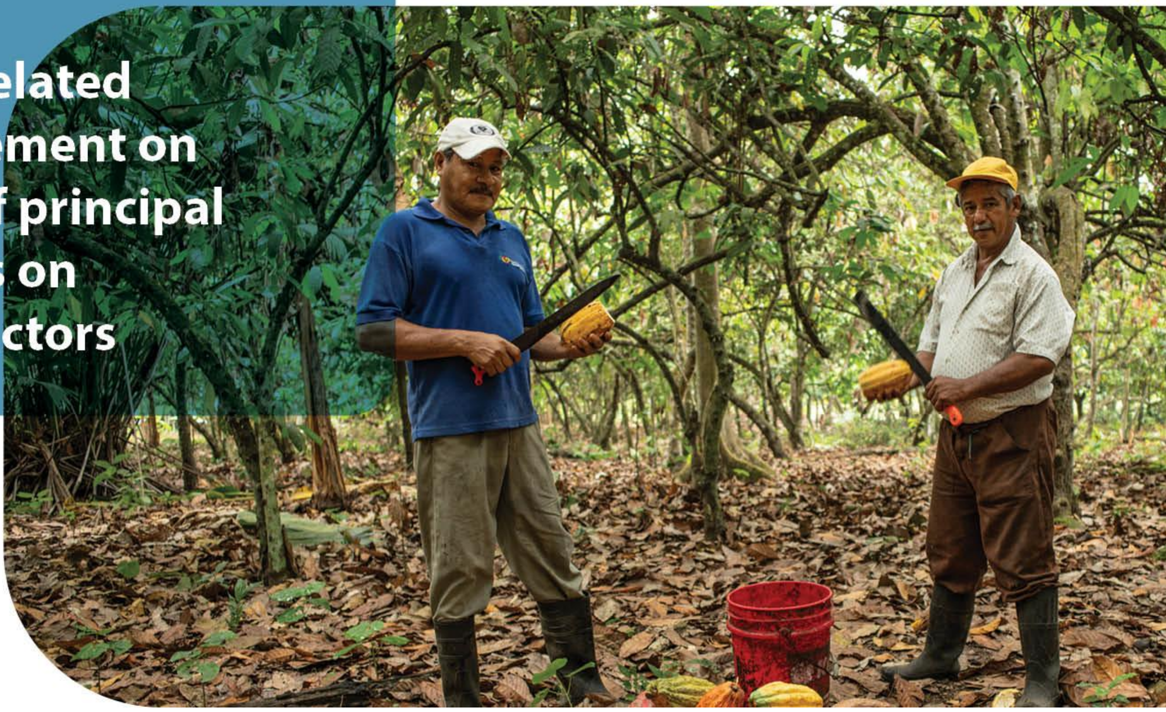
ECO.BUSINESS FUND

Sustainability-related disclosure: statement on consideration of principal adverse impacts on sustainability factors



This statement is published by the eco.business Fund (EBF, “the Fund”) on its website in accordance with Article 4 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR, “the Regulation”). The Fund takes into account principal adverse impacts on sustainability factors.

Against this background, the purpose of this statement is to provide transparency on (i) how EBF considers the principal adverse impacts and (ii) the principal adverse impacts of investment decisions on sustainability factors. Other documents that are related to this statement include:

- EBF statement on the integration of sustainability risks in the investment process (March 2021) in accordance with Article 3 of the Regulation
- EBF statement on the promotion of sustainable investment objectives (March 2021) in accordance with Article 10 of the Regulation
- EBF Environmental & Social Policies
- Other periodic reports, fact sheets and information published on the EBF website

This statement is made on 9th March 2021 in reference to the calendar year 2020.

Description of principal adverse impacts and the policies and actions to identify and prioritise and address such impacts

The strategic focus of the Fund is to promote business and consumption practices that contribute to biodiversity conservation, to the sustainable use of natural resources and to mitigate climate change and adapt to its impacts. Investees receiving EBF’s financing must either i) hold an eligible sustainability standard (e.g. Rainforest Alliance, ASC), ii) implement a practice outlined in EBF’s Green List (e.g. plantation under agroforestry systems, precision agriculture), or iii) support a practice fully aligned with the Fund’s mission.

Investees of the fund are referred to as “Partner Institutions” (PIs). EBF engages with PIs both through private debt investments in financial and real-sector intermediaries and direct investments in businesses committed to environmental practices in four focus sectors: agriculture and agri-processing, fishery and aquaculture, forestry, and sustainable tourism. Given the nature of its investments, adverse impacts on sustainability related factors may occur in relation to, emissions and pollution; biodiversity and natural habitats; water and waste; human rights; social and employee matters; anti-corruption and anti-bribery matters. Against this background, the EBF places a priority on the effective management of (potential) principal adverse impacts of its investment decisions on these factors.

When investing in financial and real-sector intermediaries, strict use-of-proceeds requirements are put in place, including but not limited to type of end borrower or limits to loan amounts to end borrowers. Most importantly, EBF funds via financial intermediaries are extended to businesses holding an eligible sustainability standard or implementing a sustainable practice (see above). Against the background of such an investment strategy, the risk of causing principal adverse impacts on the environment and/or the society is inherently diminished. The level of management of potential adverse sustainability impacts depends on the size, nature and scale of the investment.

Acknowledging that effective management of adverse impacts requires careful governance, EBF maintains a comprehensive environmental and social management system (ESMS) and a detailed risked-based AML/CFT framework that define the Fund’s commitments to managing adverse impacts.

The key documents summarizing the Fund’s ESMS are the EBF E&S policies complemented with detailed E&S procedures and tools to support implementation. The EBF Exclusion Lists are an integral part of the E&S Policies and prohibit the use of EBF funding for activities with an elevated risk of causing adverse impacts, such as activities involving child and forced labor, pesticides/herbicides subject to international bans, logging operations in primary tropical moist forest, among others.

Within the investment process, thorough E&S due diligence processes are a key tool for identifying potentially significant adverse sustainability impacts and assessing the PI’s capacity and commitment to address and mitigate against these impacts. The scope of the E&S due diligence is customized depending on the initial E&S risk categorization of the investment. The categorization (high, medium, low) takes into consideration the potential and likelihood of causing principal adverse sustainability impacts.

For direct investment categorized as medium risk, the Fund requires an Environmental and Social Assessment and/or other studies to be undertaken in accordance with the relevant IFC Performance Standards. Depending on the level of E&S risks, direct investments are required to carry out their operations in a manner consistent with relevant IFC Performance Standards. The Fund does not provide financing to direct investments categorized as high risk. For investments in financial or real-sector intermediaries, that are channelling funds to the Fund’s final beneficiaries, the E&S due diligence is focused on assessing the policies, procedures and capacity in place at intermediary-level to effectively manage the risks and impact of the final beneficiaries to be financed by the Fund. All PIs are required to implement or maintain a comprehensive environmental and social management system (ESMS) that define the PI's commitments to managing adverse impacts.

Results of the E&S due diligence form an integral part of each investment proposal. Where principal adverse impacts are identified during the E&S due diligence process, these are described along with the Advisor's assessment of the ability of the project or PI to mitigate and manage the impacts to international standards. If the E&S due diligence appraisal determines that additional measures are required for the PI to meet the Fund's E&S requirements, these are presented in the Investment Proposal and included in the loan documentation. PI's which are not considered to have the capacity to manage potential principal adverse sustainability impacts (even with appropriate technical assistance support) are excluded from financing.

Regular monitoring of the PIs E&S performance is considered crucial in order to effectively manage the potential risks of principal adverse impacts of the Fund investments. PIs are required to report on E&S performance on an annual basis. Direct investments may be subject to more frequent monitoring. Where appropriate, third party consultants may be engaged to support the E&S monitoring of investments. When incidents do occur that may lead to principal adverse impacts, such as explosions, spills, or accidents resulting in death, serious health impacts or environmental contamination, PIs are required to inform the Fund. Where the management of principal adverse impacts is not satisfactory, the Fund will agree with the PI on remedial measures to be implemented.

The Fund ensures that governance factors are assessed as part of the investment process, to ensure that corruption, bribery and other adverse governance factors are not promoted. The Fund's AML/CFT policy defines the minimum eligibility requirements for investees, the scope of which is determined on a risk-sensitivity basis. The Fund refrains from financing sanctioned investees and investees assessed as prohibited or very high-risk for money laundering/terrorist financing.

Engagement policies

The Fund focuses on private debt transactions and has only very limited exposure to publicly traded securities or listed companies and as such does not undertake investor engagement within the meaning and context provided by Article 3(g) of Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies. Nevertheless, engagement with PIs is an integral component of the Fund's investment process and contribution to positive development impact. This engagement often includes (but is not necessarily limited to) the ability and capacity of the PI to manage adverse ESG impact. Where appropriate, e.g. when a PI does not meet the required standards of ESG management, technical assistance or capacity building is provided as part of the engagement with a PI.