INDEPENDENT VERIFICATION REPORT OF ALIGNMENT WITH THE OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

Sarona Asset Management

May 12, 2023

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Introduction

Sarona Asset Management Inc (Sarona) engaged Tidal Impact Holdings LLC (Tidal Impact) to conduct an independent review and provide assurance on the alignment of Sarona's impact management system, process, and policies with the Operating Principles for Impact Management.

Tidal Impact is a global impact management and investment firm catalyzing companies driven by social and environmental performance. Tidal Impact, through its advisory practice, supports clients with a suite of services including environmental, social, and governance management in addition to impact measurement and assessment.

Tidal Impact's assessment for this engagement included:

- Reviewing Sarona's Impact Principles statement.
- Reviewing Sarona's impact management policies, practices, and systems against the requirements of each principle.
- Conducting interviews with key stakeholders at Sarona responsible for structuring, managing, and implementing impact policies and systems.

This verification letter assesses each principle on a scale ranging from 1 to 3, as outlined below:

- A rating of 1 indicates that the principle has been addressed comprehensively.
- A rating of 2 indicates that the principle has been mostly addressed, with some room for improvement.
- A rating of 3 indicates that the principle has not been addressed well and needs further improvement.

Areas of Strength:

- **Principle 1:** Sarona clearly articulates its impact objectives as part of its investment strategy, effectively highlighting how these objectives align with the Sustainable Development Goals (SDGs).
- **Principle 2:** Sarona identifies clear ESG metrics to diligently monitor the performance of its portfolio. These metrics are transparently and publicly communicated to stakeholders through the annual Values Report.
- **Principle 4:** Sarona adopts transparent processes for gathering and monitoring impact metrics. These processes are guided by robust policies and frameworks such as the Environmental, Social, Governance, and Impact (ESGI) policy and the Social and Environmental Management System (SEMS).
- **Principle 5:** Sarona collaborates with local investment partners who adhere to the risk categories established by the International Finance Corporation. These partners consistently report back to Sarona on an annual basis.
- **Principle 6:** Sarona places a strong emphasis on effective communication and maintains open dialogue and transparency with both its portfolio managers and its investors. Clear communication procedures are in place to foster a collaborative and informed environment.

Areas of Improvement:

- **Principle 2:** Provide further explanation regarding staff incentive systems. While incentive systems do exist, they are not communicated well enough in the statement.
- **Principle 4:** Further explain the intended impact outcomes through examples and scenarios.

- **Principle 5:** Further elaborate on practices aimed at engaging the portfolio in improving its ESG performance as well as address any negative impact that has occurred or may arise.
- **Principle 7:** Reiterate that Sarona has limited control in the exit process due to its fund-of-funds structure. Sarona can further explain how it addresses this limitation by providing examples of engagements where Sarona inquiries about impact considerations upon exit, and how it encourages fund managers to embed consideration of the impact on all stakeholders as they consider exit scenarios.

Conclusion of the Assessment

In conclusion, and based on the assessment conducted, nothing comes to our attention that causes us to believe that Sarona has not aligned with the Impact Principles. A detailed assessment of each principle is available on the following page.

Dima Alashram

Cofounder & Chief Impact Officer

Tidal Impact Holdings

May 12, 2023

Detailed Assessment

Principle 1

Requirement: 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.

Areas of Strengths:

- Sarona effectively highlights its impact objectives, which encompass key areas such as employment creation, women's empowerment, environmental improvement, governance enhancement, and the development of sustainable communities.
- The alignment of Sarona's impact objectives with specific SDGs is clear. Sarona also highlights the different organizations that are supporting its portfolio's assessment to constantly improve the impact strategy and achieve its objective.
- Sarona clearly explains the link between its impact objectives and investments in global growth markets, where it "seeks to achieve superior returns by creating world-class companies and employing highly progressive business strategies that improve lives and communities".

Areas for Improvement:

- The structure of this principle could be improved to provide a clearer understanding of how different frameworks support Sarona in setting its impact objectives. The current arrangement may lead to some confusion among stakeholders as similar information appears in different paragraphs.

Area	Explanation	Rating
Overall Alignment		1
1.1. Strategic Alignment	The impact investor should articulate how the impact objectives align with the overall strategy of the organization or fund, and how they support the mission and values of the organization.	1
1.2. Targeted Impact	The impact investor should identify and prioritize the social or environmental outcomes they seek to achieve, and clearly define the intended beneficiaries.	1
1.3. Aligned with the SDGs	The impact investor should highlight how its investment is aligned with the SDGs	1
1.4. Contribution Analysis	The impact investor should analyze and report on the extent to which their activities contributed to achieving the intended impact, considering the activities of other stakeholders and the broader context.	2

1.5. Continual Improvement	The impact investor should continually review and refine their impact objectives, targets, and measurement methodologies to improve impact performance over time.	2

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.

Areas of Strengths:

- Sarona highlights the use of ESG metrics to monitor and evaluate the performance of its portfolio. Sarona effectively explains how IRIS metrics are utilized to assess impact.
- The publication of the annual Values Report that is shared with investors, and the Environmental, Social, Governance, and Impact (ESGI) Policy, demonstrates Sarona's robust approach to embedding transparency throughout the data collection process, starting at the due diligence phase and throughout the holding period.

Areas for Improvement:

- Provide further explanation regarding staff incentive systems. While incentive systems do exist, they are not communicated well enough in the statement.

Area	Explanation	Rating
Overall Alignment		1
2.1. Identification	The impact investor should identify and assess potential negative impacts that their investments may have on the environment, society, or stakeholders, including those that may be unintended or indirect.	2
2.2. Mitigation	The impact investor should have strategies and processes in place to mitigate and manage negative impacts and take action to address any negative impacts that occur.	2
2.3. Monitoring and Reporting	The impact investor should monitor and report on negative impacts and disclose how they are managed and mitigated.	1
2.4. Accountability	The impact investor should be accountable to stakeholders for the negative impacts of their investments and the effectiveness of their mitigation strategies.	1
2.5. Employees incentives	The impact investor should put in place a staff incentives plan designed to create impact.	1

Principle 7

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.

Areas of Strengths:

- Sarona does a good job communicating its impact. In addition to the annual Values Report, Sarona plays an active role in sharing its progress among industry-related networks and membership organizations such as the Canada Forum for Impact Investing and Development (CAFIID), IFC, and Convergence.

Areas for Improvement:

- Further communicate the challenges of measuring contribution to impact as a fund of funds, and what practices are introduced to overcome these limitations whenever possible.

Area	Explanation	Rating
Overall Alignment		1
3.1. Impact Strategy	The impact investor should have a clearly defined impact strategy that sets out how impact is integrated throughout the investment lifecycle, from deal sourcing and selection to exit.	1
3.2. Investment Selection	The impact investor should use impact criteria to screen potential investments and prioritize investments that are likely to generate positive social or environmental outcomes.	1
3.3. Structuring	The impact investor should structure investments to maximize positive impact, while minimizing negative impact, and negotiate impact-related terms with investees.	1
3.4. Managing	The impact investor should actively manage their investments to maximize impact performance, including setting impact targets, monitoring impact performance, and providing strategic and operational support to investees.	1

Principle 8

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 (RMF) 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 to 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 practices.

Areas of Strengths:

- Across the Impact Principles and Principle 4, Sarona provides a clear articulation of its intended impact, encompassing Sarona's five principles, as well as the beneficiaries who experience the intended impact. These details are highlighted within various frameworks and practices including the ESGI policy, the Joint Impact Indicators (JII), and IRIS metrics.

Areas for Improvement:

- The document currently presents 29 IRIS metrics in one section and 22 metrics in another section. Consider unifying the number to avoid confusion.
- Further articulate how Sarona assesses the expected impact of its investments. While gathering various ESG metrics is helpful, Sarona could further explain how the long-term impact outcome of each investment is determined and how the risk of not achieving the expected impact is mitigated.

Area	Explanation	Rating
Overall Alignment		2
4.1. Clear articulation of the intended impact (What)	The impact investor should have a results measurement framework (RMF) that aims to explain what the intended impact is.	1
4.2. Clear articulation of the beneficiaries (Who)	The impact investor should have a results measurement framework (RMF) that aims to explain who the beneficiaries of the intended impact are.	1
4.3. Significance of this impact (for a target beneficiary group in question) (How much)	The impact investor should have a results measurement framework (RMF) that aims to explain how much beneficiaries are part of the intended impact.	3
4.4. Risk of not achieving the intended impact	The impact investor should use processes to understand the likelihood of the intended impact and potential negative risks.	2

4.5. Assessed opportunities to grow impact further	The impact investor should assess opportunities to grow impact further.	3

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.

Areas of Strengths:

- Sarona maintains an ESG risk register that is updated regularly, enabling effective management of ESG risks associated with investments. The IFC ESG risk categories are well utilized by local investment partners, demonstrating alignment with industry best practices.

Areas for Improvement:

- Sarona mentions following up with local investment partners to prevent the recurrence of ESG risks. Highlighting specific strategies or actions taken, accompanied by an example, would provide a clearer understanding of Sarona's role in mitigating ESG risks.

Area	Explanation	Rating
Overall Alignment		2
5.1. Assessment	How does the investor assess and document the ESG risks of each investment.	1
5.2. Collaboration	The impact investor should collaborate with the investee to take actions to address potential gaps	3
5.2. Monitoring	The impact investor should seek to achieve regular monitoring and reporting to assess any potential negative ESG risk.	1

Principle

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.

Areas of Strengths:

- Sarona implements a results framework utilizing IRIS metrics that are shared with its portfolio through an impact questionnaire. The collected data is then analyzed and reported to investors via the Values Report.

Areas for Improvement:

- Provide a clearer explanation of what happens when an investment is longer expected to achieve its intended impact. While it is mentioned that local investment partners collaborate with Sarona to improve their ESG, gender, and impact policies and processes in line with initial expectations, it would be beneficial to further emphasize the proactive measures taken when the intended impact is not achieved.

Area	Explanation	Rating
Overall Alignment		2
6.1. Monitoring	The impact investor should monitor the impact progress of each company in comparison to the expected impact that was set.	1
6.2. Monitoring Process & Reporting	The impact investor should monitor the progress by using a predefined process and sharing the performance data with the investee.	1
6.3. Actions Taken when Intended Impact not Met	The impact investor should seek to pursue appropriate action when the expected impact is not met.	3

Principle

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.

Areas of Strengths:

- Sarona demonstrates a focus on the exit process, ensuring that it adheres to passing Know Your Customer (KYC) and Anti-Money Laundering (AML) checks. Close monitoring of the exit process reflects Sarona's commitment to creating value for the company as well as its stakeholders.

Areas for Improvement:

- Reiterate that Sarona has limited control in the exit process due to its fund-of-funds structure. Sarona can further explain how it addresses this limitation by providing examples of engagements where Sarona inquiries about impact considerations upon exit, and how it encourages fund managers to embed consideration of the impact on all stakeholders as they consider exit scenarios.

Area	Explanation	Rating
Overall Alignment		3
7.1. Exit Strategy	The impact investor should have an exit strategy in place highlighting how to assess which negative impact could lead to an exit.	2
7.2. Effect of timing, structure, and process of an exit on sustaining impact created	The impact investor should explain in which timeline, structure, and process an exit occurs.	3

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.

Areas of Strengths:

- Sarona has established strategic partnerships with organizations such as B Lab, the UN PRI, and ImpactAssets. These partnerships aim to enhance Sarona's impact management systems and reporting and ensure they are up to date with global best practices.

- Sarona effectively compares expected impact and actual impact in several areas. This includes enhancing economic opportunities and quality of life for local communities, building institutional capacity and achieving scale, and increasing the probability of meeting the SDGs.

Areas for Improvement:

- Explain how the findings derived from impact evaluations help improve investment decisions. A high-level example highlighting a specific investment scenario and demonstrating the practical application of impact evaluation findings would provide valuable insights.

Area	Explanation	Rating
Overall Alignment		2
8.1. Revision	The impact investor should review the impact performance of each investment.	1
8.2. Comparison	The impact investor should compare the expected impact and the actual impact.	2
8.3. Strategic Investment Decisions	The impact investor should use the findings of actual impact and positive and negative risks to improve strategic investment decisions.	3

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.

Areas of Strengths:

- Sarona publishes an annual Impact Principles Disclosure Statement, showcasing its commitment to transparency and accountability in adhering to the Principles. Sarona proactively seeks independent verification of its alignment with the Principles by engaging an independent third party to conduct a verification.

Areas for Improvement:

- No areas of improvement are identified for this principle.

Area	Explanation	Rating
Overall Alignment		1
9.1. Statement detailing the process and intervals for independent verification	The impact investor should disclose its intention to undergo an independent verification in its Impact Principles Disclosure Statement	1