

# ACTIAM-FMO SME Finance Fund

Responsibility & Impact Report 2022



cardano

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## 1. About

Fund Manager	Investment manager
<b>Cardano Asset Management N.V.</b>	<b>FMO Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.</b>
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### Cardano Asset Management

As of 1 June 2023, ACTIAM-FMO SME Finance Fund is managed by Cardano Asset Management N.V. ("Cardano"). Cardano is a global acting responsible asset manager dedicated to enable investors to invest in relevant impact themes with sound risk-return profiles. Cardano manages assets of almost EUR 60 billion.

Cardano offers a complete range of investment funds and solutions and is - with the launch of the first institutional funds in microfinance in 2007 - a pioneer in the field of impact investing. Cardano imposes strict criteria (the Fundamental Investment Principles) on its investments and follows a robust selection process, without making concessions to financial returns.

Cardano provides its sustainable solutions to insurance companies, pension funds, banks and distribution partners. Cardano has a specialised Impact Investing team of seven professionals with an average of 16 years' experience in private sector investments managing three impact funds with approximately EUR 300 million assets under management.

### FMO Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

FMO is the Investment Manager of the Fund. As a leading impact investor, FMO supports sustainable private sector growth in developing countries and emerging markets by investing in ambitious projects and entrepreneurs. FMO believes that a strong private sector leads to economic and social development and has a 50+ year proven track record in enabling entrepreneurs to make local economies more inclusive, productive, resilient, and sustainable.

FMO focuses on three sectors that have high development impact: Agribusiness, Food & Water, Energy, and Financial Institutions. FMO has its head office in The Hague, the Netherlands, with local offices in Johannesburg, South Africa, Nairobi, Kenya, and San José, Costa Rica. With a committed investment portfolio of euro 10.3 billion spanning more than 85 countries, FMO is one of the larger bilateral private sector development banks globally.

FMO's investment management activities for the Fund are performed by FMO Investment Management B.V. (FMO IM). FMO IM is an investment firm that creates access for investors to invest in FMO's deal flow of sustainable emerging market investments. FMO IM matches investor appetite with FMO's expertise. The resulting fund propositions in private debt have the size and institutional quality required by professional investors. The portfolios FMO IM advises on or manages aim to generate an attractive financial return and meaningful development impact. FMO's long-term track record to date proves that these two can go hand in hand.

## 2. Management note

After again an exceptional year, it is a pleasure to present our investors the tenth annual report of the Fund. Just recovering from the COVID-19 pandemic, 2022 was another tumultuous year for humanity and business. We have seen high inflation, supply chain problems and the war in Ukraine. We experienced climate change-driven extreme weather with shocking summer floods in Pakistan that covered one-third of the country. February 2023 marked the sombre one-year anniversary of the Ukraine-Russia war which shocked the world. The war has caused a humanitarian crisis but also send immense shock waves through energy, food, and other markets. The higher prices have especially high impact on people living from low and unstable incomes and means a set-back in the progress of wellbeing. Worldwide, we see this back in the deteriorating progress of many of the Sustainable Development Goals.

Small- and Medium-sized Enterprises (SMEs) are vulnerable to disruption of their business caused by external shocks such as floods, inflation and war in the region. However, during these hardships, adaptive business models emerge as these business segments are eminently entrepreneurial, flexible and innovative. Supporting these small businesses by improving access to finance is the sustainable objective of the ACTIAM-FMO SME Finance Fund (the Fund/SMEFF). By responsible investing, the Fund contributes to employment creation and economic growth in developing economies. Economic growth and sustainable jobs are crucial elements to combat the deterioration in wellbeing.

In this Responsibility & Impact Report we present the non-financial results of the Fund over 2022. We also use the opportunity to look back over the lifetime of the Fund to provide some aggregated results. In addition, we present a client story to go beyond the averages and illustrate how the Fund can contribute to change at the SME level.

With the Fund we unabatedly work on contributing to bridge the finance gap for SMEs and driving sustainable development. At year-end 2022 the Fund is invested in 36 financial institutions spread across 25 countries. Due to the natural decrease in investment pace, we are creating lower impact and outreach since 2021. From November 2021 onwards, the remaining Fund term will be less than four years, which means we can only invest in FMO loans with a tenor shorter than three years. As most FMO loans have a tenor of five years or longer, the Fund entered its wind-down phase and increasingly redistribute cash to Participants. Despite these redistributions, the current investees of the Fund can continue to support their clients in overcoming these challenging times by the funding provided. The impact results of these efforts are presented in the following chapters.

Happy readings,

**Cardano & FMO**



## 3. Closing the finance gap for SMEs

SMEs are the engines of global economic growth and employment creation. They account for an average of 33% of GDP and 45% of the workforce in high-income countries and over 40% of GDP and 70% of the jobs in developing countries<sup>1</sup>. In both developed and developing countries, SMEs generally represent more than 90% of the enterprises<sup>2</sup>. According to estimations of the UN, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world<sup>3</sup>.

SMEs are more likely to generate jobs, and at a faster pace, when they have access to finance. All the while, lack of access to finance is one of the biggest hurdles small businesses face that prevent them from growing and creating jobs. Banks play a key role in providing this much needed financing to SMEs. At the same time, an increasing number of innovative players is entering the market space, offering new products and services to the SME clientele.

### THE SIZE OF THE FINANCE GAP

One of the key barriers to SME growth in developing countries remains insufficient access to finance. SMEs often face difficulties in securing bank loans as their financing needs are often too large and too complex to qualify for microfinance. Regular banks are also reluctant to engage with MSMEs due to higher transaction costs, relatively small exposures and the lack of adequate collateral. The International Finance Corporation (IFC) estimates that 65 million firms, or 41% of formal MSMEs in developing countries, have an unmet financing need of US\$ 5.1 trillion every year, which is equivalent to 1.3 times the current level of the global SME lending<sup>4</sup>. Focussing on SMEs, on average, 32% of formal SMEs in all developing countries are fully constrained, 12% are partially constrained and 56% are unconstrained to access to formal financial credit<sup>5</sup>.

### STRATEGIC INTENTION TO GROW SME FINANCE

SMEFF was launched in 2013 to capitalise institutional investments with the intention to support further development of the SME sector in emerging markets. By providing financing for SMEs with a long-term character, Cardano and FMO aim to provide growth capital to those SMEs facing difficulties when obtaining access to capital. Therefore, three impact themes are formulated:

- Realisation of social-economic impact through facilitating and contributing to improved access to finance for SMEs (i.e., closing the financing gap);
- Realisation of economic impact through the financing of economic activities through local banks, which in turn results in private sector development and employment creation;
- Realisation of social impact in the SME sector by financial institutions through capacity building and quality improvement regarding responsible business development. This is realised as a result of support activities by FMO.

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<sup>1</sup> World Bank. SME Finance. Available from: <https://www.worldbank.org/en/topic/sme/finance> (accessed on 16 May 2023).

<sup>2</sup> World Bank. SME Finance. Available from: <https://www.worldbank.org/en/topic/sme/finance> (accessed on 16 May 2023).

<sup>3</sup> United Nations. Micro-, Small- and Medium businesses Day. Available from: [Micro-, Small and Medium-sized Enterprises Day](https://www.un.org/en/observances/micro-small-and-medium-businesses-day) (accessed on 10 May 2022).

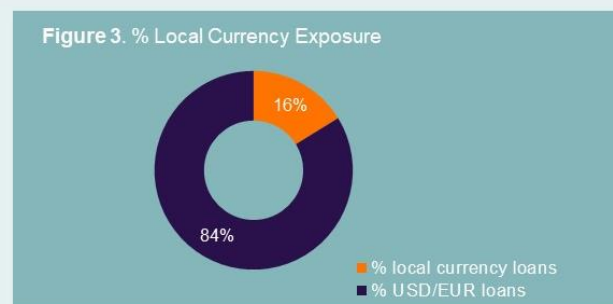
<sup>4</sup> World Bank. SME Finance. Available from: <https://www.worldbank.org/en/topic/sme/finance> (accessed on 12 June 2022).

<sup>5</sup> SME Finance Forum. MSME Finance Gap. Available from: [MSME Finance Gap | SME Finance Forum](https://www.smeff.com/en/MSME-Finance-Gap) (accessed on 12 June 2022).

## 4. Impact highlights

The Fund (re-)invested just over € 9.2 million during 2022. At the end of 2022, the Fund had 36 Financial Institutions (FIs) in the portfolio spread over 25 countries. 16% of the NAV is provided in local currency loans. Over the year, 2 new FIs were added to the portfolio and 1 FI received a reinvestment while 8 other companies fully repaid their loan. Through the (re-)investments of 2022, the Fund has provided access to finance to an estimated additional 122 SMEs, which in turn, supported 1,055 jobs.

In total, all financial institutions in the portfolio at year-end 2022 are financing 255,578 SMEs. The number of SMEs that can be attributed to the Fund is 1,009 SMEs. In total, the estimated number of jobs supported by these 1,009 SMEs is 6,109<sup>6</sup>. This means that 6109 households (or 30,545 household members<sup>7</sup>) are benefitting from higher incomes or more secured incomes. Moreover, the Financial Institutions in the portfolio themselves are also an important employer in the local economy and is for more than 51k people a source of income.

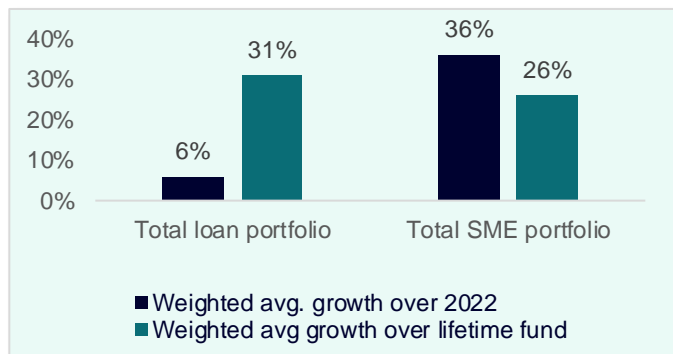


## SME portfolio growth

The aggregate outstanding portfolio of SME loans by the FIs in the portfolio amounts to **€10,04 billion** (down € 1,86 billion from 2021), representing on average **43%** of their total loan portfolios. Figure 4. presents the growth of the total loan portfolios and the SME portfolios of the FIs both since the year these institutions entered the Fund and over 2022 only.

<sup>6</sup> Attributed impact results are calculated with support of following formula:  $\sum(\text{Annualized investee-level impact results portfolio company } 1-x) \times (\text{investment amount company } 1-x / \text{value portfolio company } 1-x)$

<sup>7</sup> The global average household consists of 5 persons. Source: <https://www.pewresearch.org/short-reads/2020/03/31/with-billions-confined-to-their-homes-worldwide-which-living-arrangements-are-most-common/>



The average weighted growth of both the SME portfolio (positive growth of **36%**) as well as the total loan portfolio (growth of **6%**) has increased in 2022 compared to 2021. This indicated that the local SMEs overcame the economic setbacks caused by the COVID-19 pandemic. In 2021, SMEs have had problems to survive, and possibly therefore local entrepreneurs had a limited need for growth capital from financial institutions. This is likely the reason for the negative growth in 2021.

We are glad to see that the total growth over the lifetime of the Fund is continuing and significant: **31%** weighted average growth of total loan portfolios and **26%** of weighted average growth total SME loan portfolios).

## 5. Impact Highlights over Fund Lifetime

### Investor contribution

Since the inception of the fund in 2013, the total amount invested in local financial institutions has grown modestly. Figure 5 provides an overview of the annual amount invested and the aggregated amount invested over the years. Because SMEFF entered its wind-down phase and started distributing capital back to its investors there is a decrease in annual invested amounts since 2019.

Due to the recycling capacity of the Fund, the committed capital has been re-invested 2.3 times over the lifetime of the fund. The initial €153 million committed capital enabled the Fund to invest more than **€ 353 million** with a multiply effect on the total impact of the Fund.

Over the lifetime of the Fund, the portfolio has supported many different FIs. These FIs receive finance to on-lend to local SMEs. In some cases, FMO provided support as well to develop or improve the financial institution's E&S Risk Management (see further section 8 below). All FIs in the portfolio serve SME and our investments are targeted to support those institutions dedicated to grow their SME portfolio.

### Contribution to local SME sector and employment

In total, all FIs supported by the Fund have an average weighted increase of their gross SME loan portfolio of **31%** (year-end 2022). This indicates that, over the lifespan of the Fund, the selected financial institutions on average lived up to their strategic intention to grow their SME portfolio. This growth enables local SME companies to attract tailor-made financing to support the development of their business.

Ultimately, the Fund invests in FIs in emerging and developing markets with the aim to provide investors with a market-based financial return, while at the same time contributing to closing the finance gap for SMEs, foster a dynamic SME sector and contribute to job creation and economic growth. Since its inception, the investments of the Fund are contributing to increased financial inclusion for local SMEs and the total



*Despite the economic difficulties caused by Covid-19 and the increased food prices, the overall SME portfolio of the financial institutions invested in, grew by 31% over the lifetime of the Fund.*



attributed<sup>8</sup> outreach of the fund is **7,901 SMEs** over the Fund lifetime. Unfortunately, we do not have the aggregated number of jobs sustained that can be attributed to the fund since inception. However, based on the JIM model<sup>9</sup> we can estimate the total attributed number of jobs sustained through our outstanding investments by year-end 2022. Based on this model, the Fund contributes to sustain **6,109 jobs** and so indirectly contributes to local economic development.

**Figure 5. € Amount impact capital invested**



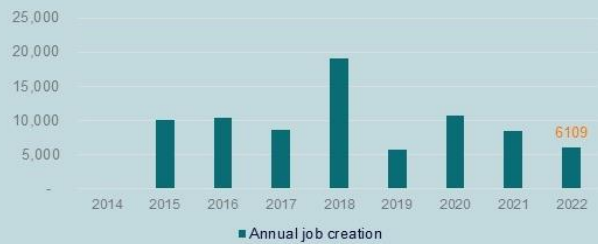
**Figure 6. # Unique Financial Institutions funded**



**Figure 7. Estimated # SMEs supported with access to capital**



**Figure 8. Estimated # jobs supported**



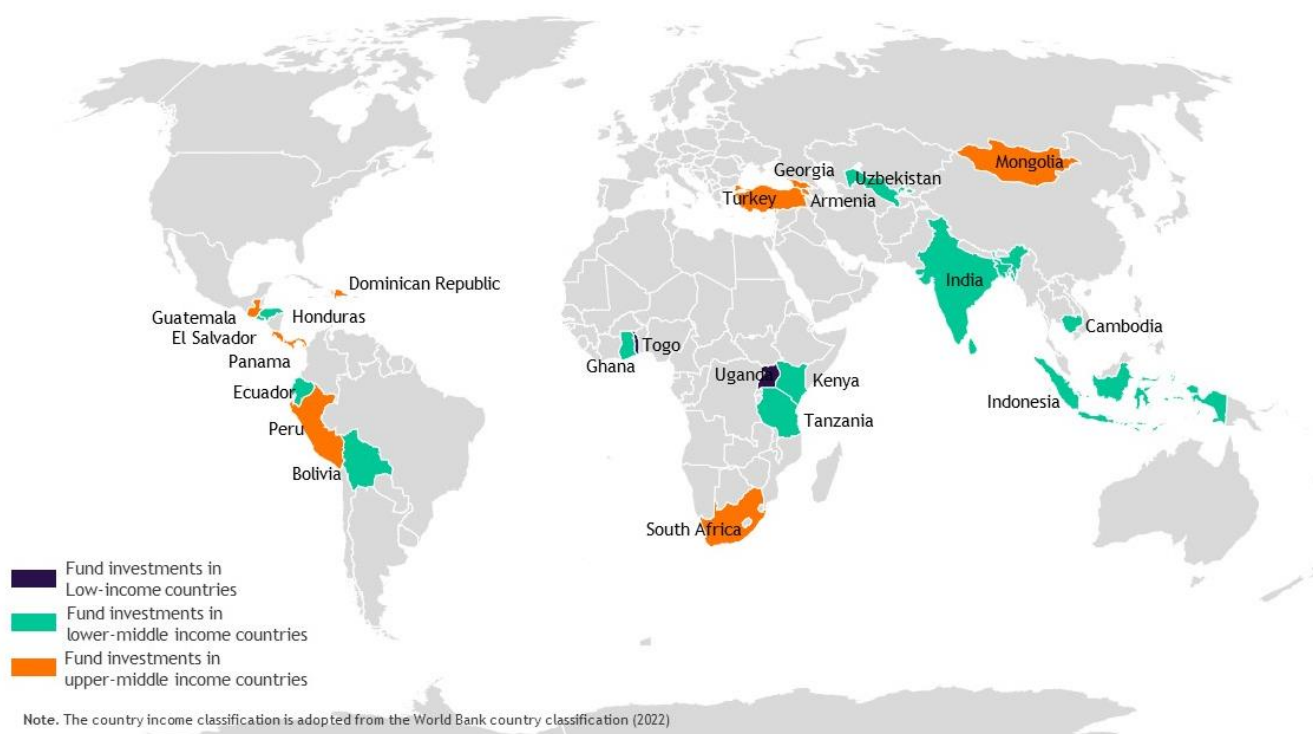
<sup>8</sup> Our attributed outreach is not the total number of SMEs reached by the FIs but only the % of SMEs that is related to the % of our outstanding amount on the total assets of a financial institution.

<sup>9</sup> Joint Impact Model is a model developed by Steward Redqueen together with FMO and several other Development Financial Institutions to estimate the indirect job creation of investments in emerging markets (<https://www.jointimpactmodel.org/>).

## 6. Portfolio Overview

The portfolio investments are in 25 emerging and developing countries. The majority of the countries has a lower-middle (12) and upper-middle income classification (11) according to the World Bank 2022 database. Below an overview of the global exposure of the portfolio by year-end 2022.

**Figure 9.** Fund portfolio country exposure overview as per year-end 2022



<b>LATIN AMERICA</b>					
2021	44%	5,928	16	-	1,999
2022	46%	3,923	12	81,886	2,266
<b>AFRICA</b>					
2021	11%	1,593	8	-	187
2022	12%	905	5	14,394	842
<b>EASTERN EUROPE AND CENTRAL ASIA</b>					
2021	18%	849	6	-	2,724
2022	14%	1,104	6	14,128	537
<b>ASIA</b>					
2021	27%	3,480	16	-	794
2022	28%	4,107	12	145,170	2,465

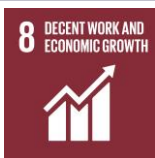




= % of fund portfolio invested = Outstanding SME portfolio of the financial institution (€ mln) = Number of financial institutions financed = Total SMEs outreach of all FIs in region = Total number of jobs supported by all FIs in region

## 7. Sustainable Development Goals

The UN SDGs recognise the role of SMEs to “promote strong, inclusive and sustainable economic growth” and “decent work for all” (SDG 8). Access to finance is a one major challenge for SMEs and the SDGs contain a call for development-oriented policies that encourage their growth and formalisation (SDG 8.3). It also calls for the integration of small-scale firms, from developing countries, into global value chains (GVCs) (SDG 9.3) (OECD, 2017).

Figure 6 provides an overview of the Fund's contribution to several key SDGs. During 2022, the portfolio share targeting SDG 13 (climate action) increased by slightly by 2 percent point, the percentage for SDG 10 (reducing inequalities) went up to 49% from 32%. It is noteworthy that this label can be given to either financial institutions with a business or business line which aims to reduce inequalities, but that label may also be given to financial institutions merely because they operate in least developed countries. In this portfolio almost all have received the label because of their business or business lines thus specifically targeting market segments which are considered to reduce inequalities. The percentage investees explicitly contributing to SDG 5 (gender equality) reduced from 7% to 5.8% is a subsegment of those who have received the SDG 10 label. The percentages are calculated based on the outstanding value per loan versus the value of the total outstanding portfolio.

**Figure 6.** Overview of the Fund's contribution to the SDGs

# SDG	% Portfolio FI contributing to SDGs	How FIs invested in SDGs
 8 DECENT WORK AND ECONOMIC GROWTH	100% (100%)	The Fund invests in financial institutions in Lower and Upper Middle Income countries targeting SMEs. SMEs are often considered to be the engine of economic growth as nine out of ten new jobs worldwide are created by small businesses.
 10 REDUCED INEQUALITIES	49% (32%)	Some of the financial institutions invested in have specifically developed products targeting groups that generally have more difficulty to access financial products and services. Examples are loans targeting rural SME's or women-owned SME's. Also, general SME financing in least-developed countries (LDC's) <sup>10</sup> qualify as supporting SDG 10.
 13 CLIMATE ACTION	19% (17%)	Several financial institutions invested in offer specific products that stimulate 'greening' of the economy. Examples are financing of an electric vehicle fleet or loans for energy efficiency projects.
 17 PARTNERSHIPS FOR THE GOALS	100% (100%)	The partnership between FMO and Cardano enables FMO to deploy more private capital to its clients than it would have without the Funds investments.
 5 GENDER EQUALITY	5.8% (7%)	Some of the financial institutions invested in offer specific products for female entrepreneurs or target companies with >50% female employees.

<sup>10</sup> [UN list of least developed countries | UNCTAD](#)



Portfolio Company in the Spotlight



## Agriculture as motor for food security

The Latin America and Caribbean (LAC) region is important in providing food and ecosystem services—not only within the region, but across the world. Soybean, fruits and vegetables, sugar, and coffee are just some of the leading exported goods from countries and islands in this region. In fact, it's estimated that 16% of all global food and agriculture exports come from the LAC region.

While the agribusiness sector has shrunk in the last decades as economies have further industrialized and digitized, it still plays an important role. Agribusiness is responsible for 20% of the GDP in some countries in the region, and more importantly, an important source of employment in rural areas. Agribusiness can be a catalyst for long-term development and job creation—if done sustainably. Human rights and environmental and social (E&S) risks must be taken into consideration to ensure sustainable land use and forestry practices. As production and exports increase, simultaneous strengthening and restoring ecosystems to contribute to climate resilience in the long run must occur. Certainly not an easy task—but there are those that are up to the challenge.

## Targeting SMEs in agribusinesses

Supporting the agribusiness sector's development LAAD is a non-deposit taking bank that provides financing to SMEs in the agribusiness sector across the LAC region. Founded in 1969s, they have focused on encouraging rural development and bolstering food security since then. They have 18 offices, allowing them to reach 26 countries across Latin America and the Caribbean.

## Agribusinesses for development

LAAD supports thousands of jobs through the several hundred loans it provides each year. Due to their deep local knowledge and network, they have been able to grow their portfolio consistently over the years. This makes them the preferred partner of most SMEs, which is an underserved segment. Even if commercial finance is available, most SMEs would rather partner with LAAD thanks to the bank's deep knowledge, flexibility, and decades of experience.

LAAD has a tailored approach per country. The company works with a lean team structure allowing them to remain flexible and quickly adapt to volatile macroeconomic conditions. While commercial banks may exit more quickly following tougher circumstances, LAAD continues to provide financing to its customers, particularly when it's most needed.

## 8. Socially and environmentally responsible investments

The Fund aims to support the SME sector in an environmentally and socially responsible manner. Given that the Fund reaches SMEs through local financial institutions, the environmental and social risk management and corporate governance (ESG) of these institutions is assessed by the investment committee. Every financial institution should conduct its business in accordance with the defined minimum standards in relation to issues such as human rights, environmental impact, or corruption. FMO has long-term experience and builds on a broad and in-depth internal expertise in its engagement with its clients to stimulate the application of the highest ESG standards.

### ENVIRONMENTAL AND SOCIAL PROFILE OF THE PORTFOLIO

SME portfolios generally witness little exposure to environmentally or socially sensitive activities such as infrastructure, mining or large-scale textile industry. Hence the majority of the Fund's portfolio is classified in the E&S risk category FI-B (medium risk - 21 institutions) or FI-C (low risk - 9 institutions). The portfolio contains five institutions with an elevated E&S risk profile (category FI-A - high risk). For high-risk entities, the portfolio snapshot (chapter 9) presents further detail on the risk management and if an E&S action plan is part of the loan documentation. The appendix presents details on E&S categorisation and the Responsibility & Impact policy of the Fund.

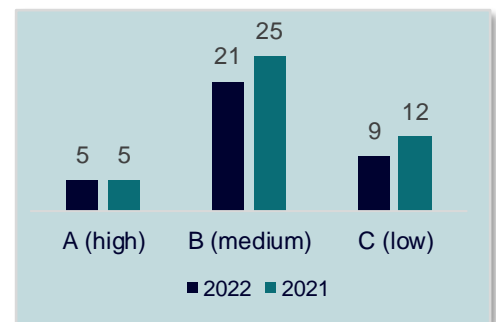


Figure 7. E&S Risk classification

### ADDING VALUE ON E&S

Dedicated E&S specialists within FMO engage actively with all E&S category FI-A and where warranted, category FI-B clients. The level and exact focus of engagement depends on the type and severity of impact and/or the extent to which they pose a risk to the client, FMO and the Fund. Since FMO launched its latest human rights position statement in September 2017, FMO has further strengthened its due diligence process specifically around contextual risks. Since 2020 also for FI clients a human rights implementation handbook has been developed as part of the due diligence and review processes.

### END-CLIENT PROTECTION

The primary standards that guide FMO's relationship with clients are the IFC Environmental and Social Performance Standards and the associated World Bank Group Environmental Health and Safety Guidelines. They cover the larger part of the ESG requirements in the OECD Guidelines on Multinational Enterprises, which also reference the UN Guiding Principles on Business and Human Rights. FMO requires clients to assess the likelihood and severity of impact on human rights as part of their assessment of social and environmental impact, and to implement mitigation measures in line with the IFC Performance Standards.

Where deemed relevant, FMO works actively with the companies in the portfolio on disclosing information, involve end-clients in product development and planning, disclosure and dissemination of information, consultation and participation, grievance mechanism, and ongoing reporting to affected communities.

## 9. Responsibility & impact guidelines of the Fund

The Fund does not only concentrate on realizing an attractive financial return. It also aims to make socially and environmentally responsible investments, hereby providing investors with an attractive financial return while at the same time contributing to fostering a dynamic SME sector in developing and emerging economies. Accountability is a key feature with respect to all businesses and products operated by Cardano and FMO. Therefore, all of the Fund's investments should, as a minimum, comply with the Cardano Fundamental Investment Principles<sup>11</sup> and as a minimum, make sure that all financial institutions invested in operate in line with applicable international standards, such as the ILO Fundamental Labour Conventions<sup>12</sup> and the IFC Performance Standards<sup>13</sup>.

Screening of financial institutions and their SME portfolios on environmental and social performance is an integral part of the investment selection process. In order to ensure that the Fund can measure and monitor the environmental and social performance the financial institutions underlying the Fund Investments should commit themselves to the following requirements:

- Systematic management of the environmental and social performance based on a policy framework that is guided by national laws and/ or the IFC Performance Standards; and
- Systematic environmental and social risk assessment, monitoring and reporting with respect to the SME portfolios.

In addition to the environmental and social screening the Fund will also take into account the economic and social impact a Fund Investment generates. In order to ensure that the Fund creates real and measurable impact, the Fund Manager has identified a number of key themes on which it aims to distinguish itself as a committed responsible impact investor:

Realization of social-economic impact through facilitating and contributing to improved access to finance for SMEs;

- Improvement of the financial institution's management of environmental and social risk and performance as a result of support activities by the Investment Manager;
- Realization of economic impact through the financing of economic activities through local banks, which in turn results in private sector development and employment creation; and
- Realization of social impact in the SME sector by financial institutions through capacity building and quality improvement regarding responsible business development.

The Fund Manager will report on these themes at least on an annual basis. Finally, the Fund is aligned with FMO's E&S approach for Financial Institutions<sup>14</sup> which follows the EDFI Harmonized E&S Procedures and Standards for Financial Institutions. Key to this policy is the categorisation of its investments in different levels of Environmental and Social (E&S) risk, similar to IFC's approach to E&S risk categorization, which is also used by all European Development Finance Institutions (DFIs). For direct

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<sup>11</sup> [https://www.actiam.nl/nl/documenten/verantwoord/Documents/Fundamental\\_Investment\\_Principles\\_Companies.pdf](https://www.actiam.nl/nl/documenten/verantwoord/Documents/Fundamental_Investment_Principles_Companies.pdf)

<sup>12</sup> "ILO Fundamental Conventions" means the requirements as applicable to the Borrower on child and forced labour, discrimination and freedom of association and collective bargaining, stemming from the ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998 and covering: (i) freedom of association and the right to collective bargaining, (ii) the elimination of forced and compulsory labour, (iii) the abolition of child labour and (iv) the elimination of discrimination in the workplace. Please refer to [www.ilo.org](http://www.ilo.org)

<sup>13</sup> "IFC Performance Standards" means the framework on IFC's Performance Standards (PS) on Social and Environmental Sustainability (including the technical reference documents known as World Bank Group Environmental, Health, and Safety Guidelines);

- all IFC Performance Standards (2012), and
- all World Bank Group Environmental, Health, and Safety Guidelines

<sup>14</sup> <https://bit.ly/2JnkAt1>

investments (project and corporate finance), risk categorization is based on the client's activity, IFC Performance Standards triggered transactions <sup>15</sup>and prevailing country specific ESG challenges. With regard to financial institutions the risk categorization is made on the basis of the banks existing or proposed portfolio, IFC Performance Standards triggered transactions and prevailing contextual risks<sup>16</sup> including Human Rights related risks<sup>17</sup>. The following E&S risk-categories are distinguished (following the IFC's Environmental and Social Risk Categorization Framework):

FMO's E&S categorization of financial intermediaries			
	Financial Institutions High Risk (FI-A)	Financial Institutions Medium Risk (FI-B)	Financial Institutions Low Risk (FI-C)
<b>Category definition</b>	FIs <sup>1</sup> with business activities or projects with significant potential adverse social or environmental impacts or risks.	FIs with business activities or projects with limited potential adverse social or environmental impacts or risks	FIs with business activities or projects with minimal or no adverse social or environmental impacts or risks.
<b>Basic categorization criteria</b>	High E&S risk sector / activity <sup>2</sup> exposure is > 20%.	High E&S risk sector / activity exposure is < 20%.	FIs with a predominant focus (> 80 % of total portfolio) on retail clients or micro businesses



<sup>15</sup> Project Finance/long-term corporate finance with a tenor of not less than 36 months and funding of defined assets as part of a project/transaction amounting to

- a) at least USD 10 million of total capital cost (applicable to Project Finance and Project Related Corporate Loans) or
- b) a loan size of at least USD 5 million (applicable to Project Finance, Project Related Corporate Loans and non- project-related corporate loans.

<sup>16</sup> E.g. Indigenous people / Land rights / Water / Deforestation

<sup>17</sup> [https://www.fmo.nl/library/download/um:uuid:c0240734-e58f-49d3-b5b3-8f88d8c20ab0/position+statement+human+rights.pdf?format=save\\_to\\_disk&ext=.pdf](https://www.fmo.nl/library/download/um:uuid:c0240734-e58f-49d3-b5b3-8f88d8c20ab0/position+statement+human+rights.pdf?format=save_to_disk&ext=.pdf)

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