



**AvantFaire**  
Investment Management Ltd.

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# Operating Principles for Impact Management

June 2021 Disclosure Statement





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## DISCLOSURE STATEMENT

AvantFaire Investment Management Limited (AvantFaire) is a signatory to the Operating Principles for Impact Management (Impact Principles). This disclosure statement affirms AvantFaire has the policy and procedure in place to manage AvantFaire Impact Investment Fund of Funds LP which represents \$10 Million of investment commitment as of June 2021. As the 100<sup>th</sup> signatory, AvantFaire is committed to promoting the Impact Principles' standard in Asia particularly in the Greater China Region. We look forward to working with peer signatories and the broader impact investing community to foster the growth and recognition of the Impact Principles.



Catherine Chen  
Founder and CEO  
AvantFaire Investment Management Limited  
16 June, 2021



### **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.*

AvantFaire Investment Management Limited (AvantFaire) is an impact investment boutique licensed in Hong Kong SAR. We currently offer an impact investment fund of funds to professional investors and are in the process to establish business lines in managing discretionary mandates and providing external asset management services focusing on impact investing. AvantFaire is a signatory to the Operating Principles for Impact Management (Impact Principles), Principles for Responsible Investment (PRI) and also a Certified B Corporation (B Corp). Our vision is to serve as a role model in impact investing in the Greater China Region by committing ourselves only to impact investing and incorporating industry standards in our impact investment management operation.

AvantFaire focuses on impact investment that delivers positive social impact and financial return, with a conviction that social wellbeing and financial benefit reinforce each other and converge in the long run. Our impact investment objective is to address the need of people, improve quality of living, drive sustainable economic growth, bring positive changes to the world, encourage multilateral collaboration, and equally importantly, create long term sustainable return for our investors. We are committed to helping our investors to profit with purpose.

AvantFaire is the manager of AvantFaire Impact Investment Fund of Funds LP (Fund) which invests in a portfolio of private equity impact investment funds (underlying funds). We use Sustainable Development Goals (SDGs) as an overarching guide for investment at a thematic level. The Fund invests in 9 SDG themes and offers investors a broad perspective of investment opportunities and possibilities for impact creation.

(3) Good health and well-being	(4) Quality education	(6) Clean water and sanitation
(7) Affordable and clean energy	(8) Decent work and economic growth	(9) Industry innovation and infrastructure
(11) Sustainable cities and communities	(12) Responsible consumptions and productions	(13) Climate action



AvantFaire as a fund of funds (FoF) manager delegates the responsibility of impact identification, monitoring, measurement and reporting to the underlying impact fund managers (underlying fund managers). Our investment process institutes stringent manager selection and monitoring criteria to ensure our underlying fund managers adopt methodological approaches for achieving their impact objectives (i.e. credibility of impact creation) and set reasonable expectations on the scale of impact to be created (i.e. reality of impact creation). The underlying fund managers follow their respective investment strategy to invest in portfolio companies which are expected to generate identifiable and measurable social or environmental outcomes through their products and services that benefit targeted beneficiary groups and/or address specific societal challenges. The underlying fund managers provide annual impact and/or ESG reports to justify the intentionality of their impact investment and capture the actual impact created by their portfolio companies.



**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.*

AvantFaire is a FoF manager. It is challenging to aggregate impact metrics from underlying funds with different impact investment themes and objectives. Our goal is to present representative impact metrics in each or similar themes upon the completion of our FoF portfolio building process. We will consider using common metrics attributable to similar impact themes such as, per million dollar investment, the amount of CO<sub>2</sub> reduction for SDG 7, 11 and 13, the amount of alternative power generated or energy saving for SDG 7, 9 and 11, or the weight of hazardous material reduction for SDG 9 and 12, etc.

On an individual investment basis, AvantFaire has delegated to the underlying fund managers to identify, measure, monitor and report the impact creation in their portfolio companies. Underlying fund managers will establish impact metrics, monitor them over the investment holding period and compare them against a pre-defined baseline, which is the impact intended to be created by the business operation of the portfolio companies. Underlying fund managers will collect impact data from their portfolio companies and provide an official impact report on a semi-annual or annual basis. If the portfolio companies are pre-mature to produce actual impact, the underlying fund managers will estimate the impact of their products and services and make appropriate disclosure in the reporting. We review, investigate and verify the validity of inputs and assumptions provided by the underlying fund managers, based on which our Fund will publish our annual impact report to our Fund investors. In addition to the official impact reporting, we will continuously track the impact performance of our underlying funds and the market conditions relevant to their impact investment themes, and hold quarterly meetings with our underlying fund managers to ensure their impact investment strategies are adhered to, impact monitoring processes are intact and potential risks are mitigated. AvantFaire will also provide impact knowledge sharing and technical assistance to our underlying fund managers to add value to our investment.

AvantFaire as an impact investment specialist invests to deliver both financial return and impact performance. There will be a natural alignment between staff incentive and the double bottom-line. Due to the variety of impact themes in the Fund,



AvantFaire does not make direct association between staff compensation and specific impact KPIs. At the underlying fund level, we expect the underlying fund manager to have set specific staff compensation scheme linked to both the financial and impact performance of the underlying fund.

### **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. The narrative should be stated in clear terms and supported, as much as possible, by evidence.*

The intention for AvantFaire to offer a fund of impact investment funds is to let our investors expose to different impact investment themes and experience how their investment capital could contribute to positive impact on people, society and the environment. Our role as a FoF manager is to ensure the selection and the subsequent operation of the underlying funds will create the intended impact and deliver the expected financial return. AvantFaire also takes the role to foster impact investment particularly in the Greater China Region and South East Asia by making specific allocation to first-time impact fund managers and fund managers investing in themes with good potential to create positive impact. We also provide direct support to portfolio companies invested by our underlying fund managers through fundraising assistance or co-investment. Through our on-going monitoring and annual reporting of impact achieved by each underlying fund manager, the Fund will have the data to track and document the impact result at an aggregate level.

At the underlying fund level, the underlying fund managers will go through their respective impact investment process to ensure impact can be identified, monitored, measured and reported. The common impact investment approach starts with the due diligence process in which the underlying fund manager will assess the impact thesis, identify the impact KPIs and examine the credibility of the business model in creating the intended impact. An essential step in this process is to understand the intention and persistence of the entrepreneur to create the impact or if impact creation is the main value driver of the business. The underlying fund manager in the post-investment phase will institute an observer role as a board member or an advisor, in addition to its capacity as a shareholder, to track the performance of the business and the on-going value and impact creation, and compare them against the KPIs. They will provide strategic advice, technical assistance and additional



financing to the portfolio company if required. The underlying fund manager will document all these activities in the impact report to justify its contribution and value-added in the impact creation, monitoring and reporting processes. AvantFaire, through the investment in the underlying funds, has thus established a narrative on our contribution to the achievement of impact for each investment.

**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 impact 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? 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 standards and follow best practice.*

AvantFaire has delegated the impact assessment of individual investment to the underlying fund managers. We do not mandate any application of specific processes or metrics but we look for evidence showing the underlying fund manager has a systematic approach to identify and assess the intended impact created by each investment and to make sure the impact investment logic follows through. The essential factors to assess the impact created by portfolio companies are:

- The type of impact which should be the core value of the business operation;
- The amount of impact which should be proportional to the business size;
- The identification of impact beneficiaries;
- The transparency, availability and authenticity of impact data;
- The probability for the business operation to create the intended impact;
- The sustainability of impact created by the business operation; and
- The risk factors which change the assumption of impact creation.





The underlying fund manager will use proprietary scoring models and industry-standard metrics to assess, measure and report impact. On top of the quantitative approach, the underlying fund manager will also maintain a regular dialogue with the management team of the portfolio company as an on-going monitoring process which aims to identify and mitigate risk early to enhance the likelihood of realizing the intended impact.

#### **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) 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. 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.*

AvantFaire through our underlying fund managers only invests in businesses that create net positive impacts to people, society and the environment. Both our fund manager selection process and the underlying fund manager's investment process have integrated sustainability and ESG considerations. AvantFaire's underlying fund manager selection process includes assessment through engagement meetings, due diligence questionnaires and scrutiny of investment operation documents to demonstrate its intention, process and evidence in sustainability and ESG integration. The underlying fund manager typically conducts ESG due diligence to assess the ability of portfolio companies to uphold their ESG commitment. Such assessment is to ensure the operation of the portfolio companies will align with the expectation in the ESG investment policy of the underlying fund manager. The common ESG risk management process includes ESG due diligence questionnaires and pre and post investment documents that review business models and products against exclusion list, ESG risk management system and ESG risk action / mitigation plan. Any ESG issues and risks uncovered in the due diligence process will be brought to the management of the portfolio company to address with rectification plans, upon the satisfaction of which would the underlying fund manager considers such investment. All ESG risk issues, mitigation plans and requirement of ESG reporting are documented in the investment memo which is the reference document for post-investment ESG scrutiny. The underlying fund managers manage the post-



investment ESG risks by participating in ESG board and playing regular site visits to forge close communication with the management of the portfolio company. Both AvantFaire and the underlying fund managers take a preventive approach to mitigate ESG risks in the investment and make sure impact investment strategy and business operation are executed correctly at their commencement. Post-investment ESG risk mitigation involves continuous research and monitoring of ESG news and policies. Ad hoc engagement with the underlying fund managers and the management of the portfolio companies are held to review and discuss significant ESG incidents and prepare for corrective actions.

#### **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. The Manager shall also seek to use the results framework to capture investment outcomes.*

AvantFaire at the FoF level monitors and evaluates the performance of the underlying funds to ensure they meet the financial and impact objectives and adhere to their impact investment policy and reporting schedule. We hold regular meetings as well as ad-hoc ones with the underlying fund managers to obtain operation update with regard to changes in market conditions, investment opportunities, emerging risks, investment policies and procedures, impact data collection and reporting. AvantFaire takes the pro-active approaches mentioned above to ensure any detour by the underlying fund manager will be properly communicated, justified, understood and mutually agreed otherwise rectification action must be taken. Currently AvantFaire meets with the underlying fund managers quarterly, receives impact update semi-annually and obtains an official impact report annually. AvantFaire issues an annual report on the financial and impact performance of the Fund and communicates with our investors regularly about the Fund and the latest trends in impact investment.

Our underlying fund managers have different frameworks and approaches to



monitor progress towards impact creation and compare it against the intended impact as the benchmark of success. The underlying fund manager will establish clear expectation for portfolio companies to provide information on financial and impact performance and the frequency of reporting in the investment documents. Impact data are obtained from the portfolio companies through on-going dialogues with the management, board seat, advisory role, periodic data submission and scheduled reporting. Impact data are compared against impact KPIs which is a set of benchmarks agreed upon with the portfolio company at the inception of investment. The underlying fund manager is responsible for collating impact information from all its portfolio companies and providing such information to investors, including AvantFaire, in an agreed format and period.

#### **PRINCIPLE 7: Conduct exits considering the effect on sustained impact.**

*When conducting an exit, 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.*

AvantFaire delegates the management of impact upon exit to the underlying fund managers. The integrated impact investment process of the underlying funds take sustainability of impact into consideration for making investments and divestments. The portfolio companies should be inherently impactful which means impact is part of the core business value. Any changes or discontinuation of such impact will reduce the business value or even affect the viability of the business. The underlying fund managers will identify buyers who are committed to upholding impact value after acquisition, use an exit checklist to scrutinize if impact will discontinue or dilute in potential exit, and a divestment memorandum to document the exit decision making process with impact consideration. Exit with impact continuity is a fiduciary duty of AvantFaire and our underlying fund managers. AvantFaire and our underlying fund managers will proactively discuss impact implication of anticipated exits to ensure our fiduciary duties are fulfilled.



### **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.*

AvantFaire and our underlying fund managers conduct official impact performance review for each investment before the annual impact reports are issued. We meet with our underlying fund managers in our annual review, go through their impact strategies and results, and have them justify their financial and impact performance compared with expectations. Our first level review on the underlying fund managers focuses on their financial and impact performance as well as their adherence to the impact investment, measurement and reporting processes. The second level review focuses on the fund management style, performance in active ownership, stakeholder communication, impact research and continuous commitment as an impact fund manager. In addition to issuing an annual financial and impact performance report, we will hold annual meetings with our investors and corporate advisors to discuss the management and performance of the Fund and solicit for comments and suggestions. Such feedback engagement will guide us to improve our impact strategy development, investment process, assessment methodology and reporting practices. We will formally document our learning and experience into our improvement goals. Our underlying fund managers have their own review and documentation processes to summarize their performance and lesson learned. Typically such review and documentation occur annually for each portfolio company through its lifetime until exit.



**AvantFaire**

**Investment Management Ltd.**

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**PRINCIPLE 9: Publicly disclose alignment with the Principles and provide regular independent verification 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 dated on June 16, 2021 reaffirms the alignment of AvantFaire's impact management systems on the Fund's operation with the Impact Principles. An independent verification of this alignment will be posted on AvantFaire's website in the end of each December, with the first verification on December 31<sup>st</sup>, 2021.