IMPACT FINANCE

Quarterly Report Q4 2023

Striking the positive balance

Dear Reader,

Let's begin with the good news. Against many odds, the global recession that many forecasted in the past two years did not happen. The global economy has shown a surprising resilience with one challenge after another: the pandemic, the war in Ukraine, global inflation, and rising interest rates.

Consequently, financial markets are showing renewed optimism. This has created a more challenging fundraising environment for impact investing, as investors seem to associate it with lower profits. Yet, in the long-term horizon investing in extractive business models is unsustainable, as the end costs are just too high to ignore. The health of the global economy relies on thriving natural ecosystems and societies. Neglecting these realities not only harms the planet but also investors' profits in the long run.

Currently, only 7.2% of the global economy is circular, the Circular Economy Gap reported. This staggeringly low figure means the remaining 92.8% of raw materials extracted from our planet go to waste or is not reused. To sustain human life on earth, we must take less from nature and act to regenerate our planet.

To us, impact investing not only contributes to reversing the damages done to our planet, but it also secures a sustainable positive return for investors. At Impact Finance, we aim to strike the right positive balance for all our stakeholders, where financial returns matter as much as positive returns for nature and humans.

Moreover, impact investing through private credit instruments can act as a hedge against downside risks, as it does not depend entirely on traditional financial market movements. For instance, in 2022, while the traditional 60-40 portfolio had its worst year since 1937 (losing over 14%), the fund returned a net positive of 3.86%.

For 2024, with existing investable pipelines, we aim to achieve a net return target of 5.5%-6% for our investors. For comparison, a good return of an 80-20 fixed income portfolio (80% Investment Grade and 20% High Yield) is expected to be around 4.5%-5.5%, aligned with invested cash.

On the institutional level, in 2023, we have strengthened our team and methodology with renewed risk, analysis, and reporting capabilities. In the last four months of the year, these efforts were rewarded by an increased and stable return aligned with rising interest rates. Also, we changed our Private Placement Memorandum in December to allow for the creation of distribution share class, which are more favorable to some of our investors.

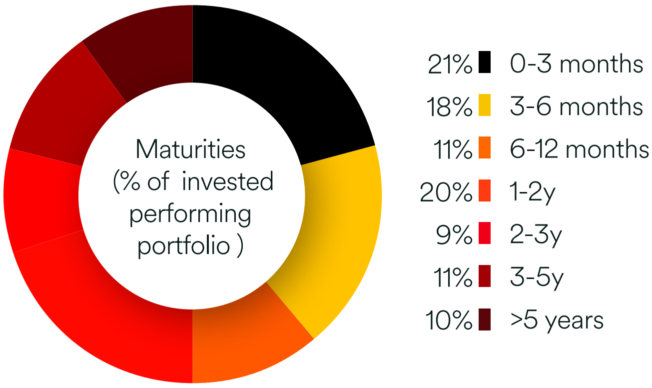
Sincerely,

Benjamin Firmenich & Cédric Lombard
Executive Directors

	Fund Volume USD (AUM) 73,389,544		Invested Portfolio USD 61,775,423 (84% of AUM)	Junior share class USD 3,144,746 (4% of AUM)	
Share class	USD-I	USD	CHF-I	CHF	EUR
Quarterly return	1.29%	1.15%	0.35%	0.12%	0.77%
Year to date 2023	4.51%	3.98%	0.68%	-0.10%	1.91%
Value	1,274.87	1,249.83	1,034.04	1,010.97	1,080.72
Total expense ratio	2.26%	3.06%	2.27%	3.07%	3.07%
ISIN	LU1971694861	LU0655964822	LU1971576316	LU0655964582	LU0655964079

Financial Performance Q4 2023

Historical performance	USD-I	USD	CHF-I	CHF	EUR
Monthly returns (Dec. 2023)	0.40%	0.35%	0.07%	0.00%	0.22%
Quarter to date	1.29%	1.15%	0.35%	0.12%	0.77%
Year to date	4.51%	3.98%	0.68%	-0.10%	1.91%
1 year	4.51%	3.98%	0.68%	-0.10%	1.91%
3 years	12.03%	10.59%	4.86%	3.22%	5.23%
Return since Q1 2019	19.06%	16.72%	6.63%	4.25%	7.08%
Return (p.a.) since Q1 2019	3.69%	3.26%	1.34%	0.87%	1.43%



- The fund (USD-I) has returned 4.51% net as of 29 December 2023.
- In the last quarter, we have renewed loans for well-known companies as they continue to demonstrate solid business growth and sound financials along with strong impact-related returns.
- By deploying more cash to grant new loans with higher interest rates, the portfolio will sustain an upward trend and further enhance the quality of its investments. In addition, our team has identified pipelines with high value and impact potential.
- The average weighted interest of new disbursements was 11.58% compared to 10.95% in the last quarter.

Key Economic data	Q3 2023	Q4 2023
Invested Portfolio (USD million)	63	62
Number of outstanding investees	34	29
Amount disbursed during the period (USD million)	6.5	16.2
Amount repaid during the period (USD million)	6.0	17.5

Key Facts Q4 2023

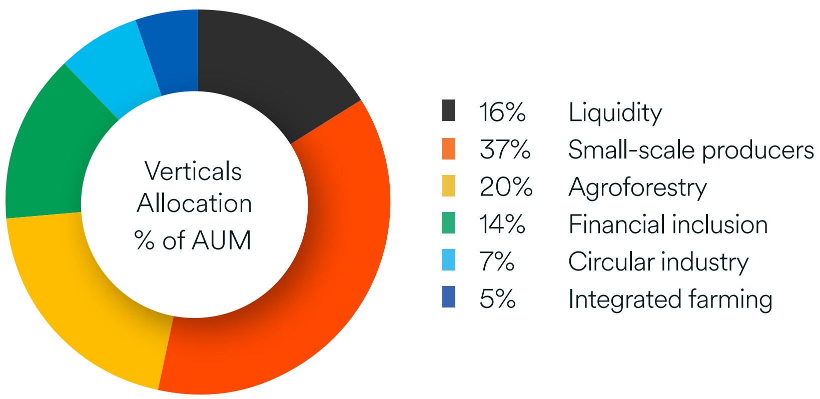
The recession might "recede" but the poverty and the social discontent after a year of inflation remain high. The companies have struggled all year long in a very elastic market, marked as well by peak temperatures in the austral winter and the northern hemisphere summer.

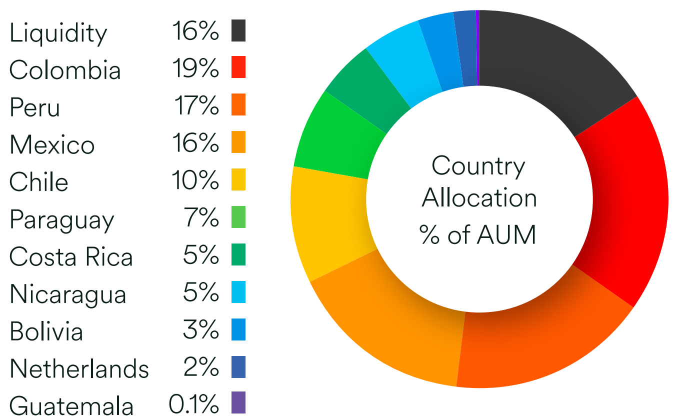
During the fourth quarter, we disbursed USD 13.6M through 20 loans to 6 companies. In December we reached our targeted average loan size with an average loan of USD 2,130,187 for 29 companies outstanding.

In the quarter we only made follow-up loans to the following sectors: avocado, artisanal and small-scale gold mines (ASGM), cocoa, organic cardamom, dried fruits, and Andean grains.

Also, the number of invested companies decreased from 34 to 29. Two companies in Paraguay repaid their working capital during the quarter and the loans shall be renewed in the first quarter of 2024.

We stopped lending to three companies: one in Bolivia, due to the political situation, the high volatility of the Brazil nuts market and a bold management of inventories; one in Peru, victim of the ruthless practices of coffee importers and of recurring governance weaknesses; and lastly one in Mexico, which was bound to redirect its business model towards classic microfinance models where we believe we do not necessarily bring added value.





Investee Snapshot

Cultivating cacao with a purpose: Meet Casa Franceschi, a Costa Rican integrated cacao sourcing company

Who doesn't love chocolate? Yet, this indulgence also has a dark side – beyond the color of your sweet treat. The chocolate industry has long been infamous for unfair labor practices, deforestation, and biodiversity loss. Most cacao worldwide is produced by approximately 6 million smallholder farmers, who must accept the low prices the industry offers them for their beans. Still, the global demand for chocolate keeps increasing, leading to the cutting of tropical rainforests for cacao plantations.

Traceability is an immense problem. Despite corporate sustainability efforts in the sector, a large share of global chocolate production is untraceable. Therefore, it is difficult for customers to know if sustainability claims are true. Luckily, some ethical chocolate brands are setting new standards for the industry with 100% traceable chocolate with a positive impact on people and the planet.

One of these companies is the Costa-Rican based, integrated cacao company Casa Franceschi, a family-owned and managed business with almost 200 years of cacao cultivating history. Their history goes back to 1830, when the Corsican adventurer Vicente Franceschi established his first cacao plantation in the Venezuelan Paria region, after discovering the exquisite native cacao varieties of this peninsula. It did not take long before Franceschi became one of the main exporters of Venezuelan specialty cacao.

Since then, the family company has kept expanding. Today, the sixth generation running Casa Franceschi sources most of their cacao from thousands of small-scale producers in Venezuela, Ecuador, and Peru, with whom they work in a close, direct relationship to ensure a real improvement of their livelihoods while caring for the environment.

"We don't just help farmers with certifications, but go a lot further than that," says Carlos Franceschi, CEO of Casa Franceschi. "Certification is a good thing, but it alone cannot lift smallholder farmers out of poverty. For that, a more integrated approach is needed. We accompany as many farmers as possible according to our values, to help them increase their productivity, improve living conditions, and change their perspective about both the present and future. Our goal is to foster an entrepreneurial spirit in them, so they want to keep improving and for their children to study and believe that their future *does* matter."

To this end, in 2011, Casa Franceschi established the San José Foundation, with various social programs in over 20 Venezuelan cacao communities. The foundation provides health facilities, repairs schools, and invests in the continued training of schoolteachers, amongst other things, in rural areas abandoned by the government.

Casa Franceschi pays its suppliers a fair price for their beans, above the local market value. Producers of specialty cacao in Venezuela and Peru receive a premium of over 15%. In Ecuador, where they collaborate with over 5,000 producers, most of whom are certified with either Rain Forest Alliance or other independent sustainable programs, they provided farmers over USD 500,000 in additional premiums above market prices in 2023. Furthermore, the company provides the suppliers with technical assistance to improve farming practices and minimize environmental impact. The company, for instance, donated a significant amount of agriculture tools.

"We help farmers to improve the soil and increase land productivity," Carlos says. "For example, by teaching them low-cost fertilizing methods, instead of just planting and harvesting. When you improve the soil, it directly impacts your production. When they see how their land transforms, farmers become more involved. They fall in love with their land."

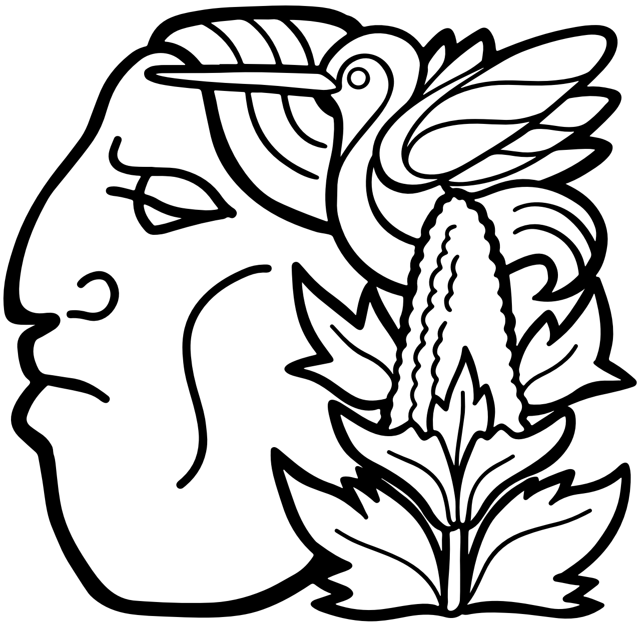
The Impact Finance loan allows Casa Franceschi to buy more cacao through their affiliated companies and thus continue improving the lives of smallholder farmers. "The loan is a great achievement for us. We are responsible socially and environmentally, yet until now, we only had financing from the traditional banking sector. Being part of an impact investment fund is more consistent with what we are."

"Certification is a good thing, but it alone cannot lift farmers out of poverty. For that, a more integrated approach is needed."

CASA FRANCESCHI
1830

Carlos Franceschi
CEO

Small-scale Producers



What

Inclusive companies working directly with small-scale producers in a win-win collaboration.

Specific impact thesis of Casa Franceschi

Casa Franceschi has a deep connection to the land and surrounding communities. The company provides its producers with technical assistance and agriculture training in addition to paying them a premium for their quality cacao.

Who

Small-scale producers

How Much

3,679

Risk Rating: BB

Based on the proprietary risk rating of Impact Finance the company has an average capacity to reach the impact objectives targeted.

Casa Franceschi

Contribution - 2023

	SDG 8 Decent work and economic growth	**Contribution**	**Target after investment (2024)**
11% sales growth in 2023 with working capital loan	Direct employees (permanent and temporary)	234	358 additional net indirect jobs created
	Net direct jobs created	2	
	Indirect employees	7,000	
	Net indirect jobs created	326	

SDG 10 Reduced inequalities	**Contribution**	**Target after investment (2024)**
Small-scale producers	3,500	3,679
Small-scale producers that receive assistance	2,800	2,943
Premium paid to farmers (USD)	1,146,627 (6.2% above local market price)	1,265,503

SDG 15 Life on land	**Contribution**	**Target after investment (2024)**
ha of plantations	20,015	1,008 additional ha
ha with organic or similar certification	4,782	

IMPACT FINANCE

Name of the fund:	Impact Finance Fund
Managing General Partner:	Impact Finance Investment, Luxembourg
Investment Advisor:	Impact Finance Management, Switzerland
Custodian:	Caceis Bank, Luxembourg Branch
Administration Agent:	Caceis Bank, Luxembourg Branch
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