

**DISCLOSURE STATEMENT**  
**OPERATING PRINCIPLES FOR IMPACT MANAGEMENT**

AlphaMundi Group

31 March 2022

AlphaMundi Group (“AMG”) is a founding signatory to the Operating Principles for Impact Measurement (“the Principles”). The Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

AMG hereby affirms that its investment assets are managed in accordance with the Principles. The total assets under management (AUM) in alignment with the Principles is USD 43 million as of 31 March 2022.<sup>1</sup>



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<sup>1</sup> The information contained in this Disclosure Statement has not been verified or endorsed by International Finance Corporation, the World Bank or any member of the World Bank Group or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of International Finance Corporation, the World Bank or any member of the World Bank Group. None of International Finance Corporation, the World Bank or any member of the World Bank Group shall be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, “Affiliate” shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

**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.

AlphaMundi has embedded impact in its DNA since inception. This is legally reflected in the Fund offering documents for both the SocialAlpha Investment Fund (SAIF) in Luxembourg and the AlphaJiri Investment Fund (AJIF) in Mauritius. Both Funds' investment strategies specify that investments must be in impact ventures with the following language in the SAIF private placement memorandum (PPM): "The Sub-Fund aims at improving the lives of the poor by scaling investment in strategic and sustainable impact ventures in sectors such as microfinance, affordable education, fair trade agriculture and renewable energy... In pursuing this sustainable investment objective, the Sub-Fund falls within the scope of article 9.2 of the Regulation (EU) 2019/2088 of the European Parliament and the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "SFDR")." The same holds true in the AJIF PPM: "Through its investment activities, the Fund will target Investments primarily (more than 80%) in SMEs in the sustainable food & agriculture and renewable energy sectors, using a value chain approach, with a climate-smart and fair-trade orientation... The Fund will invest in companies that are willing to track and report on key impact metrics... The Fund will use the IRIS catalogue of generally accepted performance metrics and will supplement with proprietary metrics as needed."

- AlphaMundi's investment strategy aligns most closely with 6 of the UN Sustainable Development Goals (SDGs), including SDG 1 (No Poverty), SDG 4 (Quality Education), SDG 5 (Gender Equality), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth) and SDG 12 (Responsible Consumption and Production).
- Independent verification takes place through the AlphaMundi Foundation 501c3 on a triennial basis.

**For Principle 2 - Manage strategic impact and financial returns at portfolio level:** 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.

- AMG portfolio company impact is evaluated before companies are presented to the Investment Committee (IC). Due diligence memos include a section dedicated to describing the impact elements of the company, including direct impact with clients (e.g. consumer of the good or service) and indirect impact with beneficiaries (e.g. household members of the consumer of the good or service).
- Social, economic, environmental and governance metrics are identified across the portfolio and regular reporting requirements are agreed upon with portfolio companies and outlined in promissory notes that legally require companies to report on their impact. AMG considers failure

to submit impact data on time an event of default. In some instances, AMG assigns specific pledges or milestones around impact, depending on the company and context.

- These metrics span a broad range of indicators that include sex-disaggregated data for board members, staff and clients, and also units sold, agriculture yields, impacts on livelihoods, CO2 reduction and other environment indicators, etc. Indicators are selected based on business model, sector, geography and other considerations and generally drawn from IRIS+, the generally accepted system for measuring, managing and optimizing impact.
- To gauge and monitor progress at the portfolio level, AMG aggregates the impact data collected from all portfolio companies, tracked in spreadsheet format, and reports this to investors via newsletters and annual reports on social media and affiliated websites. As SAIF is open-ended with constant uncertainty around AUM, it is difficult to establish strict impact targets. However, investments are screened such that new companies to the portfolio will enhance or have the potential to enhance the overall impact of the Fund.

**For Principle 3 - *Establish the investor'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.<sup>2</sup> The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- AMG seeks to achieve impact for each investment through both financial and non-financial channels. Through financial channels, the Firm's investment strategy is to provide short- to mid-term loans and purchase minority equity stakes in impact ventures to help them address a financing gap when traditional financial markets fail. Funds are typically used for working capital such as inventory purchases, the offering of additional credit and financial products to individuals and small and medium enterprises (SMEs), or in some cases capital expenditures. AMG facilitates flexible financing that companies cannot access from local banks. AMG typically considers an investment when the company is at an inflection point in its growth and the financing provided can be catalytic in scaling the business – positively impacting both employees and end customers. This narrative is incorporated into promissory notes and is tracked on a regular basis through financial and impact metrics reporting and on a qualitative basis through monitoring calls, site visits<sup>3</sup> and surveys. Since AMG provides predominantly debt financing, the firm can assess the contribution to the achievement of impact by looking at the uses of their debt financing: expanding the loan portfolio of a microfinance institution, purchasing a set amount of renewable energy systems, purchasing equipment for operations, or perhaps hiring additional personnel for business expansion. AMG can also compare its loan sizes and rates against the market to see if they are indeed being additional.

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<sup>2</sup> For example, this may include improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

<sup>3</sup> Due to travel restrictions related the COVID-19 pandemic, in person site visits for the period have been limited.

- Beyond financial capital, AMG often supports companies with other types of technical assistance (TA) including support with governance, operations, financial planning, and fundraising. This non-financial supported coupled with the loan product are designed to enhance the potential impact of each investment. Effectiveness of non-financial support is measured by qualitative surveys of portfolio company CEOs every two years.
- The AlphaMundi Foundation 501c3 (AMF), founded in 2016, offers an additional opportunity for the Group to add value to investee companies, for instance by deepening or accelerating gender equity, providing pre- and post-investment technical assistance for product innovation or market testing, and supporting impact measurement and management efforts of investees.
- Independent verification takes place through AMF on a triennial basis.

**For 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<sup>4</sup> 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?<sup>5</sup> 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<sup>6</sup> and follow best practice.<sup>7</sup>

- The expected impact of each investment is defined in the investment proposals in the Projections section. While the emphasis of this section is on financial projections, increased revenues are always linked to an increase in impact based on reaching new clients or selling new products and services. Prior to making an investment, AMG assesses where it believes the company can be in the two years following the investment and how AMG capital can be catalytic in achieving this

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<sup>4</sup> Focus shall be on the material economic, social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive stakeholder governance effects derived from the investment.

<sup>5</sup> Adapted from the Impact Management Project ([www.impactmanagementproject.com](http://www.impactmanagementproject.com)).

<sup>6</sup> Industry indicator standards include HIPSO (<https://indicators.ifipartnership.org/about/>); IRIS ([iris.thegiin.org](http://iris.thegiin.org)); GIIRS (<http://b-analytics.net/giirs-funds>); GRI ([www.globalreporting.org/Pages/default.aspx](http://www.globalreporting.org/Pages/default.aspx)); and SASB ([www.sasb.org](http://www.sasb.org)), among others.

<sup>7</sup> International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

impact. As AMG operates across all sectors, there are nuances in how this is defined for each investment.

- AMG's framework for assessing impact is as follows: after finalizing the terms of all new investments, each company has a spreadsheet with financial, governance, operational and impact metrics defined. The AMG regional teams are responsible for incorporating financial and operational metrics from quarterly statements while the companies are responsible for reporting on impact and governance metrics. This data is entered into a master Google spreadsheet along with financial data entered from the AMG team from the companies' quarterly statements. This framework allows us to track the actual impact against our expected impact for the company.
- Looking forward and in an attempt to enhance AMG's systemic approach to impact measurement, AMG may intensify its guidance to investees for them to select impact indicators that serve their own management of the business and impact model. In doing so, AMG could (i) become a catalyst for unifying investors' perspective on impact metrics to be delivered by investees; (ii) enable investees to save resources spent on responding to diverging impact reporting requirements; and (iii) contribute to true impact management as part of the operating model of investees.

**For Principle 5 - Assess, address, monitor and manage the potential risks of negative effects 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)<sup>8</sup> 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.<sup>9</sup> 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.

- Potential negative effects of investment are evaluated during the due diligence process and monitored by the regional investment teams throughout the investment life cycle as changes to the business model, target customer, etc. arise. Because AMG strategy specifically targets impact ventures having a positive impact, most companies that are associated with higher negative impact risks are filtered out (e.g. higher carbon emitting companies, land development unless for sustainable organic agriculture etc.). Moreover, all companies that engage with AMG are required to review, complete and sign the AMG environmental policy that adheres to IFC requirements. In all loan documents, the Fund has the ability to demand immediate repayment if there is a breach

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<sup>8</sup> The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

<sup>9</sup> Examples of good international industry practice include: IFC's Performance Standards ([www.ifc.org/performancestandards](http://www.ifc.org/performancestandards)); IFC's Corporate Governance Methodology ([www.ifc.org/cgmethodology](http://www.ifc.org/cgmethodology)), the United Nations Guiding Principles for Business and Human Rights ([www.unglobalcompact.org/library/2](http://www.unglobalcompact.org/library/2)); and the OECD Guidelines for Multinational Enterprises (<http://mneguidelines.oecd.org/themes/human-rights.htm>).

in one of the impact covenants or a material change to the company or business model that might result in a negative effect.

**For Principle 6 - Monitor the progress of each investment in achieving impact against expectations and respond accordingly:** 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.<sup>10</sup> The Manager shall also seek to use the results framework to capture investment outcomes.<sup>11</sup>

- Please refer to Principle 4 for the framework for assessing impact. Data is predominantly self-reported by companies with AMG team validation to the extent possible with field visits (at least annually)<sup>12</sup> and corporate HQ visits and calls (quarterly), with additional reviews provided as necessary by consultants or TA providers.<sup>13</sup> Beyond the quarterly reporting, a full impact report is generated with data synthesized either by sector or SDG on an annual basis. The annual report, published by AMF, is typically released in the fourth quarter of the calendar year following the end of the Fund's fiscal year on 30 June. In calendar year 2022, AMG is undergoing a project to both validate our current data and re-assess our impact methodology. We are considering using the online reporting system of Proof of Impact to support data validation for SAIF, as a pilot.
- If AMG monitoring indicates that an investment is no longer expected to achieve its intended impacts, the first step is to identify the underlying cause(s) and assess if there is additional support, financial or non-financial, that could help the company. If AMG monitoring indicates a fundamental change in the business model of the company, then AMG reserve the right to demand immediate repayment of their loan.

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<sup>10</sup> Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.

<sup>11</sup> Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC ([www.oecd.org/dac/](http://www.oecd.org/dac/)).

<sup>12</sup> Due to travel restrictions related the COVID-19 pandemic, in person site visits for the period have been limited.

<sup>13</sup> TA providers that AMG or AMF have worked with in the past include Value For Women and Open Capital (Africa).

**For Principle 7 - Conduct exits, considering the effect of sustained impact:** When conducting an exit,<sup>14</sup> 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.

- AMG investments to date have been mostly self-liquidating as the Group, via its investment funds, provides amortizing debt capital. Thus, there is no separate exit decision or consideration. AMG policy is to require full amortization prior to issuing new loans. Any follow-on loans to well-performing companies will be subject to an additional due diligence process, re-assessing the mission and impact as well as the company's performance relative to impact and financial targets. All decisions for new loans (or restructuring of existing loans) must be approved by the Investment Committee. The AMG equity strategy is to hold minority stakes of 1%-5% of equity to provide upside to its fund investors or co-investors. As such, AMG is rarely able to affect the outcome of majority control changes or outright acquisitions. 2 of AMG's portfolio companies have been fully acquired so far, and in both cases, the strategic buyers preserved the business model and impact mission of the companies, as they were the key reasons for the acquisitions.
- Looking forward, AMG will continue to conduct full due diligence when proceeding with a follow-on investment to evaluate and address any mission drift.

**For 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.

- AMG reviews the portfolio on a weekly basis on team calls and more thoroughly on monthly Investment Committee calls and at the time of valuation reporting (quarterly). Lessons learned are documented in Investment Committee updates and company specific reporting. Lessons learned feed into an annual review of the AMG decision making process – often leading to a change in guidelines around investment criteria, especially for new loans and loan extensions.
- AMG's impact measurement and monitoring process has also continually evolved since inception based on these reviews. AMG is currently reviewing its framework for impact measurement and management, with a related report due for publication in 2022.

**For Principle 9 - Publicly disclose alignment with the Principles and provide regular independent verification<sup>15</sup> of the extent of alignment:** The Manager shall publicly disclose, on an annual basis, the

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<sup>14</sup> This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

<sup>15</sup> The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.

alignment of its impact management systems with the 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.

- Historically, SAIF was a GIIRS pioneer fund (since 2012) that was consistently ranked in the top 5 emerging market funds for impact business models. These reports were made available to investors and stakeholders upon request and the GIIRS reporting process was legally required by the Fund's offering documents.
- In 2018, GIIRS announced that they would retire this rating process. In April 2019, AMG joined as a Founding Signatory to the Principles. In 2020, the AMF Board of Directors established an autonomous committee to carry out the independent verification of the extent of AMG's alignment to the Principles, on a triennial basis.



This Disclosure Note re-affirms the alignment of AMG procedures with the Principles and will be updated every 3 years by a third party.

The independent assurance report on the alignment of AMG with the Operating Principles for Impact Management is available at: <https://www.alphamundigroup.com/impact-alphamundi/>

The verification will be replicated every 3 years.

Information on the most recent independent verifier is as follows:

- Background:

In January of 2020, the Foundation Board of Directors established the Principles Advisory Committee (“PAC”) to:

- Support AMG with the preparation of their public disclosure of alignment with the Principles; and
- Provide a Second Opinion of the Disclosure on a triennial basis, including:
  1. Prepare and review the draft version of the Disclosure;
  2. Conduct interviews with AMG staff and representatives from portfolio companies responsible for defining and applying the Principles;
  3. Provide a letter with an assessment of the Signatory’s alignment with the Principles.

- Name and Address: Brigit Helms, PAC Chair, [brigit.helms@alphamundi.ch](mailto:brigit.helms@alphamundi.ch)

- Qualifications:

The Advisory Committee draws on over 60 years of collective professional experience with deep expertise in impact measurement and management.

**Brigit Helms** is a member of the AMF Board of Directors and will serve as Chair of the PAC. Brigit brings over 25 years of experience in development assistance and impact measurement and management.

**Tenke Zoltani** is a member of the AMF Board of Directors and will serve as a PAC member and brings over 10 years of relevant experience, including building UBS Switzerland’s impact measurement methodology<sup>16</sup>.

**Uli Grabenwarter** is a member of the SAIF Board of Directors and will as a PAC member. Uli brings over 25 years of relevant experience, including in current role as the Trustee for the Global Steering Group for Impact Investing.

- Most Recent Review: April 2020
- Next Planned Review: April 2023

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<sup>16</sup> Note that Tenke Willems resigned from the BOD in June 2021.