

Pre-contractual disclosures for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Product name: DUTCH GOOD GROWTH FUND 'FINANCING LOCAL SMES' ("DGGF" or "the Fund")
Legal entity identifier: Not applicable

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?



Yes



No



It will make a minimum of **sustainable investments with an environmental objective:** ____%



in economic activities that qualify as environmentally sustainable under the EU Taxonomy



in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy



It will make a minimum of **sustainable investments with a social objective:** ____%



It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ____% of sustainable investments



with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy



with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy



with a social objective



It promotes E/S characteristics, but **will not make any sustainable investments**

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.



What environmental and/or social characteristics are promoted by this financial product?

The Dutch Good Growth Fund (DGGF) aims to contribute to sustainable and inclusive economic growth and poverty reduction in selected DGGF countries. It aims to do so by improving access to finance for 'missing middle' SMEs¹ in the selected countries. The 'missing middle' refers to entrepreneurs whose financing needs are not adequately served by microfinance or conventional capital market players. Greater access to finance enables local SMEs to grow and generate employment and thereby contribute to sustainable and

¹ Small and Medium Enterprises. DGGF uses the following definition for SMEs: companies that have (a) less than 250 employees; and, (b) either (i) whose annual sales are no more than €50 million, or (ii) whose annual total balance sheet is not more than €43 million.

inclusive economic development and poverty reduction. Within this objective, DGGF targets groups that encounter higher barriers to access capital, namely young and/or female entrepreneurs and entrepreneurs in fragile states². The capital provided by DGGF must be additional³ and have the potential to catalyse other investors and financiers into the SME finance space.

In addition to the above objective, a portion of the portfolio will be allocated to financing SMEs that contribute to climate change mitigation and/or adaptation in line with the OECD climate markers.

No reference benchmark has been designated for the purpose of comparing the environmental or social characteristics of DGGF.

● ***What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?***

A set of 17 indicators to measure DGGF's impact have been defined which are monitored at the investee and the Fund level. The expected performance of potential investments against these indicators is assessed during the investment selection phase and actual performance is monitored post investment on an annual basis. DGGF's impact indicators include:

- Number of SMEs financed
- Number of countries reached
- Number of jobs created
- Number of jobs supported
- Average SME revenue growth rate
- % of capital invested towards SMEs receiving knowledge transfer
- % of capital invested towards women-led SMEs⁴
- % of capital invested towards youth-led SMEs⁵
- % of capital invested towards SMEs in fragile states

In addition a scorecard has been developed to assess more qualitative elements of the sustainable objective including:

- Exceptional impact⁶
- Inclusivity
- Additionality (Need for DGGF Funding, Underserved Markets and Innovation)
- Catalytic effects⁷ (Leverage, Cornerstone Role and Demonstration Effects).

Each investment selected is scored against the score card. The total results are aggregated at the fund level and monitored at least annually.

² Fragile states are defined as countries that are on the World Bank's [List of Fragile and Conflict-affected Situations](#)

³ A transaction is considered to be additional if it supports capital-constrained markets in which SMEs are unable to obtain commercial financing due to high risk or if it mobilises investment from the private sector that would not have otherwise invested.

⁴ SME qualifies as woman-led if:

(A) ≥ 51% owned by woman/women, OR

(B) ≥ 20% owned by woman/women; AND (i) has ≥ 1 woman as CEO/COO/President/Vice President; AND (ii) has ≥ 30% of the board of directors composed of women, where a board exists.

⁵ SME qualifies as youth-led according to the same definition above applied to youth (defined as 18-35 year old)

⁶ Impact generated beyond what is captured by the other impact indicators.

⁷ Catalytic effects are generated when DGGF helps Intermediary Funds, Financial Institutions or SMEs attract more investment capital.

Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

Lastly, the DGGF Monitoring and Evaluation Plan includes a set of evaluation activities and deep-dives on impact related topics to complement the information gathered through the impact monitoring activities described above.

- ***What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?***

DGGF's investments only promote E/S characteristics but have not been identified as sustainable investments. Given the focus on SMEs in emerging and frontier markets and its fund of fund approach, DGGF is not yet able to ensure sufficient PAI data coverage of its portfolio to support the claim of sustainable investments under the SFDR definition.

- ***How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***

N/A

— How have the indicators for adverse impacts on sustainability factors been taken into account?

N/A

— How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

N/A

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.



Does this financial product consider principal adverse impacts on sustainability factors?

☒ Yes

☐ No

DGGF considers principle adverse impacts on sustainability factors. However, due to DGGF's operating context, i.e. a fund in fund investment structure investing in SMEs in emerging and frontier markets, data collection is challenging. Consequently, reporting on PAIs proves difficult.

An example of this are early-stage venture capital funds who oftentimes do not have access to advanced systems or data collection methods. In addition to this, formalised policies and procedures at SME level are not yet in place which would aid demonstration of how adverse impacts are avoided.

To monitor investees' performance in terms of ESG risk management and avoidance of adverse impacts, DGGF conducts annual monitoring and more frequent monitoring if deemed necessary. During annual monitoring, each fund and financial institution is asked to provide updates on its activities, changes and challenges over the fiscal year and updates and developments related to ESG. These could be changes made to the investees' ESG policy, change towards sector focus, higher ESG risk investments, changes to team composition and capabilities of the team in terms of ESG risk management, breaches of DGGF's ESG policy by investees and SMEs (including the occurrence of incidents), complaints received through the complaints mechanism and exposure to penalties and fines. Furthermore, there is an additional information request on specific topics like gender-based violence and harassment, fraud, living wage and climate. The annual monitoring is executed through filling in an annual ESG reporting template by investees and through interviews conducted by DGGF to follow up on provided input in ESG reporting templates by investees. The reporting template is subject to change depending on the emergence of topics and issues DGGF believes are relevant to follow-up on.

For the financial year 2022 and onwards, the annual monitoring templates are updated to gather necessary information and data relevant for PAI data collection. During annual monitoring interviews, interviewers can follow up on provided and absent data to gather insight into data availability and quality and to understand the challenges funds and financial institutions are facing with respect to data collection.



What investment strategy does this financial product follow?

The consortium managing DGGF aims to improve the access to finance for 'missing middle' SMEs in selected countries by investing through funds and other financial intermediaries that have the relevant capacity and local presence to directly reach out to SMEs in the DGGF's target markets. The 'missing middle' refers to entrepreneurs whose financing needs are served by neither microfinance nor by conventional capital market players.

The instruments used are mainly equity type investments and, to a lesser extent, debt type instruments (e.g. loans). The consortium managing DGGF invests in financial intermediaries, using a block allocation strategy. The block allocation is translating the DGGF mandate (missing middle, additionality, impact) into portfolio decisions:

- Block I: Mezzanine: Debt-based mezzanine funds
- Block II: Private Equity ("PE"): PE Funds with existing track record
- Block III: Financial Institutions: Loans & Subordinate debt to Financial Institutions
- Block IV: Pioneer Funds: First Time Managers with no institutional track record
- Block V: High impact: Any of the above with a clear impact first logic, and as a result lower return expectations

This block approach is an important aspect of the portfolio strategy because it deliberately offers more scope for higher-risk investments without compromising the revolving nature of the portfolio as a whole.

Regarding non-financial risk, the DGGF ESG Policy is leading in the investment approach. All investments are expected to adhere to the DGGF ESG Policy, which is built on the IFC Performance Standards as well as the UN Guiding Principles on business and human rights and the OECD Guidelines.

Non-financial risk tolerance in DGGF's investment approach

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

DGGF's main goal is to invest in emerging markets and create access to funding for groups who often experience difficulty in generating funding, especially women and young entrepreneurs. When considering possible investments, the DGGF ESG Policy is leading in assessing non-financial risk. DGGF's ESG Policy contains an Exclusion List which is adapted from the European Development Finance Institution (EDFI) and is also used as the foundation for the DGGF ESG Policy. Furthermore, investments are monitored against the principles and the Exclusion List. Additionally, portfolio companies are contractually prohibited to not engage with any activities that are a part of the exclusion list and/or go against DGGF's ESG Policy. As mentioned before, DGGF has a fund-in-fund investment structure, meaning that investments made by investee companies are also required to adhere to the DGGF ESG Policy and its corresponding Exclusion List.

More information on DGGF's ESG Policy and Exclusion List can be found under "more specific information".

● ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

At the investment level, Intermediary Funds must fulfil the following criteria to be eligible for a DGGF investment:

- Demonstrate a financially sustainable proposition (positive return on investment expected)
- Invest in one or several of the DGGF countries ([list of countries](#))
- Invest at least 60% of its investment capital in companies that meet the SME definition.

At the level of the DGGF portfolio the following limits have been set:

- Maximum 10% of invested capital outside the DGGF countries
- No less than 95% of Invested Capital is indirectly invested in companies that meet the SME definition of the mandate at the time of first investment
- Minimum 50% of invested capital in Low Income Countries
- Minimum 15% of invested capital in fragile states
- Minimum 15% of invested capital in women-led SMEs
- Minimum 15% of invested capital in youth-led SMEs

● ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

N/A

● ***What is the policy to assess good governance practices of the investee companies?***

DGGF uses its ESG Policy as a guideline to assess good governance practices for its investee companies. The ESG Policy is put into practice through previously mentioned annual monitoring calls, regular monitoring in which DGGF gathers information and assesses the investee companies' practices where applicable, as well as an ESG Due Diligence process. DGGF's Due Diligence process forms part of

Good governance practices include sound management structures, employee relations, remuneration of staff and tax compliance.

the investee selection process and forms the basis of assessing governance practices of the investee companies.

During due diligence, DGGF assesses compliance of the potential investee with the ESG Policy. In practice, this means that investees should have ESG documentation and processes in place, including at minimum an exclusion list, ESG policy, and grievance mechanism, to integrate good governance practices throughout their investment cycle in line with DGGF's expectations. The knowledge, documents, and processes required by the ESG Policy will allow the investee in turn to assess good governance practices and ESG performance at the SMEs in which they invest. Any gaps with the requirements of the DGGF ESG Policy at the time of DGGF's due diligence are addressed through contractually binding conditions for investment. As long as the investee is in the DGGF Portfolio it commits to implementing and applying the governance principles as laid out in the ESG Policy. The DGGF team monitors compliance herewith through its risk-based monitoring approach, which happens at minimum on an annual basis.

Through adhering to DGGF's ESG Policy, its corresponding Exclusion List and the other aforementioned processes, DGGF assesses good governance practices of investee companies. On its turn, the companies in which investees make investments should also adhere to DGGF's ESG Policy and its corresponding Exclusion List.



What is the asset allocation planned for this financial product?

DGGF strives to invest at least 70% of its total net assets considering the annual average in investments that contribute to the environmental and social characteristics promoted by the fund, namely funds and financial institutions that provide finance to SMEs in the DGGF target countries (#1 Aligned with E/S characteristics).

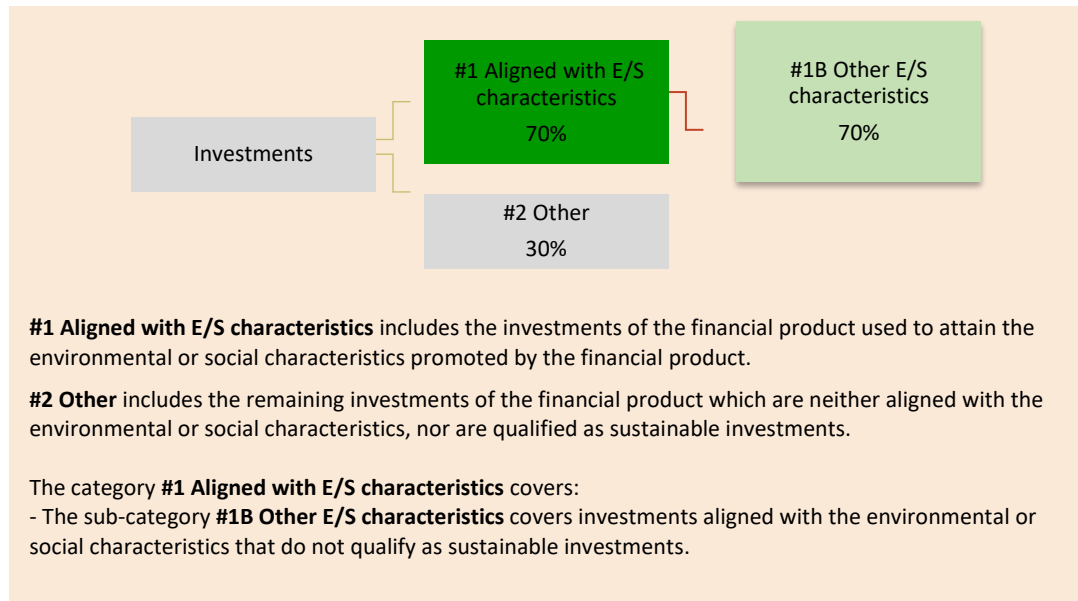
The remaining share of the net assets (#2 Other) is composed of cash and cash equivalent instruments (including cash placements and money market instruments) to ensure the DGGF's sound operations as well as underlying investments made by funds in the DGGF portfolio that does not meet the SME definition and / or is invested outside the DGGF Countries.

At the portfolio level the following limits are targeted:

- Maximum 10% of invested capital outside the DGGF countries
- No less than 95% of invested capital is indirectly invested in companies that meet the SME definition of the mandate at the time of first investment
- Minimum 50% of invested capital in Low Income Countries
- Minimum 15% of invested capital in fragile states
- Minimum 15% of invested capital in women-led SMEs
- Minimum 15% of invested capital in youth-led SMEs

Asset allocation describes the share of investments in specific assets.

Lastly as DGGF investments only promote E/S characteristics but have not been identified as sustainable investments no minimum share of sustainable investment has been set.



● How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?

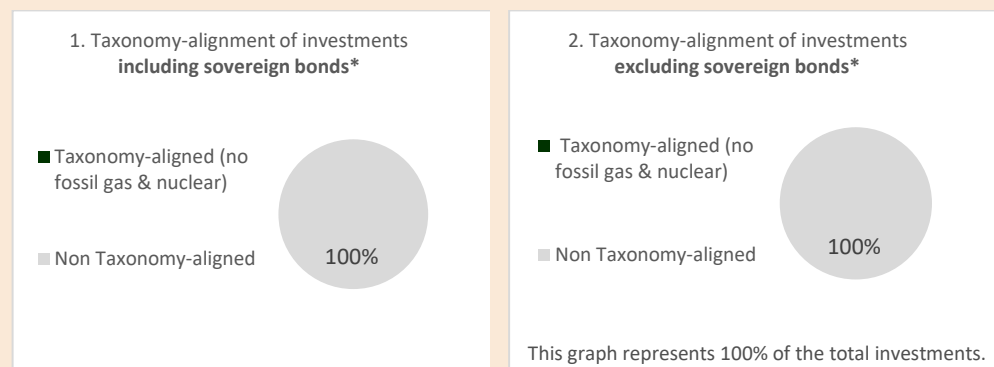
Derivatives are only used to manage currency exchange risk. Some investees, in particular financial institutions, require local currency financing to finance their SME portfolio. Derivatives therefore contribute to providing adequate local financing to local investees.



To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

N/A - DGGF's investments only promote E/S characteristics and do not meet the definition of sustainable investment.

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.*



* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.

- Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy⁸?

☐

Yes:

☐

In fossil gas

☐

In nuclear energy

☒

No

- **What is the minimum share of investments in transitional and enabling activities?**

The minimum share of investments in transitional and enabling activities is 0%.



are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.



What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

N/A



What is the minimum share of socially sustainable investments?

N/A



What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?

The “#2 Other” investments includes cash and cash equivalent instruments (including cash placements and money market instruments) and derivatives which are only used to manage currency exchange and interest rate risk. DGGF does not apply minimum environmental and social safeguards to such investments as they are tools to manage currency exchange risk. It is not expected that these investments have a material environmental or social impact as they are not financing economic activities.



Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

N/A

- **How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?**

N/A

- **How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?**

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

⁸ Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do not significantly harm any EU Taxonomy objective - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

N/A

- ***How does the designated index differ from a relevant broad market index?***

N/A

- ***Where can the methodology used for the calculation of the designated index be found?***

N/A



Where can I find more product specific information online?

More product-specific information can be found on the website:

[Financing local SMEs](#) | [Finance opportunities](#) | [DGGF](#)

[DGGF ESG Policy](#)

