

SUSTAINABILITY-RELATED PRODUCT DISCLOSURE

Summary

This statement is published by the SDG Frontier Fund (the “Fund”), a self-managed fund co-investing with the Belgian Investment Company for Developing Countries NV (“BIO”), the Belgian Development Finance Institution, in private equity funds active in Africa and Asia, in accordance with Article 10 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (“SFDR”).

Preliminary remark : SDG Frontier Fund can only invest in private equity funds in which BIO invests as well, which means that all the processes and policies in place at the level of BIO will have been complied with at the level of all investments made by SDG Frontier Fund. BIO provides also services to SDG Frontier Fund with respect to deal sourcing, monitoring, operations and reporting.

No significant harm to the sustainable investment objective

The SDG Frontier Fund aims to comply with the “do no significant harm” principle for any environmental or social objective at the level of its investments, and through BIO, uses different safeguards to avoid causing significant harm at environmental and social level when it invests. BIO has developed an [E&S Policy](#) it follows to manage E&S risks and has integrated E&S management into its organizational structure and investment process. In addition, BIO refers to and promotes the following standards, including in its own operations, as applicable:

- IFC Environmental and Social Performance Standards (IFC PS, 2012) / Equator Principles
- World Bank Group Environmental Health and Safety Guidelines (WB EHS)
- International Bill of Human Rights and United Nations Guiding Principles on Business and Human Rights (UNGP)
- ILO Declaration on Fundamental Principles and Rights at Work and the eight core conventions
- Universal Standards for Social Performance Management in microfinance / SMART Campaign Client Protection Principles
- Responsible Finance Forum Guidelines for Investing in Responsible Digital Financial Services

As a member of EDFI, BIO adheres to the [EDFI Principles for Responsible Financing](#), which set the high-level principles and requirements that all EDFI have committed to. BIO does not finance activities in breach with the Harmonized EDFI Exclusion List.

While various safeguards are used to avoid their occurrence, SDG Frontier Fund’s investments may have principal adverse impacts on sustainability factors as defined in Regulation (EU) 2019/2088. Therefore, the Fund will consider these and start reporting on the principal adverse impacts and any actions taken to mitigate them as from 2023. The Fund aims to report on all mandatory principal adverse impacts as outlined in the Regulation. However, the completeness of SDG FF’s reporting will depend in part on the reporting of its underlying investments. In its reporting, the Fund will indicate any missing or incomplete indicators and its efforts towards full compliance with the SFDR.

Sustainable investment objective of the financial product

The SDG Frontier Fund has sustainable investment as its objective. According to article 9 of the SFDR, 'sustainable investment' means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

The Fund aims at realising investments with a clear social objective, with the objective of creating and supporting sustainable jobs in frontier markets, thereby tackling inequalities, fostering social integration and investing in economically or socially disadvantaged countries, regions and/or communities.

Investment strategy

SDG Frontier Fund is a self-managed co-investment fund with the objective to generate long-term value growth by investing in private equity funds which in turn invest in private SMEs in developing and emerging countries (also referred to as frontier markets) in Africa and Asia. The Fund is an initiative of BIO, in response to the growing awareness of investors to achieve a development impact with their investments and in accordance with BIO's mandate to act as a catalyst and mobilize private funds for developing countries.

SDG Frontier Fund operates as an "impact fund", meaning that it seeks to generate significant and measurable beneficial development impact while at the same time seeking a (risk adjusted) financial return. The Fund strives to contribute to the achievement of the Sustainable Development Goals ("SDG"). Compliance with international environmental, social and governance standards and good practice by the portfolio funds in which the Fund invests and by the local SMEs in which the portfolio funds invest also forms an integral part of the investment policy.

The Fund aims at co-investing with BIO in PE funds that invest in Africa and Asia in 1/SMEs established in low- and middle-income countries and 2/ financial institutions that provide financial services to micro, small and medium-sized enterprises. The portfolio funds will provide mainly growth and expansion finance but not excluding early-stage financing. Investments in portfolio funds that invest in mezzanine and/or other debt instruments can also be considered up to a certain extent. The Fund aims at realising investments with a clear social objective, with the objective of creating and supporting sustainable jobs in frontier markets, thereby tackling inequalities, fostering social integration and investing in economically or socially disadvantaged countries, regions and/or communities.

The Fund only invests in PE funds in which BIO itself invests, and has outsourced a series of services to BIO, which, amongst others include the provision of a representative to represent the Fund’s interests jointly to BIO’s when entitled to a seat at the LP Advisory Committee of a portfolio fund, the monitoring and follow-up of the Fund’s investments in portfolio funds and the provision of periodic reporting, including on impact metrics. It is therefore fully aligned with BIO’s mission to support a strong private sector in developing and emerging countries and to enable them to gain access to growth and sustainable development within the framework of the SDGs. It also relies on BIO’s recognized expertise, policies and procedures regarding Environmental, Social and Governance (ESG) and impact management.

With respect to Good Governance practices, BIO is a signatory of the Corporate Governance (CG) Development Framework, which implies Corporate Governance is well integrated in investment operations and that internal responsibilities are clearly assigned. More concretely, the assessment of Corporate Governance is embedded in the Due Diligence for every new transaction. Also, BIO plays an active role in the governance of the PE funds it invests in through a seat at the portfolio fund’s LP Advisory Committee it is generally entitled to.

Proportion of investments

Sustainable	80-100%
Other	0-20%

While SDG Frontier Fund aims to select as much of its portfolio as possible to be aligned with its sustainable objective, this is not always possible. Fund assets that are not aligned with its sustainable objective are grouped in the category ‘other’. Although the targeted allocation of assets classified as ‘sustainable’ or ‘other’ as mentioned here is not binding, as per the date of this disclosure an investor may reasonably expect a sustainable asset allocation in this range. An asset may be marked as ‘other’ for the following reasons:

- Cash or money market instruments: the Fund may hold cash or money market instruments to respond to upcoming capital calls from portfolio funds and other treasury management purposes.
- Borrowings: the Fund may temporarily borrow up to 10% of its Net Asset Value (NAV) for treasury management purposes.

As all Fund assets marked as other in the definition above concern cash or limited borrowings for treasury management purposes, they do not affect the delivery of the sustainable investment objective.

As SDG Frontier Fund simply doesn’t make use of derivatives, derivatives are not used to attain the sustainable investment objective.

Monitoring of sustainable investment objective

The development effectiveness of each project is monitored on a yearly basis, based on a pre-defined set of indicators that are capturing the initial development objectives assigned to the project. This typically include standardized cross-sector indicators as well as sector- and investment-specific indicators.

Tracked during the whole investment period, BIO uses this information to monitor progress towards the achievement of development effects in comparison to ex ante expectations (projections), and to analyze the development performance at project and portfolio levels. Data are collected annually from the client. BIO's Development and Sustainability Unit is responsible to assess data quality, process and analyse them, and report on development effects.

Also, in line with BIO E&S policy, compliance with contractually agreed E&S requirements, action plans and reporting undertakings is monitored.

Methodologies

Since 2020, BIO is a signatory to the Operating Principles for Impact Management (OPIM). This is a framework to ensure that impact considerations are integrated throughout the investment lifecycle. It draws on emerging best practices from a range of asset managers and development finance institutions.

In practice, BIO relies on its Development Assessment, Monitoring and Evaluation (AME) Framework to manage and monitor its development effectiveness both at project- and portfolio-level all throughout the project life cycle. It is aligned to BIO's Theory of Change and corresponds to the following set of tools:

- Development Ex-ante Assessment Tool – Systematic assessment of a given investment project expected contribution to BIO's 9 Development Goals
- Development Monitoring Tool – Yearly monitoring of key development metrics for all portfolio projects – and Joint Impact Model (JIM) – Economic modelling to assess indirect effect
- External Case Study Evaluation – Independent in-depth development effectiveness evaluation of a sample of ongoing or exited projects (each year), which can include some Portfolio Funds of SDG Frontier Fund.
- Project Completion Tool – Ex-post review and summary of project main achievements, (including business, financial, development and E&S) and key lessons, once the project is fully exited.

These tools and related activities are managed by a dedicated team of Development and Sustainability specialists that work with BIO's investment and portfolio teams, as well as with clients, to manage and promote development effectiveness, and gather the information to assess, monitor and evaluate project and portfolio development (expected) outcomes.

In addition, BIO, and as a consequence SDG Frontier Fund, integrates E&S considerations into its entire investment lifecycle based on internationally recognized standards and guidelines. As member of EDFI, BIO adheres to the EDFI Principles for Responsible Financing, which set the high-level principles and requirements that all EDFI have committed to. BIO does not finance activities in breach with the

Harmonized EDFI Exclusion List. BIO also requires that all clients comply with applicable environmental, social, labour and human rights laws and international conventions in the countries they operate. In addition, BIO refers to and promotes the following standards, including in its own operations, as applicable:

IFC Environmental and Social Performance Standards (IFC PS, 2012) / Equator Principles

- World Bank Group Environmental Health and Safety Guidelines (WB EHS)
- International Bill of Human Rights and United Nations Guiding Principles on Business and Human Rights (UNGP)
- ILO Declaration on Fundamental Principles and Rights at Work and the eight core conventions
- Universal Standards for Social Performance Management in microfinance / SMART Campaign Client Protection Principles
- Responsible Finance Forum Guidelines for Investing in Responsible Digital Financial Services

To operationalize the commitments and principles referred above, BIO has developed an E&S Policy (updated regularly) and has integrated E&S management into its organizational structure and investment process. The investment processes, contracts and monitoring of the portfolio include environmental and social considerations. These are detailed in the form of a procedure in BIO's internal E&S Investment Manual.

A dedicated team of E&S specialists work on the management of E&S risks and opportunities throughout the investments life-cycle, adding value to BIO's operations and clients' businesses. For every transaction, once E&S risks and opportunities for improvements are identified, performance improvements (through Environmental and Social Action Plans) are contractually agreed with clients and monitored. BIO supports clients to adopt a beyond compliance approach and seek increased E&S performances when relevant.

Data sources and processing

The development effectiveness of each project is monitored on a yearly basis, based on a pre-defined set of indicators that are reflecting the initial development goals assigned to the project and typically include standardized cross-sector indicators, as well as more sector- and investment-specific indicators.

Most of these indicators are performance indicators used by several international finance institutions to measure their social, environmental, and financial performance. The selection of indicators, definitions and reporting standards are as much as possible aligned with HIPSO (indicators.ifipartnership.org) and/or IRIS (iris.thegiin.org/metrics).

Tracked on an annual basis until the full exit of an investment, this information is used to monitor progress towards its sustainable investment objective, and to analyse the development performance at project and portfolio levels.

Data are collected annually from the fund managers of the Portfolio Funds by the Investment Department. The Development and Sustainability Unit is responsible to consolidate the data, assess its quality, process, and analyse them, and report on development effectiveness.

From 2020, BIO has started using economic modelling to also assess the indirect effects associated with financed projects. This allows estimating the gross direct and indirect economic and environmental impact of a portfolio of projects in a single year, and to track changes over time. For that purpose, BIO alongside with several other international finance institutions use the Joint Impact Model (JIM), a new open access model that emerged from the collaboration between the African Development Bank, BIO, CDC Group, FinDev Canada, FMO and Proparco, and Steward RedQueen (<https://www.jointimpactmodel.org/>).

Limitations to methodologies and data

Improving impact management and measurement is one of the most important challenges for BIO as well for all DFIs and impact investors.

Although BIO's assessment, monitoring and evaluation framework provides adequate data for impact management all throughout the investment cycle, there are important challenges related to data availability and quality, as well as to the attribution of results.

Regarding climate change, BIO is working with other DFIs on a joint methodology to ensure the alignment of new investments with the objectives of the Paris Agreement. In parallel, BIO is supporting the development of the Joint Impact Model that is used to estimate indirect effects associated with portfolio investments, including GHG emissions.

As SDG Frontier Fund is a fund-of-funds that only invests in private equity funds, it will rely on the different fund managers of the Portfolio Funds to provide the requested data on a timely manner, which will depend on the timely availability of the requested data at the level of their respective investees.

Even if BIO as a Development Finance Institution has a long history of collecting impact indicators, these are not always fully aligned with what is specifically requested under SFDR. This aspect will be further addressed in collaboration with the different fund managers to ensure full alignment with SFDR going forward.

Due diligence

Environmental, Social and Governance (ESG) and impact considerations are integrated at the different stages of the investment process to ensure the sustainable investment objective can be attained :

1. Fund selection: Every fund opportunity BIO comes across is kept in a pipeline of potential fund investments, that are screened on fit with BIO's mission and investment strategy, viability of the project, as well as developmental impact, willingness to comply with BIO's E&S requirements and BIO's additionality (financial and non-financial).
2. Admission approval: Based on a desktop review and some first discussions with the fund manager, a screening note is drafted, including a review of E&S aspects, consisting of an assessment of the E&S Team of the fund manager and its E&S Management System ("ESMS"), a description of the fund manager's E&S policy and exclusion list used, and the proposed E&S risk category. The note is presented to BIO's internal screening committee, to which one of BIO's E&S Officer and one Development Officer participate, in order to identify the attention

points to be further assessed during Due Diligence. Prior to screening, a Preliminary Know-Your-Customer assessment is completed to ensure that the fund and fund manager comply with anti-money laundering, anti-corruption and anti-terrorist financing regulations.

3. Due Diligence: whenever possible, an on-site Due Diligence is organised, with meetings with the fund manager and stakeholders, as well as visits to pipeline companies and existing portfolio companies, if any. E&S and impact aspects are discussed with the fund manager, and improvements to bring these aspects up to standards, are agreed upon (namely the IFC Performance Standards).
4. Investment Committee of both BIO and SDG Frontier Fund : the investment analysis note, that is presented first to the Investment Committee of BIO, and once approved to the SDG Frontier Fund, contains the result of BIO's Ex-ante Development Assessment Tool, which consists of a systematic assessment of a given investment project's expected contribution to BIO's 9 Development Goals (BDGs): (i) local economic growth; (ii) Private sector consolidation/innovation; (iii) Financial inclusion; (iv) Food security and rural development; (v) Access to basic services and goods; (vi) Fight against climate change (vii) Preservation of natural resources; (viii) Promotion of ESG best practices (ix) gender. The ex-ante tool evidences the expected contribution to each strategic objective and evaluates whether it can be marked as primary objective, secondary, or not relevant. Financial and non-financial additionality are also assessed with a similar scoring methodology, as part of the ex-ante tool.
5. Legal documentation: ESG requirements, and conditions as well as reporting requirements in terms of sustainability indicators are included in the legal documentation to ensure that they are legally binding. Before signing, some final KYC checks are carried out.
6. Monitoring: Throughout the lifetime of the investment, BIO monitors performance and progress, and works with fund managers to ensure proper implementation of ESG requirements. In this respect, fund managers are required to provide the Fund with an annual E&S Performance Report, and provide upon request the E&S DD report and E&S Action Plan for each investment realised in a portfolio company.

Engagement policies

SDG Frontier Fund's objective, when it invests in a new fund, is to enable the funds' investee companies to grow and prosper, generate jobs and build expertise. Investees not only need the tailor-made funding provided by the fund, but also technical assistance to increase their business performance and sustainability.

This value-adding role can be achieved through requesting a seat on the Advisory Committees (ACs) of the Portfolio Funds, active engagement in structuring and discussions and knowledge sharing and advices (especially) on ESG management and impact measurement, as well as the provision of some technical assistance funds by BIO to a technical assistance facility managed by the Fund Manager to co-finance various projects of the investee companies.

More generally, the SDG Frontier Fund alongside with BIO and other European DFIs collaborates towards the harmonization of impact management practices.

Attainment of the sustainable investment objective

A reference benchmark has not been designated for the purpose of attaining the sustainable investment objective of the financial product.

While there is no specific target at SDG Frontier Fund level, the Assessment, Monitoring and Evaluation framework allows to set and track attainment of specific targets for individual investments, in line with the sustainable investment objective of the Fund.

Beside the score rating, the ex-ante development assessment requires assessing the expected results, based on measurable indicators for which baseline and projection figures are set where feasible. Tracked on an annual basis during the whole lifetime of the fund, this information is then used to monitor progress towards the attainment of the sustainable investment objective both at project- and fund-level.

In addition, for each individual investment project, a completion assessment is conducted after full exit to review and sum up the investment project main achievements. The assessment is based on all the documentation available and covers both financial and sustainability performance. The main objective is to document and distil lessons learned regarding the attainment of the sustainable investment objective.

In addition, BIO conducts an independent in-depth evaluation of a sample of ongoing or exited investment projects each year. These evaluations focus on a specific theme, sector or region and further investigate the development effects of BIO's interventions, and should normally include investments in Portfolio Funds realized by SDG Frontier Fund.