphaMundi aggregates quarterly data collected from all portfolio companies, tracked in spreadsheet format, and reports on this to investors and publishes an impact report on its website. As the SocialAlpha Investment Fund is open ended with constant uncertainty around AUM, it is difficult to establish strict impact targets. However, investments are screened such that new companies to the portfolio will enhance or have the potential to enhance the overall impact of the Fund.

### **Principle 3 - Establish the investor's contribution to the achievement of impact:**

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.<sup>2</sup> The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- AlphaMundi seeks to achieve impact for each investment through both financial and non-financial channels. Through financial channels, the Firm's investment strategy is to provide two-year loans to social businesses to help them address a financing gap when traditional financial markets fail. Funds are typically used for working capital such as inventory purchases, the offering of additional credit and financial products to individuals and small and medium enterprises (SMEs), or in some cases capital expenditures. AlphaMundi offers flexible financing that companies cannot access from local banks. AlphaMundi also typically enters an investment when the company is at an inflection point in its growth and the financing provided can be catalytic in scaling the business – positively impacting both employees and end customers. This narrative is incorporated into promissory notes and is tracked on a quarterly basis through financial and social metric reporting and on a qualitative basis through monitoring calls, site visits<sup>3</sup> and surveys. Since AlphaMundi provides predominantly debt financing, the firm can assess the contribution to the achievement

<sup>2</sup> For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

<sup>3</sup> Due to travel restrictions related the COVID-19 pandemic, in person site visits for the period have been limited.

of impact by looking at the uses of their debt financing. E.g. expanding the loan portfolio of a microfinance institution, purchasing a set amount of renewable energy systems, purchasing equipment for operations, or perhaps hiring additional personnel to execute on the business plan. AlphaMundi can also compare their loan sizes and rates offered against the market to see if they are indeed being additional.

- Beyond financial capital, AlphaMundi often supports companies with other types of technical assistance (TA) including support with governance, operations, finance and fundraising. This non-financial supported coupled with the loan product are designed to enhance the potential impact of each investment. Effectiveness of non-financial support is measured by qualitative surveys of portfolio company CEOs every two years.
- The AlphaMundi Foundation (the “Foundation”), founded in 2016, offers an additional opportunity for the Group to add value to investee companies, for instance by deepening or accelerating gender equity, providing pre- and post-investment technical assistance and supporting impact measurement and management efforts of investees.
- Independent verification also takes place through organizations like GIIRS annually (past) and through an independent Advisory Committee (ongoing) on a biennial basis.

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

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact<sup>4</sup> potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?<sup>5</sup> The Manager shall also seek to assess the likelihood of achieving the investment’s expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager’s strategic intent, the Manager may also consider indirect and systemic

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<sup>4</sup> Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

<sup>5</sup> Adapted from the Impact Management Project ([www.impactmanagementproject.com](http://www.impactmanagementproject.com)).

impacts. Indicators shall, to the extent possible, be aligned with industry standards<sup>6</sup> and follow best practice.<sup>7</sup>

- The expected impact of each investment is defined in the investment proposals in the Projections section. While the emphasis of this section is on financial projections, increased revenues are always linked to an increase in impact based on reaching new clients or selling new products and services. Prior to making an investment, AlphaMundi assesses where it believes the company can be in the two years following the investment and how AlphaMundi capital can be catalytic in achieving this impact. As AlphaMundi operates across all sectors, there are nuances in how this is defined for each investment.
- AlphaMundi's framework for assessing impact is as follows: after finalizing the terms of all new investments, each company has a spreadsheet with financial, governance, social and sector specific metrics defined. The AlphaMundi regional teams are responsible for incorporating financial metrics from quarterly statements while the companies are responsible for reporting on social and governance metrics. This data is entered into a master Google spreadsheet along with financial data entered from the AlphaMundi team from the companies' quarterly statements. This framework allows us to track the actual impact against our expected impact for the company.
- Looking forward and in an attempt to enhance AlphaMundi's systemic approach to impact measurement, AlphaMundi may intensify its guidance to investees for them to select impact indicators that serve their own management of the business and impact model. In doing so, AlphaMundi could (i) become a catalyst for unifying investors' perspective on impact metrics to be delivered by investees; (ii) enable investees to save resources spent on responding to diverging impact reporting requirements; and (iii) contribute to true impact management as part of the operating model of investees.

#### **Principle 5 - Assess, address, monitor and manage the potential risks of negative effects of each investment**

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)<sup>8</sup> risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to

<sup>6</sup> Industry indicator standards include HIPSO (<https://indicators.ifipartnership.org/about/>); IRIS ([iris.thegiin.org](http://iris.thegiin.org)); GIIRS (<http://b-analytics.net/giirs-funds>); GRI ([www.globalreporting.org/Pages/default.aspx](http://www.globalreporting.org/Pages/default.aspx)); and SASB ([www.sasb.org](http://www.sasb.org)), among others

<sup>7</sup> International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

<sup>8</sup> The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and

take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.<sup>9</sup> As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- Potential negative effects of investment are evaluated during the due diligence process and monitored by the regional investment teams throughout the investment life cycle as changes to the business model, target customer, etc. arise. Because AlphaMundi's strategy specifically targets social enterprises having a positive impact, most companies that are associated with higher negative impact risks are filtered out (e.g. higher carbon emitting companies, land development unless for sustainable organic agriculture, etc.). Moreover, all companies that engage with AlphaMundi are required to review, complete and sign the AlphaMundi environmental policy that adheres to IFC Performance Standards requirements. In all loan documents, AlphaMundi has the ability to demand immediate repayment if there is a breach in one of the impact covenants or a material change to the company or business model that might result in a negative effect.
- Looking forward, AlphaMundi will continue to refine and be more systematic about its negative impact filtering approach and "do no harm" policies prior to the next review period.

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

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the

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managed alongside with, or directly embedded in, the impact management system referenced in Impact Principles 4 and 6.

<sup>9</sup> Examples of good international industry practice include: IFC Performance Standards ([www.ifc.org/performancestandards](http://www.ifc.org/performancestandards)); IFC Corporate Governance Methodology ([www.ifc.org/cgmethodology](http://www.ifc.org/cgmethodology)), the United Nations Guiding Principles for Business and Human Rights ([www.unglobalcompact.org/library/2](http://www.unglobalcompact.org/library/2)); and the OECD Guidelines for Multinational Enterprises (<http://mneguidelines.oecd.org/themes/human-rights.htm>).

Manager shall seek to pursue appropriate action.<sup>10</sup> The Manager shall also seek to use the results framework to capture investment outcomes.<sup>11</sup>

- Please refer to Principle 4 for the framework for assessing impact. Data is predominantly self-reported by companies with the AlphaMundi team conducting validation to the extent possible with field visits (at least annually)<sup>12</sup> and corporate HQ visits and calls (quarterly), along with additional reviews provided as necessary by external consultants or TA providers.<sup>13</sup> Beyond the quarterly reporting, a full impact report is generated with data synthesized either by sector or SDG on an annual basis. The annual report, published by AlphaMundi Foundation, is typically released in the fourth quarter of the calendar year following the end of the Fund's fiscal year on 30 June.<sup>14</sup>
- If AlphaMundi monitoring indicates that an investment is no longer expected to achieve its intended impacts, the first step is to identify the underlying cause(s) and assess if there is additional support, financial or non-financial, that could help the company. If AlphaMundi monitoring indicates a fundamental change in the business model of the company, then AlphaMundi reserves the right to demand immediate repayment of their loan.

**Principle 7 - Conduct exits, considering the effect of sustained impact:**

When conducting an exit,<sup>15</sup> the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

- AlphaMundi's investments to date have been self-liquidating as the Group, via its investment funds, provides amortizing debt capital. Thus, there is no separate exit decision or consideration. AlphaMundi's policy is to require full amortization prior to issuing new loans. Any follow-on loans to well-performing companies will be subject to an additional due diligence process, re-assessing the mission and impact as well as the company's performance relative to impact and financial targets. All decisions for new loans (or restructuring of existing loans) must be approved by the Investment Committee.

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<sup>10</sup> Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.

<sup>11</sup> Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC ([www.oecd.org/dac/](http://www.oecd.org/dac/)).

<sup>12</sup> Due to travel restrictions related the COVID-19 pandemic, in person site visits for the period have been limited.

<sup>14</sup> Annual impact reports are available at: <https://www.alphamundifoundation.org/impact>.

<sup>15</sup> This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

- Looking forward, AlphaMundi will continue to conduct full due diligence if and when proceeding with a follow-on investment to evaluate and address any mission drift.

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

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- AlphaMundi reviews the portfolio on a weekly basis on team calls and more thoroughly on monthly Investment Committee calls and at the time of valuation reporting (quarterly). Lessons learned are documented in Investment Committee updates and company specific reporting. Lessons learned feed into an annual review of AlphaMundi's decision making process, often leading to a change in guidelines around investment criteria, especially for new loans and loan extensions.
- AlphaMundi's impact measurement and monitoring process has also continually evolved since inception based on these reviews of what has historically worked in terms of the achievement of impact and the measurement and monitoring of social enterprise outcomes.

**Principle 9 - Publicly disclose alignment with the Impact Principles and provide regular independent verification<sup>16</sup> of the extent of alignment:**

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- Historically, SAIF was a GIIRS pioneer fund (since 2012) that was consistently ranked in the top five emerging market funds for impact business models. These reports were made available to investors and stakeholders upon request and the GIIRS reporting process was legally required by the Fund's offering documents.
- In 2018, GIIRS announced that they would retire this rating process. In April 2019, AlphaMundi joined as a Founding Signatory to the Impact Principles. In 2020, the AlphaMundi Foundation Board of Directors established an autonomous committee to carry out a biennial independent verification of the extent of AlphaMundi's alignment to the Impact Principles.

<sup>16</sup> The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.

This Disclosure Note re-affirms the alignment of AlphaMundi's procedures with the Impact Principles and will be updated biennially by a third party.

The independent assurance report on the alignment of AlphaMundi with the Impact Principles is available at <https://www.alphamundi.ch/impact>. The independent assurance report can be downloaded using the following link: [https://08e971dc-06e9-4b3b-99c7-762c587f2f9e.filesusr.com/ugd/25ea0b\\_074c3c6da61e48bdb522cd632ecda1b9.pdf](https://08e971dc-06e9-4b3b-99c7-762c587f2f9e.filesusr.com/ugd/25ea0b_074c3c6da61e48bdb522cd632ecda1b9.pdf)

The verification will be replicated biennially.

Information on the current independent verifier is as follows:

- Background:

In January of 2020, the AlphaMundi Foundation Board of Directors established the Impact Principles Advisory Committee ("Advisory Committee") to:

- Support AlphaMundi with the preparation of their public disclosure of alignment with the Impact Principles; and
- Provide a Second Opinion of the Disclosure on a biennial basis, including:
  1. Prepare and review the draft version of the Disclosure;
  2. Conduct interviews with AlphaMundi staff and representatives from portfolio companies responsible for defining and applying the Impact Principles;
  3. Provide a letter with an assessment of the Signatory's alignment with the Impact Principles.

- Name and Address: Brigit Helms, Advisory Committee Chair, [brigit.helms@alphamundi.ch](mailto:brigit.helms@alphamundi.ch)

- Qualifications:

The Advisory Committee draws on over 60 years of collective professional experience with deep expertise in impact measurement and management.

**Brigit Helms** is a member of the AlphaMundi Foundation Board of Directors and will serve as Chair of this Committee. Brigit brings over 25 years of experience in development assistance and impact measurement and management.

**Tenke Zoltani** is a member of the AlphaMundi Foundation Board of Directors and will as a Committee member and brings over 10 years of relevant experience, including building UBS Switzerland's impact measurement methodology.

**Uli Grabenwarter** is a member of the AlphaMundi SAIF Board of Directors and will as a Committee member. Uli brings over 25 years of relevant experience, including in current role as the Trustee for the Global Steering Group for Impact Investing.

- Most Recent Review: April 2020

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- Next Planned Review: April 2022