



**AvantFaire**  
**Investment Management Ltd.**

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# Operating Principles for Impact Management

June 2022 Disclosure Statement





## Table of Contents

Disclosure Statement .....	3
Principle 1: Define strategic impact objective(s), consistent with the investment strategy.....	4
Principle 2: Manage strategic impact on a portfolio basis. ....	11
Principle 3: Establish the Manager's contribution to the achievement of impact. ....	13
Principle 4: Assess the expected impact of each investment, based on a systematic approach. ....	14
Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment. ....	16
Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately. ....	18
Principle 7: Conduct exits considering the effect on sustained impact. ....	19
Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.....	20
Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.....	21



# AvantFaire Investment Management Ltd.

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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 procedures in place to manage a private equity discretionary mandate, focusing on the impact theme of Sustainable Cities. As the 100th signatory, AvantFaire is committed to promoting the Impact Principles 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. As of 31<sup>st</sup> May 2022, total assets under management in alignment with the Principles is US\$0 million<sup>1</sup>.



Catherine Chen,  
Founder and CEO of  
AvantFaire Investment  
Management Limited  
May 2022

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<sup>1</sup> Inclusive of AUM from AvantFaire Private Equity Discretionary Mandate (DM). There are currently no investments under the DM.



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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.

AvantFaire Investment Management Limited (AvantFaire) is an impact investment boutique licensed in Hong Kong SAR. We currently offer various impact investment opportunities to investors, such as discretionary mandates service to investors in both the private equity and listed equity space, as well as partnering with private banks and platforms to offer bespoke investment and custodian services focusing on impact investing. AvantFaire is a signatory to the Operating Principles for Impact Management (Impact Principles) since June 2020, and the Principles for Responsible Investment (PRI) as of September 2018 (Latest RI Transparency Report published in 2020). As the first Asian equity investment manager to receive the B-Corporation Certification since February 2020, our vision is to serve as a forerunner to other houses in the Asia Pacific region by specializing in impact investing and incorporating best-in-class industry standards into our investment process. Going beyond the integration of ESG considerations into the screening of our direct investments, we aim to invest in companies that are able to create a net positive social impact.

AvantFaire specializes in impact investments that deliver both positive social and environmental 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 objectives are multifold, and we aim to address the needs of people, improve the quality of living, drive sustainable economic growth, bring positive changes to the world, encourage multilateral collaboration, and, last but not least, create long-term sustainable returns on behalf of our investors. We are committed to helping our investors to invest with purpose.

AvantFaire provides Private Equity Discretionary Mandate (DM) services to clients, by investing in a portfolio of investee companies within the overarching theme of Sustainable Cities. As of May 2022, AvantFaire has not made any investments under the DM and there are currently no AUM (assets under management). To facilitate our investment thought process and investor communication for the above-mentioned



## AvantFaire Investment Management Ltd.

impact investment theme, we make reference to the SDGs and commit to investing in SDG 11 (Sustainable Cities and Communities) with interrelated SDGs of 6 (Clean water and sanitation), 7 (Affordable and clean energy), 9 (Industry, innovation and infrastructure), 12 (Responsible consumption and production), and 13 (Climate action).



Source: United Nations Sustainable Development Goals, March 2022

These SDGs are then translated into our impact investment theme of Sustainable Cities to target investments that

- Utilize natural resources more efficiently.
- Pollute less and recycle more.
- Enhance the living quality in cities, communities, and villages.

Using this approach, impact contribution can be monitored against our objectives and contributions to the Sustainable Development Goals (SDGs) set out by the United Nations Summit in 2015 using relevant impact metrics and framework.

Our regional footprints in China, Hong Kong SAR, and Singapore enable deal sourcing through local networks on the ground to identify potential positively aligned companies with impact-led commercial solutions that can meet our environmental, social, and governance requirements and impact objectives.



## AvantFaire Investment Management Ltd.

### 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.

We are guided by our Investment Process Policy in terms of our decision-making process for the DM's impact investments. Our investment approach into the Sustainable Cities theme of the DM is to identify technologies and innovative business models that are a good fit, before commencing the due diligence process. We aim to offer our investors long-term financial returns and multi-faceted social and environmental impacts from each of the investee companies and at the overall portfolio level to ensure the creation of net positive impact. As best practices emerge, we will consider aligning staff incentives to the achievement of impact.

From the initial stage, the business model of a potential investee company will be assessed for alignment with the impact thesis of the DM. Potential impact metrics will be discussed and mapped to relevant SDGs to ensure meaningful tracking against a pre-defined baseline. Throughout the holding period of investments, the investment team will work closely with the investee to realize the impact strategy and monitor impact and financial performance. This will be achieved through regular meetings with management and periodic collection of impact metrics, which are monitored against a pre-defined baseline. If necessary, capital arrangement and consulting can be implemented for additional support.

To measure overall portfolio impact, we will aggregate the various impact metrics from investee companies and compile them into a report together with relevant financial information through an integrated reporting model for our investors.

We provide some examples of the impact metrics that we typically look for in the investee companies, which are tailored to the industries in which they operate.

Industry	GIIN IRIS Code	Impact	Unit of measure	Amount
Climate Change	PI2764	CO <sub>2</sub> reduced/avoided/captured	million metric tons	
	OI2496	Clean/renewable energy generated	MWh	



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	OI7920	Waste reduced	Tons	
	OI4015	Water conserved	Gallons	
	OI6697	Electricity conserved	MWh	
Sustainable Cities	PI2822	People with improved access to drinking water	Number	
	N/A	Electricity from clean source	Percentage	
	PI1586	Increase in energy efficiency	Percentage	
	PI2640	People with access to affordable housing	Number	
	PI5965	No. of affordable units and home created and preserved	Number	

In cases when data from the actual impact portfolio company cannot be reliably obtained, we will estimate the impact of their products and services and make appropriate disclosure in the reporting. After reviewing, investigating, and verifying the validity of inputs and assumptions provided by the portfolio companies, we will compile and provide an official impact report to investors on an annual basis.

In addition to the official impact reporting, we will continuously track the impact performance of our underlying portfolio companies and the market conditions relevant to their impact investment themes, and hold regular meetings with them 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 the portfolio companies if necessary.





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### 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.

AvantFaire as a firm is committed to the impact investment industry in Asia. Our investment process is aligned with international standards and our firm is a signatory to the Principles for Responsible Investment (PRI) and Operating Principles for Impact Management (Impact Principles). We have also put our vision of creating a positive impact to practice as a certified B Corporation (B Corp) to operate ethically in a sustainable fashion in our society. To further strengthen our identity in impact investment, we are proactively involved in green advocacy, speak regularly in industry conferences, and publish articles on impact investments; sustainability; and environmental, social, and governance (ESG) topics. We did a series on clean energy on our website<sup>2</sup> in 2021, touching on topics such as hydro, wind and solar energy.

We look to establish long-term relationships within the impact investment industry to facilitate partnerships in exclusive direct and co-investment opportunities. We are also interested in expanding our deal sourcing and business network, while concurrently formulating synergetic strategies with one another, such as through joint research, to generate greater impact and social awareness with government, regulators, academic institutions, non-profit organizations, and investee companies.

We intend to provide our investee companies with the right support in the form of regular communication and collaborative discussion, as well as access to our network and experience. Other forms of support include but are not limited to:

- Leveraging partnerships in the industry – Our business partners consist of real estate developers and property management companies and we maintain close ties with them. We encourage them to adopt our investee companies' products and services in order to create synergistic benefits.
- Providing ESG / impact support – As a champion of impact investment in the industry, we intend to provide relevant guidance to investee companies on how to improve their respective ESG and other relevant frameworks that are compliance, disclosure, and reporting related. We will also work with the investee companies to develop key performance metrics specific to impact measurement. We will encourage our investee companies to become B-Corp certified companies.

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<sup>2</sup> <https://www.avantfaireim.com/category/clean-energy/>





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- Searching for key management personnel – We utilize our extensive network to look for appropriate key management personnel, including for CEO and other C-suite roles, to aid the investee companies in scaling their businesses.
- Additional strategic initiatives – We will work with our investee companies on follow-on investments by seeking interested parties, such as PE funds and other professional investors. If necessary, we will assist the investee companies in seeking bank financing and government subsidies.

### 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.

The DM's anticipated positive outcome will be the achievement of the investment objectives as stated earlier above. The aim of impact assessment is to ensure the DM is consistent in its deliberate and purposeful approach to investing for the impact, which goes beyond negative screening or seeking to minimize negative impacts and externalities of an investment.

When assessing the investee companies during the due diligence process, we will wherever possible quantify and measure in a concrete manner the potential positive impact deriving from the investment. This impact potential is measured against the below framework:



- 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 relative size of the impact created within the targeted geographical context;
- 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 that change the assumption of impact creation

While we do not mandate the application of any specific processes or metrics for impact measurement, we will look for evidence showing that the investee company has a systematic approach to identify and assess the intended impact created by their business to ensure the impact investment logic is followed through, and to align with industry standards and best practice. In addition to monitoring the ESG and impact performance and risk, we take an active approach to add value by providing advice on funding and co-investment sources and other relationship support to the investee companies with the goal of enhancing the financial return as well as social and environmental impact for our stakeholders.

In terms of the relevant impact metrics to use in the assessment of invested companies, we take reference from HIPSO<sup>3</sup> (Harmonized Indicators for Private Sector Operations), GIIN IRIS+<sup>4</sup>, as well as the Joint Impact Indicators<sup>5</sup> (JII), which are a subset of the HIPSO indicators.

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<sup>3</sup> <https://indicators.ifipartnership.org/>

<sup>4</sup> <https://iris.thegiin.org/>

<sup>5</sup> <https://indicators.ifipartnership.org/wp-content/uploads/2021/03/2021-03-25-JII.pdf>



## AvantFaire Investment Management Ltd.

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.

We have a strong conviction that a company with robust ESG performance is likely to generate positive investment returns over the long run. We will assess the below list of ESG elements alongside the impact metrics of the company for alignment using a range of frameworks, including the GIIN IRIS<sup>6</sup> system.

<u>Environment</u>	<u>Social</u>	<u>Governance</u>
▪ Climate Change response	▪ Customer satisfaction	▪ Composition of the board of directors
▪ Carbon emission reduction	▪ Relations with unions	▪ Structure of the audit committee
▪ Biodiversity protection	▪ Data protection	▪ Enterprise policy
▪ Depletion of natural resources	▪ Relations with communities and civil society	▪ Anti-corruption policy
▪ Energy efficiency	▪ Equal pay	▪ Compensation committee
▪ Waste management	▪ Policy regarding the hiring of disabled people	▪ Lobbying policy
▪ Water / air pollution	▪ Diversity and non-discrimination of minorities	▪ Whistle-blower protection
		▪ Diversity and inclusion policy

Besides actual impact, the potential impact of the investee companies will be taken into account as well. For instance, a fossil fuel-based power producer that targets to improve the current energy mix towards net-zero by implementing carbon capture and switching

<sup>6</sup> <https://iris.thegiin.org/>



## AvantFaire Investment Management Ltd.

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to renewable energy usage will have a higher impact potential. We are cognizant that there is no “one-size-fits-all” ESG assessment framework across multiple industries, and hence we will tailor the assessment framework to fit the investee company’s industry. For instance, the metal industry may have a higher risk of an environmental impact in terms of air pollution compared to the retail industry.

AvantFaire applies a stringent monitoring process on the overall impact investment portfolio. Depending on the complexity of the investment as well as the extent of impact creation, we may collaborate with local partners with recognized capabilities and proven experience to manage project execution risks, and to create social and environmental awareness in order to achieve the expected financial returns.

The commitment of our investee companies to impact and ESG risk management is one of the key factors that will be assessed during the evaluation process. To identify, avoid, monitor, and manage impact and ESG risks, investee companies will be scrutinized for demonstrated strength in their impact and ESG practices or, if appropriate, a commitment to improve such in future.

For each of the investee companies, we will establish the necessary impact metrics, monitor them over the investment holding period, and compare them against a pre-defined baseline. The impact data may be collected through a myriad of channels, including ongoing dialogues with management, a board seat, an advisory role, periodic data submission by investee companies, and scheduled reporting. The collected impact data will then be compared against impact key performance indicators (KPIs) pre-agreed with the investee company at the inception of investment.



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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 will apply a stringent monitoring process on the overall impact investment portfolio. Depending on the complexity of the investment as well as the extent of impact creation, we may collaborate with local partners with recognized capabilities and proven experience to manage project execution risks, and to create social and environmental awareness in order to achieve the expected financial returns.

The commitment of our investee companies to impact and ESG risk management will be one of the key factors evaluated. To identify, avoid, monitor, and manage impact and ESG risks, investee companies will be scrutinized for demonstrated strength in their impact and ESG practices or, if appropriate, a commitment to improve such in future.

As stated earlier, impact metrics and measurement requirements will be discussed with each investee company at an early stage to understand and examine investees' different views and approaches, and also to ensure alignment between both parties. Timing requirements and measurement methodology will also be agreed upon, with the flexibility to adjust in light of new findings and information with the proper justifications. For a consistent approach and guidance, these impact metrics can be referenced from HIPSO<sup>7</sup> (Harmonized Indicators for Private Sector Operations), GIIN IRIS+<sup>8</sup> as well as the Joint Impact Indicators<sup>9</sup> (JII), which are a subset of the HIPSO indicators.

At the portfolio level, reviews will take place to discuss if the anticipated impact is in line with the investment team's baseline assumptions. Regular engagement with the investee companies in the form of face-to-face meetings or conference calls will be held to discuss business updates and impact performance. To facilitate efficient discussions, we will also hold informal conversations with senior management from time to time to

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<sup>7</sup> <https://indicators.ifipartnership.org/>

<sup>8</sup> <https://iris.thegiin.org/>

<sup>9</sup> <https://indicators.ifipartnership.org/wp-content/uploads/2021/03/2021-03-25-JII.pdf>



## AvantFaire Investment Management Ltd.

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analyze data outcomes and discuss appropriate corrective actions. When a portfolio company is not meeting expected progress on anticipated impact, the investment team may consider exiting under extenuating circumstances. With that said, however, it is our firm belief that active engagement in supporting and educating investee companies in properly managing their impact risks and opportunities will result in positive spillover benefits and will contribute to an overall healthy and positive ecosystem.

### 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 takes into account the sustainability of impact when making investments and divestments. Any changes or discontinuation of such impact may reduce the business value or even affect the viability of the business over the long run. We will identify buyers who are committed to upholding impact value after the acquisition, use an exit checklist to scrutinize if the impact will discontinue or be diluted in the potential exit, and put down a divestment memorandum to document the exit decision-making process with impact consideration. Exiting with impact continuity is a fiduciary duty of AvantFaire, and the firm will proactively discuss the impact implication of anticipated exits on an ongoing basis. AvantFaire has not yet conducted an exit under the current Private Equity Discretionary Mandate (DM).



## AvantFaire Investment Management Ltd.

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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 will conduct an official impact performance review for each investment before the annual impact reports are issued. We will meet with our underlying investee companies, go through their impact strategies and results, and have them justify their financial and impact performance compared with expectations. Our first level of review will focus on their financial and impact performance as well as their adherence to the impact investment, measurement, and reporting processes. The second level review will focus on the management style, stakeholder communication, impact research, and continuous commitment as a company. In addition to issuing an annual financial and impact performance report, we will hold regular meetings with our investors and corporate advisors to discuss the management and performance of the DM and solicit 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 investee companies will have their own review and documentation processes to summarize their performance and lessons learned. Typically, the review and documentation process will occur annually for each portfolio company through its lifetime until exit.





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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 June 10, 2022 reaffirms the alignment of AvantFaire's impact management systems for the DM's operation with the Impact Principles. An independent verification of this alignment will be posted on AvantFaire's website at the end of each December, with the first verification to be carried out in June 2022.