

Sustainability-related disclosure: Statement on sustainable investment objective



Introduction

This statement is published by the European Fund for Southeast Europe (EFSE, “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 two separate sub-funds in its structure, the Regional Sub-Fund and Ukraine Sub-Fund. The sustainability-related disclosures providing transparency on the sustainable investment objective of each sub-fund can be found below:

- [Regional Sub-Fund](#)
- [Ukraine Sub-Fund](#)

EUROPEAN FUND FOR SOUTHEAST EUROPE

Regional Sub-Fund

Sustainability-related disclosures: Statement on sustainable investment objective



(a) Summary

Sustainable investment objective of the financial product: The Regional Sub-Fund's sustainable investment objective is to support employment opportunities and the generation of income as well as improving livelihoods.

Considering the Regional 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 Sub-Fund's sustainable investment objective.

No significant harm to the sustainable investment objective: The Regional 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). The Fund 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 the Regional Sub-Fund's funding for activities with an elevated risk of causing significant harm, and detailed E&S procedures. The ESMS of the Fund guides the Sub-Fund's approach to assessing, mitigating and monitoring potential adverse impacts at every stage of the investment process. The Regional Sub-Fund is leveraging the PAI indicators to monitor potential adverse impacts of its investees

and to inform investment selection and focus areas for engagement. The Fund's E&S requirements to Partner Lending Institutions (PLIs) include obligations to manage adverse impacts of the Regional Sub-Fund's funded activities to avoid significant harm. The PLI'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 Regional 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 the target regions. 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 Regional Sub-Fund's sustainable investment objective, the investment strategy stipulates criteria both to guide the selection of PLIs as well as to steer the use-of-proceeds.

Eligibility criteria for the PLI selection reflect considerations of the Regional 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 the type and size of end-borrower and limits to the possible loan amount 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.

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

The Regional 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 used to select the investments to attain the sustainable investment objective relate to:

1. Target markets;
2. PLI eligibility criteria.

The Regional Sub-Fund, guided by the Sub-Fund's Investment Guidelines and the Fund's Credit Risk Policy, AML/CFT Policy, and Responsible Investment Policy, is committed to actively promoting good governance, integrity, and transparency standards in its selection, financing and monitoring of PLI 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 and integrated into the Fund's decision making.

Proportion of investments: The Regional Sub-Fund strives to invest at least 85% 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 Regional Sub-Fund's sound operations and to optimize short-term liquidity management. While these investments may not be considered as a sustainable investment within the meaning of the SFDR, the Regional 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 Regional Sub-Fund's overarching sustainable investment objective.

Out of the share of sustainable investments, 100% of the Regional 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, the Regional Sub-Fund has identified a set of sustainability indicators, including:

- Number of sub-loans enabled to MSMEs and households through the Regional Sub-Fund's financing
- 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 the Regional Sub-Fund's financing through a PLI
- Number of women-owned enterprises reached through MSME finance

(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 Regional 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). The Fund 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 the Regional Sub-Fund's funding for activities with an elevated risk of causing significant harm, and detailed E&S procedures.

The ESMS of the Fund guides the Sub-Fund's approach to assessing, mitigating and monitoring potential adverse impacts at every stage of the investment process. The Fund is leveraging the PAI indicators to monitor potential adverse impacts of its investees and to inform investment selection and focus areas for engagement. The Fund's E&S requirements to PLIs include obligations to manage adverse impacts of the EFSE funded activities to avoid significant harm. The PLI'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?

In line with the Fund's approach to managing adverse impacts associated with its investments, the Regional 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 tools. The Regional 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 Regional 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 fundamental conventions of the International Labor Organization (ILO). The 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 PLI's capacity and commitment to avoid causing harm 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.

For more details, please refer to the [EFSE 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 Regional Sub-Fund's mission is to foster economic development and prosperity in Southeast Europe and the E.U. Eastern Neighbourhood Region (target regions) by supporting employment opportunities and the generation of income as well as improving livelihoods.

Considering the Regional Sub-Fund's target regions and specifics of the investment strategy, the Regional 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 Regional Sub-Fund works towards its sustainable investment objective by financing micro, small, and medium (MSMEs) and households through providing private debt to eligible financial intermediaries in the target regions. 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 Regional Sub-Fund's sustainable investment objective, the investment strategy stipulates criteria both to guide the selection of PLIs as well as to steer the use-of-proceeds.

Eligibility criteria for the PLI selection reflect considerations of the Regional 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 the type and size of end-borrower and limits to the possible loan amount 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.

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

The Regional 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 Regional 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 EFSE's contributions towards these SDGs, please refer to the [Fund website](#).

EFSE carries the LuxFLAG Microfinance label. This label, which must be renewed on an annual basis, signals that the Fund meets internationally recognized standards in the microfinance sector and invests to a large share in microfinance.

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. Target markets;
2. PLI eligibility criteria.

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

The Regional Sub-Fund, guided by the Sub-Fund's Investment Guidelines, the Fund's 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, financing and monitoring of PLI 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 and integrated into the Fund's decision making.

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

Yes

No

Through the Fund’s ESMS, the Regional 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 Fund’s decision making process.

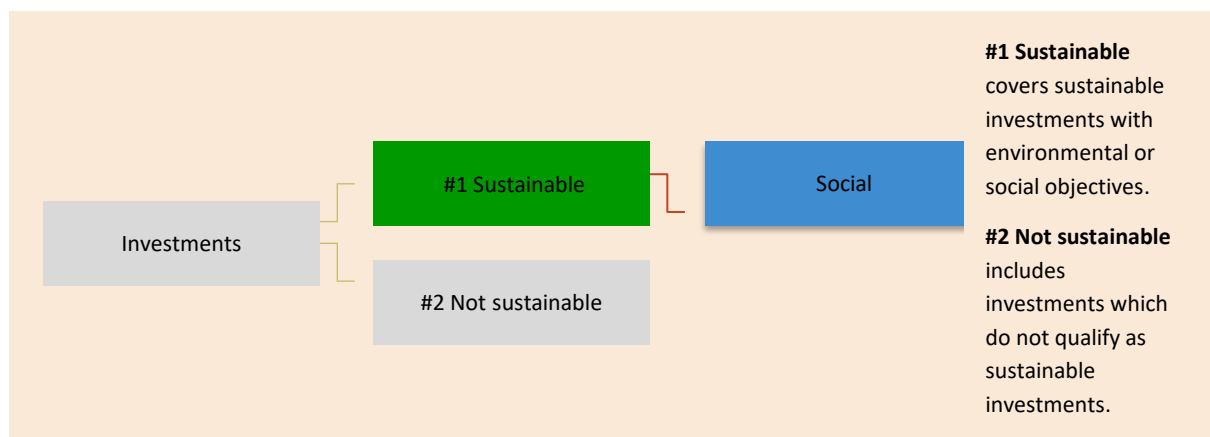
Investments are subject to initial screening and comprehensive due diligence processes which support the Regional Sub-Fund in identifying potential adverse impacts and in assessing the PLI’s capacity and commitment to address and mitigate against these impacts. Results of the due diligence form a part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

The Fund’s E&S requirements to PLIs include obligations to manage potential adverse impacts; the Regional Sub-Fund requires its PLIs to carry out their activities in compliance with the Fund’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 PLI’s E&S performance is considered crucial to effectively manage the potential risks of potential adverse impacts of the Regional Sub-Fund’s investments. The Regional Sub-Fund requires PLIs 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 Regional 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?



The Regional Sub-Fund strives to invest at least 85% 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 Regional 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 Regional 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 region requires the Regional Sub-Fund to provide investments in currencies suitable for these countries (in local currency, or in hard currency other than the 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 Regional Sub-Fund may use derivatives for the purpose of hedging currency risk and interest rate risks. By doing so, derivatives enable the Fund to make sustainable investments that would not have been possible otherwise.

Given the 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 Regional Sub-Fund has limited influence on the exact timing of funding subscriptions from public investors and on tranching this funding) and disbursements of the Regional Sub-Fund’s investment in the target region.

While these investments may not be considered as a sustainable investment within the meaning of the SFDR, the Regional 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 Regional 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, the Regional Sub-Fund has identified a set of sustainability indicators, including:

- Number of sub-loans enabled to MSMEs and households through the Regional Sub-Fund’s financing
- 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 the Regional Sub-Fund’s financing through a PLI
- Number of women-owned enterprises reached through MSME finance

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:

- [EFSE Annual Impact Reports](#)
- [The Factsheets on Development Performance](#)
- [EFSE 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 Regional Sub-Fund utilizes primary data, such as from PLIs' reporting or the Regional Sub-Fund's own, internal Sub-Fund monitoring data as a general practice. In order to assess and monitor its social impact, the Regional Sub-Fund applies the following assessment methodologies:

- Modelling: For a continuous estimation of the Regional Sub-Fund's employment effect, a modelling approach has been developed. The approach combines PLI reporting on sub-loans disbursed with job intensity factors derived by combining insights from the Regional Sub-Fund's own end-borrower studies, academic research, and industry data. Underlying data and assumptions are periodically reviewed and updated.
- Quantitative and qualitative studies in the target region: the Regional 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 EFSE's Theory of Change as well as its impact measurement and reporting, and to inform the future strategy of the Regional Sub-Fund. Results of the most recent study are available on the [EFSE website](#).

(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 Regional 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 Fund and portfolio level, allowing monitoring of the Regional Sub-Fund's overall activities related to resource mobilization, financing, and technical assistance.
- PLI reporting: Contractually agreed reporting on a set of predefined indicators, submitted by the PLIs to the Regional 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 Regional Sub-Fund's final target group are conducted periodically for a deeper understanding of the 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 PLIs, 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 Regional Sub-Fund's target regions and investment strategy, the availability of the external data for monitoring of the attainment of the Regional 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 PLIs. The data reported to the 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?

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

- During pre-screening, the investment's alignment with the Regional Sub-Fund's requirements is assessed. This relates to minimum requirements for ESG and responsible finance practices, as per the Fund's Issue Document and Regional Sub-Fund's Investment Guidelines.
- During the due diligence phase, the investment is assessed with regards to the binding elements of the Regional 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 Regional 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 Regional Sub-Fund's specific impact contribution. The due diligence also includes the identification of potential adverse impacts and an assessment of the PLI's capacity and commitment to address and mitigate against these

impacts. The Regional Sub-Fund assesses the PLI's own ESG due diligence practices and capacities and the PLI's responsible finance practices (such as consumer protection). If material gaps are identified, the PLI will be required to address them within a reasonable timeframe.

(k) Engagement policies

Is engagement part of the investment strategy?

Engagement with PLIs is an integral component of the Fund's investment process and central to managing its positive development impact. The Regional Sub-Fund considers itself a long-term partner to its PLIs 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 PLIs to enhance outreach to the Regional Sub-Fund's target group or manage sustainability risks and potential adverse impacts.

In the limited instances where the Regional Sub-Fund holds equity stakes, the Regional Sub-Fund may take up Board representation.

(l) Attainment of the sustainable investment objective

Has a reference benchmark been designated?

Yes

No

EUROPEAN FUND FOR SOUTHEAST EUROPE

Ukraine Sub-Fund

Sustainability-related disclosures: Statement on sustainable investment objective



(a) Summary

Sustainable investment objective of the financial product: The Ukraine Sub-Fund’s sustainable investment objective is to provide dedicated development finance aimed at fostering economic development and prosperity in Ukraine. The Ukraine Sub-Fund, through its investment activities, aims at supporting immediate and medium-/long-term recovery and reconstruction needs of micro, small, and medium (MSMEs) and households (“Target Group”) affected by the damages caused by Russia’s war of aggression against Ukraine.

Considering the Sub-Fund’s target market and specifics of the investment strategy, the Ukraine 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 Ukraine 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). The Fund maintains an Environmental and Social Management System (ESMS), which is composed of, among others, the Fund’s Responsible Investment Policy, the Environmental & Social (E&S) Exclusion List which prohibits the use of the Sub-Fund’s funding for activities with an elevated risk of causing significant harm, and detailed E&S procedures. The ESMS of the Fund guides the Sub-Fund’s approach to assessing, mitigating and monitoring potential adverse impacts at every stage of the investment process. The

Sub-Fund is leveraging the PAI indicators to monitor potential adverse impacts of its investees and to inform investment selection and focus areas for engagement. The Fund's E&S requirements to PLIs include obligations to manage adverse impacts of the activities funded by the Ukraine Sub-Fund to avoid significant harm. The PLI'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 Ukraine Sub-Fund works towards its sustainable investment objective by financing MSMEs and households through providing private debt and equity/quasi-equity participations to eligible PLIs, which include local commercial banks, microfinance institutions and other selected financial institutions that must either finance or be committed to financing the Target Group of the Ukraine Sub-Fund.

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

Eligibility criteria for the PLI selection reflect considerations of the Sub-Fund's sustainable investment objective and alignment with internationally recognized ESG standards and principles of good corporate governance.

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

- On-lending requirements relate to the type and size of end-borrower and limits to the possible loan amount to end-borrowers. These requirements are part of the legal agreement with the respective PLI. 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.

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

The 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 used to select the investments to attain the sustainable investment objective relate to:

3. Target PLIs;
4. PLI eligibility criteria.

The Ukraine Sub-Fund, guided by the Sub-Fund's Investment Guidelines, the Fund's 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, financing and monitoring of PLI 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 and integrated into the Fund's decision making.

Proportion of investments: The Ukraine Sub-Fund is launched in 2024 and is currently in the ramp up period. At the end of this ramp up period, expected for the end of 2026, it strives to invest at least 85% 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 Sub-Fund's sound operations and to optimize short-term liquidity management. While these investments may not be considered as a sustainable investment within the meaning of the SFDR, the 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.

Out of the share of sustainable investments, 100% of the Ukraine 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, the Ukraine Sub-Fund has identified a set of sustainability indicators, including:

- Number of sub-loans enabled to MSMEs and households through the Ukraine Sub-Fund's financing
- Volume of sub-loans enabled for MSMEs
- Share of MSME and rural sub-loans disbursed in local currency
- Number of indirect jobs supported by MSMEs receiving the Ukraine Sub-Fund's financing through a PLI

(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 Ukraine 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). The Fund 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 the Sub-Fund's funding for activities with an elevated risk of causing significant harm, and detailed E&S procedures.

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

In line with the Fund's approach to managing adverse impacts associated with its investments, the 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 tools. The 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 Ukraine 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 fundamental conventions of the International Labor Organization (ILO). The 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 PLI's capacity and commitment to avoid causing harm 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.

For more details, please refer to the [EFSE 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 investment objective of the Ukraine Sub-Fund is to provide dedicated development finance aimed at fostering economic development and prosperity in Ukraine. The Ukraine Sub-Fund, through its investment activities, aims at supporting immediate and medium-/long-term recovery and reconstruction needs of the Target Group affected by the damages caused by Russia's war of aggression against Ukraine.

Considering the Sub-Fund's target market and specifics of the investment strategy, the Ukraine 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 Ukraine Sub-Fund works towards its sustainable investment objective by financing micro, small, and medium (MSMEs) and households through providing private debt and equity/quasi-equity participations to eligible PLIs, which include local commercial banks, microfinance institutions and other selected financial institutions, that must either finance or be committed to financing the Target Group of the Ukraine Sub-Fund. To facilitate contribution to the Sub-Fund's sustainable investment objective, the investment strategy stipulates criteria both to guide the selection of PLIs as well as to steer the use-of-proceeds.

Eligibility criteria for the PLI selection reflect considerations of the Sub-Fund's sustainable investment objective and alignment with internationally recognized ESG standards and principles of good corporate governance.

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

- On-lending requirements relate to the type and size of end-borrower and limits to the possible loan amount to end-borrowers. These requirements are part of the legal agreement with the respective PLI.
- 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.

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

The Ukraine 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 Ukraine 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 EFSE's contributions towards these SDGs, please refer to the [Fund website](#).

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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:

3. Target PLIs;
4. PLI eligibility criteria.

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

The Ukraine Sub-Fund, guided by the Sub-Fund's Investment Guidelines, the Fund's 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, financing and monitoring of PLI 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 and integrated into the Fund's decision making.

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

Yes

No

Through the Fund’s ESMS, the Ukraine 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 Fund’s decision making process.

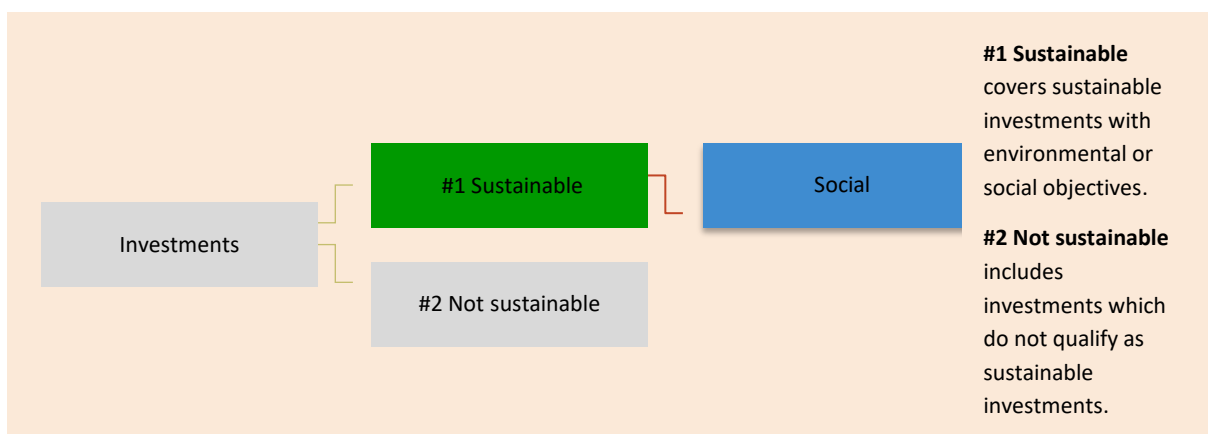
Investments are subject to initial screening and comprehensive due diligence processes which support the Sub-Fund in identifying potential adverse impacts and in assessing the PLI’s capacity and commitment to address and mitigate against these impacts. Results of the due diligence form a part of the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

The Fund’s E&S requirements to PLIs include obligations to manage potential adverse impacts; PLIs are required to carry out their activities in compliance with the Fund’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 PLI’s E&S performance is considered crucial to effectively manage the potential risks of potential adverse impacts of the Sub-Fund’s investments. The Sub-Fund requires PLIs 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 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 Ukraine Sub-Fund is launched in 2024 and is currently in the ramp up period. At the end of this ramp up period, expected for the end of 2026, it strives to invest at least 85% 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 Ukraine Sub-Fund's investments are expected to contribute towards the 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 Ukraine Sub-Fund can hold all assets not qualifying as sustainable investments under the SFDR 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 region requires the Sub-Fund to provide investments in currencies suitable for these countries (in local currency, or in hard currency other than the 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 Sub-Fund may use derivatives for the purpose of hedging currency risk and interest rate risks. By doing so, derivatives enable the Fund to make sustainable investments that would not have been possible otherwise.

Given the 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 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 region.

While these investments may not be considered as a sustainable investment within the meaning of the SFDR, the 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 Ukraine 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 measure the positive impact of its activities, the Ukraine Sub-Fund has identified a set of sustainability indicators, including:

- Number of sub-loans enabled to MSMEs and households through the Ukraine Sub-Fund's financing
- 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 the Ukraine Sub-Fund's financing through a PLI

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:

- [EFSE Annual Impact Reports](#)
- [The Factsheets on Development Performance](#)
- [EFSE 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 Ukraine Sub-Fund utilizes primary data, such as from PLIs' reporting or the Sub-Fund's own, internal Sub-Fund monitoring data as a general practice. In order to assess and monitor its social impact, the Ukraine Sub-Fund applies the following assessment methodologies:

- Modelling: For a continuous estimation of the Ukraine Sub-Fund's employment effect, a modelling approach has been developed. The approach combines PLI reporting on sub-loans disbursed with job intensity factors derived by combining insights from the academic research and industry data. Underlying data and assumptions are periodically reviewed and updated.
- Quantitative and qualitative studies in the target region: the Regional Sub-Fund might commission studies 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 Ukraine 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 Fund and portfolio level, allowing monitoring of the Ukraine Sub-Fund's overall activities related to resource mobilization, financing, and technical assistance.
- PLI reporting: Contractually agreed reporting on a set of predefined indicators, submitted by the PLIs to the Ukraine 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.

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 Ukraine Sub-Fund’s target regions and investment strategy, the availability of the external data for monitoring of the attainment of the 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 PLIs. The data reported to the 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?

Assessing the potential of an investment to contribute to the Ukraine Sub-Fund’s positive impact objective follows a two-step approach in the pre-investment phase:

- During pre-screening, the investment’s alignment with the Ukraine Sub-Fund’s requirements is assessed. This relates to minimum requirements for ESG and responsible finance practices, as per the Fund’s Issue Document and Ukraine Sub-Fund’s Investment Guidelines.
- During the due diligence phase, the investment is assessed with regards to the binding elements of the Ukraine 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 Ukraine 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 Ukraine Sub-Fund’s specific impact contribution. The due diligence also includes the identification of potential adverse impacts and an assessment of the PLI’s capacity and commitment to address and mitigate against these impacts. The Fund assesses the PLI’s own ESG policies and responsible finance practices (such as consumer protection). If material gaps are identified, the PLI will be required to address them within a reasonable timeframe.

(k) Engagement policies

Is engagement part of the investment strategy?

Engagement with PLIs is an integral component of the Fund’s investment process and central to managing its positive development impact. The Ukraine Sub-Fund considers itself a long-term partner

to its PLIs 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 PLIs to enhance outreach to the Ukraine Sub-Fund’s target group or manage sustainability risks and potential adverse impacts.

In the limited instances where the Ukraine Sub-Fund holds equity stakes, the Ukraine Sub-Fund may take up Board representation.

(I) 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
23 May 2024	Update of the statement to reflect the umbrella structure and include sub-fund specific disclosures