

Disclosure Statement
Operating Principles for Impact Management

LGT Venture Philanthropy Foundation

April 1, 2021

LGT Venture Philanthropy (LGT VP) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Principles").

This Disclosure Statement affirms that LGT VP's core business, including (a) impact management systems; (b) policies and practices; and (c) investment services (including debt, equity, and grant) are managed in alignment with the Principles. The total value of the Covered Assets in alignment with the Principles is USD 39.5m as of March 31, 2021.¹



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April 1, 2021



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April 1, 2021

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Principle 1 - Define strategic impact objective(s), consistent with the investment strategy

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals ("SDGs"), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- LGT Venture Philanthropy is an independent charitable foundation established in 2007 with teams in Switzerland, Sub-Saharan Africa, and Asia. The foundation strives to improve the quality of life of disadvantaged people, contribute to healthy ecosystems, and build resilient, inclusive, and prosperous communities. LGT VP deploys philanthropic capital primarily using grant-based approaches to organizations with effective, innovative and scalable solutions to social and environmental challenges. LGT VP primarily supports organizations based in emerging markets, with a focus on Sub-Saharan Africa and Asia, and is active in high-impact sectors, including education, health, and environment. The supported solutions are identified through evidence-based assessments of market needs and proven interventions and contribute directly to the achievement of the Sustainable Development Goals (SDG's 1, 3, 4, 13, 14, 15, and 17). The foundation aims to scale both market- and non-market-based solutions, that provide access to essential goods and services, improving the quality of life of disadvantaged people. The foundation also offers non-financial support through transfer of know-how and management skills, and access to its local and global networks. To this end, it runs the LGT Impact Fellowship, that connects the portfolio organizations with business professionals providing know-how and strategic guidance. LGT VP seeks to deploy 100% of its capital to achieve positive and measurable impact. Since its inception, LGT VP has supported 64 high-impact ventures, and deployed USD 98m, benefitting 8m² people in 2020.
- LGT VP is the venture philanthropy arm of LGT Group. LGT Group is a leading international private banking and asset management group that has been fully controlled by the Liechtenstein Princely Family for over 80 years. LGT VP collaborates with Lightrock, the direct impact investing platform of LGT.

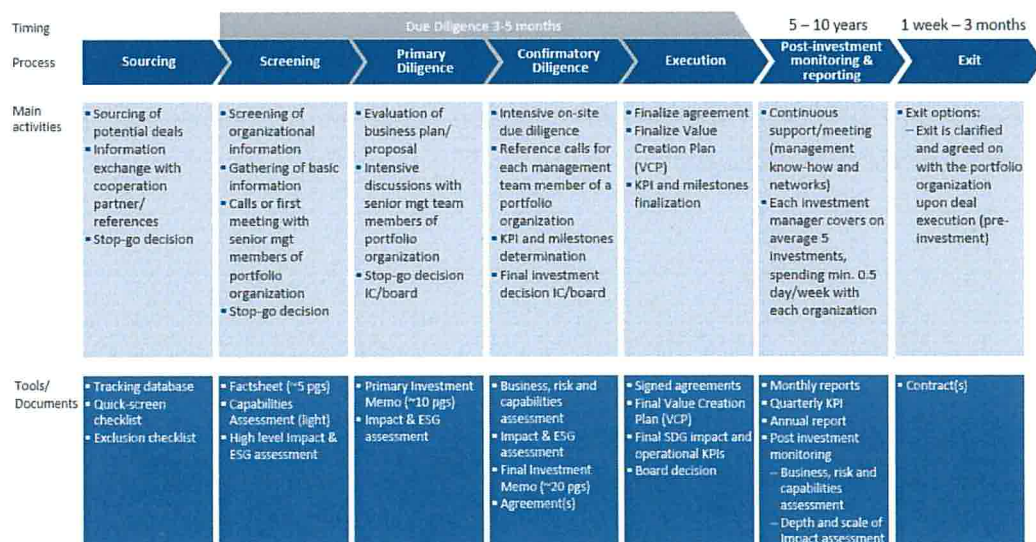
² Preliminary 2020 Impact figures



Principle 2 - Manage strategic impact on a portfolio basis

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- LGT Venture Philanthropy sources and selects organizations according to its three thematic frameworks (Education, Environment and Health). The majority of engagements fall within these high-impact themes and are underlaid with clear impact objectives in alignment with priority SDGs. For all of these organizations, impact is intentional and intrinsic to the business model and part of their core operations, products and/or services. LGT Venture Philanthropy follows a core impact approach, meaning that special attention is on the core impact rationale behind every engagement when assessing, measuring, managing and driving impact throughout the investment lifecycle. Impact measurement & management (IMM) is then complemented by an integral Environmental, Social and Governance ("ESG") management system based on industry best practices to mitigate risks, avoid harm and drive wider operational and financial value creation for all involved stakeholders.
- Having a top-down impact framework in place, managing impact at the portfolio level starts with a systemic and documented approach towards IMM at the investment level with a standard set of supporting tools and templates. During due diligence, a meaningful set of impact Key Performance Indicators ("KPIs") and corresponding targets related to the core impact rationale behind each investment is defined under consideration of the organization's ability to deliver robust and reliable data on those KPIs. Portfolio organizations report on the agreed KPIs on a quarterly or bi-annual basis and provide regular qualitative updates on the status of implementation of agreed initiatives. An aggregated view of the portfolio's impact performance across different themes is generated and reported annually according to an agreed format.
- LGT Venture Philanthropy has integrated impact and ESG data into its management systems to enhance its standardized management at the investment and portfolio level.
- We apply an institutional investment process:



Principle 3 - Establish the Manager's contribution to the achievement of impact

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.³ The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- As its name suggests, LGT Venture Philanthropy takes a venture capital approach to strengthening high-impact organizations that have innovative, scalable solutions to social and environmental challenges. It achieves this by providing agnostic, non-programmatic, and multi-year funding – meeting an underserved market need - and by engaging in deep and formative partnerships with entrepreneurs to collectively grow the organizations' impact and drive value creation throughout the investment lifetime.
- Prior to any investment, investment teams conduct comprehensive due diligence on all relevant verticals of an organization including operational, financial, impact and ESG. One of the key outputs of the due diligence are standardized action plans that record all identified actions and activities to mitigate material risks and drive value creation opportunities across relevant impact and ESG areas. Expected deliverables, required resources and timelines for implementing the individual actions are discussed and agreed upon with the organization prior to investing to ensure alignment and buy-in from the management from the outset. During the post-investment and monitoring phase, investment managers are actively involved with supporting portfolio organizations on implementing agreed actions and any new ones that might emerge.
- LGT Venture Philanthropy provides non-financial value-add to its portfolio organizations. With teams on the ground in all the regions where it invests, investment managers engage with portfolio organizations at the board, management and operational level to oversee and support the implementation of action plans and value creation initiatives.
- One example of an exclusive value-add initiative that LGT Venture Philanthropy brings to its portfolio is access to the LGT Impact Fellowship program. The fellowship program provides access to talent, know-how and capacity by connecting portfolio organizations with experienced professionals from around the world who have relevant sought-after skills and relevant business experience. Since inception in 2009, the LGT Impact Fellowship has placed more than 150 fellows. For more information on the LGT Impact Fellowship, please visit www.lgtimpactfellowship.com.

³ For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standard.



Principle 4 - Assess the expected impact of each investment, based on a systematic approach

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact⁴ potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?⁵ The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards⁶ and follow best practice.⁷

- LGT Venture Philanthropy relies on a proprietary impact assessment that has evolved over many years of investing in purpose-driven organizations in emerging markets. It allows investment teams to perform a thorough ex-ante analysis of a prospective investment's current impact and future potential, facilitating informed decision-making by the investment committee. The framework consists of two complementary tools that equally lean on proven methods and emerging standards:
 - 1) An impact assessment questionnaire to qualitatively evaluate each investment opportunity's ex ante impact performance and potential based on a comprehensive set of relevant criteria covering generally accepted dimensions and criteria of impact and associated risk factors. Identified risks and mitigating actions are incorporated into the value creation plan.
 - 2) A complementary analytical tool to support investment managers in developing and outlining the impact rationale and narrative behind each investment including the underlying theory of change and existing evidence on the relative size of the challenge addressed as well as the effectiveness of the specific business solution. Derived from this analysis is the definition of relevant impact Key Performance Indicators (KPIs) including specific targets to ensure robust monitoring and reporting of the organization's impact performance.

⁴ Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

⁵ Adapted from the Impact Management Project (www.impactmanagementproject.com).

⁶ Industry indicator standards include HIPSO (<https://indicators.ifipartnership.org/about/>); IRIS (iris.thegiin.org); GIIRS (<http://b-analytics.net/giirs-funds>); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.

⁷ International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.



Principle 5 - Assess, address, monitor, and manage potential negative impacts of each investment

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)⁸ risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.⁹ As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- By integrating ESG considerations into the management of portfolio organizations, LGT Venture Philanthropy believes that organizations can deliver enhanced value for stakeholders beyond their core impact. ESG risk management is systematically integrated throughout the Investment Process with specific action items, deliverables, and supporting tools at each stage. This allows investment teams to not only identify ESG risks in their diligence, but to also identify corrective action and value creation opportunities within potential portfolio organizations. As such, discussion of ESG risks and opportunities form part of every investment memorandum, and thus every investment decision.
- LGT Venture Philanthropy's ESG tools align with good international industry practice, notably building on the IFC Performance Standards on Environmental and Social Sustainability, the World Bank Group Environmental, Health, and Safety (EHS) Guidelines, and relevant ILO conventions as reference framework.
- LGT Venture Philanthropy undertakes ESG due diligence on all its new engagements, assessing an organization's ability and commitment to achieve ESG outcomes. Where relevant, investment teams work with the organizations to develop action plans that seek to improve ESG outcomes with clear deliverables in reasonable time frames, taking into consideration the risks and opportunities specific to that organization and its size and resources.

⁸ The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

⁹ Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (<http://mneguidelines.oecd.org/themes/human-rights.htm>).



Principle 6 - Monitor the progress of each investment in achieving impact against expectations and respond appropriately

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.¹⁰ The Manager shall also seek to use the results framework to capture investment outcomes.¹¹

- LGT Venture Philanthropy takes a standardized approach towards monitoring the impact performance of its engagements against expectations. Investment teams are responsible for monitoring the progress of portfolio organizations by receiving regular updates, conducting site visits and leading management discussions. They actively support the implementation of action plans, help improve internal measurement and reporting practices and assist in the identification of additional impact initiatives and ESG risks and opportunities that may emerge.
- In accordance with the overall reporting cycle, quantitative and qualitative impact data and information on agreed targets, milestones and key achievements are collected from portfolio organizations on a quarterly or bi-annual basis and are integrated into the portfolio management system via a standardized data collection template. Portfolio organizations report on the set of impact KPIs defined and agreed on at the outset of the engagement. The KPIs are derived from the initial impact assessment and are usually a combination of IRIS+ aligned and theme-relevant customized metrics, depending on the specific nature of the solution and the expected impact outcomes. The adequacy and relevancy of tracked KPIs as well as related targets is regularly revisited and discussed with the organizations. The quarterly and bi-annual reports ensure that LGT Venture Philanthropy has a good visibility on the status of the organization and serve as mandatory reporting to LGT VP's Board.
- Investment deal teams are responsible for actively monitoring their portfolio organizations and supporting the creation of value through implementation of the value creation plan and various impact targets and operational KPIs. The investment teams will remain engaged with the organization and support its growth and strategic initiatives. Investment teams are required to inform the Board on major events or deviations from plan over the course of the engagement.
- On an annual basis, LGT Venture Philanthropy aggregates impact data and reports in a consolidated form on its portfolio across various parameters such as geographies, themes and SDG alignment to analyse performance at the portfolio level.

¹⁰ Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.

¹¹ Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).





- Sporadically, LGT Venture Philanthropy and/or portfolio organizations engage third party providers to perform independent impact evaluation studies on the target beneficiaries/outcomes to underpin self-reported data and provide additional insights into the organization's impact and how measurement and reporting practice can be strengthened.

Principle 7 - Conduct exits considering the effect on sustained impact

When conducting an exit,¹² the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

- LGT Venture Philanthropy prepares exit memorandums, which provide the rationale for the exit and articulate the impact performance and value addition over the investment lifetime, documenting related exit decisions. Exit assessments include a summary of the engagement, a review of the evolution of LGT VP's initial investment thesis, LGT VP's contribution and the organization's achievements and impact. LGT Venture Philanthropy considers exit scenarios already at the time of investment. As such, it sets clear goals and milestones it looks to achieve with its investment and evaluates whether these have been met as it reflects on a potential exit. LGT Venture Philanthropy's investments should not create a dependency for the organizations it funds, contributing to their sustainability upon LGT VP exit.
- LGT Venture Philanthropy can provide Follow-on funding into existing engagements. These investments can either be envisaged at the time of the original engagement or at a later stage due to unforeseen circumstances such as a cash shortage or additional strategic initiatives. As part of the Follow-On investment memo, investment teams are expected to provide a detailed explanation of how the organization has performed versus expectations to date and to assess how the organization has performed against its value creation plan including Impact targets. Follow-on investments therefore allow organizations to proceed with strategic objectives and sustainability of impact.

¹² This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.



Principle 8 - Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- LGT Venture Philanthropy follows a standardized process to track impact performance of engagements against predefined targets and action plans as described under Principle 6. As part of the quarterly portfolio updates, investment managers review, and report expected and actual impact performance of each investment to senior management and the Board. In this way, it is ensured that any significant insights from the periodical analysis of individual engagements and the portfolio's achievement of impact can lead to operational and strategic adjustments and are used to inform future investment decision-making. On an annual basis LGT Venture Philanthropy conducts a thorough review of all of its engagements focusing on highlights, key learnings, challenges and outlook for the coming year.
- On a process level, LGT Venture Philanthropy continuously reviews its investment, impact and ESG processes based on insights from its current and past investment activities. The Impact & ESG team is responsible for maintaining the related management systems and procedures and making improvements in response to changing operational and strategic requirements.
Additionally, through LGT Lightrock's Impact & ESG team, LGT Venture Philanthropy benefits from the former's engagement with partners and peers, its involvement in industry bodies and initiatives on emerging best practices on IMM, ESG management and related investment decision-making in order to refine its approach and practices.





Principle 9 - Publicly disclose alignment with the Principles and provide regular independent verification¹³ of the alignment

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- This Disclosure Statement re-affirms the alignment of LGT Venture Philanthropy's policies and procedures with the Principles and will be updated annually.
- In accordance with the requirement that signatories provide regular independent verification of alignment under Principle 9, LGT Venture Philanthropy engaged a third-party consultant – Tideline – who completed a verification of LGT Venture Philanthropy's alignment with the Operating Principles for Impact Management in April 2020.
- We plan to conduct an independent verification every five years, in alignment with our strategic planning process, unless there are significant changes to our practices that warrant an earlier review.

Most recent review: April 2020

Next planned review: April 2025

¹³ The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.

