cardano

AFIF Responsibility & Impact Report 2022

ABOUT CARDANO

As of 1 June 2023, the name ACTIAM N.V. ("ACTIAM") has officially changed to 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 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.

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Management note

2022 was another tumultuous year for humanity and business. The world has faced mutually reinforcing global crises arising from the pandemic, climate change, the invasion of Ukraine, global supply chain issues and food shortages. These events affect small-scale entrepreneurs and the impact is most severe on people living in poverty. The support to micro-, small- and medium-sized enterprises (MSMEs) and low-income people is even more evident during these times of crises. Last summer, for example, Pakistan faced extreme weather with shocking summer floods that covered one-third of the country with enormous impact for the end-clients of one of our portfolio companies. ACTIAM Financial Inclusion Fund ("AFIF") strives to help where possible. Increasingly, that means a focus on making investments that help build resilience to the inevitable climate disasters that disproportionately affect low-income populations around the world.

Investing in inclusive financial institutions can help build resilience through the products and services they offer, especially by diversifying financial services offered beyond loans. For example, saving deposits, remittances, and mobile banking services can help low-income people better protect and mitigate time of difficulties such as extreme drought or bad harvests. At the same time, MSMEs have demonstrated their durability in the past. Also during hardships, adaptive business models emerge as MSMEs are eminently entrepreneurial, flexible and innovative. Hence, supporting local entrepreneurship contributes to economic development and more resilient societies.

In 2022, Cardano has revised the impact strategy for AFIF and made small improvements to align with new sector initiatives, regulations and learnings. For example, we have adjusted our data collection tool to be able to report on the principle adverse impact (PAI) indicators, such as CO2 emissions and water usage. Not all financial institutions have this data at hand, but we are satisfied with the results of the first data collection round*. In this annual report, we present the non-financial results of the Fund over 2022. Besides reporting on impact numbers, we share client stories to illustrate how the Fund investments contribute to improved wellbeing of end-clients and their households.

As known, Cardano Risk Management B.V. has acquired ACTIAM N.V. as of January 1, 2021. So, 2022 was all about joining forces and achieving synergy between the two organizations. Impact Investing is central to the strategy of Cardano (please note where we used the name “ACTIAM” we now use “Cardano”) focused on stability, continuity and growth of the assets and impact. Finally, we close with a more personal note; this is the last impact report signed by Theo Brouwers. Because of his retirement, he is handing over his work to Rik Klerkx as of this year. Theo will remain involved with the Fund as an independent member of the Investment Committee.

THEO BROUWERS
Director Impact Investments 2022

RIK KLERKX
Director Impact Investments 2023

*Fund specific PAI results are published in Annex of Annual Report 2022, published at Cardano website.

Our story so far

Sustainability objective

The objective of AFIF is to realise measurable non-financial value with the Fund in the form of positive social impact. This is done by promoting access to responsible and affordable financial products and services for low-income households and MSMEs in emerging and developing countries. In doing so, the Fund is intended to contribute to the growth and development of MSMEs and the financial wellbeing of low-income households. In particular, the Fund invests with the following impact goals:

Three main impact goals drive AFIF's investments:

1. Enable access to responsible financial services for underserved populations with a focus on meeting their basic needs

2. Contribute to quality job creation and inclusive, sustainable economic growth through SME finance

3. Strenghtening women's economic empowerment to contribute to gender equality.

Our history

Cardano can be seen as a frontrunner in scaling up the microfinance sector. In 2007, Cardano impact investing has launched its first microfinance fund for institutional investors dedicated to generate positive, measurable, impact. Our first fund invested a total amount of EUR 300 million during its lifetime. Thanks to the positive financial and impact results a second and third microfinance fund and a dedicated SME finance fund has been incepted.

During the lifetime of the different funds we have supported numerous financial institutions serving 3.1+ million end-clients in more than 35 countries. Ever since, Developing World Markets (DWM) has been our Investment Manager supporting the Fund with deal sourcing, deal-making and monitoring*.

41%

formal MSMEs in developing countries lack access to finance which limits their growth

Source: MSME Finance Gap | SME Finance Forum

*In the selection of de Investment Manager, the available capacity and skills with regards to impact management are important criteria. This is also an important topic of the annual operational due diligence.

Financial inclusion

ACCESS TO FINANCE TO EMPOWER ENTREPRENEURS

Globally, about 1.4 billion adults have no access to an account at a financial institution or through a mobile money provider (World Bank, 2021*). Most of these people live in developing and emerging economies. This leaves them unable to access reliable credit or savings accounts. Most of them have low and unpredictable incomes, and lack the resources to cope with unexpected household needs, or to invest in a better future.

By increasing access to finance, AFIF supports the growth of local Financial Inclusion Institutions (FIIs). Our investments allow these organisations to enlarge their loan portfolio and provide responsible and affordable financial products and services to a larger number of low-income households and MSMEs. These market segments are usually excluded by traditional financial service providers.

Access to financial products helps low-income households and micro-entrepreneurs to deploy and grow business activities, increase their household income, cope with unexpected costs, and build a buffer for investments in health and education and have a form of risk insurance.

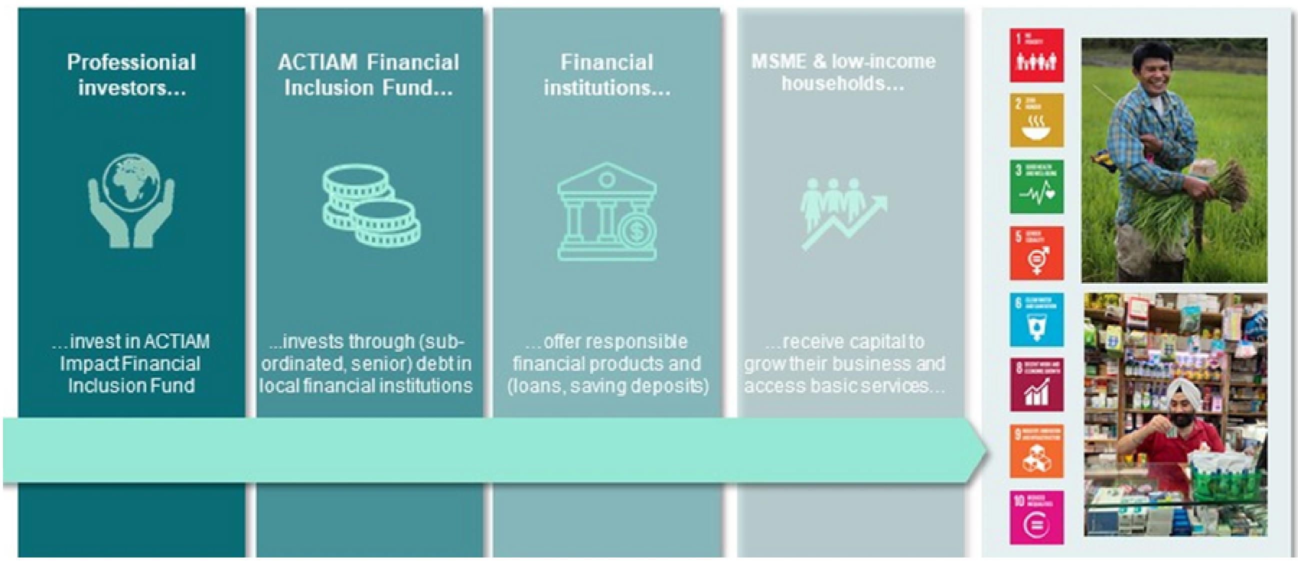
While investing in local FIIs, we focus on three key impact themes that are considered essential for sustainable development and social equality. These impact themes are:

- Financial inclusion of MSMEs
- Women's economic empowerment
- Access to basic services

AFIF prompts FIIs to increase their geographic and demographic outreach to address the needs of financially excluded population. Moreover, FIIs are stimulated to increase their transparency and optimally protect the interests of their clients. Finally, we require FIIs to improve the quality of their reporting on financial and non-financial performance according to generally agreed upon standards.

By focusing on these objectives, we seek to encourage the financial inclusion industry to maintain its social mission and responsibilities alongside financial health and the strengthening of client protection practices while focusing on providing access to finance in areas that remain underserved.

Figure 1. Visualisation of impact pathway AFIF



*Source: Worldbank Findex Report 2021: file:///C:/Users/s.groenewald/Downloads/9781464818974%20(2).pdf

Portfolio snapshot

Highlights year-end 2022

€156M
€ NAV FII loan portflio

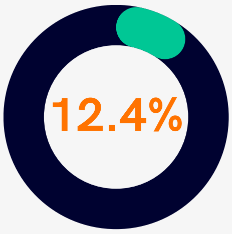
47
FIIs in portfolio

€3,3M
€ Avg. loan size to FIIs

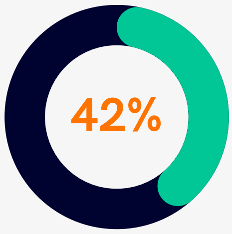
29
Countries in portfolio

11
Unique local currencies

58
disbursements (to 30 FIIs*)



% adjacent space
(mainly SME finance)



% Sub-ordinated debt &
senior loans

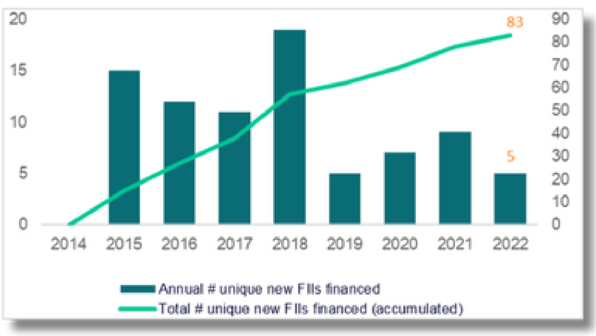


Figure 2. # unique FIIs supported

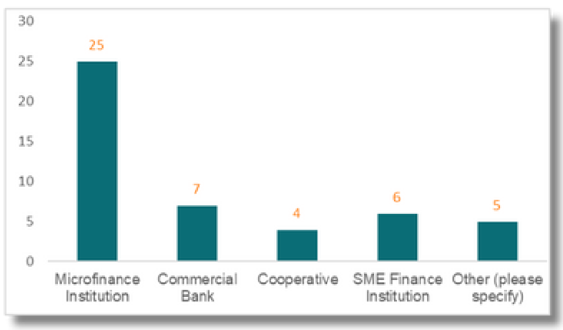


Figure 3. Division portfolio companies, per type of institution

Geographic presence

AFIF has invested in more than 35 countries across every developing region in the world. In 2022, with support of our Investment Manager DWM, we have expanded our portfolio to five new Financial Institutions (Figure 2) and one new country: Tanzania. We aim to have a highly diversified portfolio in terms of geographic exposure. Moreover, we focus our investments on countries with a low/lower-middle income or upper-middle income classification*. In particular, we support financial institutions in countries with a relatively high percentage of "unbanked" (people without a bank account) or countries with a large finance gap for MSMEs.

All financial institutions in our portfolio are explicitly targeting unbanked or underserved populations. The Fund has invested in 83 entities since its inception in 2014. The vast majority of the entities are microfinance institutions (Figure 3). We apply a buy and hold strategy, with longer term horizon, to be able to support investees over a longer time to help them realise their impact ambitions.

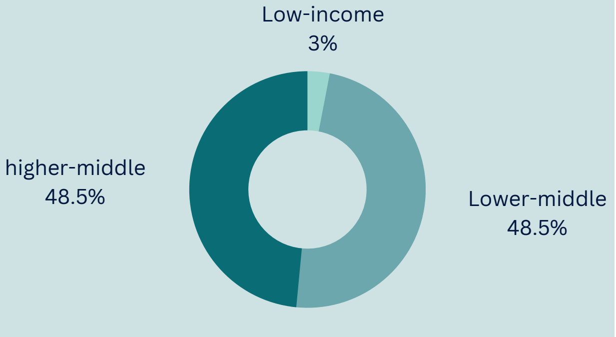


Figure 4. % FIIs division per country income classification*

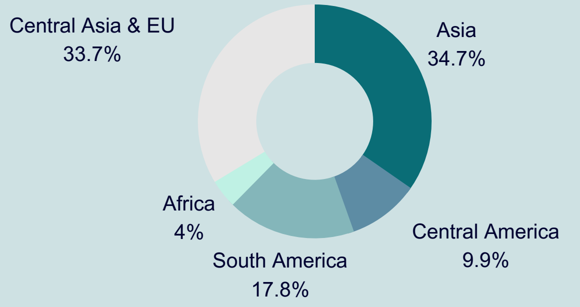
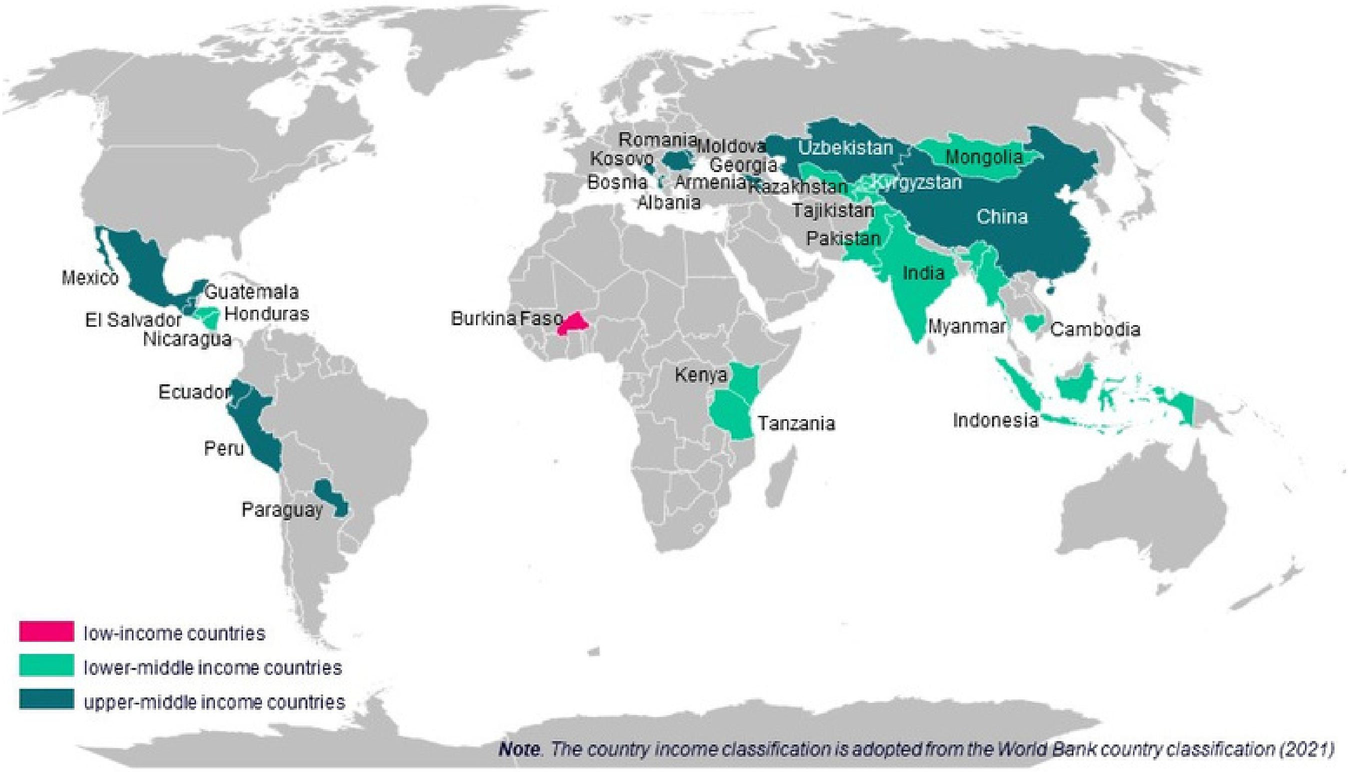


Figure 5. Exposure per region, 2022

Figure 6. Geograpic exposure portfolio per year-end 2022



*According to the World Bank Country classification (2021)

Impact highlights

Increasing financial inclusion

The Financial Institutions in AFIF's portfolio provide a range of financial products and services to MSMEs and low-income households. Together, they reached 14.1 million end-clients (year-end 2022, this is an increase compared to the 10.4 million clients served by year-end 2021). Over the year, we reached 12.3M people on average. Our attribution to this outreach was 196.633 clients over the year.

The majority of the end-clients we have supported over past the year are from underserved client groups: women (74%), people living in rural areas (62%) and people with a low-income/income below the national poverty line (68%). In total, 10% of all clients were previously unbanked individuals and entities, demonstrating progress in expanding financial services. This means that about 6 million household members can benefit from financial products and services and additional sources of income.

What	4,8M 1,2M €2,300	loans to micro-entrepreneurs provided first-time borrowers with access to capital average loan size micro-entrepreneurs
Who	68% 62% 74%	low/poor income households rural end-clients female end-clients
How much	12,3M 75,5%	total end clients reached of which micro-entrepreneurs
Contribution	196,633	end-clients served that can be attributed to our funding size
Risk	94%	FIs have implemented all 8 Client Protection Principles

Figure 7. 5 Dimensions of impact of Financial Inclusion

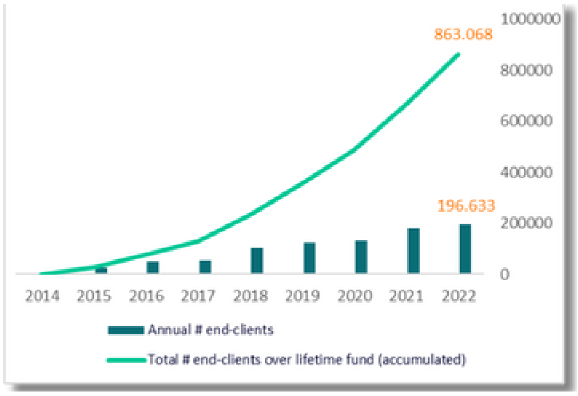


Figure 8. # End-clients supported (our attribution**)

The average amount of the outstanding loans differs significantly between the regions. Moreover, the average loan size outstanding to SMEs is significantly higher than the loan amounts offered to micro-entrepreneurs. The majority of the loans are individual loans. However, a significant part of the loans is obtained by a solidarity group (37%). Mutual trust and personal dignity are important factors underlying the high repayment ratios (up to 96% on average*) in microfinance.

*Microcredit, explained: how microcredit can help the world's poorest - Vox

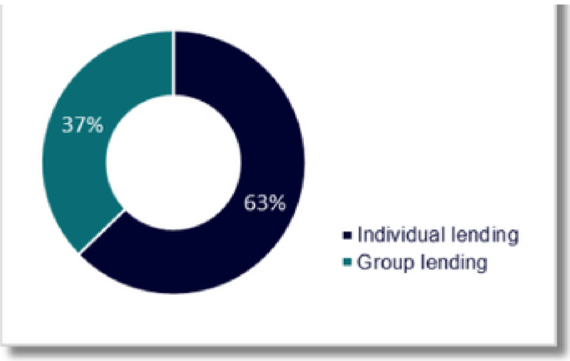


Figure 9. % Type of loan provided

Contribution to jobs and sustainable development

The Fund provides loans to small- and medium-sized enterprises (SMEs) with the objective to contribute to sustain and create local employment in emerging and developing countries. MSMEs that are able to grow their business with support of working capital or investment in new machinery can create additional jobs for employees. The MSMEs in the portfolios of the financial institutions we financed in 2022 have created/sustained 1.4 million direct/indirect jobs. The attributed number of jobs corresponding to our funding is 62.745 jobs created/sustained. To ensure the jobs created are decent jobs, we ask the financial institutions to develop an ESG policy for their portfolio companies to set standards on labour and working conditions. If there is no policy, we encourage a company to develop one.

What	**206k** **€26k**	Loans disbursed to SMEs average loan size to SMEs
Who	**169,090** **37,449**	small-scale businesses supported medium-sized businesses supported
How much	**1,4M**	direct/ indirect jobs supported through SMEs portfolio of financial institutions
Contribution	**62,7K**	direct/indirect jobs supported that can be attributed to our funding
Risk	**93%**	Financial Institutions have ESG policies to prevent adverse impacts through companies in their SME portfolio

Figure 10. 5 impact dimensions SME finance

CLIENT STORY

Investing in spinach for stronger economic position

ENTERPRENEURSHIP IN INDONESIA

Indonesia

Indonesia has made remarkable poverty reduction progress, with extreme poverty basically eradicated. However, more than one-third of Indonesians remain economically insecure. According to the World Bank, a combination of social assistance, social insurance, financial inclusion, and resilient infrastructure investments can help keep households out of poverty. However, 52% of total MSMEs in Indonesia are financially constrained. Especially low-income women lack convenient access to affordable credit and therefore are unable to invest in income generating activities.

Financing micro businesses

Bina Artha (BA) offers credits exclusively to women who do not have or only have partial access to the formal financial sector in Indonesia. In addition, BA provides access to business loans for small enterprises to support them achieving economic and social development. As of 2022, BA serves 476,942 clients, of whom 98% are women and 82% live in rural areas. The company works in a fair, transparent, efficient and sustainable manner and does rigorous checks to prevent over-indebtedness.

Micro loan to grow spinach business

Nursinah lives in Bekasi, West Java, a large suburban area east of Indonesia's capital city, Jakarta. She and her husband have four children, two of whom still live at home, while the other two are married and live with their spouses. Nursinah was working as a babysitter and putting her extra earnings into a spinach farming business. But working two full-time jobs left little time for her family, and the babysitting earnings were not enough to keep the spinach farming business afloat and growing. Nursinah approached banks for loans, but she didn't meet their collateral requirements.

Finally, in 2019, she found Bina Artha, a microfinance institution that offered collateral-free loans at competitive pricing and got a $200 loan. According to Nursinah, "Financing from Bina Artha allowed me to leave my babysitting job and focus full time on spinach farming. I have supported the education of my children and also got two of them married with the earnings of my business." Along with increased sales volumes, Nursinah feels she has "become more independent and attained somewhat higher economic stability" as a result of the business growth.

Investing in women

Gender gap

In 2021, 74% of men in developing economies had an account, compared to only 68% of women, reflecting a 6% gender gap. The gender gap in access to finance has narrowed, but it still exists, leaving 745 million women worldwide outside the formal financial system (1). Women-owned MSMEs also have less access to external finance than men-owned businesses (2). Increasing financial inclusion of women contributes to greater control over their financial lives, greater independence, and greater say over household budgets. Lack of economic independence for large numbers of women leads to lower decision-making ability, lower self-esteem, physical insecurity, and reliance on men. Digital financial services, such as mobile money accounts, has increased opportunities to better reach women and other traditionally excluded populations with financial products and services (3). However, this is not enough to bridge the gender gap; financial services must also be tailored to the needs and preferences of women.

Access to finance for women

Increasing financial inclusion for women is a specific objective of AFIF to enable them to gain their own income and strengthen their economic empowerment. FIIs can increase their female client base by a.o. offering tailored products and services to women, providing non-financial services such as training on financial literacy and leadership and by using delivery services designed to reach excluded women (e.g. digital banking services). AFIF supports FIIs that provide one or more of these services to meet women's needs (see box below).

In addition, the Fund follows the 2XChallenge set of indicators to assess the gender division among staff members and within the management board of the FIIs itself. 57% of the FIIs in the portfolio have more than 40% female employees, and 22% of the investees have at least 30% female board members managing the company. 43% of the FIIs have more than 30% female senior staff members.

End-clients

34%	of FIIs offering tailored products / services for women
32%	of FIIs offering mobile banking services
48%	of FIIs with >50% female client base
21%	of FIIs with >80% female client base

Financial Institution

57%	of FIIs have >40% female employees*
43%	of FIIs have >30% female senior leaders*
22%	of FIIs have > 30% female board members*

*2X challenge threshold

(1) Global Findex Database 2021 (Accessed, May 2023)
(2) Goldman Sachs: “Giving credit where it is due: How closing the credit gap for women-owned SMEs can drive global growth.” (2014)
(3) GIIN Framework: Evidence on Increasing Gender Equality through Financial Inclusion (2021)

CLIENT STORY

TANZANIA

Access to finance for women

The Fund has provided ASA Tanzania a loan in Tanzanian Shilling equivalent of USD3 million to increase access to finance for female entrepreneurs with micro or small businesses. The Fund has a current outstanding portfolio in 29 countries. It is the first investment of the Fund in Tanzania since its inception in 2007. Cardano has the ambition to grow AFIF's exposure in Africa.

In Tanzania, microfinance started in 1995 with SACCOS (savings and credit cooperative organization) and NGOs. Since then, the sector developed with the support of international financing. However, the sector remains relatively small with low market penetration. ASA Tanzania operates in 8 regions and serves more than 200.000 low-income women entrepreneurs. These women use their loans primarily for trade & commerce, with high shares in food and other essentials trading businesses, followed by clothing, grocery, and poultry. The company is client-focused and includes the feedback of their female clients in new product development(s). The company has a board of which two members are women. Cardano is happy to support ASA Tanzania in realizing their growth ambitions.

Female Entrepreneurship

Janet lives with her husband and two children in Tanzania's bustling capital city of Dar es Salaam. She owns and manages a small hardware shop, selling tools, materials, and plumbing fixtures to the local community. Janet became a client of ASA Tanzania in 2016 as a member of a lending group and graduated to an individual loan as she built her repayment history over nearly two years. During the six-year period since she first took out a loan from ASA Tanzania, Janet has steadily grown her business and helped to open a second shop. Her loan enables her to better manage cash flow by pre-paying rent on the shop and purchasing inventory to sell.

With her business income, she contributes to the household budget and has been able to pay for her children's education and save for medical expenses. Janet is continuing to build up her assets and now owns a house and a parcel of land. She looks forward to one day purchasing a storefront rather than renting as she does now.

Link to UN SDGs

Financial inclusion & UN SDGs

ACCESS TO FINANCE IS INSTRUMENTAL FOR REALISING SUSTAINABLE DEVELOPMENT IN EMERGING AND DEVELOPING MARKETS

Financial inclusion can empower people and creates opportunities to unlock development outcomes. Access to responsible and affordable financial products and services can be a mean for low-income households to obtain basic services such as healthcare, education, housing, improved sanitation and clean water installations. The United Nations Sustainable Development Goals (SDGs) recognize the importance of financial inclusion, addressing it in 7 of the 17 goals.

MOST FINANCIAL INSTITUTIONS WE PARTNERED WITH HAVE A MISSION OBJECTIVE LINKED TO ONE OR MORE OF THE 17 SDGS. SDG1 AND SDG8 RESONATE BEST WITH THEIR OBJECTIVE ALTHOUGH MOST PORTFOLIO COMPANIES HAVE A MUCH WIDER AMBITION.

Photo: Senior Indian women in winter. Getty Image Signature.

Figure 3. % FIIs that have their mission objective linked to the SDGs

Direct linkages to UN SDGs

THIS SECTION INCLUDES THE METHODS WHICH WILL EVALUATE THE PROGRESS IN ACHIEVING THE PROJECT RESULT.

Results portfolio at year-end 2022

1 NO POVERTY	Global access to financial services by 2030, including all men and women and in particular vulnerable people.	34% of end-clients has income below national poverty line 53% of FIIs are providing micro-insurances 98% of FIIs checks poverty level of end-clients
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	95% of FIIs have "Fair Recruitment Practices" policies 90% of FIIs have "Fair Career Advancement Policies"
10 REDUCED INEQUALITIES	Reduce inequality within and among countries	1,2M # first-time borrowers reached by FIIs financed 100% of investments in emerging/developing countries 15 Low-income / lower-middel income countries

Access to basic services & indirect linkages to UN SDGs

Acces to financial products and services enables people to invest in basic services such as food, affordable housing, clear energy, health and education services, drinking water and sanitation. Especially for low-income households, this is relevant as it helps to improve their livelihood.

Below, an overview of how financial services are related to basic services and how these are linked to the UN SDGs.

2 ZERO HUNGER	Access to financial services as a means to double agriculture productivity and incomes of small-scale food producers by 2030	**24%** of total micro loans are invested in agriculture **20%** of FIIs with >30% gross loan portfolio in agriculture **15%** of total gross loan portfolio is invested in agriculture
3 GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote well-being for all at all ages	**13%** of FIIs providing health insurances to clients **47%** of FIIs providing basic medical services to their staff **21%** of FIIs providing life insurances to end-clients **11%** of FIIs providing helath & nutrition training
4 QUALITY EDUCATION	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	**57%** of FIIs providing loans for educational purposes **64%** of FIIs providing Financial Literacy Training **28%** of FIIs providing Business Development Assistance **21%** of FIIs provide agricultural technical assistance
6 CLEAN WATER AND SANITATION	Ensure availability and sustainable management of water and sanitation for all	**47%** of FIIs providing credit in water & sanitation
7 AFFORDABLE AND CLEAN ENERGY	Ensure access to affordable, reliable, sustainable and modern energy for all	**45%** of FIIs providing credit in clean energy/efficiency

How we invest responsibly

SUSTAINABILITY IS INTEGRATED IN ALL PHASES OF THE INVESTMENT PROCESS

Initial screening

Offering responsible financial products and services to MSMEs borrowers indispensably requires a framework that combines financial and non-financial considerations and conditions. The Fund does not invest in FIIs that do not comply, at a minimum, with the Cardano Fundamental Investment Principles. To be eligible, a FII should operate in line with applicable international standards as mentioned in these Principles. In addition, social standards of the Fund include conformity with the Principles for Responsible Investment (PRI), adherence to the Client Protection Standards (see also page 18) and reporting on financial and non-financial performance in line with the Responsibility and Impact Framework of the Fund itself. This includes an annual assessment of a portfolio company focusing on the social policies, practices and performance, as well as the social characteristics of the products and services offered by the FII to its clients.

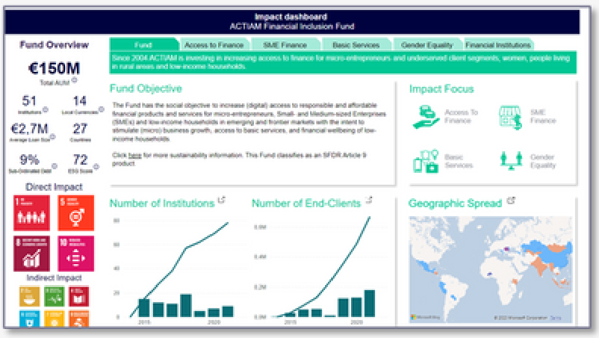


Figure 12. Impression impact dashboard AFIF prototype

Sustainability assessment

Cardano together with DWM has developed a Social Scorecard and Social Impact Questionnaire - a proprietary data-driven tool used to evaluate potential investments during the screening process and to track ongoing impact performance on an annual basis, thereafter. The Social Scorecard is aligned with and includes metrics from IRIS+, HIPSO and SPTF. The tool consists of nearly 150 indicators to evaluate alignment with the SDGs and impact across five complementary dimensions:

- Outreach & targeting
- Client wellbeing
- Responsibility to Community and Staff
- Governance
- Environment

In addition to the scorecard, broader ESG performance at investee level is also assessed and verified through field visits and due diligence research.

Monitoring

Upon approval, each portfolio company is financially monitored on at least a monthly basis (more if necessary). On an annual basis, DWM performs an onsite visit and collects social and environmental data to track trends and identify areas of strength and opportunities for improvement for each portfolio company. Based on the data provided by DWM, Cardano publishes an annual Responsibility & Impact Report.

Portfolio visit

INDIA

An important aspect of the company-level due diligence research is the impact and ESG analysis. Our investment manager conducts this through desktop research, site visits, and discussions with company management. In October 2022, the Sustainability and Impact Analyst of Cardano travelled to India to join the DWM team to observe the process as well as to participate in the discussions with the management of the financial institutions and end-clients.

Dreaming of a jewellery

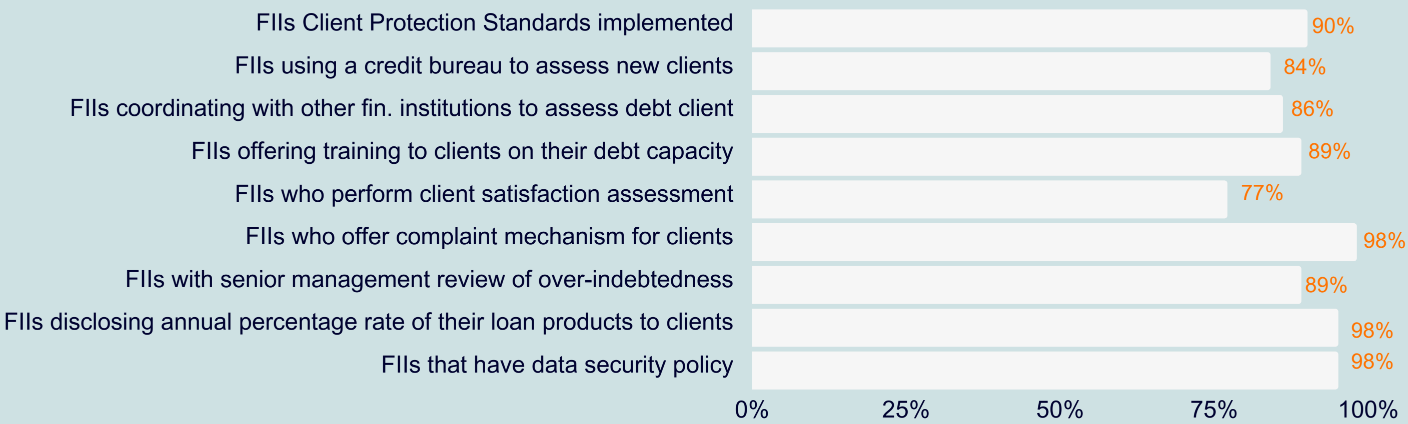
During the field trip in India, we have visited a new portfolio company for a social due diligence and to assess the impact on the end-clients of Sindhuja. First, we had an extensive discussion with the board members of the financial institution. They explained their impact ambitions. For example, they focus primarily on remote communities in the most underdeveloped regions of the country. Furthermore, they invest in new technologies that allow borrowers to pay their money back with support of a QR-code. This ensures that women do not have to travel long distances every week with lots of cash in their bags.

Afterwards, we travelled to a branch office in Udaipur, to meet a regional manager as well as several end-clients. It was clear that the financial institution provides fair and transparent products to their customers. They protect and guide their clients, who sometimes cannot read. For example, loan officers visit all the homes of their clients to explain the obligations belonging to a loan in an easy and understandable way. We also met different groups of women micro-entrepreneurs who came together to collect the money and repay the financial institution. They told us proudly about the milk they sell from the cows and goats they bought with their microloans.

A young woman showed her mini-shop and told us about her dream of expanding it into a jewellery store. She wants to increase her income to be able to pay for good education and books for her son. It was great to see that the financial institutions really see it as their responsibility to reach women in remote rural areas. This is important because, compared to men, women are still more often excluded from access to financial products and services.

Protecting end-clients

THROUGH RESPONSIBLE AND AFFORDABLE FINANCIAL PRODUCTS



Responsible products

Particularly in countries with a financial inclusion sector in development, poor practices by financing companies can cause negative impact on the borrowers. This may include clients taking on too much debt and running into repayment problems, but also, failure to screen clients for other debts, charging high interest rates and/or employing harmful debt collection methods. For this reason, Cardano prompts FIIs to commit to CP Pathway and implement the Client Protection Standards (see also page 20).

The so-called Universal Standards focus on:

1. Appropriate Product Design and Delivery;
2. Prevention of Over-indebtedness;
3. Transparency;
4. Responsible Pricing;
5. Fair and Respectful Treatment of Clients;
6. Privacy of Client Data;
7. Mechanisms for Complaint Resolution.
8. Governance & HR

Affordability

Fair pricing is an important aspect of client protection. Interest rates of microloans may vary considerably from country to country. But regardless of these differences, they are higher than the rates charged by formal banks. FIIs targeting underserved client segments in more remote areas are facing higher operational costs due to the smaller loan sizes and training courses they offer to their clients. Notwithstanding the higher costs, the interest rates should be proportional and fair. For this reason, AFIF includes an affordability assessment into its investment decision. Our analysis goes beyond looking at the gross interest rates: we critically look at portfolio yield and profitability levels, we compare interest levels of other local market actors, and we check the policies and procedures in place to assess end-clients' ability to repay the loans.

How we measure impact

Indicator framework

To measure our impact, we have defined a fund objective and corresponding impact goals and indicators to measure our progress. In addition, we have developed a Theory of Change for AFIF to unravel the impact pathways. The impact indicators are aligned with the IRIS+ framework to increase comparability and benchmarking. Data on the indicators is collected through a Social Impact Questionnaire that is sent out annually to all portfolio companies. Data cleaning and analysis is done afterwards, enabling us to draw conclusions and learnings.

Our contribution

We consider our impact "contribution" as the share of impact realised that can be attributed to the investments of the Fund. To do this cleanly, it is important to avoid double counting and impact exaggeration. We use an approach that reflects the fact that AFIF is not the only investor in the underlying companies. This means only a small part of the impact generated by the financial institutions can be attributed to AFIF.

When reporting on the aggregate AFIF level impact, we calculate pro-rated outreach based on our commitment to the underlying companies as a percentage on the total assets of the financial institution we have been supporting. That means we take the total outreach of an investee and then pro-rate it by the percentage that AFIF represents in the company assets (for more details, see Appendix).

Principle adverse impacts

To prevent negative impacts, our impact due diligence includes an assessment of an extensive set of ESG indicators including the mandatory and voluntary Principle Adverse Indicators (PAI's) and a set of Fund specific adverse indicators (as stated in Annex I and II of the draft Regulatory Technical Standards (RTS) to the SFDR), such as greenhouse gas emissions, exposure to fossil fuels, biodiversity impacts, water emissions, human rights controversies, exposure to weapons, implementation of ILO conventions and board diversity. In addition, Fund specific adverse indicators are assessed and monitored throughout the investment process. These indicators are related to client protection, including, responsible pricing, transparency, prevention of over-indebtedness, collection practices, fair treatment of clients, data policy, complaints mechanism, etc. All relevant indicators for adverse impacts on sustainability factors will be assessed at the time of investment.

The notion of "do no harm" is at the core of the Fund's purpose, and Cardano closely and very actively monitors developments in emerging markets and specific sectors to identify negative industry trends where they arise and to reassess investment strategy where necessary in that context. In addition, every 12 months, the Fund monitors the environmental and social performance of all portfolio entities. The monitoring is supported by ESG & Impact Questionnaire, and the process includes an assessment of the responses provided by each investment entity. As part of the ongoing monitoring of its investments, the Fund may, but is not obliged to, reassess any investment against any significant harm to any goal during the holding period.

In the Annex of our Annual Report (published on the Cardano website) you can find our performance on the PAI indicators.

Sector alignment

CARDANO ACTIVELY PARTICIPATES IN SECTOR INITIATIVES AND COOPERATES WITH PEERS TO EVOLVE SECTOR STANDARDS AND SUPPORT FURTHER PROFESSIONALISATION.

PRI

The United Nations Principles for Responsible Investment (PRI), created in 2005, provides a network of international investors with a framework of six principles for incorporating environmental, social and governance issues into their decision-making and ownership practices. Cardano is signatory to the PRI and submits annual progress reports.

Client Protection Pathway

In 2021, SPTF and CERISE launched the Client Protection Pathway. This is a new initiative to support and improve client protection practices across the financial service industry. Cardano signed a joint statement calling on financial service providers to commit to the Client Protection Standard and Cardano is committed to support its partners in pursuing client protection excellence.

Netherlands Advisory Board

Caedano is a founding member of the Netherlands Advisory Board on impact investing (NAB). This is an independent, non-profit organisation that aims to accelerate the growth and improve the effectiveness of the impact investing market. Cardano is involved in working groups to further professionalise the sector.

IFC Operating Principles

Operating Principles for Impact Management (Impact Principles), provide a framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle. Our Investment Advisor DWM is a signatory of the Impact Principles in and publicly disclosed their impact methodology and independent verification on their website.

GIIN / IRIS+

The Global Impact Investing Network (GIIN) is a non-profit organization dedicated to increasing the effectiveness of impact investing through collaboration, research and advocacy. GIIN has developed the Impact Reporting & Investment Standards (IRIS), an independent set of common metrics for impact reporting. Cardano makes use of this framework to monitor the social performance.

Joint Impact Model (JIM)

The JIM is a publicly available model, which enables the quantification of indirect jobs, value added, and GHG emissions related to investments of financial institutions. The aim of the initiative is to bring comparability, accountability, and transparency to the financial industry by measuring key impact indicators in a harmonised way.

Phenix Impact Gems

In 2020, Phenix Capital Group, set up the proprietary framework Phenix Impact GEMS for the purpose of assessing the robustness of a fund's impact proposition. Cardano received the final report of Phenix Capital on the Fund's impact proposition following an extensive assessment and received a score of 51/62 for its AFIF.

Focus 2023

Towards financial resilience

Climate events have increased in the past decade, and low-income people often are facing the negative impact. Developing countries have higher exposure to hazards. People who are poor, experience greater vulnerability to negative impacts from this exposure and have fewer resources to rebuild and recover losses quickly. When a natural disaster strikes, low-income people are often hit double. Both in terms of asset loss (e.g. homes) as well as labour productivity and income, because often agriculture is their main source of income.

AFIF will target her investments towards countries with a high risk of climate-related natural hazards to contribute to building climate resilience of low-income households. Research demonstrates a positive relation between financial resilience and access to a bank account and saving deposits. When assessing new investment proposals, we will take the potential contribution to climate disaster resilience into consideration.

Improve data quality and reporting

Per 2023, AFIF discloses and reports in line with the requirements for product 9 funds (see our website). However, the data quality can be improved when portfolio companies get used to report on the Principle Adverse Impact indicators and other new data points relevant for benchmarking purposes. Coming year, we will invest in improving the data quality. Moreover, we will launch and further develop an online dashboard for AFIF to enable investors in the Fund to get better access to the social performance data. The feedback has been very positive, so we will develop this further in 2023.

We will also learn and improve from participating in the GIIN benchmark for financial inclusion. We have added our data for 2021 to the benchmark and will share our 2022 data in the next batch.

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