



Statement on principal adverse impacts of investment decisions on sustainability factors

Financial market participant and product name: Microfinance Enhancement Facility SA, SICAV-SIF

Legal entity identifier: 5493002DF397R401YT97

Summary

Microfinance Enhancement Facility SA, SICAV-SIF (MEF or Fund), LEI 5493002DF397R401YT97, considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of MEF.

This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January to 31 December 2022.

As of 31 December 2022, the Fund had 145 Partner MFIs financed. The table below reflects the Fund's results combining data reported by MEF's Partner MFIs and proxy data. The Fund will work to enhance data availability for the next reporting period.

Description of the principal adverse impacts on sustainability factors

The Fund works towards its sustainable investment objective by contributing to the debt financing of microfinance institutions (MFIs) which are institutions that provide microfinance services, including (without limitation) credit, savings deposits, insurance, remittances, and housing loans, to the working poor in developing countries. Given the nature of its investments, adverse impacts on sustainability-related factors may occur but are likely to be limited, particularly in relation to emissions and pollution, human rights, social and employee matters, anti-corruption and anti-bribery matters.

Principle adverse impact indicators (PAIs) are identified and considered during the investment due diligence stage and at the time of investment committee decision, and are regularly monitored for existing investments. The Fund considers principal adverse impact at deal level by measuring and monitoring the aggregated negative impact on sustainability factors of the Funds' investments. In this respect the Fund considers the mandatory PAIs and two voluntary indicators defined by the Sustainable Finance Disclosure Regulation (SFDR), subject to data availability and quality. Principal adverse impact assessment is described in the Fund's policies and processes.

The results of the Fund's overall performance on the PAIs defined by the SFDR for the reference period are set out in the table below. These indicators are considered to ensure that adverse impact on key sustainability factors is taken into consideration. The Fund has provided information for each of these indicators, detailing the actions that have been taken as well as proposed actions that will be undertaken to avoid or mitigate the principal adverse impacts that have been identified.

Finally, since this report coincides with the first year of collection of data, the Fund has not yet set targets for the PAIs. For the next reporting period the Fund will work closely with its investment advisors to enhance data availability and quality, increase the coverage rate and to establish realistic and measurable targets.

		INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEE COMPANIES					
Adverse sustainability indicator		Metric	Impact 2022 ¹	Impact 2021 ²	Coverage rate	Explanation	Actions taken, and actions planned and targets set for the next reference period
		CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS					
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	581	N/A	79%	The Fund uses proxies provided by the Impact Institute ³ to estimate the GHG emissions of its investments.	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.
		Scope 2 GHG emissions	2,648	N/A	79%		
		Scope 3 GHG emissions	17,195	N/A	79%		
		Total GHG emissions	20,425	N/A	79%		
	2. Carbon footprint	Carbon footprint	42	N/A	79%		
3. GHG intensity of investee companies	GHG intensity of investee companies	385	N/A	79%			
4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	0.05%	N/A	60%	The MFIs invested by the Fund are not directly exposed to fossil fuels. A look-through approach is taken to assess the indirect exposure to fossil fuels (looking at the MFI gross loan portfolio ⁴). The indirect exposure amount to 0.05% of portfolio covered (60% of total portfolio).	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.	

¹ Results are rounded to whole numbers. Results are based on investee-level data.

² MEF has only started collecting the PAIs indicators as of 1 January 2022 and therefore values for 2021 are not available.

³ <https://www.impactinstitute.com>

⁴ Gross loan portfolio: outstanding of all financing loans to clients.

	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	51%	N/A	58%	In general the Fund's investees draw energy from the national grid, thus data is retrieved from the national energy mix, through the use of online data available. This method does not value the few initiatives from some investees towards renewable energy. These are however still limited. Due to the lack of clarity from the regulator on the calculation method, this calculation is representing the share of non-renewable electricity consumption – excluding production - of investee companies compared to the total energy consumed.	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	N/A	N/A	N/A	Complementary indicator reported. See Note 1	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities	N/A	N/A	N/A	Complementary indicator reported. See Note 2	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.

		of those investee companies negatively affect those areas					
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	N/A	N/A	N/A	Complementary indicator reported. See Note 3	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	N/A	N/A	N/A	Complementary indicator reported. See Note 4	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.
		INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS					
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.3%	N/A	48%	The Fund assesses at due diligence stage and monitors the alignment with the UN Global Compact principles and OECD Guidelines for Multinational Enterprises which are part of the EU Minimum Safeguards.	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.
	11. Lack of processes and compliance mechanisms to	Share of investments in investee companies without policies to monitor compliance	0.3%	N/A	48%		The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to

	monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises					increase the coverage rate and to set targets.
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	2.2%	N/A	47%	The data indicates that male employees earn, on average, 2.2% more than female employees in the Fund's Partner MFIs.	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	26%	N/A	70%	The Fund provides this indicator expressed as an average of the percentages of female board members as reported by the Partner MFIs.	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0%	N/A	63%	The MFIs invested by the Fund are not directly exposed to controversial weapons. A look-through approach is taken to assess the indirect exposure to controversial weapons (looking at the MFI gross loan portfolio). There is no indirect exposure within the	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.

						portfolio covered (63% of total portfolio).	
INDICATORS APPLICABLE TO INVESTMENTS IN SOVEREIGNS AND SUPRANATIONALS							
Adverse sustainability indicator		Metric	Impact 2022	Impact 2021	Coverage rate	Explanation	Actions taken, and actions planned and targets set for the next reference period
Environmental	15. GHG intensity	GHG intensity of investee countries				Not applicable to the Fund	Not applicable to the Fund
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law				Not applicable to the Fund	Not applicable to the Fund
INDICATORS APPLICABLE TO INVESTMENTS IN REAL ESTATE ASSETS							
Adverse sustainability indicator		Metric	Impact 2022	Impact 2021	Coverage rate	Explanation	Actions taken, and actions planned and targets set for the next reference period
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or				Not applicable to the Fund	Not applicable to the Fund

		manufacture of fossil fuels					
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets				Not applicable to the Fund	Not applicable to the Fund
OTHER INDICATORS FOR PRINCIPAL ADVERSE IMPACTS ON SUSTAINABILITY FACTORS							
Adverse sustainability indicator	Metric	Impact 2022	Impact 2021		Explanation	Actions taken, and actions planned and targets set for the next reference period	
Climate and other environment-related indicators <i>Indicators applicable to investments in investee companies</i>							
4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives	37%	N/A	47%	The Fund assesses the good quality of its Partner MFIs' carbon credit collection or carbon off-setting programs. It reports here on the share of investments in partner MFIs with no such quality measures in place.	The Fund has not yet set targets for the PAIs and will work closely with its investment advisors to increase the coverage rate and to set targets.	
Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters <i>Indicators applicable to investments in investee companies</i>							
7. Lack of grievance/complaints handling mechanism related to employee matters	Share of investments in investee companies without any grievance/complaints handling mechanism related to employee matters	9%	N/A	47%	This highlights the proportion of Partner MFIs without grievance mechanisms related to employee matters, as assessed through the ESG assessment tool.	The Fund has included a requirement that Partner MFIs have this grievance mechanism embedded in their policies and will engage continually with investment advisors to make sure this is well implemented.	

	<p>Description of policies to identify and prioritise principal adverse impacts on sustainability factors</p> <p>The Fund’s approach to assessing, mitigating, and monitoring potential adverse impacts at every stage of the investment process is described in the Investment Guidelines and the Risk Management Policy developed by the Fund and reviewed on a periodic basis.</p> <p>The Board of Directors of the Fund has overall responsibility for setting the Fund’s policies and overseeing their implementation, both directly and via the investment committee appointed by the Board. The four investment advisors have the primary responsibility for day-to-day implementation.</p> <p>The Fund’s policies as well as the exclusion list prohibit the use of MEF funding for activities with an elevated risk of causing adverse impacts.</p> <p>Please refer to the Sustainability page on the Fund’s website.</p> <p>Data on the PAI indicators was collected from Partner MFIs as part of the Fund’s annual environmental and social reporting process. For the reference period of 1 January to 31 December 2022, where gaps existed in the self-reported data, proxies and estimations were used to address these gaps. In other cases where no proxies were required such as employment data, the Fund used publicly available data reported by the Partner MFIs. Where no such data were available, the Partner MFIs were not considered in the overall calculation.</p> <p>The Fund has not set specific targets for each indicator at this early stage of monitoring PAI, however interpretation of indicators and their correlation to MEF’s investment objectives will evolve as reliability of the underlying data increases. Following this first annual assessment of the Fund’s performance against the PAI indicators the Fund will work on identifying priority areas for engagement and further monitoring.</p> <p>The Fund notes that PAIs are challenging to collect from non-EU MFIs, which are currently representing most of the Fund investments. Since the regulatory and industry standards around the methodologies and tools used to perform PAIs assessment are evolving, and to serve the spirit of the regulation in determining the impact of MFIs, efforts are being made to work with the MFIs and/or data providers, as the case may be, to calculate or estimate the principal adverse impacts of the MFI’s underlying portfolio.</p> <p>For more details, please refer to the Sustainability page on the Fund’s website.</p>
	<p>Engagement policies</p> <p>The Fund focuses on private debt transactions and as such did 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</p>

	<p>companies. Nevertheless, engagement with MFIs is an integral component of the Fund’s investment process and contribution to its sustainable investment objective.</p> <p>MEF engages its investment advisors, each a signatory to the Operating Principles for Impact Management (OPIM), to identify the potential adverse sustainability impacts of proposed investments, recommend mitigation measures, and perform follow-up monitoring. Partner MFIs are required, in their respective agreements with the Fund, to make ESG representations towards the Fund, meet the Fund’s ESG requirements at the level of such MFI, and provide a copy of their environmental and social management system (“ESMS”), all commensurate with the MFI’s risk profile, and to notify the Fund of any amendments to their ESMS. The social performance of the Fund’s investment in Partner MFIs is periodically evaluated based on evolving social performance standards.</p> <p>Investment advisors are also required to monitor and provide timely reporting/escalation regarding external ESG factors with respect to any MFI, or their underlying clients, that could reasonably materially impact the Partner MFIs’ compliance with the Fund’ requirements.</p> <p>For more details, please refer to the Sustainability page on the Fund’s website.</p>
	<p>References to international standards</p> <p>In considering adverse impacts of its investments throughout the investment cycle, the Fund applies international standards, in particular with regards to the compliance with the minimum safeguards (UN Guiding Principles on Business and Human Rights, International Bill of Human Rights, ILO Declaration on Fundamental Principles and Rights at Work), to ensure that no significant harm is done.</p> <p>For more details, please refer to the Sustainability page on the Fund’s website.</p>
	<p>Historical comparison</p> <p>MEF has only started collecting the PAIs indicators as of 1 January 2022 therefore historical comparison is not available.</p>

Note 1

The specific energy consumption in GWh being difficult to collect from non-EU investee, the Fund opted to report its exposure to high impact climate sectors rather than the energy consumption of its portfolio in these sectors.

Most of the investees of the Fund operate in the financial sector and do not classify as part of a high climate sector. As such, the Fund does not have direct exposure to companies active in high impact climate sectors. A look-through approach is taken to assess its indirect exposure to high impact climate sectors through investments in MFIs that themselves have exposure to high impact climate sectors. The indirect exposure of the Fund amount to 26% with a coverage of 24% of the portfolio investments. The Fund uses the list of high impact sectors defined by the regulation (agriculture, forestry and fishing, mining and quarrying, manufacturing, electricity, gas, steam and air conditioning supply, water supply; sewerage, waste management, and remediation activities, construction, wholesale and retail trade; repair of motor vehicles and motorcycles transportation and storage real estate activities).

Note 2

Most of the investees operate in the financial sector and their direct impact on biodiversity-sensitive areas is negligible. As such, the Fund does not have direct exposure to companies that negatively affect biodiversity sensitive areas.

In an effort to calculate or estimate the impacts of the MFI's underlying portfolio to activities located near or in biodiversity-sensitive areas which could negatively affect these areas, research is taking place on the best tools to map and match national biodiversity-sensitive areas to portfolio activities locations. The analysis made so far on 12% of the investment portfolio shows a 0% exposure of the underlying portfolio to activities that could negatively affect biodiversity sensitive areas.

Note 3

The specific tonnes of emissions to water being difficult to collect from non-EU investee, the Fund opted to report its exposure to sectors likely to generate high emissions to water.

Most of the investees operate in the financial sector and generate a negligible amount of emissions to water through their direct activities.

In a best effort to calculate the Fund's indirect exposure to sectors with intensive emissions to water, according to the IFC risk categorization, the Fund applies coefficients to this exposure depending on the size of companies active in those sectors in its investee's portfolio given that micro, small or medium sized enterprises are likely to produce much lower emissions than large enterprises even when they are active in the same economic sector. The analysis made so far on 24% of the investment portfolio show a 9% exposure of the underlying portfolio to sectors likely to generate high emissions to water.

Note 4

The specific tonnes of hazardous waste being difficult to collect from non-EU investee, the Fund opted to report its exposure to sectors likely to generate significant amounts of hazardous waste or to imply site contamination.

Most of the investees operate in the financial sector and generate a negligible amount of hazardous waste through their direct activities.

In a best effort to calculate the Fund's indirect exposure to sectors which generate significant amounts of hazardous waste and/or with high risk of site contamination, according to the IFC risk categorization, the Fund applies coefficients of exposure depending on the size of companies active in those sectors in the investee's portfolio given that micro, small or medium sized enterprises are likely to produce much lower emissions than large enterprises even when they are active in the same economic sector. The analysis made so far on 24% of the investment portfolio show a 6% exposure of the underlying portfolio to sectors likely to generate significant amounts of hazardous waste or to imply site contamination.