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fund for msme

Sustainability-related disclosures: Statements on sustainable investment objective

Introduction

This statement is published by the SANAD Fund for MSME (SANAD, "the Fund") on its website in accordance with Article 10 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR, "the Regulation").

As an umbrella fund, the Fund includes three separate sub-funds in its structure, SANAD Debt Sub-Fund, SANAD Equity Sub-Fund and SANAD Equity Sub-Fund II. The sustainability-related disclosures providing transparency on the sustainable investment objective of each sub-fund can be found below:

- SANAD Debt Sub-Fund
- SANAD Equity Sub-Fund
- SANAD Equity Sub-Fund II

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SANAD Fund for MSME: Debt Sub-Fund

Sustainability-related disclosures: Statement on sustainable investment objective

(a) Summary

Sustainable investment objective of the financial product: The Debt Sub-Fund's sustainable investment objective is to foster economic development and job creation – including youth employment, agriculture, affordable housing, and innovations in finance and financial technologies.

Considering the Debt Sub-Fund's target regions and specifics of the investment strategy, the Sub-Fund has not designated a reference benchmark for the purpose of attaining the sustainable investment objective.

No significant harm to the sustainable investment objective: The Debt Sub-Fund considers potential adverse impacts of its investments beyond the Principal Adverse Impact (PAI) indicators outlined in Table 1/Annex I of the SFDR Regulatory Technical Standards (RTS). It maintains an Environmental and Social Management System (ESMS) including, but not limited to, the Fund's Responsible Investment Policy, the Environmental & Social (E&S) Exclusion List which prohibits the use of SANAD funding for activities with an elevated risk of causing significant harm, and detailed E&S procedures. The ESMS guides the Debt Sub-Fund's approach to assessing, mitigating and monitoring potential adverse impacts at every stage of the investment process. The Debt Sub-Fund is leveraging the PAI indicators outlined in Table 1/Annex I of the SFDR Regulatory Technical Standards (RTS) to monitor potential adverse impacts of its investees and to inform investment decisions and focus areas for engagement. The Debt Sub-Fund's E&S requirements to Partner Institutions (PIs) include obligations to manage adverse impacts of the Debt Sub-Fund's funded activities to avoid significant harm. The PI's capacity and commitment to manage

and mitigate significant adverse impact is assessed during due diligence considering international standards, such as the IFC Performance Standards, ILO Fundamental Conventions, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Investment strategy: The Debt Sub-Fund works towards its sustainable investment objective by financing micro, small and medium enterprises (MSMEs) and households through providing private debt to eligible financial intermediaries in its target countries. Financial intermediaries – including local commercial banks, microfinance institutions and leasing companies – must on-lend financing to the target group in line with the use-of-proceeds criteria defined below.

To facilitate contribution to the Sub-Fund's sustainable investment objective, the investment strategy stipulates criteria both to guide the selection of PIs as well as to steer the use-of-proceeds.

Eligibility criteria for the PI selection reflect considerations of the Debt Sub-Fund's sustainable investment objective and principles of good corporate governance.

Positive and negative criteria for the use-of-proceeds include:

- On-lending requirements relate to type of end-borrower and limits to the possible loan size to end borrowers.
- Investments have to follow the Fund's E&S Exclusion List.

PIs have to provide regular reporting, based on which, the Sub-Fund monitors alignment with the use-of-proceeds criteria.

The Debt Sub-Fund's investments can be complemented by tailored capacity building and technical assistance to enhance positive impact as well as on building investee capacity on managing and mitigating principal adverse impacts.

Core binding elements of the investment strategy relate to:

1. PIs (type);
2. eligibility criteria for PIs; and
3. target countries.

The Fund, guided by the SANAD Investment Guidelines, Credit Risk Policy, the AML/CFT Policy, and the Responsible Investment Policy, is committed to actively promoting good governance, integrity, and transparency standards in its selection and financing of PI investments. Good governance practices – including, but not limited to, sound management structures, employee relations, remuneration of staff and tax compliance – are assessed as part of the due diligence process and integrated into the Sub-Fund's decision making.

Proportion of investments: The Debt Sub-Fund strives to invest at least 70% of its total net assets in investments considered as sustainable under SFDR considering the annual average. The remaining share can be held in cash and cash equivalent instruments (including cash placements and money market instruments) to ensure the Debt Sub-Fund's sound operations and to optimize short-term liquidity management. Given the Debt Sub-Fund's evergreen structure this position might at times fluctuate beyond the level implied above, for example due to high portfolio repayments, or to mismatches between the timing of on-boarding new investors (for example, the Debt Sub-Fund has limited influence on the exact timing of funding subscriptions from public investors and on tranching this funding) and disbursements of the Debt Sub-Fund's investment in the target countries. While these investments may not be considered as a sustainable investment within the meaning of the SFDR, the Debt Sub-Fund ensures a minimum level of environmental and social safeguards, when selecting cash placement and money market counterparties and instruments. As such, the investments which are not sustainable investments are not expected to affect the delivery of the Fund's overarching sustainable investment objective.

Out of the share of sustainable investments, 100% of the Debt Sub-Fund's investments are expected to contribute towards a social investment objective.

Monitoring of sustainable investment objective: In order to monitor the positive impact of its activities, SANAD Debt Sub-Fund has identified a set of sustainability indicators, including:

- Number of sub-loans enabled to MSMEs and households
- Volume of sub-loans enabled for MSMEs
- Share of sub-loans disbursed in local currencies
- Number of indirect jobs supported by MSMEs receiving financing through a PI[1]
- Number of women-owned enterprises reached through MSME finance[1]

(b) No significant harm to sustainable investment objective

How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective?

The Debt Sub-Fund considers potential adverse impacts of its investments beyond the Principal Adverse Impact (PAI) indicators outlined in Table 1/Annex I of the SFDR Regulatory Technical Standards (RTS). It maintains an Environmental and Social Management System (ESMS) including, but not limited to, the Fund's Responsible Investment Policy, the Environmental & Social (E&S) Exclusion List which prohibits the use of SANAD funding for activities with an elevated risk of causing significant harm, and detailed E&S procedures.

The ESMS guides the Debt Sub-Fund's approach to assessing, mitigating and monitoring potential adverse impacts at every stage of the investment process. The Debt Sub-Fund is leveraging the PAI indicators outlined in Table 1/Annex I of the SFDR Regulatory Technical Standards (RTS) to monitor

[1] Calculation of the indicator is based on modelling by the SANAD Fund based on primary reporting and third-party data. See details in section "Methodologies" of this statement.

potential adverse impacts of its investees and to inform investment decisions and focus areas for engagement. The Debt Sub-Fund's E&S requirements to Partner Institutions (PIs) include obligations to manage adverse impacts of the Debt Sub-Fund's funded activities to avoid significant harm. The PI's capacity and commitment to manage and mitigate significant adverse impact is assessed during due diligence considering international standards, such as the IFC Performance Standards, ILO Fundamental Conventions, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

How are the indicators for adverse impacts on sustainability factors taken into account?

As part of the Fund's approach to managing adverse impacts associated with its investments, the Debt Sub-Fund considers and collects information on the PAI indicators outlined in Table 1/Annex I of the SFDR RTS. Assessment of PAI indicators is integrated into due diligence and monitoring. The Debt Sub-Fund uses proxies and tools to estimate performance against the PAI indicators, where data gaps exist.

Are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?

The Debt Sub-Fund is committed to incorporating ESG considerations in its financing activities, including human rights, and is guided by relevant international standards, such as the IFC Performance Standards and the ILO Fundamental Conventions. The Debt Sub-Fund's E&S due diligence process is a key tool for identifying potential adverse impacts related to human rights, corruption and bribery and taxation. The PI's capacity and commitment to identify, address and mitigate against these impacts is also assessed as part of this process in line with the principles set by the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

For more details, please refer to the SANAD Fund's statement on the integration of principal adverse impacts.

(c) Sustainable investment objective of the financial product

What is the sustainable investment objective of the financial product?

The SANAD Debt Sub-Fund's sustainable investment objective is to foster economic development and job creation – including youth employment, agriculture, affordable housing, and innovations in finance and financial technologies.

Considering the Debt Sub-Fund's target region and specifics of the investment strategy, the Sub-Fund has not designated a reference benchmark for the purpose of attaining the sustainable investment objective.

(d) Investment strategy

What investment strategy does this financial product follow?

The Debt Sub-Fund works towards its sustainable investment objective by financing micro, small and medium enterprises (MSMEs) and households indirectly through providing private debt to eligible financial intermediaries its target countries. Financial intermediaries – including local commercial banks, microfinance institutions and leasing companies – must on-lend financing to the target group in line with the use-of-proceeds criteria defined below.

To facilitate contribution to the Fund's sustainable investment objective, the investment strategy stipulates criteria both to guide the selection of PIs as well as to steer the use-of-proceeds.

Eligibility criteria for the PI selection reflect considerations of the Debt Sub-Fund's sustainable investment objective and principles of good corporate governance.

Positive and negative criteria for the use-of-proceeds include:

- On-lending requirements relate to type of end-borrower and limits to the possible loan size to end borrowers. These requirements can be adapted to the respective market.
- Investments have to follow the Fund's E&S Exclusion List, which prohibits financing activities with inherent or elevated sustainability risk, such as those related to coal, oil and gas sectors, activities involving child or forced labor, and those involving the destruction of high conservation value areas, among others.

PIs have to provide regular reporting, based on which, the Sub-Fund monitors alignment with the use-of-proceeds criteria.

The Debt Sub-Fund's investments can be complemented by tailored capacity building and technical assistance to enhance positive impact as well as on building investee capacity on managing and mitigating principal adverse impacts.

In working towards its sustainable investment objective, the Sub-Fund contributes to the Sustainable Development Goals (SDGs), particularly SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), SDG 10 (Reduced Inequalities), and SDG 17 (Partnerships for Goals). For more information on SANAD Fund's contributions towards these SDGs, please refer to the Fund website.

What are the binding elements of the investment strategy used to select the investments to attain the sustainable investment objective?

Core binding elements of the investment strategy relate to:

1. PIs (type);

2. eligibility criteria for PIs; and
3. target countries.

What is the policy to assess good governance practices of the investee companies?

The Fund, guided by the SANAD Investment Guidelines, Credit Risk Policy, the AML/CFT Policy, and the Responsible Investment Policy, is committed to actively promoting good governance, integrity, and transparency standards in its selection and financing of PI investments. Good governance practices – including, but not limited to, sound management structures, employee relations, remuneration of staff and tax compliance – are assessed as part of the due diligence process and integrated into the Fund's decision making.

Does this financial product consider principal adverse impacts on sustainability factors?

☒ Yes
☐ No

Through its ESMS, the Sub-Fund considers adverse impacts beyond the PAI indicators on sustainability factors outlined in Table 1/Annex I of the SFDR RTS at each stage of the investment cycle, including the Debt-Sub-Fund's decision-making process.

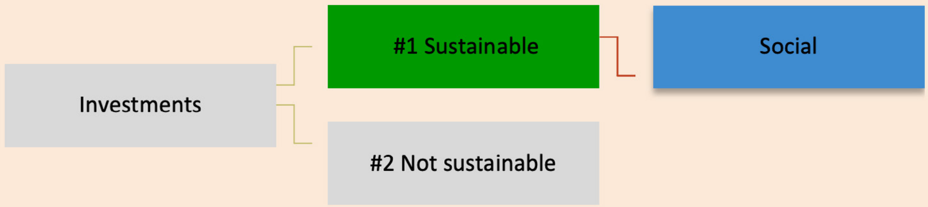
Investments are subject to initial screening and comprehensive due diligence processes which support the Debt Sub-Fund in identifying potential adverse impacts and in assessing the PI's capacity and commitment to address and mitigate against these impacts. Results of the due diligence form a part of the investment proposal and are presented to the Investment Committee. Where adverse impacts cannot be mitigated to a satisfactory extent, the investment will not proceed.

The Debt Sub-Fund's E&S requirements to PIs include obligations to manage potential adverse impacts; SANAD requires its PIs to carry out their activities in compliance with the SANAD E&S Exclusion List and national laws and regulations, and in conformance with the ILO Fundamental Conventions and the key principles of the relevant IFC Performance Standards.

Regular monitoring of the PI's E&S performance is considered crucial to effectively manage the potential risks of potential adverse impacts of the Debt Sub-Fund's investments. The Debt Sub-Fund requires PIs to report on material negative E&S incidents, and on E&S performance on an annual basis, including on PAI indicators (as applicable). Adequate proxies are utilized when primary data is not available. The Debt Sub-Fund's due diligence and monitoring process also includes the use of data intelligence platforms for adverse media and controversies screening, to identify any high-risk factors or sustainability-related incidents.

(e) Proportion of investments

What is the planned asset allocation for this financial product?



#1 Sustainable covers sustainable investments with environmental or social objectives.

#2 Not sustainable includes investments which do not qualify as sustainable investments.

The Debt Sub-Fund strives to invest at least 70% of its total net assets in investments considered as sustainable under SFDR (#1 Sustainable) considering the annual average.

What is the minimum share of sustainable investments with a social objective?

Out of the share of sustainable investments, 100% of the Debt Sub-Fund's investments are expected to contribute towards a social investment objective.

What investments are included under "#2 Not Sustainable", what is their purpose and are there any minimum environmental or social safeguards?

The Debt Sub-Fund's assets not qualifying as sustainable investments under the SFDR can be held in cash placements and money market instruments for liquidity purposes, falling under the scope "#2 Not sustainable". In addition, attaining the sustainable investment objective in its target countries requires the Sub-Fund to provide investments in currencies suitable for these countries (in local currency, or in hard currency other than the Debt Sub-Fund's currency) as well as in interest rate structures that do not necessarily match the interest rate structures paid to investors. In these cases, the Debt Sub-Fund may use derivatives for the purpose of hedging currency risk and interest rate risks. By doing so, derivatives enable the Debt Sub-Fund to make sustainable investments that would not have been possible otherwise.

Given the Debt Sub-Fund's evergreen structure this position might at times fluctuate beyond the level implied above, for example due to high portfolio repayments, or to mismatches between the timing of on-boarding new investors (for example, the Debt Sub-Fund has limited influence on the exact timing of funding subscriptions from public investors and on tranching this funding) and disbursements of the Sub-Fund's investment in the target countries.

While these investments may not be considered as a sustainable investment within the meaning of the SFDR, the Debt Sub-Fund ensures a minimum level of environmental and social safeguards, when selecting cash placement and money market counterparties and instruments. As such, the investments which are not sustainable investments are not expected to affect the delivery of the Sub-Fund's overarching sustainable investment objective.

(f) Monitoring of sustainable investment objective

What sustainability indicators are used to measure the attainment of the sustainable investment objective by this financial product?

In order to monitor the positive impact of its activities, SANAD Debt Sub-Fund has identified a set of sustainability indicators, including:

- Number of sub-loans enabled to MSMEs and households
- Volume of sub-loans enabled for MSMEs
- Share of MSME and rural sub-loans disbursed in local currencies
- Number of indirect jobs supported by MSMEs receiving financing through a PI[2]
- Number of women-owned enterprises reached through MSME finance[2]

How are the sustainable investment objective and the sustainability indicators monitored throughout the lifecycle of the financial product and what are the related internal/external control mechanisms?

The expected social impacts are assessed ex-ante which informs the specific monitoring requirements and engagement focus areas throughout the investment period. Impacts are regularly monitored and reviewed at the Fund portfolio level as well as for each investment throughout its lifecycle.

Results towards these indicators along with additional metrics are regularly published on the Fund's website and in periodic publications and reports.

For more information on monitoring approach and results please see:

- The SANAD Annual Impact Report
- The SANAD Website
- Fund Advisor's Disclosure statement to the Operating Principles for Impact Management

(g) Methodologies

What is the methodology to measure the attainment of the sustainable investment objective using the sustainability indicators?

For a large proportion of its monitoring, the Sub-Fund utilizes primary data, such as from PIs' reporting or the Sub-Fund's own, internal Sub-Fund monitoring data. In order to assess and monitor its social impact, the Sub-Fund applies the following assessment methodologies:

[2] Calculation of the indicator is based on modelling by the SANAD Fund based on primary reporting and third-party data. See details in section "Methodologies" of this statement.

- Quantitative and qualitative studies in the target countries: The Debt Sub-Fund periodically commissions studies to assess the effects of its financing. These are conducted by external, specialized consulting companies or research institutions. Results are utilized to confirm the underlying assumptions of the Fund's Theory of Change as well as its impact measurement and reporting, and to inform future strategy and outreach of the Debt Sub-Fund.

- Modelling: For a continuous estimation of the Debt Sub-Fund's employment effect, a modelling approach has been developed. The approach combines PI reporting on sub-loans disbursed with job intensity factors derived by combining insights from the Debt Fund's own end-borrower studies, academic research, and industry data. Underlying data and assumptions are periodically reviewed and updated.

(h) Data sources and processing

What are the data sources used to attain the sustainable investment objective of the financial product including the measures taken to ensure data quality, how data is processed and the proportion of data that is estimated?

The Sub-Fund draws on the following data sources:

- **Fund monitoring:** Aggregated in the internal data management tools of the Fund Advisor. The data covering a range of data points at the Sub-Fund and portfolio level, allowing monitoring of the Debt Sub-Fund's overall activities related to resource mobilization, financing, and technical assistance.

- **PI reporting:** Contractually agreed reporting on a set of predefined indicators, submitted by the PIs to the Debt Sub-Fund on a regular basis, utilized for continuous monitoring of use of proceeds and outreach to target group.

- **Third-party data:** External parameters and studies from academia and the impact investing industry, utilized to inform underlying impact assumptions and model final socio-economic impacts.

- **Studies and evaluations:** In-depth studies that collect and analyze primary quantitative and qualitative information directly from the Debt Sub-Fund's final target group are conducted periodically for a deeper understanding of the Debt Sub-Fund's impact mechanisms and the scale of its impact, complemented by external evaluations which provide additional perspectives and analysis.

- **On-site visits:** Site visits facilitated through the Fund Advisor's staff operating from several offices across the region, facilitating continuous exchange with PIs, and the incorporation of on-the-ground knowledge of market needs into investment strategies.

The proportion of data that is estimated is limited.

(i) Limitations to methodologies and data

What are the limitations to the methodologies and data sources? (Including how such limitations do not affect the attainment of the sustainable investment objective and the actions taken to address such limitations)

Considering the Debt Sub-Fund's target countries and investment strategy, the availability of external data for monitoring of the attainment of the Debt Sub-Fund's sustainable investment objective is limited. To address this limitation and to ensure that it does not affect the attainment of the sustainable investment objective, input data on the abovementioned sustainability indicators is collected directly from PIs. The data reported to the Debt Sub-Fund is reviewed by the Fund Advisor's expert teams and complemented through relevant, publicly available data.

(j) Due diligence

What is the due diligence carried out on the underlying assets and what are the internal and external controls in place?

Assessing the potential of an investment to contribute to the Debt Sub-Fund's sustainable investment objective follows a two-step approach in the pre-investment phase:

- During pre-screening, the investment's alignment with the Debt Sub-Fund's requirements is assessed. This relates to minimum requirements for ESG and responsible finance practices, as per the Debt Sub-Fund's Issue Document and Investment Guidelines.

- During the due diligence phase, the investment is assessed with regards to the binding elements of the Debt Sub-Fund's investment strategy related to the eligibility criteria and positive and negative screening criteria for the use of proceeds. In addition, for each investment the alignment with the Debt Sub-Fund's impact objectives is reviewed, taking into consideration different elements such as potential outreach to the target group, the investee's capacity to deliver the expected impact and the Debt Sub-Fund's specific impact contribution. The due diligence also includes the identification of potential adverse impacts and an assessment of the PI's capacity and commitment to address and mitigate against these impacts. The Debt Sub-Fund assesses the PI's own ESG due diligence practices and capacities and the PI's responsible finance practices (such as consumer protection). If material gaps are identified, the PI will be required to address them within a reasonable timeframe.

(k) Engagement policies

Is engagement part of the investment strategy?

Engagement with PIs is an integral component of the Debt Sub-Fund's investment process and central to managing its positive development impact. The Debt Sub-Fund considers itself a long-term partner to its PIs in line with its target to sustainably strengthen the local financial sector. This engagement includes (but is not necessarily limited to) the provision of tailored technical assistance to strengthen the abilities and capacities of PIs to enhance outreach to the Debt Sub-Fund's target group or manage sustainability risks and principal adverse impacts.

(l) Attainment of the sustainable investment objective

Has a reference benchmark been designated?

☐ Yes
☒ No

Annex

Version history	
Version date	**Description of the change**
9 March 2021	First publication in accordance with Article 10 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR, "the Regulation")
19 December 2022	Update of the statement in line with the final Regulatory Technical Standards (RTS) in accordance with Article 10 of SFDR

SANAD Fund for MSME: Equity Sub-Fund

Sustainability-related disclosures: Statement on sustainable investment objective

(a) Summary

Sustainable investment objective of the financial product: The SANAD Equity Sub-Fund's sustainable investment objective is to foster economic development and job creation – including youth employment, agriculture, affordable housing, and innovations in finance and financial technologies.

Considering the Fund's target regions and specifics of the investment strategy, the Equity Sub-Fund has not designated a reference benchmark for the purpose of attaining the sustainable investment objective.

No significant harm to the sustainable investment objective: The Equity Sub-Fund is a closed fund that is no longer actively investing. During the investment period, the Equity Sub-Fund has considered potential adverse impacts of its investments beyond the Principal Adverse Impact (PAI) indicators outlined in Table 1/Annex I of the SFDR Regulatory Technical Standards (RTS). It maintains an Environmental and Social Management System (ESMS) including, but not limited to, the Fund's Responsible Investment Policy, the Environmental and Social (E&S) exclusion list which prohibits the use of SANAD funding for activities with an elevated risk of causing significant harm, and detailed E&S procedures. The ESMS of the Fund guides the Equity Sub-Fund's approach to assessing, mitigating and monitoring potential adverse impacts at every stage of the investment process. The Equity Sub-Fund is leveraging the PAI indicators outlined in Table 1/Annex I of the SFDR RTS to monitor potential adverse impacts of its investees. The Equity Sub-Fund's E&S requirements to Partner Institutions (PIs) include obligations to manage adverse impacts of the Equity Sub-Fund's funded activities to avoid significant harm. The PI's capacity and commitment to manage and mitigate significant adverse impacts has been assessed during due diligence considering international standards, such as the IFC Performance Standards and ILO Fundamental Conventions.

Investment strategy: The Equity Sub-Fund works towards its sustainable investment objective by providing direct equity financing to local commercial banks, regulated and non-regulated microfinance institutions, microfinance banks, microfinance service or support providers/companies and microfinance holding companies, and local commercial banks that enable access to financial services for underserved micro, small and medium enterprises (MSMEs), agri-businesses (the Target Groups) in the target countries. The Equity Sub-Fund PIs either finance or are committed to financing or enable access to financial services to the Target Groups and be incorporated as well as have primary operations in the Sub-Fund's target countries.

The Sub-Fund has completed its investment period and is no longer actively investing. The Fund requires the PIs to adhere to the Fund's Exclusion List, which prohibits financing activities with inherent or elevated sustainability risk, such as those related to coal, oil and gas sectors, activities involving child or forced labor, and those involving the destruction of high conservation value areas, among others.

PIs have to provide regular reporting, based on which, the Equity Sub-Fund monitors alignment of and contribution to the sustainable investment objective.

The Equity Sub-Fund's investments can be complemented by tailored capacity building and technical assistance to enhance positive impact as well as on building investee capacity on managing and mitigating principal adverse sustainability impacts.

Core binding elements of the investment strategy used to select the investments to attain the sustainable investment objective relate to:

1. PIs (type);
2. eligibility criteria for PIs; and
3. target countries.

The Fund, guided by the SANAD Credit Risk Policy, the AML/CFT Policy, and the Responsible Investment Policy, is committed to actively promoting good governance, integrity, and transparency standards in its selection and financing of PI investments.

Proportion of investments: The Equity Sub-Fund strives to invest at least 70% of its total net assets in investments considered as sustainable under SFDR considering the annual average. The remaining share is allocated to the Equity Sub-Fund's management fees, costs and expenses and potential investments in cash equivalent instruments. While these investments in cash equivalent instruments may not be considered as a sustainable investment within the meaning of the SFDR, the Equity Sub-Fund ensures a minimum level of E&S safeguards, when selecting cash placement and money market counterparties and instruments. As such, investments which are not sustainable investments are not expected to affect the delivery of the Fund's overarching sustainable investment objective.

Out of the share of sustainable investments, 100% of the Equity Sub-Fund's investments are expected to work towards a social investment objective.

Monitoring of sustainable investment objective: In order to measure the positive impact of its activities, SANAD Equity Sub-Fund has identified a set of sustainability indicators, including:

- Number of direct jobs contributed to within SANAD Equity Sub-Fund PIs
- Number of active borrowers

(b) No significant harm to sustainable investment objective

How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective?

The Equity Sub-Fund is a closed fund that is no longer actively investing. During the investment period, the Equity Sub-Fund has considered potential adverse impacts of its investments beyond the Principal Adverse Impact (PAI) indicators outlined in Table 1/Annex I of the SFDR Regulatory Technical Standards (RTS).

It maintains an Environmental and Social Management System (ESMS) including, but not limited to, the Fund's Responsible Investment Policy, the Environmental and Social (E&S**)** exclusion list which prohibits the use of SANAD funding for activities with an elevated risk of causing significant harm, and detailed E&S procedures. The ESMS of the Fund guides the Equity Sub-Fund's approach to assessing, mitigating and monitoring potential adverse impacts at every stage of the investment process. The Equity Sub-Fund is leveraging the PAI indicators outlined in Table 1/Annex I of the SFDR RTS to monitor potential adverse impacts of its investees. The Equity Sub-Fund's E&S requirements to Partner Institutions (PIs) include obligations to manage adverse impacts of the Equity Sub-Fund's funded activities to avoid significant harm. The PI's capacity and commitment to manage and mitigate significant adverse impacts has been assessed during due diligence considering international standards, such as the IFC Performance Standards and ILO Fundamental Conventions.

How are the indicators for adverse impacts on sustainability factors taken into account?

As part of the Fund's approach to managing adverse impacts associated with its investments and periodic monitoring of the investees, the Equity Sub-Fund considers and collects information on the PAI indicators outlined in Table 1/Annex I of the SFDR RTS. Assessment of PAI indicators is integrated into monitoring tools. The Equity Sub-Fund uses proxies and tools to estimate performance against the PAI indicators, where data gaps exist.

Are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?

The Equity Sub-Fund is committed to incorporating environmental, social and governance (ESG) considerations in its financing activities, including human rights, and is guided by relevant international standards, such as the IFC Performance Standards and the ILO Fundamental Conventions.

The Equity Sub-Fund's due diligence process is a key tool for identifying potential adverse impacts related to human rights, corruption and bribery and taxation. The PI's capacity and commitment to avoid causing harm was also assessed during due diligence.

As a result, there is alignment in principle with the key requirements of the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

For more details, please refer to the SANAD Fund's statement on the integration of principal adverse impact.

(c) Sustainable investment objective of the financial product

What is the sustainable investment objective of the financial product?

The SANAD Equity Sub-Fund's sustainable investment objective is to foster economic development and job creation – including youth employment, agriculture, affordable housing, and innovations in finance and financial technologies.

Considering the Fund's Target Countries and specifics of the investment strategy, the Equity Sub-Fund has not designated a reference benchmark for the purpose of attaining the sustainable investment objective.

(d) Investment strategy

What investment strategy does this financial product follow?

The Equity Sub-Fund works towards its sustainable investment objective by providing direct equity financing to local commercial banks, regulated and non-regulated microfinance institutions, microfinance banks, microfinance service or support providers/companies and microfinance holding companies, and local commercial banks that enable access to financial services for underserved MSMEs, agri-businesses (Target Groups) in its target countries. The Equity Sub-Fund PIs either finance or are committed to financing, or enable access to financial services to the Target Groups and be incorporated as well as have primary operations in the Sub-Fund's target countries.

The Sub-Fund has completed its investment period and is no longer actively investing. The Fund requires the PIs to adhere to the Fund's Exclusion List, which prohibits financing activities with inherent or elevated sustainability risk, such as those related to coal, oil and gas sectors, activities involving child or forced labor, and those involving the destruction of high conservation value areas, among others.

PIs have to provide regular reporting, based on which, the Equity Sub-Fund monitors alignment of and contribution to the sustainable investment objective.

The Equity Sub-Fund's investments can be complemented by tailored capacity building and technical assistance to enhance positive impact as well as on building investee capacity on managing and mitigating principal adverse impacts.

In working towards its sustainable investment objective, the Sub-Fund contributes to the Sustainable Development Goals (SDGs), particularly SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), SDG 10 (Reduced Inequalities), and SDG 17 (Partnerships for Goals). For more information on SANAD Fund's contributions towards these SDGs, please refer to the Fund website.

What are the binding elements of the investment strategy used to select the investments to attain the sustainable investment objective?

Core binding elements of the investment strategy used to select the investments to attain the sustainable investment objective relate to:

1. PIs (type);
2. eligibility criteria for PIs; and
3. target countries.

What is the policy to assess good governance practices of the investee companies?

The Fund, guided by the SANAD Credit Risk Policy, the AML/CFT Policy, and the Responsible Investment Policy, is committed to actively promoting good governance, integrity, and transparency standards in its selection and financing of PI investments.

Does this financial product consider principal adverse impacts on sustainability factors?

☒ Yes
☐ No

The Equity Sub-Fund has completed its investment period. Through its ESMS SANAD considers adverse impacts beyond the PAI indicators on sustainability factors outlined in Table 1/Annex I of the SFDR RTS.

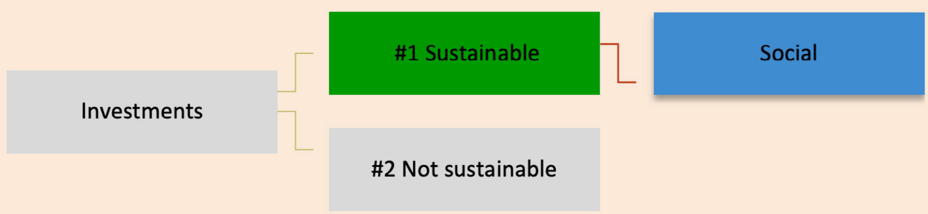
Investments were subject to initial screening and comprehensive due diligence processes which support the Equity Sub-Fund in identifying potential adverse impacts and in assessing the PI's capacity and commitment to address and mitigate against these impacts. Results of the due diligence formed a part of the investment proposal and were presented to the Investment Committee.

The Equity Sub-Fund's E&S requirements to PIs include obligations to manage potential adverse impacts. SANAD requires its PIs to carry out their activities in compliance with the SANAD Exclusion List (or similar) and national laws and regulations.

Regular monitoring of the PI's E&S performance is considered crucial to effectively manage the potential risks of potential adverse impacts of the Equity Sub-Fund's investments. The Equity Sub-Fund requires PIs to report on any material negative E&S incidents that may lead to material adverse impacts, and on E&S performance on an annual basis, including on PAI indicators (as applicable). Adequate proxies are utilized when primary data is not available. The Equity Sub-Fund's monitoring process also includes the use of data intelligence platforms for adverse media and controversies screening, to identify any high-risk factors or sustainability-related incidents.

(e) Proportion of investments

What is the planned asset allocation for this financial product?



#1 Sustainable covers sustainable investments with environmental or social objectives.

#2 Not sustainable includes investments which do not qualify as sustainable investments.

The Sub-Fund strives to invest at least 70% of its total net assets in investments considered as sustainable under SFDR (#1 Sustainable) considering the annual average. The remaining share is allocated to the Equity Sub-Fund’s management fees, costs and expenses and potential investments in cash equivalent instruments (#2 Not sustainable).

What is the minimum share of sustainable investments with a social objective?

Out of the share of sustainable investments, 100% of the Equity Sub-Fund’s investments are expected to work towards a social investment objective.

What investments are included under “#2 Not Sustainable”, what is their purpose and are there any minimum environmental or social safeguards?

Assets included under “#2 Not sustainable” include the Equity Sub-Fund’s management fees, costs expenses in line with market standards as well as possible investments in cash equivalent instruments (including cash placements and money market instruments).

While these investments in cash equivalent instruments may not be considered as a sustainable investment within the meaning of the SFDR, the Equity Sub-Fund ensures a minimum level of environmental and social safeguards, when selecting cash placement and money market counterparties and instruments. As such, investments which are not sustainable investments are not expected to affect the delivery of the Fund’s overarching sustainable investment objective.

(f) Monitoring of sustainable investment objective

What sustainability indicators are used to measure the attainment of the sustainable investment objective by this financial product?

In order to monitor the positive impact of its activities, SANAD Equity Sub-Fund has identified a set of sustainability indicators, including:

- Number of direct jobs contributed to within SANAD Equity Sub-Fund PIs
- Number of active borrowers

How are the sustainable investment objective and the sustainability indicators monitored throughout the lifecycle of the financial product and what are the related internal/external control mechanisms?

Impacts are regularly monitored and reviewed at the Fund portfolio level as well as for each investment.

Results towards these indicators along with additional metrics are regularly published on the Fund's website and in periodic publications and reports.

For more information on monitoring approach and results please see:

- The SANAD Annual Impact Report
- The SANAD Website
- Fund Advisor's Disclosure statement to the Operating Principles for Impact Management

(g) Methodologies

What is the methodology to measure the attainment of the sustainable investment objective using the sustainability indicators?

The Equity Sub-Fund utilizes primary data, such as from PIs' reporting or the Equity Sub-Fund's own and internal monitoring data as a general practice. In order to assess and monitor its social impact, the Sub-Fund applies the following assessment methodologies:

- Modelling: For a continuous estimation of the Sub-Fund's employment effect in the MSMEs that receive financing through a SANAD Equity Sub-Fund PI, a modelling approach has been developed. The approach combines PI reporting on sub-loans disbursed with job intensity factors derived by combining insights from the Fund's own end-borrower studies, academic research, and industry data. SANAD's equity share is applied to the results. Underlying data and assumptions are periodically reviewed and updated.

- Studies in the target countries: The Equity Sub-Fund may conduct quantitative and/or qualitative studies to assess the effects of its financing. These are conducted by external, specialized consulting companies or research institutions.

(h) Data sources and processing

What are the data sources used to attain the sustainable investment objective of the financial product including the measures taken to ensure data quality, how data is processed and the proportion of data that is estimated?

The Equity Sub-Fund draws on the following data sources:

- **Fund monitoring:** Aggregated in the internal data management tools of the Fund Advisor. The data covers a range of data points at the Sub-Fund and portfolio level, allowing monitoring of the Equity Sub-Fund's overall activities related to resource mobilization, financing, and technical assistance.

- **PI reporting:** Contractually agreed reporting on a set of predefined indicators, submitted by the PIs to the Equity Sub-Fund on a regular basis, utilized for continuous monitoring of use of proceeds and outreach to target group.

- **Third-party data:** External parameters and studies from academia and the impact investing industry, utilized to inform underlying impact assumptions and model final socio-economic impacts.

- **Studies and evaluations:** The Equity Sub-Fund may undertake studies and evaluations that collect and analyze additional primary quantitative and qualitative information directly from the Equity Sub-Fund final target group for a deeper understanding of the impact mechanisms and the scale of its impact, complemented by external evaluations which provide additional perspectives and analysis.

- **On-site visits:** Site visits facilitated through the Fund Advisor's staff operating from several offices across the region, facilitating continuous exchange with PIs, and the incorporation of on-the-ground market knowledge.

- Considering the wide range of data sources and its quality, the proportion of data that is estimated is limited.

(i) Limitations to methodologies and data

What are the limitations to the methodologies and data sources? (Including how such limitations do not affect the attainment of the sustainable investment objective and the actions taken to address such limitations)

Considering the Equity Sub-Fund's Target Countries and investment strategy, the availability of the external data for monitoring of the attainment of the Equity Sub-Fund's sustainable investment objective is limited. To address this limitation and to ensure that it does not affect the attainment of the sustainable investment objective, input data on the abovementioned sustainability indicators is collected directly from PIs. The data reported to the Equity Sub-Fund is reviewed by the Fund Advisor's expert teams.

(j) Due diligence

What is the due diligence carried out on the underlying assets and what are the internal and external controls in place?

The Fund has completed its investment period and is no longer active investing. During the investment period, assessing the potential of an investment to contribute to the Equity Sub-Fund's sustainable investment objective followed a two-step approach in the pre-investment phase:

- During pre-screening, the investment's alignment with the Equity Sub-Fund's requirements was assessed. This related to minimum requirements for ESG and responsible finance practices, as per the Equity Sub-Fund 's Issue Document and Investment Guidelines.

- During the due diligence phase, the investment was assessed with regards to the binding elements of the Equity Sub-Fund's investment strategy related to the eligibility criteria. In addition, for each investment the alignment with the Equity Sub-Fund's impact objectives was reviewed, taking into consideration different elements such as potential outreach to the target group, the investee's capacity to deliver the expected impact and the Equity Sub-Fund's specific impact contribution. The due diligence also included the identification of potential adverse impacts and an assessment of the PI's capacity and commitment to address and mitigate against these impacts. The Equity Sub-Fund assessed the PI's own ESG due diligence procedures, the PI's responsible finance practices (such as consumer protection).

(k) Engagement policies

Is engagement part of the investment strategy?

Engagement with PIs is an integral component of the Equity Sub-Fund's investment process and central to managing its positive development impact. The Equity Sub-Fund considers itself a long-term partner to its PIs in line with its target to sustainably strengthen the local financial and MSME sector. The Equity Sub-Fund is represented in the Board of Directors of all its PIs, for a stronger strategic engagement opportunity with the institutions.

In addition, the Equity Sub-Fund's engagement includes (but is not necessarily limited to) the provision of tailored technical assistance to strengthen the abilities and capacities of PIs to enhance outreach to the Sub-Fund's target group or manage sustainability risks and potential adverse impacts.

(l) Attainment of the sustainable investment objective

Has a reference benchmark been designated?

☐ Yes
☒ No

Annex

Version history	
Version date	**Description of the change**
9 March 2021	First publication in accordance with Article 10 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR, "the Regulation")
19 December 2022	Update of the statement in line with the final Regulatory Technical Standards (RTS) in accordance with Article 10 of SFDR

SANAD Fund for MSME: Equity Sub-Fund II

Sustainability-related disclosures: Statement on sustainable investment objective

(a) Summary

Sustainable investment objective of the financial product: The SANAD Equity Sub-Fund II's sustainable investment objective is to foster economic development and job creation – including youth employment, agriculture, affordable housing, and innovations in finance and financial technologies.

Considering the Fund's target regions and specifics of the investment strategy, the Equity Sub-Fund II has not designated a reference benchmark for the purpose of attaining the sustainable investment objective.

No significant harm to the sustainable investment objective: The Equity Sub-Fund II considers potential adverse impacts of its investments beyond the Principal Adverse Impact (PAI) indicators outlined in Table 1/Annex I of the SFDR Regulatory Technical Standards (RTS). It maintains an Environmental and Social Management System (ESMS) including, but not limited to, the Fund's Responsible Investment Policy, the E&S exclusion list which prohibits the use of SANAD funding for activities with an elevated risk of causing significant harm, and detailed E&S procedures. The ESMS of the Fund guides the Equity Sub-Fund II's approach to assessing, mitigating and monitoring potential adverse impacts at every stage of the investment process. The Equity Sub-Fund II is leveraging the PAI indicators outlined in Table 1/ Annex I of the SFDR Regulatory Technical Standards (RTS) to monitor potential adverse impacts of its investees and to inform investment decisions and focus areas for engagement. The Equity Sub-Fund II's E&S requirements to Partner Institutions (PIs) include obligations to manage adverse impacts of the Equity Sub-Fund II's funded activities to avoid significant harm. The PI's capacity and commitment to manage and mitigate significant adverse impacts is assessed during due diligence considering international standards, such as the IFC Performance Standards, ILO Fundamental Conventions, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Investment strategy: The Equity Sub-Fund II works towards its sustainable investment objective by providing direct equity financing to local commercial banks, regulated and non-regulated microfinance institutions, as well as investment companies, technology companies (typically fintech and agri-tech companies), investment funds, guarantee funds or holding companies and other intermediaries that enable access to financial services for underserved micro, small and medium enterprises (MSMEs), agri-businesses (the Target Groups) in its target countries. The Equity Sub-Fund II PIs must either finance or be committed to financing or enable access to financial services to the Target Group.

To ensure that the Equity Sub-Fund II's sustainable investment objective is met, the PIs shall demonstrate and evidence a strong Target Group orientation. The Fund also requires the PIs to adhere to the Fund's Exclusion List, which prohibits financing activities with inherent or elevated sustainability risk, such as those related to coal, oil and gas sectors, activities involving child or forced labor, and those involving the destruction of high conservation value areas, among others.

PIs have to provide regular reporting, based on which, the Equity Sub-Fund II monitors alignment of and contribution to the sustainable investment objective.

The Equity Sub-Fund II's investments can be complemented by tailored capacity building and technical assistance to enhance positive impact as well as on building investee capacity on managing and mitigating potential adverse impacts.

Core binding elements of the investment strategy used to select the investments to attain the sustainable investment objective relate to:

1. PIs (type);
2. eligibility criteria for PI; and
3. target countries.

The Fund, guided by the SANAD Credit Risk Policy, the AML/CFT Policy, and the Responsible Investment Policy, is committed to actively promoting good governance, integrity, and transparency standards in its selection and financing of PI investments. Good governance practices – including, but not limited to, sound management structures, employee relations, remuneration of staff and tax compliance – are assessed as part of the due diligence process and integrated into the Fund's decision making.

Proportion of investments: The Equity Sub-Fund II was launched in 2019 and is currently in the investment period. Once the holding period has been reached, it strives to invest at least 80% of its total net assets in investments considered as sustainable under SFDR considering the annual average. The remaining share is allocated to the Equity Sub-Fund II's management fees, costs and expenses and potential investments in cash equivalent instruments. While these investments in cash equivalent instruments may not be considered as a sustainable investment within the meaning of the SFDR, the Equity Sub-Fund II ensures a minimum level of environmental and social safeguards, when selecting cash placement and money market counterparties and instruments. As such, investments which are not sustainable investments are not expected to affect the delivery of the Fund's overarching sustainable investment objective.

Out of the share of sustainable investments, 100% of the Equity Sub-Fund II's investments are expected to contribute towards a social investment objective.

Monitoring of sustainable investment objective: In order to monitor the positive impact of its activities, SANAD Equity Sub-Fund II has identified a set of sustainability indicators, including:

- Number of direct jobs contributed to within SANAD Equity Sub-Fund II PIs
- Number of female direct jobs contributed to within SANAD Equity Sub-Fund II PIs
- Number of clients benefitting from services provided by SANAD Equity Sub-Fund II PIs
- Share of female clients benefitting from services provided by SANAD Equity Sub-Fund II PIs
- Share of young clients benefitting from services provided by SANAD Equity Sub-Fund II PIs
- Share of rural clients benefitting from services provided by SANAD Equity Sub-Fund II PIs

(b) No significant harm to sustainable investment objective

How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective?

The Equity Sub-Fund II considers potential adverse impacts of its investments beyond the Principal Adverse Impact (PAI) indicators outlined in Table 1/Annex I of the SFDR Regulatory Technical Standards (RTS). It maintains an Environmental and Social Management System (ESMS) including, but not limited to, the Fund's Responsible Investment Policy, the E&S exclusion list which prohibits the use of SANAD funding for activities with an elevated risk of causing significant harm, and detailed E&S procedures.

The ESMS of the Fund guides the Equity Sub-Fund II's approach to assessing, mitigating and monitoring potential adverse impacts at every stage of the investment process. The Equity Sub-Fund II is leveraging the PAI indicators outlined in Table 1/Annex I of the SFDR Regulatory Technical Standards (RTS) to monitor potential adverse impacts of its investees and to inform investment decisions and focus areas for engagement. The Equity Sub-Fund II's E&S requirements to Partner Institutions (PIs) include obligations to manage adverse impacts of the Equity Sub-Fund II's funded activities to avoid significant harm. The PI's capacity and commitment to manage and mitigate significant adverse impacts is assessed during due diligence considering international standards, such as the IFC Performance Standards, ILO Fundamental Conventions, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

How are the indicators for adverse impacts on sustainability factors taken into account?

As part of the Fund's approach to managing adverse impacts associated with its investments, the Equity Sub-Fund II considers and collects information on the PAI indicators outlined in Table 1/Annex I of the SFDR RTS. Assessment of PAI indicators is integrated into due diligence and monitoring tools. The Equity Sub-Fund II uses proxies and tools to estimate performance against the indicators, where data gaps exist.

Are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?

The Equity Sub-Fund II is committed to incorporating environmental, social and governance (ESG) considerations in its financing activities, including human rights, and is guided by relevant international standards, such as the IFC Performance Standards and the ILO Fundamental Conventions.

The Equity Sub-Fund II's E&S due diligence process is a key tool for identifying potential adverse impacts related to human rights, corruption and bribery and taxation. The PI's capacity and commitment to avoid causing harm is assessed during due diligence considering international standards, such as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

For more details, please refer to the SANAD Fund's statement on the integration of principal adverse impact.

(c) Sustainable investment objective of the financial product

What is the sustainable investment objective of the financial product?

The SANAD Equity Sub-Fund II's sustainable investment objective is to foster economic development and job creation – including youth employment, agriculture, affordable housing, and innovations in finance and financial technologies.

Considering the Fund's target regions and specifics of the investment strategy, the Equity Sub-Fund II has not designated a reference benchmark for the purpose of attaining the sustainable investment objective.

(d) Investment strategy

What investment strategy does this financial product follow?

The Equity Sub-Fund II works towards its sustainable investment objective by providing direct equity financing to local commercial banks, regulated and non-regulated microfinance institutions, as well as investment companies, technology companies (typically fintech and agri-tech companies), investment funds, guarantee funds or holding companies and other intermediaries that enable access to financial services for underserved micro, small and medium enterprises (MSMEs), agri-businesses (the Target

Groups) in its target countries. The Equity Sub-Fund II PIs must either finance or be committed to financing, or enable access to financial services to the Target Group.

To ensure that the Equity Sub-Fund II's sustainable investment objective is met, the PIs shall demonstrate and evidence a strong Target Group orientation. The Fund also requires the PIs to adhere to the Fund's Exclusion List, which prohibits financing activities with inherent or elevated sustainability risk, such as those related to coal, oil and gas sectors, activities involving child or forced labor, and those involving the destruction of high conservation value areas, among others.

PIs have to provide regular reporting, based on which, the Equity Sub-Fund II monitors alignment of and contribution to the sustainable investment objective.

The Equity Sub-Fund II's investments can be complemented by tailored capacity building and technical assistance to enhance positive impact as well as on building investee capacity on managing and mitigating principal adverse impacts.

In working towards its sustainable investment objective, the Sub-Fund contributes to the Sustainable Development Goals (SDGs), particularly SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), SDG 10 (Reduced Inequalities), and SDG 17 (Partnerships for Goals). For more information on SANAD Fund's contributions towards these SDGs, please refer to the Fund website.

What are the binding elements of the investment strategy used to select the investments to attain the sustainable investment objective?

Core binding elements of the investment strategy used to select the investments to attain the sustainable investment objective relate to:

1. PIs (type);
2. eligibility criteria for PIs; and
3. target countries.

What is the policy to assess good governance practices of the investee companies?

The Fund, guided by the SANAD Credit Risk Policy, the AML/CFT Policy, and the Responsible Investment Policy, is committed to actively promoting good governance, integrity, and transparency standards in its selection and financing of PI investments. Good governance practices – including, but not limited to, sound management structures, employee relations, remuneration of staff and tax compliance – are assessed as part of the due diligence process and integrated into the Fund's decision making.

Does this financial product consider principal adverse impacts on sustainability factors?

☒ Yes
☐ No

Through its ESMS SANAD considers adverse impacts beyond the PAI indicators on sustainability factors outlined in Table 1/Annex I of the SFDR RTS at each stage of the investment cycle, including the Equity Sub-Fund II's decision making process.

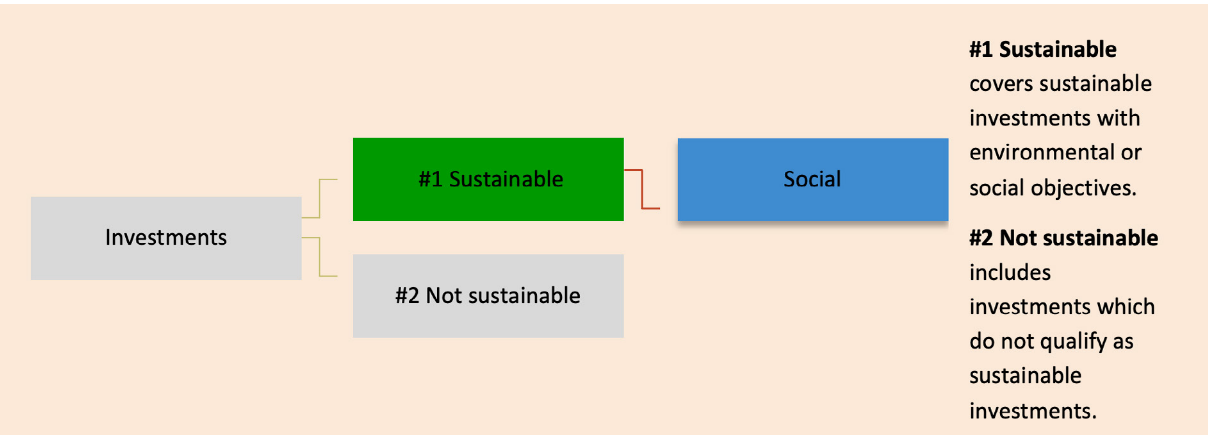
Investments are subject to initial screening and comprehensive due diligence processes which support the Equity Sub-Fund II in identifying potential adverse impacts and in assessing the PI's capacity and commitment to address and mitigate against these impacts. Results of the due diligence form a part of the investment proposal and are presented to the Investment Committee. Where adverse impacts cannot be mitigated to a satisfactory extent, the investment will not proceed.

The Equity Sub-Fund II's E&S requirements to PIs include obligations to manage potential adverse impacts; SANAD requires its PIs to carry out their activities in compliance with the SANAD Exclusion List and national laws and regulations, and in conformance with the ILO Fundamental Conventions and the key principles of the relevant IFC Performance Standards.

Regular monitoring of the PI's E&S performance is considered crucial to effectively manage the potential risks of potential adverse impacts of the Equity Sub-Fund II's investments. The Equity Sub-Fund II requires PIs to report on any material negative E&S incidents that may lead to material adverse impacts, and on E&S performance on an annual basis, including on PAI indicators (as applicable). Adequate proxies are utilized when primary data is not available. The Equity Sub-Fund II's due diligence and monitoring process also includes the use of data intelligence platforms for adverse media and controversies screening, to identify any high-risk factors or sustainability-related incidents.

(e) Proportion of investments

What is the planned asset allocation for this financial product?



The Equity Sub-Fund II was launched in 2019 and is currently in the investment period. Once the holding period has been reached, it strives to invest at least 80% of its total net assets in investments considered as sustainable under SFDR (#1 Sustainable) considering the annual average.

What is the minimum share of sustainable investments with a social objective?

Out of the share of sustainable investments, 100% of the Equity Sub-Fund II's investments are expected to work towards a social investment objective.

What investments are included under "#2 Not Sustainable", what is their purpose and are there any minimum environmental or social safeguards?

Assets included under "#2 Not sustainable" include the Equity Sub-Fund II's management fees, costs expenses in line with market standards as well as possible investments in cash equivalent instruments (including cash placements and money market instruments).

While these investments in cash equivalent instruments may not be considered as a sustainable investment within the meaning of the SFDR, the Equity Sub-Fund II ensures a minimum level of environmental and social safeguards, when selecting cash placement and money market counterparties and instruments. As such, investments which are not sustainable investments are not expected to affect the delivery of the Fund's overarching sustainable investment objective.

(f) Monitoring of sustainable investment objective

What sustainability indicators are used to measure the attainment of the sustainable investment objective by this financial product?

In order to monitor the positive impact of its activities, SANAD Equity Sub-Fund II has identified a set of sustainability indicators, including:

- Number of direct jobs contributed to within SANAD Equity Sub-Fund II PIs
- Number of female direct jobs contributed to within SANAD Equity Sub-Fund II PIs
- Number of clients benefitting from services provided by SANAD Equity Sub-Fund II PIs
- Share of female clients benefitting from services provided by SANAD Equity Sub-Fund II PIs
- Share of young clients benefitting from services provided by SANAD Equity Sub-Fund II PIs
- Share of rural clients benefitting from services provided by SANAD Equity Sub-Fund II PIs

How are the sustainable investment objective and the sustainability indicators monitored throughout the lifecycle of the financial product and what are the related internal/external control mechanisms?

The expected social impacts are assessed ex-ante which informs the specific monitoring requirements and engagement focus areas throughout the investment period. Impacts are regularly monitored and reviewed at the Fund portfolio level as well as for each investment.

Results towards these indicators along with additional metrics are regularly published on the Fund's website and in periodic publications and reports.

For more information on monitoring approach and results please see:

- [The SANAD Annual Impact Report]
- The [SANAD Website]
- Fund Advisor's [Disclosure statement to the Operating Principles for Impact Management]

(g) Methodologies

What is the methodology to measure the attainment of the sustainable investment objective using the sustainability indicators?

For a large proportion of its monitoring, the Equity Sub-Fund II utilizes primary data, such as from PIs' reporting or the Equity Sub-Fund II's own and internal monitoring data.

In addition, the Equity Sub-Fund II may conduct quantitative and qualitative studies in the target countries to assess the effects of its financing.

(h) Data sources and processing

What are the data sources used to attain the sustainable investment objective of the financial product including the measures taken to ensure data quality, how data is processed and the proportion of data that is estimated?

The Equity Sub-Fund II draws on the following data sources:

- Fund monitoring: Aggregated in the internal data management tools of the Fund Advisor. The data covers a range of data points at the Sub-Fund and portfolio level, allowing monitoring of the Equity Sub-Fund II's overall activities related to resource mobilization, financing, and technical assistance.

- PI reporting: Contractually agreed reporting on a set of predefined indicators, submitted by the PIs to the Equity Sub-Fund II on a regular basis, utilized for continuous monitoring of use of proceeds and outreach to target group.

- Studies and evaluations: The Equity Sub-Fund II may undertake studies and evaluations that collect and analyze additional primary quantitative and qualitative information directly from the Equity Sub-Fund II final target group for a deeper understanding of the impact mechanisms and the scale of its impact, complemented by external evaluations which provide additional perspectives and analysis.

- On-site visits: Site visits facilitated through the Fund Advisor's staff operating from several offices across the region, facilitating continuous exchange with PIs, and the incorporation of on-the-ground market knowledge.

The proportion of data that is estimated is limited.

(i) Limitations to methodologies and data

What are the limitations to the methodologies and data sources? (Including how such limitations do not affect the attainment of the sustainable investment objective and the actions taken to address such limitations)

Considering the Equity Sub-Fund II's target countries and investment strategy, the availability of the external data for monitoring of the attainment of the Equity Sub-Fund II's sustainable investment objective is limited. To address this limitation and to ensure that it does not affect the attainment of the sustainable investment objective, input data on the abovementioned sustainability indicators is collected directly from PIs through regular reporting on the use of proceeds for assessing the socio-economic impact of their on-lending activities and their E&S performance. The data reported to the Sub-Fund is reviewed and checked by the Fund Advisor's expert teams.

(j) Due diligence

What is the due diligence carried out on the underlying assets and what are the internal and external controls in place?

Assessing the potential of an investment to contribute to the Equity Sub-Fund II's sustainable investment objective follows a two-step approach in the pre-investment phase:

- During pre-screening, the investment's alignment with the Equity Sub-Fund II's requirements is assessed. This relates to minimum requirements for ESG and responsible finance practices, as per the Equity Sub-Fund II 's Issue Document and Investment Guidelines.

- During the due diligence phase, the investment is assessed with regards to the binding elements of the Equity Sub-Fund II's investment strategy related to the eligibility criteria. In addition, for each investment the alignment with the Equity Sub-Fund II's impact objectives is reviewed, taking into consideration different elements such as potential outreach to the target group, the investee's capacity to deliver the expected impact and the Equity Sub-Fund II's specific impact contribution. The due diligence also includes the identification of potential adverse impacts and an assessment of the PI's capacity and commitment to address and mitigate against these impacts. The Equity Sub-Fund II assesses the PI's own ESG due diligence practices and capacities, and the PI's responsible finance practices (such as consumer protection). If material gaps are identified, the PI will be required to address them within a reasonable timeframe.

(k) Engagement policies

Is engagement part of the investment strategy?

Engagement with PIs is an integral component of the Equity Sub-Fund II's investment process and central to managing its positive development impact. The Equity Sub-Fund II considers itself a long-term partner to its PIs in line with its target to sustainably strengthen the local financial and MSME sector.

The Equity Sub-Fund II aims to be represented in the PI's Board, for a stronger strategic engagement opportunity with the PI.

In addition, the Equity Sub-Fund II's engagement includes (but is not necessarily limited to) the provision of tailored technical assistance to strengthen the abilities and capacities of PIs to enhance outreach to the Sub-Fund's target group or manage sustainability risks and principal adverse impacts.

(l) Attainment of the sustainable investment objective

Has a reference benchmark been designated?

☐ Yes
☒ No

Annex

Version history	
Version date	**Description of the change**
9 March 2021	First publication in accordance with Article 10 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR, "the Regulation")
19 December 2022	Update of the statement in line with the final Regulatory Technical Standards (RTS) in accordance with Article 10 of SFDR