

# ARTICLE 10 (SFDR) PRODUCT WEBSITE DISCLOSURE ALTERFIN SC

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## IDENTIFICATION

**Product name:** Alterfin SC

**Legal entity identifier:** 5493007UEXF0EDW8LO56

**Disclosure:** Article 10 – Sustainable Finance Disclosure Regulation (“SFDR”)

## SUMMARY

This statement is published by Alterfin SC, a self-managed alternative investment fund, (“Alterfin”), in accordance with Article 10 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the “SFDR”).

- **No significant harm to the sustainable investment objective:** Alterfin applies a robust Environmental and Social Risk Policy (“E&S Risk Policy”) and a mandatory Exclusion List aligned with standards set by International Finance Cooperation (“IFC”) and the Harmonized European Development Finance Institutions (“EDFI”) Exclusion Lists. Investments involving excluded activities are not considered, and partners are contractually required to remain compliant throughout the investment period. The tool identifies and assesses potential environmental and social risks and potential positive impacts across key dimensions, including E&S governance, responsible treatment of employees and beneficiaries, product suitability, environmental management (land use, soil and water management, waste and emissions), and biodiversity considerations aligned with the relevant principal adverse impact (PAI) indicators from the SFDR Delegated Regulation. Although Alterfin’s partners are too small to participate in UNGC or OECD frameworks, the due diligence tool integrates essential components of the UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises, IFC Performance Standards, FAO standards, and CERISE+SPTF social and environmental performance management standards where applicable.
- **Sustainable investment objective of the financial product:** Alterfin’s sustainable investment objective is intrinsically linked to its mission: improving the livelihoods and living conditions of socially and economically disadvantaged communities, particularly in rural areas of low- and middle-income countries. Alterfin evaluates the attainment of its social objective through four impact pathways:
  - Financial inclusion for underserved or unbanked populations.
  - Market access for smallholder farmers.
  - Support to rural enterprises in the “missing middle.”
  - Promotion of sustainable agriculture and responsible value chains.
- **Investment strategy:** Alterfin primarily provides short to medium term loans to microfinance institutions (MFIs) and sustainable agriculture organizations. MFIs use funds to on-lend to rural microenterprises, while agriculture partners use working capital to produce and market sustainably grown crops. The investment process is built around several core steps:
  - *Preselection:* Mission alignment screening ensuring alignment with Alterfin’s social objective and Exclusion List compliance screening.

- *Due diligence:* E&S risk profiling, tailored to the type of partner (microfinance or agriculture), geography, and value chain. Environmental and social risk and impact assessment using the custom due diligence tool.
- *Decision to invest by the Investment Committee:* Decision-making by the Investment Committee, which validates the E&S assessment.
- *Closing of the investment:* Integration of E&S clauses in contracts, requiring corrective actions where necessary.
- *Follow-up and monitoring:* Monitor on key E&S risk and impact aspects including follow-up on incidents, complaints, or regulatory breaches. When relevant support partners with technical assistance activities.
- Alterfin evaluates through its due diligence tool and the Anti-Money Laundering, Know Your Customer and Counter-Terrorism Finance screening the partner's good governance practices including but not limited to sound governance body structure and functioning, management structure and decision making, sound policy and procedures and their implementation good governance, policy implementation, management structures, and compliance with national laws and standards.
- **Proportion of Investments:** Alterfin commits to investing 100% of its portfolio in sustainable investments with a social objective. It does not pursue sustainable investments aligned with the environmental objectives of the EU Taxonomy and does not invest in fossil gas or nuclear activities. Cash, liquidity reserves, and treasury positions are ancillary and excluded from the calculation of sustainable investments.
- **Monitoring of sustainable investment objective:** Alterfin monitors the attainment of its sustainable objective through annual reviews of partners and the indicators most relevant to their activities.
- **Methodologies:** Alterfin does not set individual targets for each partner but evaluates qualitative and quantitative evidence of alignment with its mission. Indicators are chosen in accordance with the size, scope, and nature of each partner's operations.
- **Data sources and processing:** Alterfin gathers data through its custom due diligence toolkit using standardized templates. Most data are self-reported by partners and verified by Investment Managers during due diligence visit, when available supported by audited reports or public information. Data verification is done by the Head of Investment and the E&S Impact Manager, who check consistency and accuracy before integrating data into monitoring and reporting processes with support from the Data Analyst.
- **Limitations to methodologies and data:** Data limitations arise due to partners' size, resource constraints, and operating contexts, which can affect reporting capacity and system reliability. When information is unavailable, Alterfin does not use proxy or estimated data but applies a best-effort approach and engages with partners to improve reporting capacity.
- **Due diligence:** Alterfin's E&S Risk Policy and investment procedures govern the due diligence process. The due diligence tool is central to the assessment of risks and impact potential and is applied at entry and during renewals. Governance roles are clearly defined: Investment Managers lead assessments, the E&S Impact Manager ensures policy alignment, Legal & Compliance formalize E&S requirements contractually, the Investment Committee provides independent oversight, and the Monitoring Committee ensures follow-up and remedial actions.
- **Engagement policies:** Alterfin engages with partners through monitoring, due diligence, and impact studies to help develop improvement plans and support their progress. Alterfin also collaborates with peer organizations and sector initiatives to promote stronger social and environmental practices.
- **Attainment of sustainable investment objective:** No index has been designated as a comparable reference benchmark for the purpose of attaining the sustainable investment objective of Alterfin SC. The attainment of its sustainable investment objective is evaluated through its mission-aligned indicators, reinforced by ongoing monitoring and partner engagement.

## NO SIGNIFICANT HARM TO THE SUSTAINABLE INVESTMENT OBJECTIVE

Alterfin has an Environmental and Social Risk Policy (“E&S Risk Policy”) in place. Alterfin uses a clear and well-defined list of excluded activities (the “Exclusion List”) aligned with standards set by the International Finance Cooperation (“IFC”) and the Harmonized European Development Finance Institutions (“EDFI”) Exclusion List. Any investee carrying out activities that violate said Exclusion List is not considered for investment and all existing partners are contractually bound to remain in compliance with this Exclusion List.

The identification and assessment of the relevant principal adverse impacts according to Table 1, 2, and 3 of the SFDR Delegated Regulation is carried out at the level of the partners financed using Alterfin’s due diligence tool. Alterfin has developed a custom environmental and social due diligence tool (“due diligence tool”) that analyses environmental and social risks relevant to the sector and operations and the positive impact potential of each investment. The due diligence tool is designed to assess and monitor the risks and impacts of all its sustainable investments.

In the due diligence tool, Alterfin captures relevant aspects of the social and employee, respect for human rights, anti-corruption and anti-bribery matters principal adverse impacts to the extent these are in line with the size and scope of the operations of the partners. The due diligence tool covers among other aspects the following dimensions: E&S objectives and commitment of the investee, responsible treatment of employees, responsible treatment of beneficiaries, appropriate product offering and services, environmental risk management (land use, soil management, waste management, water use, biodiversity, greenhouse gas emissions, green financial products and environmental linked trainings). For the mandatory environmental and other climate-related indicators, Alterfin considers aspects that capture the principal adverse impacts that are in line with the size and scope of the operations of the partners. This covers amongst other aspects, whether certifications, policies, and strategies are in place and the appropriate measures given the size and operations of the partners are implemented in regard to water management, carbon footprint reduction actions and energy consumption and efficiency, and the protection of biodiversity-sensitive areas.

The due diligence tool is used at the due diligence stage and informs all investment decisions-makers of Alterfin for new and existing investments and is fully integrated in its due diligence process and is designed to assess and monitor the risks and impacts of all its sustainable investments.

The microfinance and agricultural investees (“partners”) that Alterfin invests in are not participants in the UNGC principles or OECD Guidelines for Multinational Enterprises given the size of their operations. However, Alterfin’s custom due diligence tool includes the relevant components of the UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises, IFC Performance Standards and sector specific standards such as FAO Environmental and Social Sustainability Standards, CERISE+SPTF Universal Standards for Social and Environmental Performance Management and Client Protection Principles to the extent applicable to the nature of investments.

More information can be found in the E&S Risk Policy: <https://www.alterfin.be/publications/environmental-social-risk-policy>

## SUSTAINABLE INVESTMENT OBJECTIVE OF THE FINANCIAL PRODUCT

The overall sustainable investment objective with a social objective of Alterfin is in its mission.

Alterfin’s mission is to improve the livelihoods and living conditions of socially and economically disadvantaged communities, predominantly living in rural areas of low- and middle-income countries around the world.

The social objectives promoted by Alterfin relate to poverty alleviation as envisaged by its mission to serve low-income communities in low- and middle-income countries.

Alterfin measures the social objectives through four impact pathways:

- Financial inclusion for unbanked or underserved populations
- Market access for smallholder farmers
- Missing middle investments to support rural enterprises
- Supporting sustainable agriculture investments

## INVESTMENT STRATEGY

Alterfin investments are dedicated to provision of short to medium term loans to microfinance institutions and smallholder sustainable agriculture organizations in low- and middle-low-income countries. To respectively: on-lend to microenterprises mainly in rural areas and vulnerable communities, provide working capital to produce and market agriculture produce in sustainable and fair markets. Both investments intend ultimately to improve the livelihoods of the end beneficiaries respecting and protecting the environment.

To do that Alterfin has equipped itself with custom investment tools that enable the screening and monitoring of the partners and ensuring adherence to high environmental and social impact standards.

The first step is to ensure investments alignment with Alterfin's mission and comply with the above-mentioned Exclusion List. An initial screening of each investment using preferred criteria is conducted. These preferred criteria act as guidance indicators and may change from time to time. Detailed requirements in respect of impact criteria, as outlined in the Impact Strategy, must be taken into account.

A E&S risk profile for the investments based on pre-defined criteria is established. For investments in microfinance the loan amount and geography, for agriculture investments the value chain, scope of the operations, and geography to adapt the due diligence tool to include the relevant aspects to assess in terms of water usage, contamination of ecosystems, indigenous land rights, biodiversity, and excessive GHG emissions.

After the E&S risk profile is established, the environmental and social risk and impact assessment using Alterfin's custom due diligence tool is carried out. The due diligence tool is designed to assess and monitor both the environmental and social risks and potential impact of all its sustainable investments.

The next step is the presentation of the E&S assessment for decision-making to the Investment Committee. The fifth step is the inclusion of the relevant E&S clauses in the contractual agreements with the partners.

These steps repeat with each renewal of existing investments. For investments in the agriculture sector this is for most investments at least annually.

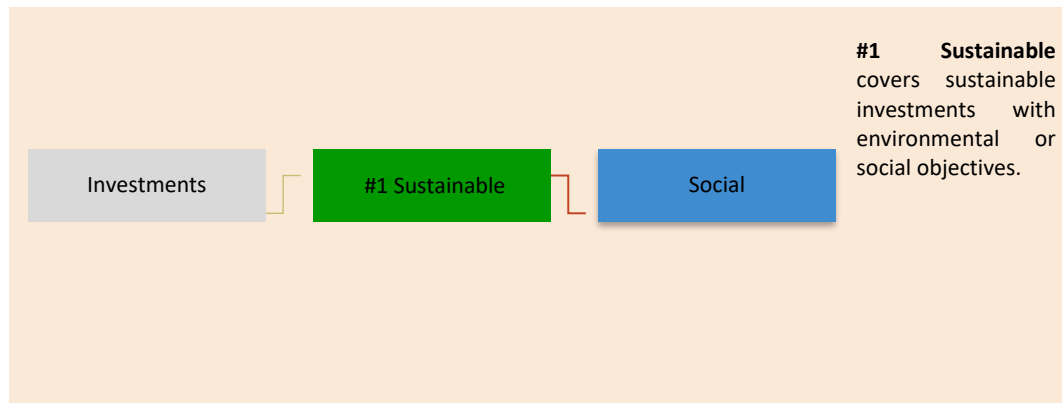
In addition, after the investment each investment is monitored on an annual basis on key E&S aspects such as violations, incidents, grievances, complaints, and regulatory breaches.

Alterfin conducts a due diligence assessment and anti-money laundering ("AML"), Counter-Terrorism Financing ("CTF"), and Know Your Customer ("KYC") assessment for each investment. Alterfin's due diligence tool assesses good governance practices including but not limited to sound governance body structure and functioning, management structure and decision making, sound policy and procedures and their implementation (including employee relations, staff remuneration, risk management, financial management, compliance with national and international laws, tax compliance etc.). In addition, Alterfin adopts a risk-based approach to combating AML and CFT. As part of this approach, Alterfin conducts an AML/CFT global risk assessment to identify and understand risks specific to Alterfin's activities, shareholders, and partners. During monitoring, Alterfin monitors and takes appropriate actions among other aspects on self-reported data from partners in relation to any breaches, incidents, complaints and grievances. In addition, active screening in public resources and using an AML and KYC Risk and Compliance software in regard to AML, CTF, and KYC aspects takes place.

Alterfin uses the due diligence assessments, monitoring and the impact studies to engage with the partners and where relevant on a case-by-case basis and improvement plan. Additionally, the due diligence assessment allows Alterfin to identify potential needs to support with Alterfin's technical assistance activities and track progress on the environmental and social performance with each subsequent loan renewal.

More information can be found in the E&S Risk Policy: <https://www.alterfin.be/publications/environmental-social-risk-policy>

## PROPORTION OF INVESTMENTS



Alterfin will make a minimum share of sustainable investments with a social objective of 100%. Alterfin screens and assesses the sustainability risk of its investments following its E&S Risk Policy.

Alterfin does not use derivatives to attain the sustainable investment objective.

Alterfin has a social sustainable investment objective and no environmental objective, thus it has not committed to making sustainable investments aligned with the environmental objective of the EU Taxonomy Regulation.

Alterfin does not invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy.

Alterfin has a social sustainable investment objective and no environmental objective, thus it is not making sustainable investments aligned with the transitional and enabling activities of the environmental objectives of the EU Taxonomy Regulation.

Alterfin does not plan to have other investments than sustainable investments. Alterfin may hold cash, cash equivalents and other short-term liquidity reserves, and may hold positions used for treasury and risk management/hedging purposes. These holdings are ancillary to and not part of Alterfin's sustainable investment objective and excluded from the calculation of sustainable investments.

## MONITORING OF SUSTAINABLE INVESTMENT OBJECTIVE

Alterfin monitors the attainment of its sustainable objective through annual reviews of partners and the indicators most relevant to their activities. Alterfin monitors the following indicators related to its sustainable investment objective:

- Financial inclusion for unbanked or underserved populations
  - Number of beneficiaries served
  - Percentage rural outreach (borrowers)
  - Percentage women outreach (borrowers)
  - Percentage agricultural outreach (portfolio)
- Market access for smallholder farmers

- Number of smallholder farmers served (members and producers)
- Provision of non-financial services to farmers (members and producers)
- Missing middle investments to support rural enterprises
  - Percentage of investments where Alterfin is the first investor
  - Number of staff and composition of partners; gender balance
- Supporting sustainable agriculture investments
  - Number of certified smallholder farmers
  - Number of certified partners
  - Area of sustainable cultivation
  - Volume of sustainable produce sold

## METHODOLOGIES

Alterfin does not set individual targets for each partner but selects potential partners on alignment with Alterfin’s mission that is focused on rural, agriculture and women as a transversal theme. Indicators are chosen in accordance with the size, scope, and nature of each partner’s operations. Each investment is assessed to understand and track the attainment of the sustainable investment objective through the following indicators in line with the nature of the partners’ operations.

- Exclusion List
- E&S due diligence score
- Demonstration of potential social impact:
  - *Financial inclusion for unbanked or underserved populations*
    - Number of beneficiaries served
    - Percentage rural outreach (borrowers)
    - Percentage women outreach (borrowers)
    - Percentage agricultural outreach (portfolio)
  - *Market access for smallholder farmers*
    - Number of smallholder farmers served (members and producers)
    - Provision of non-financial services to farmers (members and producers)
  - *Missing middle investments to support rural enterprises*
    - Percentage of investments where Alterfin is the first investor
    - Number of staff and composition of partners; gender balance
  - *Supporting sustainable agriculture investments*
    - Number of certified smallholder farmers
    - Number of certified partners
    - Area of sustainable cultivation
    - Volume of sustainable produce sold

## DATA RESOURCES AND PROCESSING

Alterfin has developed a custom due diligence tool with standardized structured data collection templates. The due diligence tool is used to analyze both the environmental and social risks relevant to the sector and operations and the positive impact potential of each investment which is used to assess the attainment of the sustainable investment objective.

The due diligence assessment tool is used at the due diligence stage and informs all investment decisions-makers of Alterfin for new partners and renewals of existing partners and serves as the main data source to measure attainment of the sustainable investment objective.

The positive screening for creating environmental and/or social impact during the due diligence is further complemented by annual impact studies on a selected number of partners to evaluate the impact at the partner and beneficiary levels.

For the data collected Alterfin relies on self-reported data provided by the partners complemented and verified, when possible, by Alterfin's Investment team during due diligence visits and with external or if available audited reports. Data consistency is checked during the verification of the due diligence by the Head of Investment and E&S Impact Manager.

For data that is not available, no estimates are made using external or proxy data. Where data coverage is limited, actions are being undertaken, where feasible and reasonable, to improve data availability in the next period.

### LIMITATION TO METHODOLOGIES AND DATA

There are limitations in data availability and quality. Some data is challenging to collect from Alterfin partners given the size, scope of their operations and their operating context.

Some other limitations are, the data reporting capacity, the existence, level of sophistication and reliability of the partners' management information systems, variations and inconsistencies within partners systems, potential biases in self-reported data and conformity of data across partners. Alterfin used best effort approach to collect the data and implements safeguard measures to improve the data quality.

### DUE DILIGENCE

Alterfin has an Investment Policy that governs the due diligence process. In addition, the E&S Risk Policy outlines the Environmental and Social Performance Management framework ("ESPM framework") that further details Alterfin's operations and describes the processes, procedures, systems and governance in place on E&S risk aspects.

As mentioned in the sections above, Alterfin conducts a due diligence for all new and existing partners using the custom diligence tool. The due diligence tool is designed to assess, capture and monitor the risks and impacts of all its sustainable investments.

During the preselection phase on-desk review is conducted and presented in a preselection report. When favorable, a comprehensive onsite due diligence is conducted complemented with additional desk-review of documentation and data. The result of the due diligence is presented in an investment proposal.

Alterfin has a governance structure in place with defined roles and responsibilities to collectively oversee the implementation of the due diligence ESPM framework throughout the investment cycle. Investment Managers conduct E&S due diligence, agree on corrective actions, and continuously monitor partner performance, supported when necessary by the E&S Impact Manager. The E&S Impact Manager safeguards compliance of all investments with applicable standards and maintains all related E&S policies, procedures, and tools. The Chief Impact Officer or Head of Investments endorse the due diligence. The Investment Committee provides independent oversight by ratifying the due diligence assessments and, where needed, imposing corrective measures or rejecting investments. The Legal & Compliance team embeds these standards into binding legal agreements to ensure enforceability. During portfolio monitoring, the Monitoring Committee ensures where needed that partners implement agreed E&S measures and supports Investment Managers in adequately addressing in case of non-compliance.

More information can be found in the E&S Risk Policy: <https://www.alterfin.be/publications/environmental-social-risk-policy>

### ENGAGEMENT POLICIES

Alterfin uses the due diligence assessments, monitoring and the impact studies to engage with the partners and create an improvement plan where relevant on a case-by-case basis. Additionally, the due diligence assessment allows Alterfin to identify potential needs to support with Alterfin's technical assistance



activities and track progress on the environmental and social performance with each subsequent loan renewal. Alterfin also seeks active collaboration with like-minded organizations and sector initiatives.

#### ATTAINMENT OF SUSTAINABLE INVESTMENT OBJECTIVE

Given the pioneering impact character of Alterfin SC, no index has been designated as a comparable reference benchmark for the purpose of attaining the sustainable investment objective of Alterfin SC.