

Disclosure Statement
Operating Principles for Impact Management

LGT Lightstone

30 June 2020

LGT Lightstone is a signatory to the Operating Principles for Impact Management (the “Principles”).

LGT Lightstone hereby affirms that its emerging market investment assets are managed in accordance with the Principles. The total assets under advice by LGT Lightstone in alignment with the Principles is approximately US\$ 443 million¹ as of May 30, 2020.²



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¹This amount reflects the cost of the investment and not the fair value.

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

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

LGT Lightstone is LGT Group's direct impact investing platform. The platform manages an emerging market portfolio of technology-driven, scalable companies striving to achieve measurable positive social and environmental impact alongside market-based financial returns. LGT Lightstone believes that there is significant opportunity to harness breakthrough developments in technology and business model innovation for creating effective solutions to address some of the most pressing sustainability issues. We seek to find and back exceptional entrepreneurs who are building profitable and sustainable companies operating in high-impact areas of the economy and society. LGT Lightstone thereby targets investments in healthcare, financial and digital inclusion, affordable quality education, efficient supply chains, sustainable agriculture, renewable energy transition and the future of mobility. By investing along these sectors, LGT Lightstone aims to make a direct contribution to the achievement of 9 out of the 17 UN Sustainable Development Goals.



Principle 2 - Manage strategic impact on a portfolio basis

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

- LGT Lightstone sources and selects investments according to its strategic framework. All investments fall within predefined sectors and themes that can be considered high-impact areas and are underlaid with clear impact objectives in alignment with priority SDGs. For most of these companies, impact is intrinsic to the business model and part of their core operations, products and/or services. Operational, impact and financial performance therefore evolve in lockstep. That is why, LGT Lightstone is following a core impact approach, meaning that special attention is on the core impact rationale behind an investment when assessing, measuring, managing and driving impact throughout the investment lifecycle. Impact measurement & management (IMM) is then complemented by an integral ESG management system based on industry best practices to mitigate risks, avoid harm and drive wider operational and financial value creation for all involved stakeholders.
- Having a top-down impact framework in place, managing impact at the portfolio level starts with a systematic approach towards IMM at the investment level. During due diligence, a meaningful set of impact KPIs and corresponding targets related to the core impact rationale behind each investment is defined under consideration of the company's ability to deliver robust and reliable data on those KPIs. Portfolio companies report on the agreed KPIs on a monthly or quarterly basis and provide regular qualitative updates on the implementation of agreed impact and ESG related actions and initiatives. An aggregated view of the portfolio's impact performance across different parameters will be formed and reported annually. LGT Lightstone's dedicated Impact & ESG practice is responsible for managing and reporting impact achievement on a portfolio basis and oversees the underlying process over the lifecycle of the portfolio.
- LGT Lightstone is currently in the process of integrating impact and ESG data into its existing pipeline and portfolio management systems to enhance its standardized monitoring and reporting capabilities at the investment and portfolio level.



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

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

- As a direct private equity growth investor, LGT Lightstone recognizes that the asset class is well positioned for impact investing due to the fact that it allows to provide more patient capital, take active ownership and engage in deep and formative partnerships with entrepreneurs to collectively grow the business and drive value creation throughout the investment lifecycle.
- Prior to any investment, investment teams conduct comprehensive impact and ESG due diligence. For more complex investments, external expert consultants are engaged for performing the impact and/or ESG due diligence. One of the key outputs of the due diligence are standardized action plans that record all identified actions and activities to mitigate material risks and drive value creation opportunities across relevant impact and ESG areas. Expected deliverables, required resources and timelines for implementing the individual actions are discussed and agreed upon with the company prior to investing to ensure alignment and buy-in from the management from the outset. During the portfolio management phase, investment managers are actively involved with supporting portfolio companies on implementing agreed actions and any new ones that might emerge.
- LGT Lightstone relies on a bespoke investor operator model to provide extensive value-add to portfolio companies. The operator model focuses on three areas: a) effective performance management and forecasting, b) long term capability development in the portfolio companies across tech/systems and human capital, and c) instituting superior governance and oversight. With teams on the ground in all the regions where LGT Lightstone invests, we engage with portfolio companies at the board, management and operational level to oversee and support the implementation of action plans and promote value creation initiatives.
- One example of an exclusive value-add initiative that LGT Lightstone brings to its portfolio is access to the LGT Impact Fellowship managed by LGT Venture Philanthropy Foundation. The fellowship program provides access to talent, know-how and capacity by connecting portfolio companies with experienced professionals from around the world who have relevant sought-after skills. Since inception in 2009, the LGT Impact Fellowship has placed more than 150 fellows. For more information, please visit www.lgtimpactfellowship.com.

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



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

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

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

- LGT Lightstone relies on a proprietary impact assessment that has evolved over many years of investing in high-impact businesses in emerging markets and that is continuously being further developed. It allows investment teams to perform a thorough ex-ante analysis of a prospective investment's current impact and future impact potential, facilitating informed decision-making by the investment committee. The framework consists of two complementary tools that equally lean on proven methods and emerging standards:
 - 1) An impact assessment with an underlying rating methodology to evaluate each investment opportunity's ex-ante impact performance and potential based on a comprehensive set of relevant variables covering generally accepted dimensions and criteria of impact and associated risk factors. The rating tool generates a standardized risk-adjusted impact potential score to quantify an investment's net positive impact potential.
 - 2) A complementary analytical tool to support investment managers in developing and outlining the impact rationale and narrative behind each investment including the expected impact outcomes, the underlying theory of change, the existing evidence on the relative size of the challenge addressed and the effectiveness of the specific business solution. Derived from this analysis is the definition of relevant impact Key Performance Indicators (KPIs) including specific targets to ensure robust monitoring and reporting of the company's impact performance.
- In order to ensure high-quality outputs and deliverables from the impact assessment process, LGT Lightstone has assigned clear responsibilities and implemented specific checks and balances involving dedicated Impact & ESG managers and the senior management.

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

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

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

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



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

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

- By integrating Environmental, Social and Governance (ESG) considerations into the management of portfolio companies, LGT Lightstone believes that businesses can deliver enhanced value for shareholders and stakeholders beyond their core impact. For this purpose, a customized ESG Management System (ESG MS) has been designed and implemented based on industry best practices. The ESG MS builds on guiding elements to ensure relevance and effectiveness of ESG management such as investment cycle integration, intentional value driver, portfolio company ownership, integration and contribution to impact and transparency. In this way, it is ensured that ESG considerations are formally integrated at each step of the investment process and fed into investment decision-making.
- LGT Lightstone's ESG MS is founded on detailed policies and business principles that outline its efforts, commitment and expectations towards addressing ESG challenges at its operations and that of portfolio companies. The ESG MS aligns with international industry practice, notably building on the IFC Performance Standards on Environmental and Social Sustainability, the World Bank Group Environmental, Health, and Safety (EHS) Guidelines, and relevant ILO conventions as reference framework.
- LGT Lightstone undertakes ESG due diligence on all its investments, assessing a company's ability and commitment to achieve ESG outcomes consistent with its related policies and business principles. While recognizing that not every business will be in full compliance with its ESG objectives and policies at the date of investment, investment teams work with the company to develop action plans that seek to achieve compliance with clear deliverables in reasonable time frames, taking into consideration the risks and opportunities specific to that business and its size and resources. To ensure commitment from sponsors to comply with LGT Lightstone's ESG policies and applicable standards, investment teams strive to integrate

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

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





standardized ESG terms and warranties into the investment legal documentation to the extent possible under consideration of specific deal dynamics.

- During portfolio management, companies are supported to build internal capacity to implement and maintain a formal ESG management approach to continue assessing and managing related risks, impacts and opportunities, including those that may arise during the life of the investment and beyond. Investment managers thereby continuously provide guidance and, besides monitoring progress, assist portfolio companies in the review and update of the action plans considering changes in the regulatory and market environment as well as changes in business activities.



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

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

- LGT Lightstone takes a standardized approach towards monitoring the impact performance of its investments against expectations. Investment teams are responsible for monitoring the progress of portfolio companies by receiving regular updates, conduct site visits and lead management discussions. They actively support the implementation of action plans, help furthering internal measurement and reporting practices and assist in the identification of additional impact initiatives and ESG risks and opportunities that may emerge. On key actions and technical initiatives, investment teams receive assistance from LGT Lightstone’s global impact & ESG practice and have access to internal and external resources.
- In accordance with the overall reporting cycle, quantitative and qualitative impact data and information on agreed targets, milestones and key achievements are collected from portfolio companies on a monthly or quarterly basis. Portfolio companies report on the set of impact KPIs defined and agreed at the outset of the investment. The KPIs are derived from the initial impact assessment and are usually a combination of IRIS+ aligned and customized metrics, depending on the specific nature of the business and the expected impact outcome. The adequacy and relevancy of tracked KPIs as well as related targets is appropriately revisited and discussed with the companies. On an annual basis, LGT Lightstone consolidates the quantitative impact data to form an aggregated view of the portfolio’s year-on-year performance.
- LGT Lightstone is currently rolling out its annual ESG data collection and standardized reporting process while capturing associated data in the internal portfolio management systems.
- Occasionally, LGT Lightstone and/or portfolio companies engage third party providers to perform independent evaluation studies on impact outcomes to underpin self-reported data and provide additional insights into the company’s impact achievement and how measurement and reporting practice can be strengthened.

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

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



Principle 7 - Conduct exits considering the effect on sustained impact

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

- LGT Lightstone believes that improved Impact and ESG performance can enhance exit valuations and thus related considerations should be incorporated into preparations for exit. Through exit memorandums, which provide rationales for the exit and articulate the impact performance and value addition over the holding period, related considerations are proposed to be documented. Exit assessments will include a summary of material corrective actions and value creation initiatives implemented throughout the holding period, an exit impact performance assessment and key lessons learned from those insights. LGT Lightstone also supports its portfolio companies to prepare and highlight impact and ESG achievements in seller materials.
- LGT Lightstone will consider the effect on maintaining impact & ESG objectives when making exit decisions, which in accordance with fiduciary obligations, can influence the timing, structure and choice of who to sell to.

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



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

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

- LGT Lightstone follows a standardized process to track impact performance of investments and monitor the implementation of action plans as described under Principle 6. As part of the quarterly portfolio updates, investment managers review the impact performance of each investment to report it to the senior management and the board. In this way, it is ensured that any significant insights from the periodical analysis of individual investments and the portfolio's achievement of impact can lead to operational and strategic adjustments and are used to inform future investment decision-making.
- On a process level, LGT Lightstone continuously reviews its investment, impact and ESG processes based on insights from its current and past investment activities. The Impact & ESG team is responsible for maintaining the related management systems and procedures and making improvements in response to changing operational and strategic requirements.
- Furthermore, LGT Lightstone engages with partners and peers and is actively involved in industry bodies and initiatives to seek advice on emerging best practices on IMM, ESG management and related investment decision-making as it refines its approach and practices.
- As a global investment platform, LGT Lightstone also recognizes the benefits from cross-regional synergies and organizational learning opportunities and actively promotes knowledge sharing at the operational and managerial level on common investment parameters to improve decisions and processes across the platform, including on Impact and ESG.



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

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

- This Disclosure Statement re-affirms the alignment of LGT Lightstone’s policies and procedures with the Principles and will be updated annually.
- In accordance with the requirement that signatories provide regular independent verification of alignment under Principle 9, LGT Lightstone will provide first independent verification until Q2 2021.

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

