Blue like an Orange – Latin America Feeder Fund II (the "Feeder Fund II")

Content

Latin America Feeder Fund II (the "**Feeder Fund II**") invests at least 85% of its resources in Blue like an Orange Latin America Fund II (the "**Sub-Fund II**"). The 15% left represent cash and hedging instruments. The term "investee companies" in this document refers to the companies in which Sub-Fund II invests, and thus in which Feeder Fund II invests indirectly.

Summary

__English__

Feeder Fund II makes 100% of its investments in Latin America Fund II, excluding cash and hedging instruments.
Latin America Fund II focuses exclusively on investing in projects and enterprises that can positively affect sustainable development and social change The strategy seeks to deliver both, strong risk-adjusted market level rates of financial returns and sustainable development impact outcomes in direct support of the Sustainable Development Goals (SDGs). Consequently, Blue like an Orange has elected for Latin America Fund II to have "Sustainable Investment as an objective" as per EU Sustainable Finance Disclosure Regulation ('SFDR'), entered into force on March 10, 2021 ('Article 9 products'). This implies that Sub-Fund II seeks to invest in economic activities that contribute to a social objective - 100% of the Sub-Fund II's investments have a social objective - provided that such investments do not significantly harm any social and environmental objectives and follow good governance practices. A comprehensive investment process combining investment restrictions, KYC checks, impact analysis, impact scoring with an internally developed methodology, sustainability risks and adverse impact analysis, and third-party environmental and social due diligence, ensures the contribution of any potential investment to a social objective, as well as the respect of the "Do No Significant Harm" criteria. During this due diligences process, public data from widely acknowledged public sources are used to assess the existing needs and the relevance of the contemplated deal in terms of social and environmental impact. During the duration of the loan, the annual and quarterly sustainability reporting, the implementation of a contractual environmental and social action plan, as well as the annual impact score update, enable Blue like an Orange to monitor impact performance and sustainability risks and adverse impacts of Sub-Fund II's investee companies.
The contribution of Sub-Fund II to a sustainable objective through its investments and the measurement of this contribution relies on the engagement of Blue like an Orange with all the investee companies. Indeed, the online tool dedicated to the investee companies' sustainability reporting as well as the continuous dialogue between Blue like an Orange and the companies constitute the main means for Blue like an Orange to follow the social contribution of its investments. Finally, if Blue like an Orange is aware of the limitations of its methods and processes to assess the contribution of an investment to a sustainable objective and the absence of significant harm, it is continuously improving in order to take investment decisions which are always more documented and enlightened in terms of social contribution and sustainability risks.

French

Feeder-Fund II effectue 100% de ses investissements dans Latin America Fund II, hors liquidités et instruments de couverture.
Latin America Fund II investit exclusivement dans des projets et des entreprises qui peuvent avoir un impact positif sur le développement durable et le changement social. La stratégie poursuivie vise à fournir non seulement des taux de rendement financier de marché, ajusté au risque pris mais également des résultats en termes d'impact sur le développement durable, en soutien direct aux Objectifs de développement durable (ODD). En conséquence, Blue like an Orange a choisi que Latin America Fund II ait pour objectif « l'investissement durable », d'après la régulation européenne Sustainable Finance Disclosure Regulation ('SFDR'), entrée en application le 10 mars 2021 (« Produit Article 9 »). Cela implique que le Sous-Fonds II investisse dans des activités économiques qui contribuent à un objectif social - 100 % des investissements du Sous-Fonds I ont un objectif social -, à condition que ces investissements ne nuisent pas de manière significative à tout objectif social et environnemental et suivent des pratiques de bonne gouvernance.
Un processus d'investissement intégré combinant restrictions d'investissement, vérifications KYC, analyse d'impact, notation de l'impact grâce à une méthodologie développée en interne, analyse des risques de durabilité et des impacts négatifs, et investigations par une entreprise tierce, assure la contribution de tout investissement potentiel à un objectif social, ainsi que le respect du critère d'absence de dommages significatifs. Durant les analyses préliminaires, des données publiques provenant de sources publiques largement reconnues sont utilisées pour évaluer les besoins existants et la pertinence de l'opération envisagée en termes d'impact social et environnemental. Pendant toute la durée du prêt, les reportings annuels et trimestriels des sociétés en portefeuille, la mise en application d'un plan d'action social et environnemental, ainsi que la mise à jour annuelle de la note d'impact de chacun des investissements, permettent à Blue like an Orange de contrôler la performance en termes d'impact, les risques de durabilité, et les impacts négatifs de toutes les entreprises du Sous-Fonds II.
La contribution du Sous-Fonds II à un objectif social et la mesure de cette contribution reposent sur l'engagement, le dialogue continu et le suivi de Blue like an Orange auprès de toutes les entreprises du portefeuille. Enfin, si Blue like an Orange est conscient des limites de ses méthodes et processus pour évaluer la contribution d'un investissement à un objectif durable et l'absence de préjudice significatif, les équipes travaillent continuellement à leur amélioration afin de prendre des décisions d'investissement toujours plus documentées et éclairées en termes de contribution sociale et de risques de durabilité.

1. No significant harm to the sustainable investment objective

In the website section 'No significant harm to the sustainable investment objective' referred to in Article 37, point (b), financial market participants shall explain whether and why the investments of the financial product do not significantly harm any of the sustainable investment objectives, and provide all of the following information:
(a) how the indicators for adverse impacts in Table 1 of Annex I, and any relevant indicators in Tables 2 and 3 of that Annex, are taken into account;
(b) whether the sustainable investment is aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

To avoid significant harm to environmental and social objectives, Blue like an Orange implements for each potential deal a due diligence policy that is applied in the investment process and monitoring of the portfolio companies. This includes engagement policies, investment restrictions and due diligence on adverse sustainability impacts in the pre-investment and monitoring phases.

As detailed in the sections Investment Strategy and Due Diligence, the investment process includes the assessment of the deals against Sub-Fund II's Exclusion and Restriction Lists, the KYC and integrity checks, a comprehensive internal Sustainability Risks and Adverse Impact Analysis, and an internal and external environmental and social due diligence.

Additionally, following the assessment of the potential investment against IFC Performance Standards ("PS") during due diligence (see Section "Due Diligence"), leading to the identification of gaps, and implemented or potential mitigants, , an ESG Action Plan is developed with the borrower, which is a condition for loan signature and which the borrower must comply with. Just as the Due Diligence process, the Action Plan is based on IFC PS, and suggests some mitigating actions with an implementation deadline for each gap previously identified.

Blue like an Orange (and IDB Invest when it is a co-investor) systematically monitors progress made against each investment's Environmental and Social Action Plan.

Finally, as of 1st January 2023 (for the period covering calendar 2022), all investee companies of Sub-Fund II must report on the data needed by Blue like an Orange to report on the 14 following PASI, as well as for the two additional ones selected by Blue like an Orange:

1. GHG Emissions (Scope 1, 2 and 3)
2. Carbon Footprint

3. GHG Intensity of investee companies
4. Exposure to companies active in fossil fuels
5. Share of non-renewable consumption and production
6. Energy Consumption intensity per high impact climate sector
7. Activities negatively affecting biodiversity-sensitive areas
8. Emissions to water
9. Hazardous Waste Ratio
10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
12. Unadjusted gender pay gap
13. Board gender diversity
14. Share of investments in investee companies involved in the manufacture or selling of controversial weapons
15. Rate of accidents
16. Energy performance

In the mandatory annual indicators are also included data aiming at assessing portfolio companies' carbon footprint (scopes 1 and 2, scope 3 from 1rst January 2023). This evaluation, the result of which is shared with portfolio companies, enables them to follow the evolution of their carbon footprint, to take relevant measures to mitigate their impact and to communicate with their own stakeholders regarding this matter.

Alignment of contemplated investments with OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights is assessed during the due diligence phase. Investments involved in violations of OECD guidelines and human rights are excluded as per investment exclusions. For investments on which the Sub-Fund decides to proceed, any gap relating to OECD guidelines and UN guiding Principles are included in the E&S action plan. As mentioned above, portfolio companies need to report on an annual basis on "Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises" and "Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises".

2. Sustainable investment objective of the financial product

In the website section 'Sustainable investment objective of the financial product' referred to in Article 37, point (c), financial market participants shall describe the sustainable investment objective of the financial product.

Feeder Fund II, through its investments in Sub-Fund II, seeks to invest in companies that deliver social impact in direct support of the Sustainable Development Goals ("SDGs") to foster inclusive and sustainable growth in emerging markets.

Feeder Fund II makes 100% of its investments in Sub-Fund II (excluding cash and hedging instruments). Therefore, Blue like an Orange has elected for Feeder Fund II, through Sub-Fund II, to have "sustainable investment objective" as per EU Sustainable Finance Disclosure Regulation ('SFDR'), entered into force on March 10, 2021 ('Article 9 products'). This implies that Sub-Fund II seeks to invest in economic activities that contribute to a social objective, provided that such investments do not significantly harm any social and environmental objectives and follow good governance practices. Blue like an Orange chooses to focus on social objective as priority areas of impact due to the prevalence of those social issues in emerging countries, while pursuing a "no significant harm objective" on environmental issues such as climate change, biodiversity loss, pollution and waste and good governance practices such as respect for human rights, anti-corruption and bribery, data privacy and security.

3. Investment strategy

In the website section 'Investment strategy' referred to in Article 37, point (d), financial market participants shall describe all of the following:
(a) the investment strategy used to attain the sustainable investment objective;
(b) the policy to assess good governance practices of the investee companies, including with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

Investment Strategy

Latin America Fund II, is a sub-fund that seeks to provide investors who are seeking market level financial returns and measurable impact outcomes with the opportunity to invest in projects and enterprises in emerging markets.

Sub-Fund II focuses exclusively on investing in projects and enterprises that can positively affect sustainable development and social change. The strategy seeks to deliver both, strong risk-adjusted market level rates of financial returns and sustainable development impact outcomes in direct support of the Sustainable Development Goals (SDGs).

To achieve this strategy, Blue like an Orange targets investments focusing on three primary areas:

- Social Infrastructure (education and health) and Agriculture
- Infrastructure and Technology Enabled Services (clean energy, IT/ telecoms, transportation and water/ sanitation, app-enabled services)
- Financial Institutions (including promoting access to finance for SMEs, green lending, gender related, excluded and vulnerable populations, agriculture value chain, trade, and affordable housing).

Blue like an Orange believes in a "no trade-off" principle between financial returns and sustainable development outcomes and follows a strict due diligence process in support of these dual objectives.

To assess good governance practices of the investee companies, including with respect to sound management structures, employee relations, remuneration of staff and tax compliance, Blue like an Orange assesses each investment against its restriction and exclusion lists and performs KYC and integrity checks.

<u>Restriction and Exclusion Lists</u>

In order to achieve the SDGs, each contemplated deal is assessed against Sub-Fund II's Restrictions and Exclusions List. Beyond activities which are deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, Latin America Fund II established a list of activities in which the fund shall not invest, to avoid significant harm to people and the environment, or significant governance issues.

<u>KYC and Integrity Checks</u>

Blue like an Orange has a comprehensive Know-Your-Customer ("KYC") policy to check for potential controversies that may pose a reputational risk to the Fund. The research is conducted by the compliance team, using the Dow Jones Risk Database, and an online lookup tool for ad-hoc KYC searches, which includes access to the Factiva Database and the business and human rights database. Additionally, the investment team conducts character checks and industry standing checks through their personal networks. The first checks are performed early in the process so the team can evaluate whether there are any risks, and if so if the risks can be managed or mitigated, and to prevent the Sub-Fund from engaging with companies and or individuals which are involved in activities crime, money laundering, corruption, bribery, fraud and controversies on the environment and social and human rights.

Additional checks are performed throughout the diligence process as information becomes available, and advanced checks are performed before the final IC meeting: the investment team provides the compliance team with detailed information on ownership structure until the ultimate Beneficial Owner, Management Team, Board Members, and affiliated entities. In cases the team needs additional clarification about some findings, a third-party provider is retained to investigate these issues and provide additional assurance.

The investee companies of Sub-Fund II are required to report on an annual basis on the following indicators regarding governance:

- Share of independent members at the Board
- Board Gender Diversity
- Share of Women in the Executive Committee
- Sustainability Report Published (Yes/No)
- Number of Employees Dedicated to Social and Environmental Performance
- Social and Environmental Performance Management Training (Yes/No)
- Social Assessment and Management System
- Environmental Assessment and Management System
- Best Practices regarding Sustainability

4. Proportion of investments

In the website section 'Proportion of investments' referred to in Article 37, point (e), financial market participants shall insert the information referred to in the section 'What is the asset allocation and the minimum share of sustainable investments?' in the template set out in Annex III to this Regulation and shall distinguish between direct exposures in investee entities and all other types of exposures to those entities.

Since it makes 100% of its investments in Sub-Fund II (excluding cash and hedging instruments), Blue like an Orange has elected for Feeder Fund II, through Sub-Fund II, to have "sustainable investment objective" as per EU Sustainable Finance Disclosure Regulation

('SFDR'), entered into force on March 10, 2021 ('Article 9 products'). Therefore, 100% of the Feeder Fund's investments have sustainable investment as their objective. Additionally, 100% of the Feeder Fund's investments have a social objective.

5. Monitoring of sustainable investment objective

In the website section 'Monitoring of the sustainable investment objective' referred to in Article 37, point (f), financial market participants shall describe how the sustainable investment objective and the sustainability indicators used to measure the attainment of the sustainable investment objective are monitored throughout the lifecycle of the financial product and the related internal or external control mechanisms.

To ensure that each investment is aligned with the sustainable investment objective of Sub-Fund II, an impact case analysis is performed internally at the very beginning of the investment process. Since October 2022, the Impact Case Analysis is performed based on a framework established by the Global Impact Investing Network ("GIIN"): IRIS+. This framework consists in five sections, enabling Blue like an Orange to assess in a standardized and comparable way the impact of a deal:

WHAT	• What is the problem observed? • What is it scale? • What are the expected outcomes of the investment?
WHO	• Who are the targeted beneficiaries? • What are their characteristics?
HOW MUCH	• What is the expected scale of the change? • What is the expected depth of the change? • What is the expected duration of the change?
CONTRIBUTION	• What is the company and the investor's contributions compared to what would have happened anyway?
RISK	• What are the risks that the expected outcomes don't happen?

This IRIS analysis, and especially the first section – What – enables the teams to assess whether the company contributes to one or more SDGs.

During the whole life of a loan, the investee company is required to report on an annual basis on a set of indicators, on which the Sub-Fund and the company agree before the closing of the transaction, and which are included in the legal documentation.

This set of indicators is composed of three different categories:

- Common indicators, on which any company of the portfolio must report, whatever its sector of activity. These include a number of indicators and qualitative information related to employment, gender, environmental practices and innovation, as well as the Principal Adverse Sustainability Impacts ('PASI') listed above.

- Sector specific indicators, corresponding to the number of beneficiaries the company is able to reach with its core activity.

- Company specific indicators, chosen specifically to reflect the impact, adverse impact, and sustainability risks of each company.

Sector and company specific indicators are chosen in the IRIS indicators database or other acknowledged standards.

Additionally, some companies are required to report on company specific indicators on a quarterly basis. The quarterly and annual reporting are made through an online dedicated platform to ease the process for investee companies. They are validated both by the investment team and the sustainability team and discussed during the bi-annual meetings with the company (see below).

The investment team schedules bi-annual check-in meetings with the management of the investee companies. The objective of these meetings is to assure that the company is on track to achieve its impact goals, as agreed in the contractual action plan, and to make sure that the company does not engage in any behavior that may pose social or environmental risks to the Fund. These meetings enable Blue like an Orange to understand the impact stories of the investee companies behind the reported KPIs, and to explore new paths for impact with them.

The SDG Blue score (see Section "Methodologies") is updated annually to reflect the evolution of social and environmental impact generated by investee companies.

6. Methodologies

In the website section 'Methodologies' referred to in Article 37, point (g), financial market participants shall describe the methodologies used to measure the attainment of the sustainable investment objective and how the sustainability indicators to measure the attainment of that sustainable investment objective are used.

<u>SDG Blue Scoring Methodology</u>

SDG Blue is an internally developed tool that scores opportunities and portfolio companies against the contribution to SDGs. The tool works in a similar way to a credit rating score, taking weighted averages based on different categories and adding up points, to arrive at a letter-based score.

SDG Blue uses 6-8 Goals / Targets, including 4 "Mandatory Goals" that are applied to all opportunities, and 4 "Elective Goals", (2 Business Goals and 2 Bonus Goals, if applicable) that are custom for each opportunity.

Blue like an Orange determined that regardless of the sector, country, size of the investment, or other metrics – goals around inclusive job creation, equal treatment of women, the importance of innovation and technology, and responsible consumption and production – were simply too important not to measure. Therefore, Blue like an Orange has selected the following "Mandatory Goals":

- SDG 8 – Decent Work and Economic Growth
- SDG 5 – Gender Equality
- SDG 9 – Industry, Innovation, and Infrastructure
- SDG 12.6 – Responsible Consumption and Production

SDG Blue Matrix		
Mandatory Goals/ Targets (Total Weight 45%)		Mandatory: Applicable to all opportunities regardless of type of business
Goal 8.5 By 2030 achieve full and productive employment and decent work for all women and men, including for young people and persons	**15%**	
Goal 5.1 End all forms of discrimination against all women and girls everywhere | **Goal 5.5** Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life	**10%**	
Goal 9.5 (...) By 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending	**10%**	
Goal 12.6 Encourage companies, especially large and trans- national companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle	**10%**	
Core Business Area Goal (Total Weight 40%) → Score the main area of business activity Chosen from the 17 UN Goals (Goals can be repeated from any of the above with a different Target)	**40%**	Business: Main area of business activity, different for each opportunity
Supplemental Goal (Total Weight 15%) → Score the main area of business activity Chosen from the 17 UN Goals (Goals can be repeated from any of the above with a different Target)	**15%**	
Optional 2 Bonus Goals (Total Weight 5%) → Score the main area of business activity Chosen from the 17 UN Goals (Goals can be repeated from any of the above with a different Target)	**5%**	Bonus: Additional impact (optional and exceptional)
TOTAL	**100- 105%**	

The companies are scored against the 4 mandatory SDGs based on the quantitative or qualitative information:

SDG 8.5:

Mandatory Indicators
- Rate of increase in new permanent employees, y-o-y

Additional Indicators:
- Percentage of employees with disabilities in total number of employees
- Percentage of employees below the age of 25 (youth employment) in total number of employees

SDG 5.1 & SDG 5.5:

- Percentage of female employees in total number of employees
- Percent of discrepancy in average wage paid to female employees versus average wage paid to male employees, y-o-y
- Percentage of women participating in managerial or higher positions

SDG 9.5:

- Innovative products or services – non-indicator assessment of the product/ service innovation factor, based on the scale below:
  Provides product or service available for the first time anywhere
  Provides product or service available for the first time in the country
  Provides an improved version of product or service to an existing product or service
  Provides an existing type of product or service
  Provides an obsolete or harmful product or service

SDG 12.6:

Mandatory Indicators
- Sustainability/ environmental assessment and reporting – non indicator assessment of the level of reporting

Additional Indicators:
- Net effect on CO_2 – non indicator assessment of the level of reduction in emissions and/ or increase in carbon offsets
- Adoption of sustainable and environmental practices – non indicator assessment of the practices including, but not limited to prevention of pollution, water and energy usage, recycling, food waste, and disposal of hazardous waste

The Core business goal, supplemental goal and bonus goals are assessed through two criteria:
- The level of contribution to the SDG, calculated as the percentage of revenue generated by an activity contributing to the SDG
- The strength of fit with the goal ("very strong fit", "strong fit", "moderate fit", "lack of fit"), which must be supported by concrete actions implemented by the company and results

Blue like an Orange captures potential "negative impact" through scoring "0" in the SDG Goal. When the sub-scores are calculated, organized into categories, and multiplied by weights, as shown above, the team arrives at a score for the opportunity. A minimum of 6.0 on a 0-10 scale is needed for investment.

ESG Reporting

Additionally, the indicators reported by each investee company of Sub-Fund II on an annual or quarterly basis (see Section "Monitoring of Sustainable Objective") are used to measure the attainment of that sustainable investment objective.

7. Data sources and processing

In the website section 'Data sources and processing' referred to in Article 37, point (h), financial market participants shall describe all of the following:
(a) the data sources used to attain the sustainable investment objective of the financial product;
(b) the measures taken to ensure data quality;
(c) how data are processed;
(d) the proportion of data that are estimated.

During the Impact Case Analysis and the Sustainability Risks and Adverse Impact Analysis, public data from widely acknowledged public sources are used to assess the existing needs and the relevance of the contemplated deal in terms of social and environmental impact. Below are the main sources of data commonly used during these analysis phases:

- The World Bank
- The Organization for Economic Cooperation Development (OECD)
- The Sustainability Accounting Standards Board (SASB)
- The World Benchmarking Alliance
- The United Nations' agencies
- Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE)
- Water Risk Atlas
- Transparency International
- World Wildlife Fund

Other sources are used depending on the sector and the country. The desk review performed internally to assess both the impact and the risks are based on various sources to ensure data reliance and quality. The Investment Committee is provided with the information sources, with a transparency purpose.

During the E&S Due Diligence, Blue like an Orange relies on data provided by the third-party provider, either collected directly from the company or resulting from its own field investigation. These data are used to illustrate the impact case, the risks and adverse impact of the contemplated company and are completed by narratives. They are meant to enlighten the decision of the Investment Committee.

Finally, during the loan's life, the data used to assess the attainment of the sustainable objective of each company, as well as the evolution of risks and adverse impacts, are collected from the company itself through an online dedicated tool for the quarterly and annual reporting. The reporting being made through an online dedicated tool, the data has to be input by each company, and then reviewed both by Blue like an Orange's Investment and Sustainability teams to ensure the global consistency before being used, in the annual sustainability report: the teams validate the data input by the companies after a coherence check with the previous reporting, the contractual targets, the commercial performance and the contractual action plan.

8. Limitations to methodologies and data

In the website section 'Limitation to methodologies and data' referred to in Article 37, point (i), financial market participants shall describe all of the following:
(a) any limitations to the methodologies referred to in Article 37, point (g), and the data sources referred to in Article 37, point (h);
(b) why such limitations do not affect the attainment of the sustainable investment objective.

Blue like an Orange is conscious of the limitations inherent to any impact measurement process:

- The limitations to data availability, especially when it comes to companies that are not familiar with reporting on environmental and social issues and have usually few resources and times to dedicate to impact measurement.
- The balance in the assessment methodology between flexibility – to adapt as much as possible to each specific case – and standardization – to be able to consolidate and compare the data.
- The difficult measurement of an investment's contribution compared to what would have happened anyway.
- The weighting of positive impacts, sustainability risks and adverse impacts in any investment decision, especially in emerging markets, where the need for economic development raises specific challenges.

Therefore, Blue like an Orange is in a continual improvement process, to make its methodologies better and its data sources more developed as it gains experience with a growing portfolio.

9. Due diligence

In the website section 'Due diligence' referred to in Article 37, point (j), financial market participants shall describe the due diligence carried out on the underlying assets of the financial product, including the internal and external controls on that due diligence.

The Due Diligence process implemented for each contemplated deal includes an internal and an external assessment. The KYC and integrity checks are performed internally (see section Investment strategy); the environmental and social due diligence is performed both by internal and external resources and is prepared in advance by Ble like an Orange's sustainability team through the Sustainability Risks and Adverse Impact Analysis.

<u>Sustainability Risks and Adverse Impact Analysis</u>

Since March 2021, date of application of the EU Sustainable Finance disclosure regulation (SFDR), Blue like and Orange has formalized and implemented a policy on integration of sustainability risks and due diligence policy on adverse sustainability impact, which is applicable to Sub-Fund II.

"Blue like an Orange considers that sustainability risks could potentially or actually cause a material negative impact on the value of a Fund's investment and are relevant to the returns of the sub-funds. Consequently, Blue like an Orange integrates sustainability risks and opportunities into its investment strategy and investment decision-making processes.

In order to avoid significant harm of investment decisions on sustainability factors, Blue like an Orange is committed to implement a due diligence policy on adverse sustainability impacts that includes, among others, engagement policies and investment restrictions applicable in the investment process and monitoring of the portfolio companies."

A systematic sustainability risk and adverse impact assessment is performed on each deal by reference to the Sustainability Accounting Standard Board ('SASB') framework which provides a mapping per sector of material sustainability issues that impact financial performance and value creation, the tool Exploring Natural Capital Opportunities, Risks and Exposure ('ENCORE'), developed by the Natural Capital Finance Alliance, the internally developed dashboard of risks per country and per sector, as well as other relevant sources of information based on desk reviews conducted by the sustainability team. This risks and adverse impact review start at early stage in the investment process before fist IC meeting. It informs ESG due diligences that were already performed including exclusion list check, KYC checks and third-party due diligence according to IFC performance standards.

ESG Due Diligence

As part of its due diligence, Blue like an Orange performs an Environmental and Social assessment in order identify and prioritize:

- Environmental, social and governance events or conditions which, if it occurs, could cause a material negative impact on the value of the investment; or / and
- Activities of the investment that could have negative effects on sustainability factors (subject matters include environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters)

The E&S due diligence is based on Performance Standards ("PS") developed by IFC in 2012, which "define IFC clients' responsibilities for managing their environmental and social risks". This due diligence process is performed using both internal and external resources. External assessment is provided either by a team of IDB experts that is independent from IDB investment team, when IDB is a co-investor, or by external consultants hired by Blue like an Orange. The Due Diligence report must cover all the risks and adverse impacts identified during the previous phase. A synthesis of the Due Diligence report is included in the notes shared with the Investment Committee to support its decision.

10. Engagement policies

In the website section 'Engagement policies' referred to in Article 37, point (k), financial market participants shall describe the engagement policies implemented where engagement is part of the sustainable investment objective, including any management procedures applicable to sustainability-related controversies in investee companies.

One of the key contributions to impact of Sub-Fund II is through an active dialogue with the companies to ensure alignment between Sub-Fund II's sustainable transformation strategy and that of the borrowers. The dialogue starts when the investment team initially engages with the company, continues through the investment process until a loan agreement is negotiated in which are incorporated an environmental and social action plan and reporting requirements, and continues during loan life with impact and sustainability monitoring.

When co-lending with IDB Invest, the relationship with IDB Invest enables the investee companies to benefit from continuous support to help them achieve the expected sustainability and social impact. All companies that are joint Latin America Fund II and IDB Invest investments are eligible to attend workshops and trainings organized by IDB Invest in order to assist the company's ability to enhance their performance against the standards

Blue like an Orange organizes annual sustainability meetings with the portfolio companies to review the impact and sustainability performance of the company based on the performance indicators and advancement of the agreed Action Plan to prepare for the Annual Sustainability and Impact Report.

Blue like an Orange has implemented an ESG reporting tool (Reporting 21 by Sirsa) in order to facilitate data collection from the portfolio companies, allowing the calculation of Green House Gas emissions and improving our impact and sustainability reporting. The reporting requirements and the implementation of an easy-to-use tool enable the investee companies to follow their impact performance more precisely, to adapt their strategy if needed, and to communicate about it with their clients or potential investors.

Finally, the continuous dialogue between Blue like an Orange and each investee company is a way to share advice, skills and contacts on all the issues on which the company encounters difficulties, especially, but not exclusively, on the implementation of the environmental and social action plan.

11. Attainment of the sustainable investment objective

1. In the website section 'Attainment of the sustainable investment objective' referred to in Article 37, point (l), financial market participants shall describe all of the following:
(a) for financial products that have sustainable investment as their objective and for which an index has been designated as a reference benchmark, how that index is aligned with the sustainable investment objective of the financial product, including the input data, the methodologies used to select those data, the rebalancing methodologies and how the index is calculated;
(b) for financial products that have a reduction in carbon emissions as their objective, a statement that the reference benchmark qualifies as an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark as defined in Article 3, points (23a) and (23b), of Regulation (EU) 2016/1011, and a hyperlink to where the methodology used for the calculation of those benchmarks can be found.

2. By way of derogation from paragraph 1, point (a), where the information referred to in that point is published on the website of the administrator of the reference benchmark, a hyperlink shall be provided to that information.

3. By way of derogation from paragraph 1, point (b), where no EU Climate Transition Benchmark or EU Paris-aligned Benchmark as defined in in Article 3, points (23a) and (23b), of Regulation (EU) 2016/1011 is available, the website section 'Attainment of the sustainable investment objective' referred to in Article 38, point (l), of this Regulation shall mention that fact and explain how the continued effort of attaining the objective of reducing carbon emissions is ensured in view of achieving the objectives of the Paris Agreement. Financial market participants shall explain the extent to which the financial product complies with the methodological requirements set out in Delegated Regulation (EU) 2020/1818.

NA