EU SUSTAINABLE FINANCE
DISCLOSURE REGULATION

PRINCIPAL ADVERSE IMPACT INDICATOR STATEMENT

FS Impact Finance
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Date: 30 June 2023

Principal Adverse Impacts of Investment Decisions on Sustainability Factors

Statement according to Article 4(1)(a) of Regulation (EU) 2019/2088

GLS Alternative Investments – Mikrofinanzfonds

Summary

Frankfurt School Financial Services GmbH (LEI Code: 5299001ZHZUHDAZ7ZI92) considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of Frankfurt School Financial Services GmbH.

This statement on principal adverse impacts on sustainability factors covers the reference period from 01 January to 31 December 2022.

Fund name: GLS Alternative Investments – Mikrofinanzfonds
Financial Market Participant: Frankfurt School Financial Services GmbH
Report date: 30 June 2023

Transparency of remuneration in relation to the integration of sustainability risks
Frankfurt School Financial Services GmbH considers sustainability risks as an integral part of its remuneration framework.[1] *The remuneration is generally designed to prevent managers and employees from taking excessive risks that could undermine sustainability objectives of investments and to avoid conflicts of interest with monitoring and control units. The appropriateness of both, the management's and employees' compensation system, is reviewed annually by management and the shareholder. A guiding principle for compensation of Frankfurt School Financial Services GmbH is "equal pay for equal work" to ensure fair compensation across the organization. The remuneration structure comprises both fixed and variable components, such as bonuses, with the allocation and weighting of these components taking into account the responsibilities and performance of managers and employees. Emphasis is put on the fixed remuneration components to avoid excessive dependence on variable compensation. Finally, the individual personal and professional development of employees is also taken into account.*

[1] Further details on the remuneration framework can be found here: https://www.fs-finance.com/wp-content/uploads/2021/04/Information-Sustainability-Requirements-Financial-Services.pdf

Purpose

The purpose of this statement is to provide insights into the sustainable investment objective of the financial product. This statement is not marketing material. This statement is required by law and is intended to disclose to investors how adverse impacts of investment decisions may influence sustainability objectives of the financial product.

General remarks

The primary objective of the GLS Alternative Investments- Mikrofinanzfonds (the "Fund") is to make sustainable investments in economic activities that contribute to achieving a social goal while aiming to achieve appropriate value growth considering the overall investment risk. The social goal is to enable people with limited access to financial services to participate in them. The Fund aims to promote this participation by providing reliable and demand-oriented financial services to people worldwide in those regions where limited access to such services exists. The Fund is classified as a financial product according to Article 9 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("Sustainable Finance Disclosure Regulation" or "SFDR").

Governance

The management company of the Fund is IPConcept (Luxembourg) S.A. ("Management Company"), a joint-stock company under the laws of the Grand Duchy of Luxembourg with its registered office at 4, rue Thomas Edison, L-1445 Strassen, Luxembourg. IPConcept (Luxembourg) S.A. has outsourced portfolio management to Frankfurt School Financial Services GmbH (the "Fund Manager"). Frankfurt School Financial Services GmbH is a specialised investment firm, regulated by the German Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin") and registered with the Luxemburg Commission de Surveillance du Secteur Financier ("CSSF"). In its role as portfolio manager, the Fund Manager is responsible for the preparation and disclosure of this Principal Adverse Impact (PAI) Indicator Statement.

Definition of principal adverse impacts

In the context of this statement, the term principal adverse impacts refers to potentially negative effects on sustainability factors that are caused by or directly associated with investment decisions taken for the Fund. The Fund Manager gives priority to and provides reporting on these adverse impacts of investment decisions on sustainability factors using the indicators listed further below. Where relevant, explanations on the reported data and additional context information are provided where this is required in relation to the Fund and its portfolio companies.

Data collection on principal adverse impacts

The Fund considers all mandatory adverse impacts on sustainability factors using its own collected portfolio data, publicly available market data, the expertise of its investment managers and monitoring staff as well as proxy data provided by third parties. Due to its social orientation, the Fund places focus especially on potential adverse social impacts, particularly in respect to controversial business activities. As part of the due diligence process, the fund management minimizes the risk of violating the principles of the UN Global Compact and the OECD Guidelines for Multinational Enterprises. Investments in institutions associated with controversial weapons are excluded. Aspects related to these, and other social issues, are addressed in internal questionnaires and part of the Fund Manager's wider due diligence.

The Fund Manager notes that PAI data is challenging to collect from non-EU Financial Institutions ("FIs") in general and in particular from non-EU Microfinance Institutions ("MFIs"). Since the regulatory and industry standardisation around the methodologies and tools used to perform PAI assessments is evolving and in order to serve the spirit of the Sustainable Finance Disclosure Regulation in determining the adverse impact of FIs, efforts are being made to work with the FIs and/or data providers as the case may be to calculate or estimate the exposure of the MFIs underlying portfolio for the following PAIs. Despite the reservation raised above, some FIs might be in position to report on the following PAIs as presented on a case-by-case basis. For the purpose of this report, to some extent, PAI data were retrieved on a proxy basis from the Joint Impact Model[2]. The Joint Impact Model's main methodology to estimate a company's economic and environmental impact is an input-output (I/O) modelling methodology. The Fund Manager was thereby able to calculate PAI data with the tool provided by the Joint Impact Model based on a broad set of portfolio data relating to the Fund. These may include the current value of investment, the investee company's enterprise value, revenue data or investee country sector and others.

[2] https://www.jointimpactmodel.org/

Adverse sustainability indicator		Metric	Impact 2022	Impact 2023	Explanation	Actions taken, and actions planned and targets set for the next reference period
Indicators applicable to investments in investee companies						
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Table 1						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	671 tCO2eq.	N/A	The Fund Manager uses the proxy data provided by the Joint Impact Model to estimate the GHG emissions of its investments. In case of investments made in MFIs, the estimates for Scope 3 emissions include the emissions generated by the economic activities being financed by these financial institutions to a limited extent (category 15 as per PCAF[3]). Such estimations of financed emissions are based on the gross loan portfolio of the MFI investees in relation to the overall economic sector activities of the respective country.[4] Non-productive loans (i.e. personal loans or consumer loans), have not been included in the assessment in	**Efforts are being made to increase availability and robustness of data in order to calculate or where necessary estimate GHG emissions on a more precise basis for the next reference period.**
		Scope 2 GHG emissions	1,287 tCO2eq.	N/A		
		Scope 3 GHG emissions	127,560 tCO2eq.	N/A		
		Total GHG emissions	129,519 tCO2eq.	N/A		
	2. Carbon footprint	Carbon footprint of investee companies expressed as tCO2/€million invested	740 tCO2eq./€million	N/A		
	3. GHG intensity of investee companies	GHG intensity of investee companies	4,231 tCO2eq./€million	N/A		

[3] The Partnership for Carbon Accounting Financials (PCAF) is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the greenhouse gas emissions associated with their loans and investments.

[4] In the case of Kosovo which declared independence from Serbia in 2008 but has not been fully recognized internationally by governments as well as international institutions, no country-specific sector data were available. The Fund is invested in 4 MFIs based in Kosovo where country-specific sector data for Serbia was used as reference. The Fund is furthermore invested in one MFI based in West Bank and Gaza for which case the country sector 'State of Palestine' was used.

						order not to overestimate their emissions, as no accurate proxy for those is available for the time being. Non-productive loans have a share of around 14% of the Fund's portfolio. The model selected uses the best available databases and was developed by industry experts, but estimating GHG emissions still includes a considerable amount of assumptions which limit their precision. For debt investments made in Microfinance Institutions ("MFIs"), GHG emissions, GHG Intensity and Carbon Footprint are using total assets as "enterprise value", and gross interest income as "revenues". The PAI 2 (GHG Intensity) and PAI 3 (Carbon Footprint) are weighed averages based only on the *Sustainable Investments* (as per SFDR definition) for which data is available, to avoid underestimating these ratios. Thereby it is avoided that investees with no data available are not counted with having no GHG emissions.	
	4.	Exposure to companies active in the	Share of investments in companies active	0%[5]	N/A	MFIs do not derive revenues from direct activities from the exploration, mining, extraction, production,	Efforts are being made to enhance the data availability to calculate or estimate

[5] In summary, 4 MFIs have responded to have exposures to clients active in the fossil fuel sector with 0.03% or less which can be considered negligible.

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	fossil fuel sector	in the fossil fuel sector			processing, storage, refining or distribution in the fossil fuel sector as they operate in the financial industry. Efforts are being made to calculate or estimate indirect fossil fuel exposure of the MFIs underlying portfolios. Response rate: 100% of the MFIs in the Fund's portfolio	indirect fossil fuel exposure of the MFIs underlying loan portfolios for the next reference period.
5.	Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	Share of non-renewable energy consumption: 77% Share of non-renewable energy production: 98%	N/A	MFIs are drawing energy from the national grid, thus data is retrieved from the national energy mix. Where no data on energy consumption and production could be obtained, these are sector-related average values. Where data could be obtained from portfolio companies, these are considered in the value. Response rate: 92% of the MFIs in the Fund's portfolio	Efforts are being made to increase availability and robustness of data in order to calculate or where necessary estimate MFIs renewable and non-renewable energy consumption and production on a more precise basis for the next reference period.
6.	Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	N/A	N/A	MFIs do not classify as part of a high impact climate sector given their direct activities in the financial industry.	Efforts are being made to increase availability and robustness of data in order to calculate or estimate the energy consumption intensity of the high intensity components of the MFIs underlying portfolio for the next reference period.

Biodiversity	7.	Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	0%	N/A	MFIs direct impact on biodiversity-sensitive areas can be considered negligible given the financial services operations of its direct activities. Two MFIs have confirmed to have branches in proximity to biodiversity sensitive areas. However, the potential negative impact of the activities of those branches is not considered as material due to the nature of financial services operations of MFIs. Response rate: 92% of the MFIs in the Fund's portfolio	Efforts are being made to calculate or estimate the impacts of the MFIs underlying portfolio exposure to activities located near or in biodiversity-sensitive areas. Research is being conducted to identify the best tools for mapping and matching national biodiverse-sensitive areas to portfolio activity's locations. The Fund Manager is part of an industry working group to further develop specific audit indicators to evaluate this PAI.
Water	8.	Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	N/A	N/A	MFIs generate a negligible amount of emissions to water given the nature of financial services operations of its direct activities. Data on water pollution e.g. nitrogen and phosphor emissions by crop are generally available for the agricultural sector. For financial services, existing estimates are minimal and therefore negligible in their impact even if existing in very low ranges.	The Fund Manager has currently no actions taken or planned for the next reference period in relation to this indicator.
Waste	9.	Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee	N/A	N/A	MFIs generate a negligible amount of hazardous waste given the financial services operations of its direct activities. Efforts are being made to calculate or estimate the MFIs	The Fund Manager has currently no actions taken or planned for the next reference period in relation to this indicator.

		companies per million EUR invested, expressed as a weighted average			underlying portfolio hazardous waste generation.	
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	5%[6]	N/A	Potential violations of the UN Global Compact principles and OECD Guidelines for Multinational Enterprises may range from issues related to human rights, labor practices, environmental impacts, or business ethics. However, the microfinance industry itself has always been focusing efforts to promote responsible and inclusive finance and social impact. MFIs typically prioritize ethical practices, client protection, and sustainable development and through that actively work to align their operations with international standards and guidelines. In order to verify violations of one of the above named principles, the Fund Manager asked MFIs in its portfolio a broad set of questions.	Efforts are being made to increase availability and robustness of data in order to identify potential violations of the UNGC principles or OECD Guidelines at MFI level for the next reference period. The Fund Manager is part of an industry working group to further develop specific audit indicators to evaluate this PAI.

[6] Based on a broad set of questions the Fund Manager asked MFIs in its portfolio in order to understand if there have been convictions either of the UNGC principles or OECD Guidelines, in total 3 MFIs have responded to have had convictions either in the field of violating client protection rights or being involved in competition related matters.

				Response rate: 98% of the MFIs in the Fund's portfolio	
11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	25%[7]	N/A	Especially smaller or less developed MFIs may face challenges in establishing robust compliance frameworks due to limited resources, capacity constraints, or a lack of awareness about international standards such as the UNGC principles or OECD Guidelines. Yet, many MFIs are actively working towards improving their social and environmental performance and aligning with international standards. Efforts are being made to develop compliance mechanisms, enhance transparency, and integrate sustainability practices into their operations. Response rate: 98% of the MFIs in the Fund's portfolio	Efforts are being made by the Fund Manager to better understand reasons where MFIs do not have dedicated policies in place in relation to the UNGC or OECD Guidelines in order to improve the ratio for the next reference period.
12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	20.3%	N/A	The unadjusted gender pay gap is applied to assess gender-based pay inequalities within MFIs by calculating the difference in average earnings between male and female employees, without accounting for factors such as job position,	Efforts are being made to increase availability and robustness of data regarding gender pay gap at MFI level for the next reference period. The Fund Manager is part of an industry working

[7] Based on a broad set of 10 questions on whether MFIs have policies in place amongst others on human rights, freedom of association, anti-bribery and corruption or discrimination, an average of 25% of MFIs responded to have no policies in place in single areas.

				experience, or education. A positive gender pay gap value indicates a gap favoring the remuneration of male staff, while a negative value suggests a gap in favor of female employees. Response rate: 95% of the MFIs in the Fund's portfolio	group to further develop specific audit indicators to evaluate this PAI.
13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	24%	N/A	Board gender diversity practices may vary across MFIs and can be influenced by factors such as geographical location, cultural context, organization size or regulatory requirements. Each MFI may adopt approaches that align with their specific goals, values, and operational context. Response rate: 98% of the MFIs in the Fund's portfolio	Efforts are being made to increase availability and robustness of data regarding board gender diversity at MFI level for the next reference period. The Fund Manager is part of an industry working group to further develop specific audit indicators to evaluate this PAI.
14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	N/A	N/A	The production or trade of weapons and ammunition is considered a controversial business activity and therefore handled as an exclusion criteria for the Fund. More specifically, investments are restricted in institutions that may be associated with controversial weapons such as anti-personnel mines, cluster munitions, chemical and biological weapons. These issues are addressed in internal	The Fund Manager has currently no actions taken or planned for the next reference period in relation to this indicator.

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					questionnaires prior to an investment.	

Other indicators for principal adverse impacts on sustainability factors

CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS

Table 2

CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS	6. Water usage and recycling	1. Average amount of water consumed by the investee companies (in cubic meters) per million EUR of revenue of investee companies	31.79m^3 water used on average per million EUR revenue of investees	N/A	The majority of MFIs reported data in regards to water consumed by the entity within one year whereas data on water recycling and reusage was not available. Response rate for water consumption: 98% of the MFIs in the Fund's portfolio	The Fund Manager has currently no actions taken or planned for the next reference period in relation to this indicator.
		2. Weighted average percentage of water recycled and reused by investee companies	N/A			

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

Table 3

Human Rights	9. Lack of a human rights policy	Share of investments in entities without a human rights policy	19%	N/A	The Fund Manager takes note of the fact that the overall majority of 81% of MFIs reported to have a dedicated policy on the respect and implementation of human rights in place to deal with this central aspect of social matter and another 75% of	Efforts are being made by the Fund Manager to better understand reasons where MFIs do not have dedicated human rights policies in place to improve the ratio

		MFIs reported to consider in their internal control framework human rights abuses as a risk to be protected from. Response rate: 98% of the MFIs in the Fund's portfolio	for the next reference period.

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

A detailed list of exclusion criteria has been defined for the Fund which is further aligned with the principles of the UN Global Compact. Additionally, the OECD Guidelines for Multinational Enterprises are also considered. The Fund Manager ensures compliance with the exclusion criteria through dedicated investment guidelines and the investment due diligence process. The Fund Manager has established a multi-stage review process for its investment process, which involves analyzing eligibility criteria based on the initial identification of investment opportunities. After a subsequent due diligence examination, including on-site visits, an investment proposal is prepared and presented to the investment committee for a final decision.

According to the Fund's investment guidelines, investments should not be made in institutions with controversial environmental behaviour or that can be associated with any kind of controversial business practices. Potential environmental adverse impacts are also considered through a broad list of exclusion criteria based on the data currently available. Activities such as trade or production of pesticides, trade in wildlife products, drift-net fishing, and activities that negatively impact biodiversity conservation are thereby excluded. To cover environmental, social and governance ("ESG") matters, the Fund Manager has furthermore issued a policy on its ESG agenda.[8]

Engagement policies

The Fund Manager primarily manages socially responsible investment funds as well as financing mechanisms supporting, amongst others, microfinance, small and medium sized enterprises ("SMEs"), rural and agricultural finance and energy efficiency loans for SMEs, as well as financing mechanisms in support of the United Nations' Sustainable Development Goals in the field of renewable energy and forest restoration. In line with the prevailing investment criteria for the mentioned funds, the Fund Manager is furthermore entitled to invest in other financial instruments including listed equity. In order to ensure compliance with minimum requirements of the German Stock Corporation Act ("Aktiengesetz", refer specifically to Art. 134 et seq.), the Fund Manager has implemented a Proxy Voting Policy[9] to address amongst others its potential engagement in listed companies in respect to the exercise of

[8] https://www.fs-finance.com/wp-content/uploads/2021/04/Information-Sustainability-Requirements-Financial-Services.pdf
[9] The Fund Manager's Proxy Voting Policy may be accessed under https://www.fs-finance.com/wp-content/uploads/2021/04/Proxy-Voting-Policy.pdf.

shareholder rights, monitoring material matters of portfolio companies, cooperation with other shareholders as well as managing potential conflicts of interest.

References to international standards

The Fund Manager is a signatory to the joint statement on the Client Protection Pathway ("CP Pathway") developed by the non-profit organiziations SPTF and Cerise. The CP Pathway aims to support financial service providers active in the inclusive finance industry implement client protection practices that help to avoid harming clients and protect them from the risks specific to the microfinance sector, such as the risk of over-indebtedness. As part of each due diligence process, the Fund Manager also verifies social governance and commitment to such client protection rules. With respect to addressing climate-related adverse sustainability impacts, the Fund Manager is committed to the Paris Agreement and is aligned with its goals and taking actions to support its objective. The Fund Manager is also a signatory to the Operating Principles for Impact Management ("Impact Principles"). The Impact Principles are designed to guide investors in integrating impact considerations into their investment processes and decision-making. The Impact Principles were developed by the International Finance Corporation (IFC), a member of the World Bank Group, in consultation with a range of stakeholders in the impact investing field and are now hosted by the Global Impact Investing Network ("GIIN"). The Fund Manager is a member of the GIIN which is a non-profit organization dedicated to increasing the scale and effectiveness of impact investing worldwide. The GIIN serves as a global champion for impact investing, working to mobilize a network of investors and organizations committed to making investments that generate measurable social and environmental impact alongside financial returns.

Historical comparison

The present PAI statement is the Fund Manager's first statement. A historical comparison of the reference period 01 January 2023 to 31 December 2023 with the reference period of this present statement will be published in the year 2024.

Concluding remarks

Due to the dynamic developments in the ESG and sustainability data landscape, accurately identifying principal adverse impacts of investment decisions will remain a challenge in the future. The Fund Manager will continue to collect PAI data and support measures that may improve the quality of these. Efforts are being made to support portfolio companies in collecting PAI data on their own account relating to their operations. At the same time, the Fund manager will remain to identify reliable externally provided data points that may support a robust and precise PAI reporting framework to identify adverse impacts of this financial product.

The claim of the Fund is to make sustainable investments with a social objective. Throughout the process of collecting PAI data, it became clear that data relating to environmental PAIs was to a large extent not readily available at investee level whilst availability of data relating to social PAIs was higher. At the same time, focusing on social performance data, the potential environmental adverse impacts that may come along will further be considered. This will also be supported through a tool-based due diligence and social performance audits via the tools Social Performance Indicators ("SPI")[10] and ALINUS[11] which will be systematically used by the Fund Manager going forward. This may increase available data specifically designed to satisfy SFDR reporting requirements through the dedicated "ESG Risk" tool integrated in ALINUS. In this regard, the Fund Manager is engaged in a working group with other social investors in the financial inclusion space with the target to further develop standardized methodologies and metrics for the reporting of PAI indicators in the scoring tool ALINUS.

[10] Accessible under: https://en.spi-online.org/
[11] ALINUS stands for „ALigning INvestors due-diligence and reporting with the Universal Standards". Like SPI, ALINUS is provided by the non-profit organizations SPTF and Cerise.