Our approach to Responsible Investing

Summary

The Confluence Impact Fund invests in publicly listed companies in the non-BRIC global emerging markets with the belief that there are attractive businesses in these often-overlooked markets that can deliver compelling returns as well as a meaningful impact. In order to be considered for investment, each company must meet both commercial criteria as well as impact criteria. The latter is based on a rigorous governance filter, as well as our Impact on Money analysis (described in detail later in this document) that seeks to determine if the company is a net positive contributor to its communities, society and the environment.

The sustainable investment objective of the Fund

The Fund aims to deliver a commercially compelling market rate of return to its Shareholders, while also supporting the delivery by businesses of Net Positive Impacts on the environment and/or society in the non-BRIC Global Emerging Markets. It is expected that this delivery will be supported though: (i) the provision of capital to these businesses, both in secondary purchases of publicly listed equity, but also supporting primary issuances of equity, and (ii) active engagement with management, relevant shareholders, and other stakeholders to support the Impact delivery of these businesses.

It has a secondary objective to increase the flow of capital to Net Positive businesses operating in the non-BRIC Global Emerging Markets, through investing directly and by raising the profile of the existence of such businesses to a wider range of potential investors.

As part of the Impact on Money evaluation, consideration will be taken by the Investment Manager about whether the evaluated company 'does no significant harm' to the environment or society.

The Fund will not undertake an equity investment in any company where the Investment Manager has identified the evaluated company's activities and processes have any areas of non-compliance with the OECD Guidelines for Multinational Enterprises or the United Nations Guiding Principles on Business and Human Rights. Specific reporting pertaining to any areas of risk identified relating to any significant adverse Impacts will be disclosed in the annual Impact Report.

100% of the fund's equity assets must meet the ESG and Impact criteria to be considered for investment. At a high level, the Fund considers ESG to be the way a company conducts itself, and Impact to be the effect a company has on the community, the society and the environment.

ESG: The Investment Manager will consider a range of ESG factors in making its investment decisions. These include an assessment of corporate governance and an overall evaluation primarily using the World Economic Forum framework (detailed in the World Economic Forum Measuring Stakeholder Capitalism Report; Towards Common Metrics and Consistent

Reporting of Sustainable Value Creation, 2020). This analysis customarily includes an evaluation of the estimated Greenhouse gas (GHG) emissions of the evaluated company, as well as a qualitive assessment of its corporate governance practices. This evaluation of governance will generally consider the soundness of oversight and management structures, employee relations, remuneration of staff, and tax compliance. As the Fund will typically be a long-term investor, the Investment Manager will seek to engage with relevant stakeholders such as management teams and other shareholders around notable Impact and ESG topics to improve the reporting around, and delivery of, ESG and Impact outcomes.

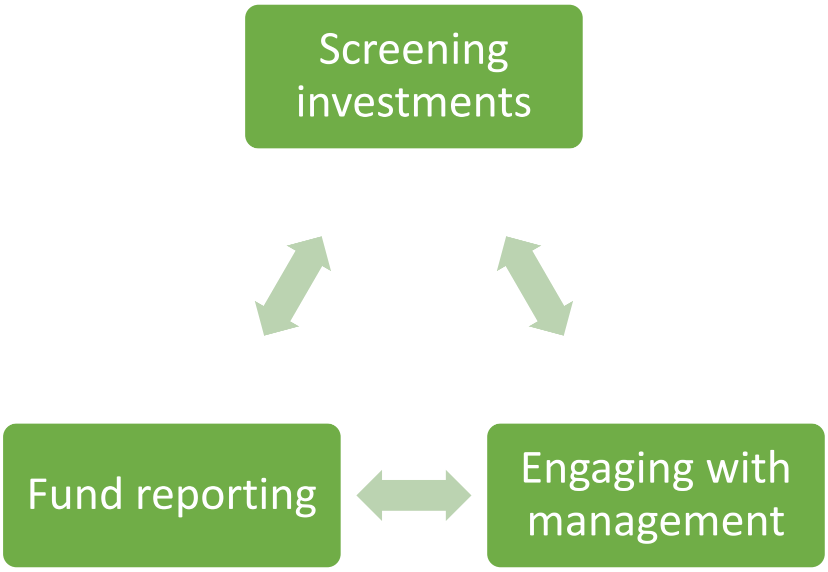
Impact: The Impact a company has is estimated using our Impact of Money analysis which is described later in this document. This framework seeks to quantify the net corporate impact in USD terms. The Fund believes that thoughtful investing of any size following its Responsible Investing Methodology, can support Net Positive businesses in its Target Markets. The Fund believes that investing in other asset classes (e.g. sovereign debt, derivatives, and cash) typically as a treasury function or risk management purposes does not detract from the delivery of the Fund's Sustainable Investing objective.

Climate Action is one of the four primary Impact themes through which the Investment Manager evaluates potential investments to be Net Positive utilizing the Impact on Money analysis. Factors which contribute to an avoidance or reduction of CO2e emissions are valued at US$ 200 per ton, and the release of CO2e, where identified, is factored in with a cost of US$ 150 per ton. This high cost is informed by the work of researchers who have sought to quantify the broader social and environmental costs resulting from climate change and attribute that on a per ton CO2e basis. An estimate of the carbon Scope 1 & Scope 2 carbon footprint of each company is made by the Impact on Money analysis. Though it is not a requirement for an investment to proceed that the company is reducing carbon emissions in addition to being Net Positive under the Impact on Money evaluation.

Notably, through the activities of the Fund, the Fund hopes to improve the depth and quality of reporting pertaining to the carbon footprint of the companies in which the Fund has equity investments. The Fund sees this as an important step to enabling their carbon emissions to be considered more deeply in the investment processes of the Fund and potentially other market participants in the future.

Investment strategy pursued to meet sustainable investment objective as well as seeking to ensure the Fund does no significant harm

Approach to Responsible Investing



The Fund's approach to responsible investing consists of three mutually reinforcing elements of screening investments, engaging with management and Fund reporting ("**Responsible Investing Approach**").

Screening Investments

All equity investments will be made from a universe of companies that have operations in the Fund's Target Markets, and which the Fund believes are positive contributors to its community, the environment and/or society. This is achieved through: i) excluding certain sectors—alcohol production, tobacco production, gambling, adult entertainment, military weapons, oil, gas or coal production and services, nuclear energy or metals and mining; ii) only investing in businesses in which the Fund has evaluated as Net Positive using the Impact on Money methodology (to be described in detail later); and iii) investing only in businesses which are evaluated to "do no significant harm" to its community, the environment and/or society according to the definitions in the EU legislation following the EU taxonomy. While we recognize this is a blunt tool and that many in these sectors are seeking to make positive improvements, for this strategy we will not invest with these businesses.

Engaging with Management

The Fund will endeavour to engage with relevant stakeholders of the companies in which it invests. Using the Impact of Money analysis to identify material topics, and work towards exploring ways of increasing that company's Net Positive Impact. The Fund also aims to engage with management around suggestions, if applicable, towards improving the quality of their ESG disclosure.

Fund Reporting

Though domiciled in Guernsey, which is not in the European Union, the Fund is opting to voluntarily follow the disclosure requirements of Sustainable Finance Disclosure Regulation (SFDR) for an Article 9 Fund. This includes producing for Shareholders an annual Impact Report containing stipulated disclosures, and making specified information available online. While this is a standard disclosure, the Fund believes that transparency and measurement are important and support the ongoing review of the Impact achievements intended. If the Fund is unable to comply with any element of the SFDR Article 9 reporting regime it will disclose this in the next published Impact Report.

Performance Fee at Risk

The Fund prepares a schedule detailing the ESG and Impact activities that it is setting out to achieve alongside its financial objectives. These are primarily focused around the initial evaluation of ESG and Impact of potential equity investments, engagement with companies in which the Fund is invested to improve positive Impact as well as mitigate negative activities, and ongoing monitoring of ESG and Impact delivery by portfolio investments. At present this is weighted: 25% external ESG factors, 50% external Impact factors, 25% internal factors.

Each year, the Fund will engage an independent Impact Auditor, to evaluate and prepare a report on the activities of the Fund and the Investment Advisor against this schedule, as well as providing a preliminary view of a performance score of the Fund and Investment Advisor between 0% and 100% ("Impact Performance Score"). This report is provided to the Investment Manager, the Directors, and the Advisory Board.

Each year, the Administrator will randomly select 2 members of the Responsible Investing Committee of the Advisory Board, for the task of scoring the Investment Advisor on its performance against these ESG and Impact factors. On the basis of the Impact Auditor report and other enquiries, the selected members will determine the final Impact Performance Score.

The Investment Manager has made a serious commitment towards supporting the Fund's objectives to achieve Impact and ESG goals, alongside financial ones. Therefore, it places 25% of any performance fee due to the Investment Manager at risk, according to assessed performance of its efforts towards delivery of these Impact and ESG goals. The Performance Score multiplied by the Performance Fees at risk determines how much of the fees at risk are delivered to the Investment Manager. For example, if the Performance score is 75%, then 75% of the 25% fees at risk will be delivered to the Investment Manager. Performance Fees not awarded (25% of the 25% fees at risk in the example above) 50% returned to the Shareholders, 50% donated to charitable causes selected by the Fund's Board of Directors.

The identity of the members of the Responsible Investing Committee selected by the Administrator for this task will not be disclosed to the Investment Advisor, the Investment Manager, or the Directors. The Investment Advisor Advisory Board members are compensated in such a way that their financial compensation is independent of the Impact Performance Score given.

Impact on Money Evaluation: Our methodology used to assess and monitor sustainable investment objective

Impact on Money is an internal methodology used to quantify, in USD equivalent terms, the estimated net value of the Impact that a company has on its community, the environment and society.

Step 1 – Identify Impact Routes. Impact on Money is a net evaluation methodology, so both positive and negative material Impacts are identified to which the evaluated company's activities contribute. Potential negative Impacts, would typically include a company's estimated carbon footprint. The potential positive Impact areas will be across one or more of the Fund's Impact Themes. Each one identified is an Impact Route.

Step 2 – For each Impact Route, quantify the relationship between the evaluated company's activities and Impacts on its community, the environment and/or society. Typically looking to academic research to evidence the scale of relationships. There may be Impact Routes where it is not practical, with methodologies or data currently available to the Investment Manager, to evaluate with sufficient rigour the scale of the relationship. In this case the Investment Manager may elect to exclude these Impact Routes from the Impact on Money analysis. Though typically an attempt should be made to consider if the Impact Route is likely to be contributing positively or negatively to the Company's Impact on its community, the environment and/or society.

Step 3 – Quantify the non-financial Impact. Using non-financial metrics, academic research or other precedent sources to quantify the estimated size of the Impact of the evaluated company's activities on the environment and society. Where possible, company data is used, if not available, then market research or independent experts are used. If none of these sources are available then the Investment Manager will make reasonable estimates. A forecast of the change of the effect of each Impact Route is made using the Investment Manager's base case forecasts of the evaluated company's activities.

Step 4 – Financial values are estimated. For each of the Impact Routes, a financial value is ascribed, by valuing the social and environmental outcomes identified. This valuation is undertaken using academic research, or on the basis of the Investment Manager's estimates if suitable academic research is not identified. These values are allocated across the SDGs. The primary Impact Themes pursued by the Fund, and their most closely associated SDGs are detailed below:

Primary Impact Themes	Most applicable United Nations sustainable development goal
Climate Action	SDG 13: Climate Action
Financial Inclusion	SDG 8: Decent work and Economic Growth SDG 10: Reduced Inequalities
Inclusive Education	SDG 4: Quality Education

Quality Healthcare	SDG 3: Good Health and Well-Being

The total Impact on Money is calculated by adding together all the positive and negative Impact Routes. If the total Impact on Money is positive, then the evaluated company is considered Net Positive.

Data Sources and Processing

Data used is generally company, government or multinational (e.g. World Bank) supplied data. Assumptions and further analysis are rooted in social, economic and environmental studies relevant to the topic being investigated for analysis, modelling and projections.

Monitoring of Sustainable Investment Objective

The Fund will not make any equity investments unless an Impact on Money analysis has been conducted, and the estimated net Impact that the company delivers is positive in US Dollar equivalent terms on the community, environment and/or society to be (i.e., that it is a Net Positive business in the view of the Investment Manager).

The Fund's compliance with this, and its engagement with company management and other stakeholders for the purpose of improving the Impact a company is estimated to be having on the community, environment and/or society, is evaluated by an Impact Auditor.

The Investment Manager revises the Impact on Money analysis for each equity investments held by the Fund at least annually. If the updated analysis concludes the evaluated company is no longer Net Positive, then the Fund will divest all of its holdings within 12 months of this conclusion being made by the Investment Manager. Details of such a situation would be disclosed in the subsequent Impact Report.

Where the Impact on Money process has identified a topic where positive Impact on the environment and/or society can be significantly enhanced, or negative Impact on environment and/or society significantly reduced for a business in which the Fund is invested in the equity –the Investment Manager will engage with the portfolio company's management, key shareholders, and other significant stakeholders to support progress towards increasing that positive Impact or mitigating negative Impact.

The Fund's efforts towards ESG & Impact Investing will be evaluated annually by an Impact Auditor. If the findings of the Impact Auditor's report and periodic discussions with the Fund's Advisory Board identify any areas for potential improved delivery of the firm's ESG & Impact objectives, these may be incorporated in full or in part, with any such changes being disclosed in the subsequent Impact Report.

The philosophy of our approach to Responsible Investing

Although rigorous and rooted in academic studies, there is significant subjectivity in using evidence based on a historical trend or trajectory to predict what might be happening in a given company. There are many complicated social and environmental issues at play, including in considering the 'net' position of a company's footprint on its community, the environment and society. Uncertainty is inevitable. Additionally, though a correlated relationship may have evidence, we may not have evidence of a causal relationship. However, we believe, a consistent approach, which is repeated annually for each investment will show 1) the approximate order of magnitude of each negative and positive Impact; 2) areas with which we can engage with management, 3) the nature of change year over year.

While the analysis is not exact, for Confluence we feel it forms a strong basis for decision-making, trend-watching and accountability; and frankly we prefer it to the alternative of not seeking to measure and quantify the Impact. We also expect that best practice will continue to evolve as the focus on Impact continues to develop. As such, we expect that our approach and frameworks will evolve too.

Confluence Investors

July 2023