

BLUE LIKE AN **ORANGE** **Sustainable Capital**

2023 DISCLOSURE STATEMENT

OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

July 2023

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DISCLOSURE STATEMENT

Blue like an Orange Sustainable Capital (Blue like an Orange) is a founding signatory to the Operating Principles for Impact Management.

The following Disclosure Statement covers all assets managed by Blue like an Orange, namely Latin America Fund I (“Sub-Fund I”) and Latin America Fund II (“Sub-Fund II”) or both together (“Sub-Funds”).

All assets under management are aligned with the Impact Principles, with currently covered assets in the Sub-Fund I totaling approximately \$194 million and \$92 million in the Sub-Fund II. The total funds raised for the Sub-Funds are around \$360 million, and they will also be managed in accordance with the Impact Principles.

Bertrand Badré
Managing Partner & Founder
Blue like an Orange Sustainable Capital

I. 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.

Blue like an Orange's investment strategy consists in providing structured credit to companies (1) in three main areas of investing in which we think our investment can have a significant impact (2). This strategy aims at achieving a significant contribution to SDGs (3) and putting social contribution at the heart of any investment decision (4).

Given this strategic impact objective, Latin American Fund I and Latin American Fund II have sustainable investment as its objective as set out in article 9 of Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector. Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

1. Structured Credit: flexible financing to support entrepreneurs

Structured credit allows companies to expand operations without giving up ownership or control, can create a more efficient financial structure and strengthen incentives for entrepreneurs to build and grow their businesses. Blue like an Orange recognized the large and growing demand for more flexible financing in emerging markets - in Latin America and the Caribbean in particular - especially coming from mission-aligned providers of capital and businesses in the region. This prompted Blue like an Orange to focus on **filling this financing gap for entrepreneurs** by focusing on structured credit for its Sub-Fund I and, Sub-Fund II.

The strategic impact objective of providing this type of financing in emerging markets is the growth of impact-driven companies at a crucial stage of their development. The nature and size of our investments enable to scale our portfolio companies' impact.

2. Areas of sustainable investing

Latin America Fund I and Latin America Fund II focus their investments on primarily, but not exclusively, several key sectors where responsible business in emerging markets can induce social change at scale.

a. Sustainable Infrastructure and Technology Enabled Services

Blue like an Orange aims to support the development of sustainable infrastructure and technology enabled services by investing in, among others, high quality information technology, affordable, clean and reliable energy, sanitation, and transport, especially to those who are currently operating with limited or

no access, as well as networks infrastructure, including data and voice services providers. These investments will not only develop infrastructure but will also support quality employment for people in the surrounding communities. Tech-enabled services, such as agri-tech, mobility-tech, health-tech, and edu-tech and other technology-enabled services have the potential to make significant improvements in people's lives by using IT technology to make significant changes in how these services are provided and at more affordable costs.

b. Financial Services

Access to safe, transparent, convenient and affordable banking and finance is critical to building a business of any size, and in most developing countries access to capital is extremely limited. Blue like an Orange invests in organizations that meet these standards and seek to provide capital and banking services to unbanked or underbanked customers. Blue like an Orange investees are working to empower their customers to control their own economic resources in order to reduce poverty.

c. Social Infrastructure (Health and Education) and Agriculture

Education

Providing every child access to education could increase 13 times current GDP and would average out to a 28% higher GDP over the next 80 years in lower-income countries¹. Parents at every socio-economic level in developing countries have demonstrated a willingness to dedicate a significant amount of income to educating their children. Blue like an Orange seeks to support traditional and innovative education models to reach a greater segment of the population, and also puts a strong emphasis on vocational training and workforce readiness.

Health

Investing in health ensures individuals and economies can reach their full productive potential, with healthcare being a rapidly growing sector in Latin America and more broadly. Blue like an Orange seeks to capitalize on companies that have demonstrated consistent improvements to population health and contribute to strengthening health systems in support of achieving Universal Health Coverage. Almost half of all SDG indicators are "health-related", so Blue like an Orange investment impact will be assessed against not only SDG3 but across all the health-related SDGs.

Agriculture

Ending hunger and ensuring sustainable and secure food production is essential to economic growth, employment and national security. Blue like an Orange seeks to invest in companies that promote improved livelihoods for farm owners and workers, and provide access to more efficient markets, sustainable technology, inputs and processing equipment, and capacity building and technical education.

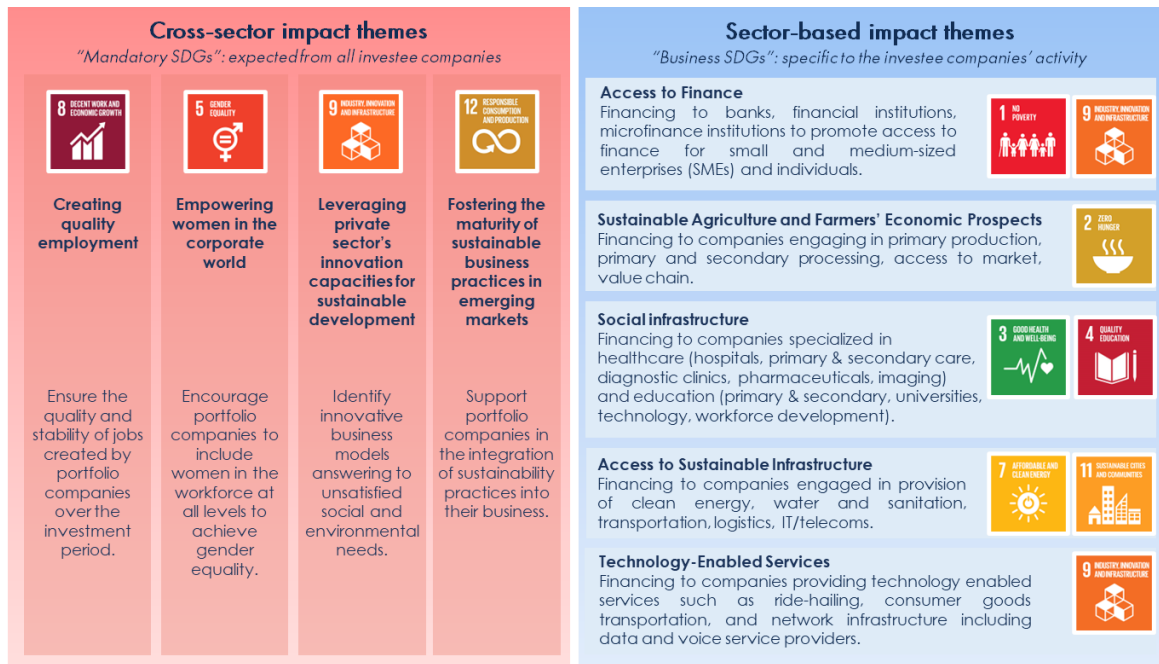
3. A strategic focus on the SDGs

Tangibly measuring the social progress of the investments is paramount to Blue like an Orange's impact approach.

¹ Schleicher, Andreas (2018), "Why equity in education is so elusive", in World Class: How to Build a 21st-Century School System, OECD Publishing, Paris.

From the start, Blue like an Orange has aimed to contribute to the Sustainable Development Goals by mobilizing private capital. Consequently, the impact of all transactions is assessed against the SDGs, in both the screening and monitoring process.

Blue like an Orange’s impact investing strategy focuses on both sector-based and cross-sector social impact themes, through which businesses and entrepreneurs in emerging markets have the greatest potential to contribute to the SDGs.



Blue like an Orange’s approach to SDG impact assessment relies on an internal rating system to rate each investment against the SDGs. Named “SDG Blue”, the rating system has been in use since Q4 2019 as a key part of the Investment Committee decision making process and has been improved regularly to ensure consistency with the investing strategy. The latest version was revised in May 2023 to clearly set the Fund’s level of ambition on the mandatory SDGs, to consider acting on the negative as an opportunity for creating impact, and to better assess the additionality of our financing and support.

The “SDG Blue” rating aggregates the impact of an investee company considering both the cross-sector and the sector-based impact themes included in the impact investment strategy. Regardless of the sector, country, or size of the investment, the score includes an assessment against some “mandatory” SDG targets around inclusive job creation, equal treatment and opportunities for women in the corporate world, innovation for sustainability, climate change and sustainability business practices. Sector-based contribution is considered by selecting two additional “business” SDG targets for each investment that are specific to the investee company’s activity, business model and impact case.

The detailed methodology is published on Blue like an Orange’s website. Each borrower is informed of this approach ex-ante, representing a strong set of core values and principles that guide our origination and investment approach.

4. A social contribution as the main objective

According to the European Sustainable Finance Disclosure Regulation, entered into force on March 10th, 2021, 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 labor 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. Blue like an Orange's Sub-Funds have elected to have « sustainable investment as an objective » ("Article 9 products") and seek to invest in economic activities that contribute to a social objective.

The Fund chose to focus on social objectives as priority areas of impact due to the prevalence of those social issues in Latin America.

Through the financing and the non-financial support provided to portfolio companies, Blue like an Orange aims to reach as many lives as possible with significant and long-lasting changes. The lives impacted are both the **lives of people employed**, since creating quality employment is a cross-sector impact theme, and the **lives of direct beneficiaries** (clients, patients, students, suppliers) in line with the sectorial investment strategy of the Fund.

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

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.

In order to achieve its strategic impact objectives, Blue like an Orange set “Reach targets” at the fund level, i.e. quantitative objectives in terms of beneficiaries (1). During the life of the fund, impact is monitored on a portfolio basis, based on a common set of indicators (2). This assessment of impact on a portfolio basis should lead Blue like an Orange to align staff incentives with the achievement of defined targets: this reflection is currently being conducted internally (3).

1. Setting “Reach Targets” for the Fund

Blue like an Orange originally set “Reach Targets” to manage more specifically the Fund’s contribution to SDGs in three key sectors on a portfolio basis: sustainable infrastructure, access to finance and access to social infrastructure (comprised of healthcare, education and agriculture).

The “Reach Targets” were initially set for a mock portfolio across the Sub-Fund I for a \$600 million fund size originally. In 2019, the Reach Targets were resized for Sub-Fund I, based on a \$200 million fund size and inclusion of “Technology Enabled Services” as a component of the “sustainable infrastructure” sleeve.

Key sector	“Reach Targets” based on \$200m Sub-Fund I Size
Access to sustainable infrastructure and technology enabled services	1,000,000 people with access to sustainable infrastructure
Access to finance	153,000 clients (SME and Micro) with access to financial services
Access to social infrastructure (healthcare, education), and agriculture)	350,000 people with access to social infrastructure and agricultural services

The “Reach Targets” are consolidated each year at portfolio level, as part of the Annual Sustainability Report.

For the Sub-Fund II, the target will be set at the end of the fundraising period.

2. Monitoring of the Fund’s Impact

Blue like an Orange reviews systematically and documents the progress of each investment in achieving impact against expectations. Decisions and processes are improved based on the achievement of impact and according to the lessons learned. When IDB Invest is in the transaction, they generally lead on

“supervision”. When Blue like an Orange is the lead, the investment team oversees the supervision process.

Since 2021, Blue like an Orange provides to its portfolio companies access to an online reporting platform, making it easier to consolidate the data on a portfolio basis, as well as on a sector or country basis. The consolidated data on a portfolio basis are published in Blue like an Orange’s Annual Sustainability Report.

Several indicators are consolidated to monitor the impact at a portfolio basis and published in the Annual Sustainability Report:

1- Distribution of “SDG Blue” ratings across the portfolio companies



As mentioned under principle 1, the impact of all portfolio companies is assessed with the “SDG Blue” rating system at the time of investment and then every year. Similarly to the credit rating of the portfolio, the distribution of the impact rating score over time allows to monitor the impact performance for the whole portfolio. The monitoring aims at confirming that, overall, the portfolio companies maintain or even increase their SDG Blue score while in portfolio. The decreases are systematically discussed with the portfolio companies. So far, the portfolio companies showing a score below the investment threshold are the ones in financial distress.

2- Completion of the impact targets by the portfolio companies







Impact targets are set with the portfolio companies at the time of investment in line with their business plan. The reach of the impact targets by portfolio is a component of the “SDG Blue” rating system and is monitored at portfolio level every year to confirm the prevalence of their completion.

3- Consolidated sustainability indicators

A comprehensive list of sustainability indicators is consolidated by Sub-Funds and at Fund level to measure impact across portfolio companies (with core indicators that apply to all portfolio companies) and to measure reach among targeted beneficiaries relating to specific sectors of investments (sector specific indicators).

	Cross-sector SDG	Core indicators applying to all portfolio companies
	SDG 8 target 8.5 Full and productive employment and decent work for all	Employees with Written Contracts (Y; Y-1)
		Delta of total employees, y-o-y (%)
		Employees: Hired
		Percentage of Hired Employees
		Employees: Disabilities
		Percentage of Employees with Disabilities
		Employees: Under 25
		Percentage of Employees Under 25
		Turnover
		Absenteeism Rate
	SDG 5 target 5.1 End discrimination against girls and women SDG 5 target 5.5 Women’s participation and equal opportunities in economic life	Employees: Female
		Percentage of Women in Total Number of Employees
		Employees: Female Managers
		Managers: Total
	SDG 12 target 12.6 Adoption of sustainable practices and sustainability reporting by companies	Percentage of Women in Total Number of Managers
		Sustainability report published
		Environmental Management System

		Employees Dedicated to Social and Environmental Performance
		Social and Environmental Performance Management Training
	SDG 9 target 9.5 Scientific research and technical capabilities of industrial sectors in all countries	Innovation level: First version in the world; First version in the country; Improved version of existing product/service; Existing product/service

		Sector Specific SDG	Indicator(s) capturing the targeted beneficiaries of the impact of the company. For example:	
	Financial services	SDG 8.10	Number of clients Number of SMEs clients	Consolidated at sectors' level in : Beneficiaries (i.e. number of people on which we seek an impact)
	Healthcare	SDG 3.8	Number of patients Number of locations	
	Education	SDG 4	Number of students Number of locations	
	Agriculture – Smallholder Agriculture	SDG 2.3	Number of smallholder suppliers	
	Agriculture – Sustainable Agriculture	SDG 2.4	Surface sustainably managed	
	Agriculture – Food Security	SDG 2.1	Number of client individuals	
	Energy	SDG 7.1	Number of people with access to energy Number of SMEs with access to energy	
			SDG 9.c	
	Transportation	SDG 11.2		

The Annual Sustainability Report systematically distinguishes the overall impact of the portfolio companies to the one “reasonably associated” with its investments. For the 2022 report, Blue like an Orange adopted GIIN methodology for assessing and measuring impact and published, for its main target sectors of investment, the annualized “pace of the change” since investment date, *considering the proportionality of investment size to investee size*, compared to the annualized “pace of the change” required to achieve the SDGs by 2030 based on GIIN IRIS+ impact performance benchmarks.

3. Aligning staff incentive systems with the achievement of impact, as well as with financial performance targets

To date, Blue like an Orange has not formalized such alignment and is currently analyzing internally the opportunities to do so.

III. Principle 3: Establish the Manager’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. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

Blue like an Orange intends to use the “Investor Contribution 3.0” templates expected to be published by Impact Frontiers by the end of 2023² to enhance the narrative on its contribution to the achievement of impact for each investment.

The contribution of Blue like an Orange concerns mainly social issues and is first achieved through the provided access to credit in countries in which purpose-driven entrepreneurs lack sources of financing to scale their impact (1). Once an investment is made, Blue like an Orange engages in a deep relationship with the company to foster its impact (2), especially through the follow-up of the contractual action plan leading to enhanced sustainability practices (3).

1. Capital allocation and financial contribution to the achievement of impact

Blue like an Orange provides growth capital to purpose-driven entrepreneurs in emerging markets with limited financing options. The structured credit products provided by Blue like an Orange do not dilute the capital of the investee, are tailored-made and have a long tenure. They are seen as highly complementary to the existing supply of senior debt financing and private equity capital.

The Fund targets market-based risk-adjusted returns since it is a prerequisite to make investments in emerging markets attractive to institutional investors.

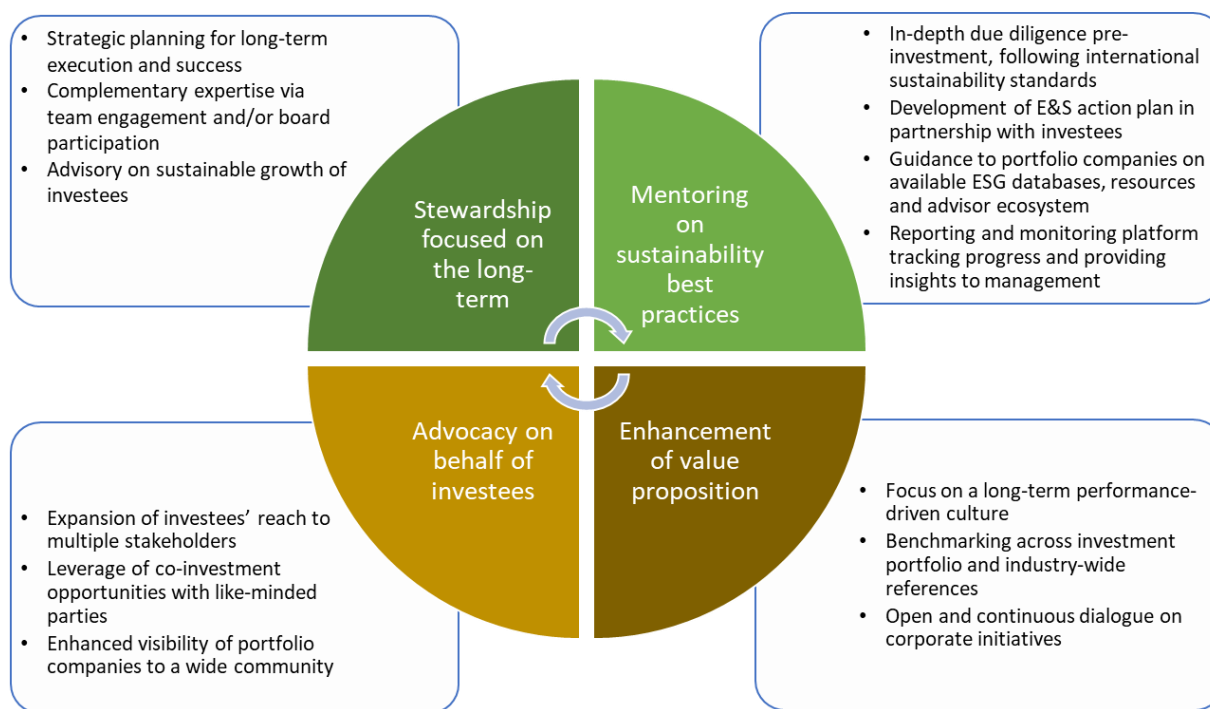
Following “Investor Contribution 3.0” templates to be published by the end of 2023 and to support this narrative, Blue like an Orange intends to document further if the companies could have received financings from other investors and the additional financing driven by our financing.

2. Manager’s engagement and non-financial contribution to the achievement of impact

Given the uniqueness of our financing, the relationship with portfolio companies goes beyond a “traditional” creditor/borrower interface, encompassing several other aspects, some of which formally required by the legal agreements while others are based on a strategic dialogue/role that this type of financing allows us to develop over time. End of 2022, the Fund was designated as Board Member by 11% of the investee companies and as Board Observer by 53% of them.

The Fund’s active dialogue with the investees is multi-fold and reinforces our impact additionality as investors:

² <https://impactfrontiers.org/work/investor-contribution-2.0>



3. Environmental and Social Action Plan Follow up leading to enhanced sustainability practices

A formal requirement covered by the legal documentation is related to impact. We are committed to fostering the impact agenda at our portfolio companies through a structured approach. During due diligence, based on its current situation, the company will be required to implement an action plan, measure, and report on a set of sustainability indicators some with targets, all of which will be systematically monitored and reviewed during the life of the investment against what was agreed upon at the beginning of the transaction. We also maintain frequent contact with portfolio companies to provide guidance, search market references, share publications/reports and introduce them to relevant forums related to impact.

Blue like an Orange (and IDB Invest when they are in the transaction) develops an Environmental and Social Action Plan with the borrower, to which it must comply and which is a condition for loan signature, and then monitors progress made against each investment's Environmental and Social Action Plan. Through the E&S Action Plan and reporting requirements, Blue like an Orange engages with companies to improve their impact and sustainability practices. End of 2022, 81% of the actions were completed on time by our portfolio companies.

Moreover, four years after investment, 100% of our portfolio companies have integrated sustainability practices into their business.

IV. 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 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? 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 impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

Since each investment must lead Blue like an Orange to the achievement of the objectives defined at the Fund level and to contribute to the achievement of the SDGs, all potential deals are assessed against IRIS+ five dimensions of impact at a very early stage in the investment process (1) and rated using our internal impact scoring methodology, SDG Blue, highlighting the impact potential of the transaction (2).

1. Development of a thorough impact thesis for each transaction, following the five questions of the IRIS+ Framework

As part of Blue like an Orange's investment process, an impact case needs to be developed jointly by the sustainability team and the investment team for each potential transaction. The draft impact case developed early in the process highlights key preliminary questions to be answered by the company or based on desk research before the first investment committee. Any doubt on the robustness of the impact case or lacking information on the intended impact is shared with the Investment Committee ahead of its decision.

Through this exercise, each potential loan is mapped by Blue like an Orange to the SDGs at Goal, Target and Indicator level.

The impact case follows the structure of the IRIS + Framework:

- 1- **What is the main impact goal of the investment?** Analysis of the problem and its scale and the expected outcome of the investment: what it would be and how important it would be for beneficiaries. This analysis includes evidence to confirm the importance of the challenge addressed within the targeted geographical context.
- 2- **Who is affected?** Description of the beneficiaries and their characteristics (geography, age, gender, socio-economic characteristics, education level, rural/urban...).
- 3- **How much change will be happening?**
 - Breadth of the change: Quantitative assessment of the number/volume of "beneficiaries" (Number of beneficiaries, surface of protected area, ...);
 - Depth of the change: Quantitative assessment of the change for one beneficiary;

- Duration of the expected outcome for targeted beneficiaries.
- 4- **What is the company’s contribution and the investor’s contribution?** Description of the expected outcome and analysis of its possible occurrence without the company and without the investment.
- 5- **What is the impact risk?** Assessment of the likelihood that impact will be different than expected due to external/unpredictable/uncontrollable factors and identification of these risk factors that could result in the impact varying from ex-ante expectations.

IRIS+ “Core Metrics Set” provides a wide set of indicators adapted to the impact theme and the strategic goal which guides the investment team and the sustainability team to choose relevant indicators, before the final Investment Committee Memo.

2. Use of the SDG Blue rating tool to highlight the impact potential of the transaction

Blue like an Orange’s SDG impact assessment, “SDG Blue”, described above, is used to highlight both the pre-investment impact of the investee’s activity and the impact potential of the transaction.

In particular, the scoring of the strength of the fit with and the contribution to the two “Business goals” (linked to the core business of the investee) enables to consider opportunities to increase the impact of the investment as well as indirect and systemic impacts.

1- Consideration of opportunities to increase the impact of the investment

Generally speaking, since Blue like an Orange invests in companies or projects with attractive growth prospects, the commercially viable deals also demonstrate a strong opportunity to increase the impact, in terms of number of employees and direct beneficiaries, as the business grow.

Furthermore, the “SDG Blue” methodology considers acting on the negative as an opportunity for creating impact:

- The “strength of the fit” with an SDG includes solving any antagonism to the global sustainability pathway (Ex. Agribusiness creating quality employment but producing unhealthy food or deteriorating the environment);
- The “strength of the fit” with an SDG is rescored every year, taking into account the actions that Blue like an Orange pushes to improve the “fit”;
- A Bonus can be granted for solving a material negative externality (Ex. Replace plastic packaging, End child labor, Recycle solar panels...).

2- Consideration of indirect and systemic impacts

The highest “contribution” score on an SDG implies that Blue like an Orange helps the investee companies scaling or improving even more the impact, and not only grow the activity as it was before (Ex. Expand the offer or the distribution channel to better address the needs of the low-income population).

Thereby, the opportunities to increase the impact through our financing and the possible indirect and systemic impacts of our financing are analyzed internally between the investment and sustainability teams and validated by the Investment Committee as part of the impact thesis.

V. Principle 5: Assess, address, monitor, and manage potential negative impacts 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) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. 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.

Blue like an Orange implements and discloses a policy on integration of sustainability risks and due diligence policy on principal adverse sustainability impacts into its investment decisions (1) implemented through an environmental and social due diligence process (2) .

1. Policy On Integration of Sustainability Risks and adverse sustainability impact into Investment Decisions

The Managing Partners and the team are dedicated to integrating sustainability risks and due diligence on adverse sustainability impact at the core of their investment policy and process.

The policy on integration of sustainability risks and adverse impacts has been updated pursuant to Sustainable Finance Disclosure Regulation and is available on Blue like an Orange's website.

This policy has been applied consistently for investments closed after March 10, 2021.

As part of its due diligence policy on principal adverse sustainability impacts, Blue like an Orange reports on the statement of principal adverse sustainability impacts. This first report is with reference to the period covering calendar 2022.

For companies in Sub-Fund I portfolio before March 10, 2021, the information relating to the statement of principal adverse impact is requested from portfolio companies on a best effort basis.

More generally, most of the investments relating to Sub-Fund I are small and medium-sized companies and do not all have legal requirements to publish a non-financial report as per local regulation. Therefore, Blue like an Orange and the companies will do their best effort to collect and publish the information relating to the statement of principal adverse impact in 2023 and improve the scope and the quality of the information overtime. Blue like an Orange believes it is part of its contribution to impact to accompany its portfolio companies to improve their reporting on environmental and social matters.

End 2022, 100% of the portfolio companies reported to Blue like an Orange through a dedicated reporting tool (Software as a service) and 44% of them published a Sustainability Report.

2. E&S Due Diligence

To avoid significant harm to environmental and social objectives, Blue like an Orange implements a due diligence policy that is applied in the investment process and monitoring of the portfolio companies. This includes engagement policies, investment restrictions and due diligence on sustainability risks and principal adverse sustainability impacts in the pre-investment and monitoring phases.

As part of its due diligence policies, Blue like an Orange performs a KYC and ethical check and an Environmental and Social (“E&S”) assessment to identify:

- environmental, social and governance events or conditions which, if they occur, could cause a material negative impact on the value of the investment; or/and
- activities of the investment that could have negative effects on sustainability factors.

The E&S due diligence is based on the Performance Standards (“PS”) developed by the International Finance Corporation (IFC) in 2012.

When IDB Invest is a co-investor, they conduct this initial assessment on behalf of both themselves and Blue like an Orange with their internal experts, and which are independent from the investment team, using their Environmental and Social Safeguard Assessment. The standards included in their Environmental and Social Safeguard Assessment consist of the IFC Performance Standards, IDB Environment and Safeguards Compliance Policy, other IDB safeguard policies and sector guidelines and the World Bank Group/IFC Environmental Health and Safety (“EHS”) Guidelines (including both General EHS guidelines and Industry Sector EHS Guidelines).

If an investment proceeds, an Environmental and Social Action Plan is agreed contractually with the investee company, depending on gaps identified with IFC Performance Standards, potential sustainability risks and adverse impacts identified and their severity.

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

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 Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

During the loan's life, Blue like an Orange reviews systematically and documents the progress of the company in achieving impact against expectations. These assessments are made through the follow-up of contractual action plans (1), the update of the DELTA score when IDBi is involved in the transaction (2), and the rescoring of SDG Blue and the impact monitoring performed by Blue like an orange on a quarterly and annual basis (3).

Decisions and processes are improved based on the achievement of impact and according to the lessons learned. When IDB Invest is in the transaction, they generally lead on "supervision". When Blue like an Orange is the lead, the investment team oversees the supervision process.

1. Environmental and Social Action Plan Follow up

Blue like an Orange (and IDB Invest when they are in the transaction) monitor progress made against each investment's Environmental and Social Action Plan. The action plan is designed based on the internal assessment of sustainability risks and adverse sustainability impact and the external E&S due diligence. It can also include opportunities to further increase the positive impact.

2. DELTA Score and IDB monitoring

IDB Invest has contractual rights to perform an evaluation of each company's DELTA Score as well as other indicators on an annual basis, when they are in the transaction. As agreed, Blue like an Orange receives updates from IDB Invest regarding these evaluations, on at least an annual basis.

3. Impact monitoring

a. SDG Blue Annual Review

Blue like an Orange rates investments in its portfolio annually based on the SDG Blue rating system. These re-scoring enable Blue like an Orange to follow the progress of each company in terms of impact, compared to the baseline score at investment date.

b. Annual Impact assessment at indicator level

The impact and sustainability indicators used to measure the attainment of the sustainable and do no significant harm objectives are collected through a dedicated reporting tool (Software as a service),

available for all portfolio companies. Each company has its own private access to the tool, which enables it to report both the indicators collected for all the portfolio companies, and the ones specifically chosen with the company. The main reporting campaign on the tool takes place every year in March, and a lighter one, concerning only a few indicators, takes place on a quarterly basis specifically chosen with the company.

c. Annual check-in meetings with the management

The objective of these meetings is to assure that the company is on track to achieve its impact goals, as agreed in the contractual action plan, and to make sure that the company does not engage in any behavior that may pose social or environmental risks to the Sub-Funds.

Blue like an Orange monitors and shares the companies' progress against the SDG Goals and indicators on at least an annual basis with investors.

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

When conducting an exit, 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.

Since Blue like an Orang provides mainly private credit to date, the traditional concept of an “exit” does not apply well given this investment instrument.

If each investment is “self-liquidating” at the outset, Blue like an Orange may utilize equity-like investments (e.g. warrants, convertible options) as part of its capital provision where appropriate. However, these represent a very small percentage of the deployed capital, and when the options are exercised, Blue like an Orange will consider the potential environmental and social impacts when making exit decisions.

In addition, Blue like an Orange is seeking to reinforce impact practices within portfolio companies through legal documentation, ongoing dialogue with the investee, etc. Credits granted to the portfolio companies can be called early in some cases if the obligor is not adhering to the intentions of Blue like an Orange’s in targeting an impact.

Regarding how the company’s activities would be affected post-exit, and considering that the issue is relevant for an equity investment when an exit could take place earlier than anticipated, although both in the case of equity and for debt the issue remains when either there is an exit or the loan is repaid even in line with the original plan, Blue like an Orange is considering how to address the issue post-repayment of the loan although the key is to establish approaches during the life of the loan that would remain in place post-repayment.

VIII. 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.

Blue like an Orange developed several means to improve the decision-making process: the use of external resources for ESG assessment (1), as well as the support of the Sustainability Committee (2) and of the investors (3) make the decisions better documented and bring independent points of view. The documentation of impact all along the investment process is constantly being improved to give the Investment Committee all relevant information needed for final decision (4).

1. External resources for ESG and Sustainability management

The systematic use of external evaluation during the pre-investment process, both in the ESG assessment phase— through the work with IDB Invest’s independent experts or with reference sustainability consultants— and during the DELTA pre-investment evaluation, ensures a degree of independence in the evaluation process.

2. Independent Sustainability and ESG advisory Committee

The Sustainability and ESG advisory Committee reviews Blue like an Orange’s approach and policies as well as provides recommendations for improvements and modifications. The Committee acts as an independent sounding Board for potential issues that arise during investment preparation and portfolio management.

In addition to including all of Blue like an Orange’s Founding Partners, “independent” members are:

- Robert Calcagno - CEO of the Monaco Oceanographic Institute
- Sir Ronald Cohen - Chair of Global Steering Group for Impact Investment
- Florence Didier-Noaro - Founder and CEO of Innwise
- Emme Essien Lore - Senior Advisor and Independent Consultant
- Anita Marangoly George - Founder & Partner of Edhina Capital Advisors LLP
- Sabine Lochmann - Executive Director (American and French companies) and Leader of business transformation projects, with an emphasis on innovation and social and digital challenges
- Ana Laura Magalhães - Co-Founder of Humana.org.br
- Muriel Pénicaut - Independent Director, Chair of the Sakura Fund, Former French Minister of Labour
- Brune Poirson - Chief Sustainability Officer of Accor
- Bruno Roche - Founder & Executive Director of Economics of Mutuality, Geneva, CH
- Ambassador (ret.) John Simon - Managing Partner of Total Impact Capital
- Jean-Marc Jancovici - Founding Partner of Carbone 4 and President of The Shift project

The committee met on November 24th, 2022, to discuss the challenge of setting impact objectives.

3. Sharing of Impact Performance with investors

In addition to recurrent review of the portfolio over the course of the year, in Q2/Q3 of each year, Blue like an Orange provides its investors with an Annual Sustainability and Impact Report, which includes a section outlining portfolio and investment performance at portfolio level with impact highlights.

Improvements and underperformance are both mentioned, with the latter requiring an explanation of what steps are being taken to improve the declines.

This information shared with investors enables them to share feedback on the impact performance and processes and to guide us towards improvement.

4. An ongoing improvement of the decision process

The 5-year experience of Blue like an Orange led the investment and sustainability teams to structure and improve the impact assessment and monitoring processes, using the lessons learnt from the contemplated and closed deals. These improvements are reflected in this report.

Blue like an Orange keeps improving its investment decisions and management processes by deepening more and more the risks and impact analysis from the beginning to the closing and by upgrading the information transmitted to the Investment Committee to feed their decision.

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

As a Founding Signatory to the Operating Principles for Impact Management, Blue like an Orange Sustainable Capital is committed to publicly disclose every year its alignment with the Impact Principles and to an independent verification of the alignment if its process and procedures with the Impact Principles on a regular basis.

To this end, Blue like an Orange commissioned **KKS Advisors in 2022**, to carry out the independent review. The confirmation of the alignment has been disclosed publicly.

The next independent verification will be conducted in 2024.

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