



AvantFaire
Investment Management Ltd.

Operating Principles for Impact Management

June 2024 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 that AvantFaire continues to have the necessary policies and procedures in place to manage private equity discretionary mandates¹, focusing on the impact themes of agricultural technology, sustainable cities, and cultural tourism. We have been establishing collaborative partnerships in China and leveraging investment opportunities in “Rural Revitalization” and “Belt and Road Initiatives”. We look to establish discretionary mandates on these themes in China or Hong Kong SAR with the Impact Principles as the guiding framework. As the 100th signatory, AvantFaire is committed to promoting the Impact Principles’ standards 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. The AUM of DM is zero as of June 2024. AvantFaire is currently managing a proprietary impact investment fund of funds with an AUM of USD 5M, whose operation follows the Impact Principles.



Catherine Chen Founder
and CEO
AvantFaire Investment Management Limited
June 2024

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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 firm licensed in Hong Kong SAR. We currently offer various impact investment opportunities to investors, such as discretionary mandates services to investors in the private 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), and the Principles for Responsible Investment (PRI). As the first Asian equity investment manager to receive the B-Corporation Certification, 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 can create a net positive social impact.

AvantFaire specializes in impact investments that deliver both positive social impact and financial return, with the conviction that social well-being and financial benefit reinforce each other and converge in the long run. Our impact investment objectives are multifaceted, 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 invest with purpose.

AvantFaire is the manager of AvantFaire Private Equity Discretionary Mandate (DM), which invests in a portfolio of investee companies within the overarching theme of agricultural technology, sustainable cities, and cultural tourism. To facilitate our investment thought process and investor communication for the above-mentioned impact investment theme, we make reference to the SDGs and commit to investing in SDGs 6 – Clean Water and Sanitation, 7 – Affordable and Clean Energy, 9 – Industry, Innovation and Infrastructure, 11 – Sustainable Cities and Communities, 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 agricultural technology, sustainable cities, and cultural tourism to target investments that:

- Utilize natural resources more efficiently
- Pollute less and recycle more
- Enhance the living quality in cities, communities, and villages
- Mitigate negative impacts on the climate from the development of rural areas

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 frameworks.

Our regional footprint in China, Hong Kong SAR, and Singapore enables 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.



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 agricultural technology, sustainable cities, and cultural tourism themes 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 multifaceted social and environmental impacts from each of the investee companies and at the overall portfolio level to ensure the creation of net positive impact.

From the initial stage, the business model of a potential investee company is assessed for alignment with the impact thesis of the DM. Potential impact metrics are discussed and mapped to relevant SDGs to ensure meaningful tracking against a pre-defined baseline. Throughout the holding period of investments, the investment team works closely with the investee to realize the impact strategy and monitor impact and financial performance.

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

Some of the common metrics attributable to similar impact themes include the amount of Carbon Dioxide (CO₂) reduction or avoided; the amount of alternative power generated or energy saved; and the weight of hazardous material reduction. Other examples include:

- Metric tons of CO₂ avoided
- Job creation
- Direct beneficiaries
- Women employment
- Benefits to rural communities
- Productivity gains
- Amount of renewable energy deployed

In cases when the actual impact created by portfolio companies cannot be reliably obtained, we will estimate the impact of their products and services and make appropriate disclosures 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 the context of rural revitalization investment opportunities, benchmarking presents a unique challenge given the rapid pace of change, diverse ownership, and inconsistent use of benchmarking tools across the overall sector.

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



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provide impact knowledge sharing and technical assistance to the portfolio companies if necessary.

We currently do not have a system in place to align staff incentive systems with the achievement of impact, as all investments made are impact-related. More detailed and quantitative approaches for such alignment may be considered as best practices emerge that suit our business operations.



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 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 Operating Principles for Impact Management (Impact Principles) and the Principles of Responsible Investment (PRI). We have also put our vision of creating a positive impact into practice as a Certified B Corporation (B Corp) to operate ethically and sustainably fashion in our society. To further strengthen our identity in impact investment, we are proactively involved in green advocacy, speak regularly at industry conferences and publish articles on impact investments, sustainability, and Environment, Social and Governance (ESG) topics.

We continue to establish long-term relationships within the impact investment industry to facilitate partnerships in exclusive direct and co-investment opportunities. Throughout the past year, we have also been actively expanding our deal sourcing and business network while concurrently formulating synergetic strategies with one another (e.g. through joint research) to generate greater impact and social awareness with the government, regulators, academic institutions, non-profit organizations, and investee companies.

We 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, architects, property management companies, and other asset managers, and we maintain close ties with them. We encourage them to adopt our investee companies' products and services to create synergistic benefits.
- Providing ESG / impact support - As a champion of impact investment in the industry, we guide investee companies on improving their respective ESG and other relevant frameworks on compliance, disclosure, and reporting. We also work with the investee companies to develop key performance metrics specific to impact measurement. Additionally, we encourage our investee companies to become B-Corp certified.
- Searching for key management personnel - We utilize our extensive network to look for appropriate key management personnel (e.g. CEO and other C-suite executives) to aid the investee companies in scaling the business.
- Additional strategic initiatives - We work with our investee companies on follow-on investments by PE funds and other professional investors. If necessary, we assist the investee companies in seeking bank financing and government subsidies.

To institute proper governance in the investment process, a "Deal Team" and a "Support Team" are assigned for each investment case to manage the overall investment process. The Deal Team consists of a managing partner and a junior staff member to lead and manage a deal through the investment process. The Support Team, which consists of another managing partner and another junior staff member, functions as the checks and balances in the investment process. Both managing partners in the Deal Team and Support Team are in the investment committee to



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ensure all investment information is comprehensively presented during decision-making. The assignment of the Deal Team and the responsible managing partner depends on the person's area of expertise, availability and the number of companies in the person's current portfolio. The involvement of any junior staff is optional and depends on the complexity of the deal.



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. Impact assessment aims to ensure the DM is consistent in its deliberate and purposeful approach to investing for impact, which goes beyond negative screening or seeking to minimize negative impacts/externalities of an investment.

When assessing the investee companies during the due diligence process, we will, wherever possible, quantify and measure the potential positive impact deriving from the investment in a concrete manner. 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 the impact created by the business operation; and
- The risk factors which change the assumption of impact creation

While we do not mandate the application of any specific processes or metrics for impact measurement, we 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 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 and social and environmental impact for our stakeholders.



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 elements is likely to generate positive investment returns over the long run. We will assess the following list of ESG elements against the impact metrics of the company and evaluate alignment.

<u>Environment</u>	<u>Social</u>	<u>Governance</u>
▪ Climate Change	▪ Customer satisfaction	▪ Composition of the board of directors
▪ Carbon emission	▪ Relations with unions	▪ Structure of the audit committee
▪ Biodiversity	▪ Data protection	▪ Enterprise policy
▪ Depletion of natural resources	▪ Relations with 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
	▪ Health and well being	▪ Diversity and inclusion policy

Besides the 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 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 than the retail industry.

AvantFaire employs a stringent monitoring process on the overall impact on the investment portfolio. Depending on the complexity of the investment and the extent



of impact creation, we may collaborate with local partners with proven capabilities and experience to manage project execution risks and create social and environmental awareness to achieve the expected financial returns.

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

For each investee company, we establish the necessary impact metrics, monitor them over the investment holding period, and compare them against a predefined baseline. The sources of impact data may come from many sources, including ongoing dialogues with the management, board seat, advisory role, periodic data submission, and scheduled reporting. The collected impact data is then compared against impact key performance indicators (KPIs) pre-agreed upon with the investee company at the inception of the investment.



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.

As stated earlier, impact metrics and measurement requirements are discussed with each investee company at an early stage to understand and examine investees' different views and approaches, and to ensure alignment between both parties. Timing requirements and measurement methodology are also agreed upon, with the flexibility to adjust considering new findings and information with the proper justifications.

At the portfolio level, reviews 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 is held for current business updates and impact performance. To facilitate efficient discussions, we also hold informal conversations with senior management from time to time to 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 the sustainability of impact into consideration 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. Exit with impact continuity is a fiduciary duty of AvantFaire, and the firm proactively discusses the impact implication of anticipated exits on an ongoing basis.



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 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 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 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 in 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 occur annually for each portfolio company through its lifetime until exit.



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 2024, reaffirms the alignment of AvantFaire's impact management systems on the DM's operation with the Impact Principles. An independent verification of this alignment was carried out in June 2022 and was posted on the Signatories directory on the website of the Operating Principles for Impact Management. We plan the next independent verification in 2027 or when there is a significant change to our business lines or business model, whichever is sooner

Our previous [independent verification](#) was conducted in June 2022 by Vukani Impact Collective (PTY) LTD (Vukani), with a registered address at 3 Delphinium Street, Devil's Peak Estate, Cape Town, 8001, South Africa.

Vukani assists businesses and investors in enhancing their sustainability practices through comprehensive ESG strategies and management systems. Their flagship tool, the ESG Tracker, allows for detailed performance tracking across environmental, social, and governance measures. With over 75 years of combined expertise, Vukani offers services such as ESG system design, in-house training, due diligence, and impact verification, ensuring alignment with international best practices and adding value to their clients' operations.



Disclaimer:

The information contained in this Disclosure Statement has not been verified or endorsed by the Global Impact Investing Network (“the GIIN”) or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of the GIIN. The GIIN shall not be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, “Affiliate” shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.