

Article 10 (SFDR)

Website disclosure for an article 8 fund

## **EU-ARMENIA SME FUND SCSp**

Published 27/10/2023

|   |  |
|---|--|
| A | <p><u>SUMMARY</u></p> <p>EU-Armenia SME Fund SCSp (the "Fund") invests in SMEs in Armenia and promotes greenhouse gases reduction, renewably energy, occupational health &amp; safety, inclusion and gender diversity as environmental social characteristics (together "E&amp;S Characteristics"). The investment strategy of the Fund does not have sustainable investments within the meaning of the (EU) Regulation 2019/2088 ("SFDR") as its objective.</p> <p>The Fund is focused on the opportunities that are:</p> <ul style="list-style-type: none"> <li>- Compliant with the exclusion list,</li> <li>- Compliant with industry best practices and standards,</li> <li>- In sectors of strategic interest for the Fund, including agriculture, renewable energy, manufacturing and ICT.</li> </ul> <p>The analysis of E&amp;S characterises of the potential investment is integrated in the investment process, including initial and final due diligence, investment, holding and exit phases.</p> <p>The E&amp;S related indicators will be collected by the Fund on a recurring basis from the portfolio companies. The Fund will report the E&amp;S Characteristics its investors on annual basis.</p> <p>A. Zusammenfassung</p> <p>Der KMU-Fonds EU-Armenien SCSp (der "Fonds") investiert in Armenien und fördert die Reduzierung von Treibhausgasen, erneuerbare Energien, Arbeitssicherheit und Gesundheitsschutz, Inklusion und Geschlechtervielfalt als ökologische soziale Merkmale (zusammen "E&amp;S-Merkmale"). Die Anlagestrategie des Fonds beinhaltet keine nachhaltigen Investitionen im Sinne der (EU)Verordnung 2019/2088 ("SFDR") als Zielsetzung.</p> <p>Der Fonds konzentriert sich auf Anlagemöglichkeiten, welche sind:</p> <ul style="list-style-type: none"> <li>- Konform mit der Ausschlussliste,</li> <li>- Entspricht den Best Practices und Standards der Branche,</li> <li>- Liegt innerhalb der Sektoren von strategischem Interesse für den Fonds, einschließlich Landwirtschaft, erneuerbare Energien, verarbeitendes Gewerbe und IKT.</li> </ul> <p>Die Analyse von E&amp;S Eigenschaften potenzieller Investitionen ist in den Anlageprozess integriert, einschließlich der anfänglichen und finalen Due Diligence-, Investitions-, Halte- und Ausstiegsphasen.</p> <p>Die E&amp;S-bezogenen Indikatoren werden vom Fonds regelmäßig von den Portfoliounternehmen erhoben. Der Fonds wird die E&amp;S-Merkmale seinen Investoren jährlich melden.</p> |
| B | <p><u>NO SUSTAINABLE INVESTMENT OBJECTIVE</u></p>  |
|   | <p>EU-Armenia SME Fund SCSp promotes environmental and social characteristics but does not have as its objective a sustainable investment.</p>   |
| C | <p><u>ENVIRONMENTAL OR SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT</u></p>   |
|   | <p>The following environmental characteristics will be promoted by the Fund:</p> <ul style="list-style-type: none"> <li>- Energy data - collection of the operational scope 1, 2 and where possible 3 energy data.</li> <li>- Renewable energy generation by the portfolio companies</li> <li>- Carbon intensity and avoided greenhouse gases - calculation of the carbon intensity and avoided greenhouse gases emissions of each portfolio company</li> <li>- Integration of the environmental risks in the investment process (including the initial due diligence).</li> <li>- Compliance with the EBRD's EBRD Designated Performance Requirements and Environmental and Social Procedures for Active Equity Investments.</li> </ul> <p>The following social characteristics will be promoted:</p> <ul style="list-style-type: none"> <li>- Jobs creation (including gender balance) by the portfolio companies</li> <li>- Smallholder farmers supported</li> <li>- Adherence to the EBRD Performance Standards.</li> </ul> <p>In addition, the Fund will adhere to an exclusion list and will not invest in the companies engaged in the controversial activities, which are listed in the Limited Partnership Agreement and EBRD Environmental and Social Exclusion List. In particular, the exclusion list includes arms manufacturing or other military-related activities, tobacco products or hard spirits, operation of casinos or other gambling facilities etc.</p>   |
| D | <p><u>INVESTMENT STRATEGY</u></p>  |

|   |  |
|---|--|
|   | <p>The Fund's investment objective is to achieve long-term capital growth by investing in SMEs in Armenia. The Fund intends to focus on investment opportunities that are:</p> <ul style="list-style-type: none"> <li>- <b>Compliant with the exclusion list,</b></li> <li>- <b>Compliant with industry best practices and standards:</b> the Fund will seek to invest in portfolio companies that have demonstrated compliance with industry best practices and standards, including relating to (i) corporate governance; (ii) environmental protection; (iii) accounting &amp; reporting; and (iv) integrity and anti-money laundering procedures,</li> <li>- <b>In sectors of strategic interest for the Fund,</b> including agriculture, renewable energy, manufacturing and ICT.</li> </ul> <p>The investment strategy of the Fund is based on four pillars of value creation:</p> <ul style="list-style-type: none"> <li>- Balance sheet optimization: capital restructuring and reduction of cost of debt of the portfolio companies to reposition the SMEs for growth</li> <li>- Operational efficiency: enhancing production and supply chain management processes, streamline operations and distribution channels.</li> <li>- Expansion and growth delivery: leveraging on the new international economic partnerships of Armenia as it transitions from a domestic-led economy to a regional export-led economy.</li> <li>- Corporate governance: corporate reorganization to define a clear business plan and align the interest of the managers and shareholders.</li> </ul> <p>The Fund aims to promote environmental and social characteristics by integrating E&amp;S factors in the investment process, which consists of the following phases:</p> <ul style="list-style-type: none"> <li>- The investment phase (deal sourcing and due diligence process),</li> <li>- The holding phase (portfolio management and value adding, monitoring, reporting) and</li> <li>- The exit phase.</li> </ul> <p>The Fund will apply a wide range of the methods to assess the alignment of the investment with E&amp;S characteristics listed above, including but not limited to:</p> <ul style="list-style-type: none"> <li>- Negative screening, identification of the applicable E&amp;S standards and risk assessment during the due diligence process</li> <li>- Continuous reporting on E&amp;S characteristics from the portfolio companies.</li> </ul> <p><u>Good Governance</u></p> <p>The Fund will use its best endeavours to ensure that appropriate standards of corporate governance are in place or will be implemented within a reasonable time period in all Portfolio Companies, including facilitating regular board meetings, an audit committee (if appropriate), a code of ethical business behaviour and compliance with the Invest Europe Professional Standards and the relevant code of practice for corporate governance (if any) in the country of incorporation or operation.</p> |
| E | <u>PROPORTION OF INVESTMENTS</u>   |
|   | <p>The investment decisions are expected to be made according to the binding elements of the investment strategy used to attain the environmental and social characteristics. The Fund envisages 100% of its asset allocation to be aligned with E&amp;S characteristics, group #1B Other E/S Characteristics , including the existing commitments.</p>  |
| F | <u>MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS</u>   |
|   | <p>The following indicators will be used to measure attainment of the environmental and social characteristics:</p> <ul style="list-style-type: none"> <li>- Adherence to exclusion list - The Fund will not invest directly or indirectly in any Portfolio Company engaged in or which in turn directly or indirectly invests in enterprises engaged in any of the activities or projects listed in the Limited Partnership Agreement and EBRD Environmental and Social Exclusion List. Thus, the following indicators will be used to measure the attainment of the environmental and social characteristics promoted, as a % of the number of the companies in the Fund: <ul style="list-style-type: none"> <li>• 0 % of companies directly or indirectly involved in the activities listed in EBRD Environmental and Social Exclusion List</li> <li>• 0 % of companies directly or indirectly involved in arms manufacturing or other military-related activities,</li> <li>• 0 % of companies directly or indirectly involved in manufacture of tobacco products or hard spirits,</li> <li>• 0 % of companies directly or indirectly involved in operation of casinos or other gambling facilities.</li> </ul> </li> <li>- Energy data – Operational scope 1 and 2 will be collected for all portfolio companies</li> <li>- Renewable energy generation by the portfolio companies will be monitored for the portfolio companies</li> </ul>   |

|   |  |
|---|--|
|   | <ul style="list-style-type: none"> <li>- Carbon intensity and avoided greenhouses gases</li> <li>- Integration of the environmental factors and risks in the investment process (including the initial due diligence) - all portfolio companies will be screened against relevant EBRD Performance standards. The environmental, health and safety policies will be elaborated and adopted by all portfolio companies.</li> <li>- Jobs created (including gender balance) by the portfolio companies</li> <li>- Smallholder farmers supported.</li> </ul>  |
| G | <u>METHODOLOGIES</u>   |
|   | <p>The Fund will implement the following methodologies to monitor environmental and social characteristics and adherence to the exclusion list:</p> <ul style="list-style-type: none"> <li>- Periodic (at least quarterly) collection of the customary E&amp;S questionnaires from the portfolio companies. The following is the non-exhaustive list of the E&amp;S indicators to be reported by the portfolio companies: <ul style="list-style-type: none"> <li>o Energy data,</li> <li>o Renewable energy generation by the portfolio companies,</li> <li>o Carbon intensity and avoided greenhouses gases,</li> <li>o Jobs created (including gender balance) by the portfolio companies – the reporting system will be implemented to monitor the number of jobs and gender balance in the portfolio companies,</li> <li>o Smallholder farmers supported – the reporting system will be implemented to monitor the support provided to the smallholder farmers by the portfolio companies.</li> </ul> </li> <li>- Preparation of an annual sustainability report;</li> </ul>   |
| H | <u>DATA SOURCES AND PROCESSING</u>   |
|   | <p>The data collection will commence within 12 months from the investment date. The management of the portfolio companies will be responsible for data monitoring, reporting and archiving. For quality assurance, data and records will be crosschecked by the Fund to identify possible errors or omissions. The quality assurance procedures will be defined in advance depending on the type of data and monitoring method:</p> <ul style="list-style-type: none"> <li>- Energy data – operational scope 1 and 2 will be collected for all portfolio companies. The monitoring and reporting system will be installed in the portfolio companies, third party verification will be performed where possible (e.g., utility bills will be procured to verify the electricity and natural gas consumption),</li> <li>- Renewable energy generation by the portfolio companies will be monitored for the portfolio companies. The third party (bills from the grid operator) documentary evidence will be used for monitoring and reporting,</li> <li>- Carbon intensity and avoided greenhouses gases will be calculated for the portfolio companies by the end of 2023, calculation methodology will be elaborated for each fuel/energy carrier type based on the internationally recognized methodologies (e.g. UNFCCC)<sup>1</sup> and standards,</li> <li>- Jobs created (including gender balance) by the portfolio companies – the reporting system will be implemented to monitor the number of jobs and gender balance in the portfolio companies,</li> <li>- Smallholder farmers supported – the reporting system will be implemented to monitor the support provided to the smallholder farmers by the portfolio companies.</li> </ul> <p>The need for estimates will mainly depend on the quality and availability of data provided by the portfolio companies and the proportion of estimated data cannot be provided in advance. Nonetheless, the aim is to reduce the use of estimates to a minimum. The annual report will provide detailed information on the data and relevant sources.</p> <p>The monitored and reported data will be stored electronically and in hard copy format by the Fund and portfolio companies.</p> |
| I | <u>LIMITATIONS TO METHODOLOGIES AND DATA</u>   |
|   | <p>Any limitations to methodologies and data sources are expected to mainly be due to lack of precise data from investee companies. These limitations are mainly driven by the lack of standardised reporting by portfolio companies. The Fund will work closely with portfolio companies to ensure that the companies understand the importance of reporting and will help the companies to establish and continuously improve the reporting standards. Furthermore, the Fund actively work together with external consultants who provide an independent outside view on potential limitations. All this assures that the limitations do not affect the attainment of the sustainable investment objective.</p>  |
| J | <u>DUE DILIGENCE</u>   |

<sup>1</sup> United Nations Framework Convention on Climate Change

|   |   |
|---|---|
|   | <p>The analysis of E&amp;S characterises of the potential investment is integrated in the due diligence process. The analysis will be carried out by the Fund or in certain cases by the external consultants. In particular, during the initial due diligence process the Fund will execute negative screening to exclude the investment opportunities listed in the exclusion list. Following the negative screening the Fund will seek to obtain detailed information and documentation from the potential portfolio companies in order to identify applicable E&amp;S standards and assess potential E&amp;S risks associated with the investment. The output of the E&amp;S due diligence will be summarized in the E&amp;S section of the final investment proposal for the investment in the target Portfolio Company, thus highlighting any E&amp;S risks and opportunities in respect of such investment.</p>  |
| K | <u>ENGAGEMENT POLICIES</u>  |
|   | <p>Following the successful completion of an investment, the Fund will adopt an active approach to the engagement on E&amp;S topics that are relevant to the portfolio company's business models. This will be implemented through:</p> <p>1) Elaboration and adoption and implementation of E&amp;S policies, including monitoring and reporting systems, which will be reflected as covenant in the investment documentation. The portfolio companies will commit to track and report on applicable E&amp;S performance indicators, which will be monitored during the holding period and regularly assessed and discussed at the board level. In case any controversies or incidents will be identified in portfolio companies, a clear reporting procedure will be established as part of portfolio company E&amp;S policies, which will define the content to be disclosed to the Fund as soon as practicable after becoming aware of any such event.</p> <p>2) Active ownership, including board participation, periodic in-person meetings and conference calls to understand E&amp;S risks and opportunities as well as implement the monitoring and reporting plans.</p> |
| L | <u>DESIGNATED REFERENCE BENCHMARK</u>   |
|   | Not applicable.   |