Template pre-contractual disclosure for the financial products referred to in Article 9, paragraphs 1 to 4a, of Regulation (EU) 2019/2088 and Article 5, first paragraph, of Regulation (EU) 2020/852

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.

Product name: Fonds Européen de Financement Solidaire II (FEFISOL II) S.A., SICAV-RAIF (the "Fund")

Legal entity identifier: LEI 984500572CACEF561E66

Sustainable investment objective

Does this financial product have a sustainable investment objective?

☒ **Yes**	☐ **No**
☐ It will make a minimum of **sustainable investments with an environmental 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
☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy	☐ 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	☐ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
	☐ with a social objective
☒ It will make a minimum of **sustainable investments with a social objective:** 75 %	☐ It promotes E/S characteristics, but **will not make any sustainable investments**

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 is the sustainable investment objective of this financial product?

For the avoidance of doubt and unless otherwise defined herein, defined terms used in this annex have the meaning ascribed to them in the Fund's Offering Document.

As mentioned under section 4. "Investment Mission, Objective and Strategy" of the Offering Document The Fund's objectives are:

- The financing and strengthening of African Microfinance Institutions (MFIs) that contribute to the continent's socially sustainable economic growth, by providing a range of inclusive, client tailored and responsible products adapted to the needs of both vulnerable populations and small enterprises; targeting in particular rural populations and agricultural businesses, in order to reduce poverty and generate employment.

- ⇨ The financing and strengthening of African Agricultural Entities (AE), engaged in the production and/or processing and sale of agricultural products, sourcing the majority of their raw materials from smallholder farmers, targeting the local, regional and international premium markets and committed to implementing sustainable agricultural practices, in order to strengthen agricultural value chains, create employment in rural areas, increase local value added and reduce vulnerability to climate change.

The Sub-Fund has not designated a reference benchmark for the purpose of attaining the sustainable investment objective.

Sustainability indicators measure how the sustainable objectives of this financial product are attained.

- ***What sustainability indicators are used to measure the attainment of the sustainable investment objective of this financial product?***

Indicators used for agricultural entities (AE) are:

- Number of AE financed;
- AE retentation rate;
- Number of suppliers that have sold to the AE;
- % of women among suppliers;
- % of women among staff;
- Value of agricultural raw material purchased by AEs;
- Equity of AEs;
- Permanent employees of AEs;
- Number of seasonal staff of AEs;
- Sales for local consumption markets;
- Value of sales : certified organic, certified fair trade;
- Number of AE having received TA;
- Number of AE that have carried out training sessions for their suppliers on improved sustainable agricultural practices;
- Number of farmer-suppliers implementing improved sustainable agricultural practices (estimate through field surveys/ implementation agro-ecological grid).

Indicators used for microfinance institutions (MFIs) are:

- Number of MFIs financed;
- MFI retention rate;
- Number of active clients & active depositors;
- % of women client beneficiaries;
- % of women among staff;
- MFIs having improved their ALINUS score/obtained CPP certification;
- Number of points of sale;

- Number of MFIs with partially or fully digitalized operations;
- Number of clients;
- Number of employees;
- % of MFIs that finance the agricultural sector.

- ***How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective?***

In pursuing its sustainable objective, the Fund has adopted specific procedures to do no significant harm to any area of environmental or social concern. Toward that end, the Fund has implemented and maintains a specific S&E management system that enables the Coordinator to identify, access and manage the social and environmental risks in respect of the Fund in accordance with the S&E Requirements, i.e. the social and environmental obligations to be undertaken by Target Entities to ensure compliance with: (i) the Exclusion List; (ii) applicable S&E Laws; and (iii) any other requirements established by the S&E Man-agement System.

Detailed information and list of eligibility criteria are provided under section 4.3 “Investment Strategy” of the Offering Document and section 5.2 “Minimum Eligibility Criteria” of the Investment Policy and Procedures Document. In addition to those criteria, and as mentioned under section 4.6 “Social and Environmental Matters” of the Offering Document, The Fund’s transactions shall only be concluded with reference to the following terms and conditions:

- the Target Entities shall comply with all applicable laws (including S&E Laws) and regulations, as well as relevant S&E Requirements, especially in the area of financial services and consumer protection;

- S&E risks of Target Entities will be compliant with the terms of the S&E Policy and Procedures Document;

- the Target Entities (MFIs) shall provide their customers (final beneficiaries) with clear and comprehensive information on the characteristics of the financial services the customers seek, in a way easily understandable for the customer;

- the Target Entities (agricultural entities) shall provide their providers (smallholder farmers) with clear and comprehensive information on the price and other necessary information on the goods bought to them;

- the Target Entities (agricultural entities) shall encourage their providers to adopt sustainable agricultural practices;

- the Target Entities shall disclose all the S&E information required by the Fund both at pre-selection and due diligence stage, once the investment is approved on a regular basis and as regularly as requested by the Fund. This will allow the Fund to closely monitor the Target Entities performance including their social and environmental performance, and their impact.:

- the agreements entered into between the Target Entities and their customers shall contain such information and shall be drafted in a manner that the relevant customer is able to understand their content;

- the Target Entities shall review the customer’s repayment capacity before signing a loan agreement and shall refrain from any form of unfair or harmful debt collection practices; and

- the Coordinator shall encourage the Target Entities to obtain a social rating from any of the established microfinance rating companies or a social audit at a mutually agreeable time and to provide the results of such rating to the Shareholders;

Also, the Fund applies a strict Exclusion List detailed under Annex I of the Offering Document

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.

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

Investment and analysis tools (mainly the due diligence form and the S&E risks analysis tool) used by the Fund's team cover the 14 PAI.

- PAI on greenhouse gas emissions: the due diligence template and the S&E risk analysis tool take into account GHG emissions and energy consumption.
- PAI on biodiversity: the S&E risk analysis tool allows to monitor if the target entity is close to a biodiversity sensitive area.
- PAI on water: the due diligence template and the S&E risk analysis tool cover the use of water and water pollution.
- PAI on waste: the exclusion list does not allow the Fund to invest in target entities producing hazardous waste and radioactive waste.
- PAI on social and employee matters: the due diligence template, the S&E risk analysis tool and the ALINUS cover these topics as to ensure that target entities are compliant with the general principles cited. A thorough analysis is made on gender issues.

In addition, the Fund takes into account two other PAIs:

- Rate of accidents: working accidents are analysed during the Due diligence process via the S&E risk analysis tool;
- Incidents of child labour: child labour is analysed during the Due diligence process via the S&E risk analysis tool.

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

The Fund's investments are aligned with both sectors' best practices. ALINUS is a complete social audit tool aiming at evaluating an MFI's social and environmental performance (HR practices, product pricing, governance) and includes indicators related to international conventions (declaration of HR, ILO…). All MFIs are screened via this ALINUS tool. ALINUS tool is aligned with OECD MNE and the UN Global Compact. EAs are analysed via internal tool developed according to the sector's best practices, notably FAO standards.

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

☒ Yes

Please refer to the information inserted under question "How have the indicators for adverse impacts on sustainability factors been taken into account?" above.

The information to be disclosed on principal adverse impacts on sustainability factors pursuant to Article 11(2) of Regulation (EU) 2019/2088, is available in the Fund's periodic publications.

☐ No

What investment strategy does this financial product follow?

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

The Fund provides financial services to Microfinance Institutions and Agricultural Entities in Africa. Its portfolio targets are: >75% of gross loan portfolio (GLP) invested in ACP Countries, 50-75% of its GLP invested in countries with low HDI and high climate vulnerability, max 25% of its GLP invested in North Africa and 70 to 80% invested in local currency. The Fund aims at reaching rural entities (both MFIs and AEs), which should represent at least 55% of total target entities financed. The Fund will focus on small (Tier 2 and Tier 3 MFIs), that will represent at least 85% of microfinance GLP. AE's should not represent more than 30% of the Fund's GLP. In total, over the 12 years of the fund, the Fund aims at financing between 100 to 130 clients. The Fund will be providing financial support to the Target Entities through a range of debt instruments as detailed in the Investments Policy and Procedures Document. Eligilbity criteria for both MFIs and AEs are detailed in the legal documentation of the Fund.

The Advisors are responsible for deal sourcing the number and profile of Target Entities in accordance with procedures laid down in the Investment Policy and Procedures Document and the Fund's financial projections. Each Advisor is in charge of sourcing fifty percent of the Fund's yearly projected disbursements and end of the year gross outstanding portfolio. The Fund's African countries or sub regions of intervention are allocated to each Advisor by the Coordinator, taking into account their respective comparative advantages and the investment officers profiles. In some cases and depending on the size of a country and logistical considerations, such allocation is made by sub region rather than by country.

– For each potential investment, a pre-selection proposal ("Pre-selection") is prepared by the investment officers of the Advisors. It is reviewed by the Coordinator and then presented to the Investments Committee for review, approval or rejection. Upon approval of the Pre-selection, the Advisors can proceed to carry out a complete due-diligence process (the "Complete Due-Diligence"). The Complete Due Diligence report prepared by the Advisors following a site visit, is reviewed by the Coordinator who provides feedback and prepares a Target Entity and proposed investment risk review and financial structuring advice report. This report is discussed with the AIFM risk manager before submitting it to the Investment Committee for review, approval or rejection. The Investment Committee approves or rejects the proposed Investments. It confirms the investment type, amount, repayment schedule and conditions. It can also set pre-conditions to be fulfilled prior to disbursement. Major points of discussion leading to the Investment decision and the terms of the loan are recorded in Investment Committee minutes.

- ***What are the binding elements of the investment strategy used to select the investments to attain the sustainable investment objective?***

The investment strategy is based on a thorough and detailed deal analysis process (see above) and a strict list of eligibility criteria, also detailed in the Fund's offering document.

The eligibility criteria for agricultural entities are:

- Legal set up: formal legal entity incorporated in an African country and authorized to carry out its activities;
- Production and/or processing and sale of agricultural products whose principal raw materials are sourced locally or regionally;
- For an AE without previous credit history with FEFISOL or one of the Founders: two years of experience required in the activity to be financed;
- The AE does not produce a product listed in FEFISOL's exclusion list;
- Value of agricultural products sourced from smallholder farmers>60%;
- Number of smallholder farmers that supply raw materials to the AE>150;
- Last year sales or average over the last three years (select the most appropriate) > 300 000 EUR;
- Sales on local, regional or export markets, providing a sufficiently high gross margin, that enables the AE to finance part of its working capital needs by borrowing. These high value added market segments include those of: high quality, processed or certified goods);
- Existence of well identified commercial outlets and high sales probability (past track record or purchase contracts);
- Ratio of net results after grants on total sales (the last year or average over the last three years as most appropriate): -10%≤x≤10% and if ≤ 0%, positive trend;
- Staff having an operational decision-making capacity >1;
- Non-seasonal staff in charge of operations and finance ≥3;
- Percentage of upper and middle management staff of African nationality >50%;
- Number of years for which financial accounts are available ≥2;
- Total equity value (including quasi-equity) before disbursement >0.

The eligibility criteria for microfinance institutions are:

- Formal legal entity incorporated in an African country and authorized to carry out its activities;
- The MFI finances economically and socially vulnerable populations and/or rural populations and/or populations living in high insecurity areas AND/OR micro and small enterprises including those of the agricultural sector;
- Max consumption loans <15% of GLP;
- Number of years of experience in microfinance >24 months;
- Number of active clients (active borrowers or depositors whichever is the highest) ≥ 2000
- For MFIs having more than 7 years of financing experience: net result before grants on total assets (on average over the last three years), 10%≤x≥0%;
- For MFIs having less than 7 years of financing experience: net result before grants on total assets (on average over the last three years): -10%≤x≤10% and if ≤ 0% positive trend;
- PAR 30 (including restructured) plus write-offs : - on average over the last three years and - if more than 10% but less than 25% type of trend: 15%≤ and if 10%≤x≤25% positive trend;
- Percentage of members of the top management team of African nationality >50%;
- Number of years for which audited financial statements are available ≥2;
- Total equity value (including quasi-equity) before disbursement >0.

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

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

As mentioned, the Fund's uses ALINUS to screen its prospects, which include a section on governance. This screening is complemented by a thorough systematic analysis done by the investment officer during the due diligence and includes both a risk mark and a qualitative assessment. For AEs, the Fund's uses the sector's best practices to assess governance practices: a complete section is dedicated to this issue in the due diligence template.

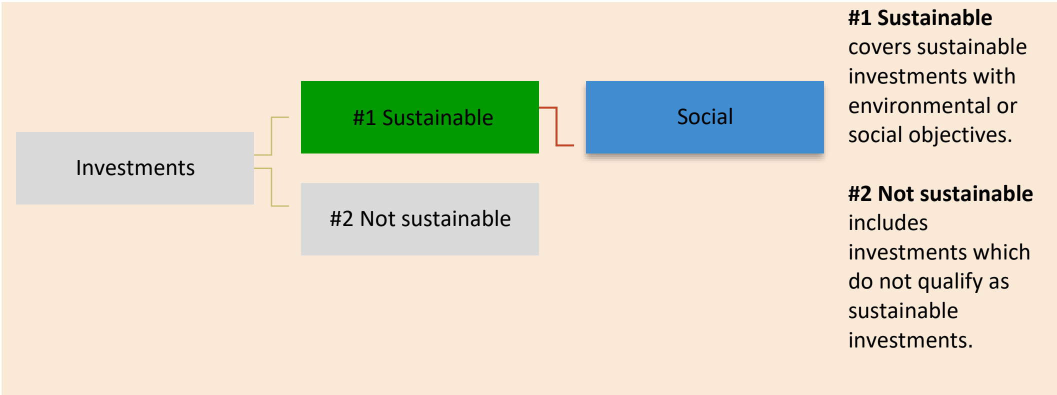
What is the asset allocation and the minimum share of sustainable investments?

Asset allocation describes the share of investments in specific assets.

The Fund will not make investment that are not fitting its investment strategy and consequently, the Fund commits to invest 75% of its assets in investments considered as sustainable under the SFDR (#1 Sustainable).

100% of the sustainable investments of the Fund (#1 Sustainable) have social objectives.

The Fund is only allowed to keep up to 25 % of its assets in liquidity to ensure the right level of liquidity (#2 Not sustainable). The Fund uses hedging mechanisms, which are non-sustainable investments under the SFDR.



- ***How does the use of derivatives attain the sustainable investment objective?***

N/A

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

As mentioned before, the Fund's objectives are 100% social (financial inclusion and value chain strengthening). In addition, the Fund aims at contributing to the reduction of AEs' vulnerability to climate change and supporting their practices towards more sustainable agricultural practices. As the Fund's portfolio is invested in socially sustainable businesses, its targets are not aligned with the current EU environmental taxonomy.

- **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy[1]?**

☐ Yes:

☐ In fossil gas ☐ In nuclear energy

☒ No

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

[1] 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.

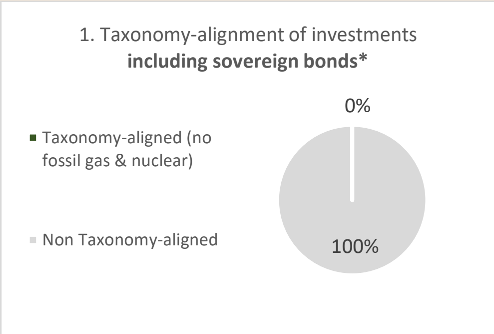
Taxonomy-aligned activities are expressed as a share of:
- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

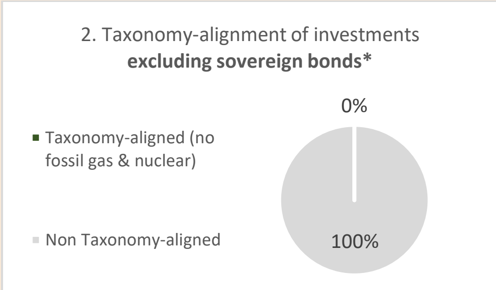
To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

Transitional activities are activities for which low-carbon alternatives are not yet available ad among others have greenhouse gas product attains the sustainable

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.





This graph represents 100% of the total investments

**For the purpose of these graphs, ‘sovereign bonds’ consist of all sovereign exposures*

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

N/A given the social objective of the Fund

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

N/A given the social objective of the Fund

What is the minimum share of sustainable investments with a social objective?

As mentioned above, 100% of the sustainable investments made by the Fund have a social objective.

What investments are included under “#2 Not sustainable”, what is their purpose and are there any minimum environmental or social safeguards?

The Fund is allowed to keep up to 25 % of its assets in liquidity to ensure the right level of liquidity (#2 Not sustainable). The Fund uses hedging mechanisms, which are non-sustainable investments under the SFDR.

While these non-sustainable investments may not contribute to a social objective within the meaning of the SFDR, the Fund aims to ensure a minimum level of minimum environmental and social safeguards. As such, the investments which are not sustainable investments are not expected to affect the delivery of the Fund’s overarching sustainable investment objective.

Is a specific index designated as a reference benchmark to meet the sustainable investment objective?

N/A

Where can I find more product specific information online?

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

https://www.inpulse.coop/