



GOOD KARMA PARTNERS' DISCLOSURE STATEMENT

**Operating Principles
for Impact Management**

February 28th, 2024

Foreword from Patricia Nader



Good Karma Partners is a signatory of the Operating Principles for Impact Management (“Impact Principles”). Signatories commit to integrate impact management best practices throughout the entire investment lifecycle, from strategy, to deal sourcing and due diligence, and to exit or repayment, ensuring that lessons learned are continuously incorporated into portfolio management.

In January 2024, Good Karma Partners marked a milestone by securing funds from IDB Invest, the investment arm of the Inter-American Development Bank. Consequently, we are dedicated to adhering to IDB Invest's principles, practices, and rules of investment, portfolio management, and risk management, with a particular focus on Impact Investments.

The following Disclosure Statement hereby affirms that the investment assets included in Good Karma Partners (“Covered Assets”) are managed, since January 2020, in accordance with the Operating Principles for Impact Management. The reporting period for the purposes of this disclosure runs from 1st January 2023 to 31st December 2023. As of December 31st, 2023, the total value of assets under management in alignment with the Impact Principles is USD 84 million. This Disclosure Statement serves to fulfil Good Karma Partners’ obligations pursuant to Principle 9 of the Impact Principles.

The information contained in this Disclosure Statement has not been verified or endorsed by the Global Impact Investing Network (“the GIIN”) or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of the GIIN. The GIIN shall not be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, “Affiliate” shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.


Patricia Cordeiro Nader

Partner and Impact and ESG Director

February 28th, 2024

PRINCIPLE 1:

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.

- We have developed an Impact Management and Measurement (IMM) strategy consistent with the firm's mission to “bring together talent, resources and knowledge behind visionary solutions committed to tackling the biggest problems in the world, generating a measurable and positive impact on society without compromising on results.” This includes the definition of clear impact objectives at the portfolio and investee level, and the use of positive and measurable impact metrics.
- We are minority-stake investors, with focus on growth-stage companies with proven business models and clear room to generate cash, with a core product, or service that promotes a measurable solution to a social and/or environmental challenge. Our geographic focus is Brazil and other Latin America countries. Our investment strategy is tied to the key verticals that we have selected given the array of pressing problems and within the team's circle of competence: People Development, Healthcare Equity and Climate Action.
- By investing along the above-mentioned sectors, we aim to make a direct contribution to the achievement of 10 out of the 17 UN Sustainable Development Goals: Zero Hunger (2), Good Health and Well-Being (SDG 3), Quality Education (SDG 4), Clean Water and Sanitation (6), Decent Work and Economic Growth (SDG 8), Industry, and Innovation & Infrastructure (SDG 9), Sustainable Cities and Communities (11), Responsible Consumption and Production (SDG 12), Climate Action (SDG 13), and Life on Land (SDG 15).
- The firm's impact management system includes a four-stage process: screening, due diligence process, portfolio management and exit. Each phase will be described in the following Principles.
- For each step of the process, we have developed proprietary tools and frameworks to standardize our IMM approach.
- We invest in companies where there is a clear lockstep between generating competitive financial returns and generating impact, meaning that impact is embedded into the business model. Investing with impact creates businesses that are more resilient, more innovative, and better able to deliver societal benefits. This also makes them more valuable delivering greater value to our investors.
- Our IMM strategy was developed based on industry best practices and the region's and firm's reality, when appropriate, using the Impact Management Project (IMP) as our main guiding standard.

¹<https://impactmanagementproject.com/>

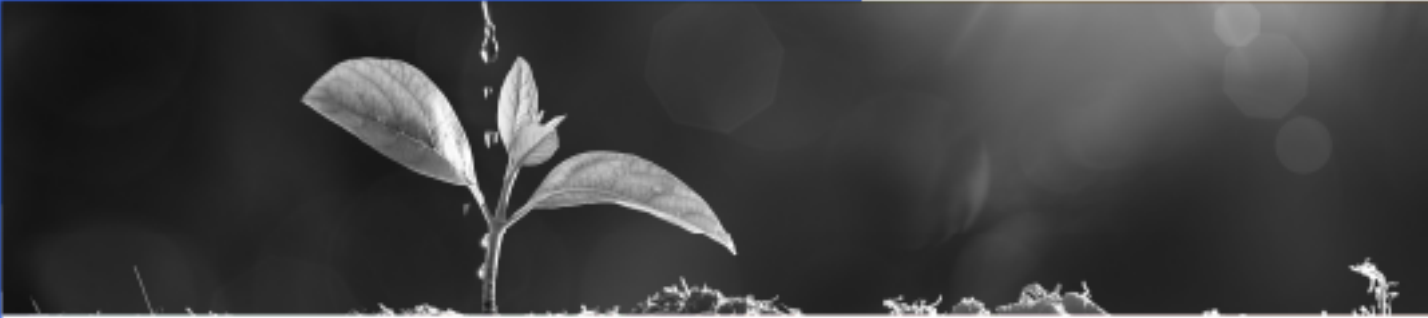
PRINCIPLE 2:

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.



- Our investment process is multi-step and includes screening, due diligence, portfolio management and exit. Given our positioning within the investment spectrum, impact and ESG are embedded throughout the process.
- We source and select investments according to our strategic framework. All investments fall within predefined sectors and themes that can be considered high-impact areas and are underlaid with clear impact objectives in alignment with priority SDGs. Impact is intrinsic to the business model and part of their core operations, products and/or services and ESG will be used as a value creation lever. For this part of the process, we have developed two screening tools:
 - i. Impact eligibility form - target must be eligible in order for the investment team to continue further analysis; and
 - ii. ESG risk categorization form - that indicates the level of risk for each target.
- During the screening process we focus on understanding the problem that the business seeks to solve and what are the macro ESG risks associated.
- During due diligence, we validate the solution potential, deep diving into the solution's ability to address the problem and the positive and negative impact on the beneficiaries and other stakeholders.

- For this part of the process, we have developed two frameworks:
 - i. ESG and impact questionnaire - based on industry's best practices, we assess the main strengths and weaknesses in the area. The answers will guide our due diligence and value creation actions plan; and
 - ii. Impact Rating Tool based on IMP's 5 dimensions - further details are explained in Principle 4.
- We kick-off our impact due diligence by conducting a Theory of Change workshop with the target company. This step of the process is crucial for us to thoroughly explore the company's impact, problems being solved, and potential risks and blind spots. The outcome of the workshop is to define the main indicators linked to the specific outputs and outcomes of the company.
- Before commencing the post-investment, and based on the above due diligence, we build together with the company the impact and ESG action plan and the set of metrics with the corresponding targets. The metrics are collected, monitored, and reviewed on a periodic and pre-defined basis. Aggregated impact performance will be sent on an annual basis to the firm's investors. To standardize the process, we have developed a set of KPIs for each of the verticals we invest in.
- After investing in a company, we ensure that impact management, measurement, and reporting are part of the portfolio management process, including thorough regular evaluation at the Portfolio Management Committee level. We have an impact team, performing the due diligence together with the investment team and assisting the companies in implementing and monitoring the impact and ESG initiatives.
- Given the relevance, part of the investment and impact's team variable compensation is aligned in achieving the impact target. This is done via our collective goals (representing 15 to 3% depending on role), where allocation above our impact threshold is a significant component.

PRINCIPLE 3:

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 channels (e.g., improving cost of capital, specific financial structuring, offering innovative finance instruments) and/or non-financial channels (e.g., active shareholder engagement, assisting with resource mobilization, providing technical advice or capacity building, helping investees meet higher operational standards). The narrative should be stated in clear terms and supported, as much as possible, by evidence.



- As a growth investor, we are well positioned as an impact investor as it allows us to have more contribution to the portfolio, given: 1) patient capital; 2) significant minority ownership; and 3) active ownership, engaging deeply with the companies' teams to drive collectively value creation. We contribute to companies through financial and non-financial pathways.
- Our value creation process is based on four areas: 1) strong and strategic insights and network; 2) business growth support to enhance scalable growth; 3) ESG and impact management and 4) risk management.
- During the due diligence phase, we evaluate the firm's additionality to the achievement of the outcome(s). We rate each outcome with IMP's "Contribution" dimension, on a scale ranging from 1 to 5, whether the impact outcome would have happened anyway without the investor.
- Additionally, our investment and impact teams conduct a thorough impact and ESG due diligences. One of the main deliverables is a customized and joint action plan integrated to the company's strategy. The plan focuses on the small number of impact and ESG issues which are potentially material, and where we can drive improvements. Each of these actions will be tied to specific metrics and deliverables and frequently reviewed.
- As previous investors, entrepreneurs, and executives, one of our main competitive advantages is our involvement with the companies pre-and post-investment. We allocate the firm's human resources (investment, impact team, and senior advisors) to assist the company in its growth process.
- As part of the commitment with IDB Invest, we will receive advisory services in climate and sustainable finance to support the Fund's sustainable strategic approach along the first investment phase. IDB Invest will support the Fund in creating a guide for the due diligence investment phase, reinforcing climate risk analysis and specific key performance indicators for climate risk & Paris Alignment. IDB Invest will also facilitate sustainable capacity building among the Fund's staff to enable knowledge sharing on sustainability and adopt climate mitigation and resilience measures.
- Additionally, the Fund will enhance its Environmental and Social Management System following the Environmental and Social Action Plan to align it with IDB Invest requirements and IFC Performance Standard 1, and implement it across the entire investment portfolio.
- We will, when relevant, conduct internal and external studies to demonstrate with strong evidence impact outcomes.

PRINCIPLE 4:

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 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 for 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 practice.

- We have developed a complete and systemic IMM Framework, using and adapting industry-wide standards throughout our investment process.
- During the screening phase our goal is to understand the impact challenge and potential. For that, we select companies within our sectors defined in the firm's strategic intent and identify the applicable UN's SDGs.
- We take measurement seriously and it's the backbone of our framework. We have developed a robust measurement system using the three most common measurement frameworks (target, rating, and monetization) to build on the strengths and attempt to mitigate against the challenges for each of them.
- Each company must complete our "Impact Screening Tool" and the "ESG Risk Categorization Form". Thereby, through pre-established metrics, we assess the company's impact and ESG performance and the potential positive social and/or environmental impact of each investment. The company must fill the "Impact and ESG questionnaire", that will generate a scorecard based on the answers. Also, we hold our "Theory of Change" workshop with the leadership team to link their activities to impact outcomes and purpose.
- To drive standardization and comparability among the targets we have incorporated the IMP's five dimensions of impact into our proprietary rating framework, where each company will be rated on a scale ranging from 1 to 5 on each of the dimensions (we have developed 27 questions form for this). We then average the scores gained in all units to generate each dimension's score and, finally, assess the investment's overall average impact score tied to the IMP's classification. We focus only on company's whose scores are above 4 (out of 5), which we correlate to IMP's "Contribute to solutions impact class of investment"². As we gather more data on the company post-investment (specially through beneficiary data collection) we will review and update the ratings.

²<https://impactmanagementproject.com/investor-impact-matrix/>

- Just as investors use expected measures of return to calculate the expected financial value of their investments, we want to use a similar approach to assess expected impact returns. Based on our partnership with Insper Metricis³, we have developed a multiple of impact (MOI), an evidence-based methodology for quantifying and monetizing the impact of our prospective investments. In this methodology, we calculate the investment's social and environmental financial value over the investment period per equity dollar invested. We will invest in a company only if the MOI calculation suggests a minimum social return on investment of \$2.00 for every \$1 invested.
- As an outcome of our due diligence process, relevant metrics are identified and defined together with the company's management team. For each metric, we collaboratively assign initial projections, outlining its impact over time.
- Different type of metrics are collected, being a mix of company-customized and portfolio-standardized; qualitative and quantitative; and output and outcome indicators. We leverage on existing reporting frameworks (such as IRIS+⁴, HIPSO⁵ and JII⁶) to identify appropriate metrics.
- Upon conclusion of the due diligence, we jointly draft a and agree to a short- and medium-term impact and ESG value creation action plan with the company, including the most value-added items and our intended contribution to increase the impact of the company.
- As we describe in Principles 6 and 8, we assist the company in implementing the agreed metrics and periodically collect and monitor.

³Insper Metricis is a research center focused on studies of organizational strategies and management practices for projects with the potential to generate high socio-environmental impact. It is an organization within Insper, a leading, independent, nonprofit institution dedicated to education and research in the fields of Business Administration, Economics, Law and Engineering in Brazil.


⁴<https://iris.thegiin.org/plus/list/>

⁵[Harmonized Indicators for Private Sector Operations \(HIPSO\)](#)

⁶[Joint Impact Indicators \(JII\)](#)

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.

- By integrating (ESG) considerations into the management of portfolio companies, we believe that businesses can deliver enhanced value for shareholders and stakeholders beyond their core impact. Our framework incorporates both the positive impact (social and environmental benefits) and negative impact (social and environmental costs).
- For that reason, our investment and post-investment processes were designed to identify, avoid, address, monitor and manage ESG risks and even more, value enhancement opportunities. Given our commitment to the issue, we became a signatory to the UN-backed Principles for Responsible Investment (PRI)⁵.
- Following an ESG risk-based screening process, we evaluate companies to determine those meeting positive thresholds of performance on ESG issues and exclude from consideration companies with material involvement in businesses/sectors that have higher risk (aligned with IFC's guidelines) and companies with major recent or ongoing controversies in areas such as animal welfare, human rights, product safety, environmental, governance, etc.
- Our entire due diligence process is based on an ESG risks analysis, with very well metrics defined, so that we can identify, avoid and mitigate the risks of each investment. Each company must answer several questions and submit documents/evidence supporting their answers. We created our own approach based on good and recognized international practices: B-lab's⁶ impact assessment, Sustainability Accounting Standards Board's (SASB)⁷ Materiality Map, FMO Toolkit⁸ and CDC⁹.
- The new Advisory Committee formed with IDB Invest will be established to oversee the fund and invested companies, evaluating their Environmental and Social (E&S) governance through IDB Invest's framework. Additionally, an annual E&S Report will be prepared to ensure ongoing adherence and transparency in addressing any potential negative impacts.
- Additionally, the Fund will enhance its Environmental and Social Management System following the Environmental and Social Action Plan to align it with IDB Invest requirements and IFC Performance Standard 1, and implement it across the entire investment portfolio.

⁵<https://www.unpri.org/>

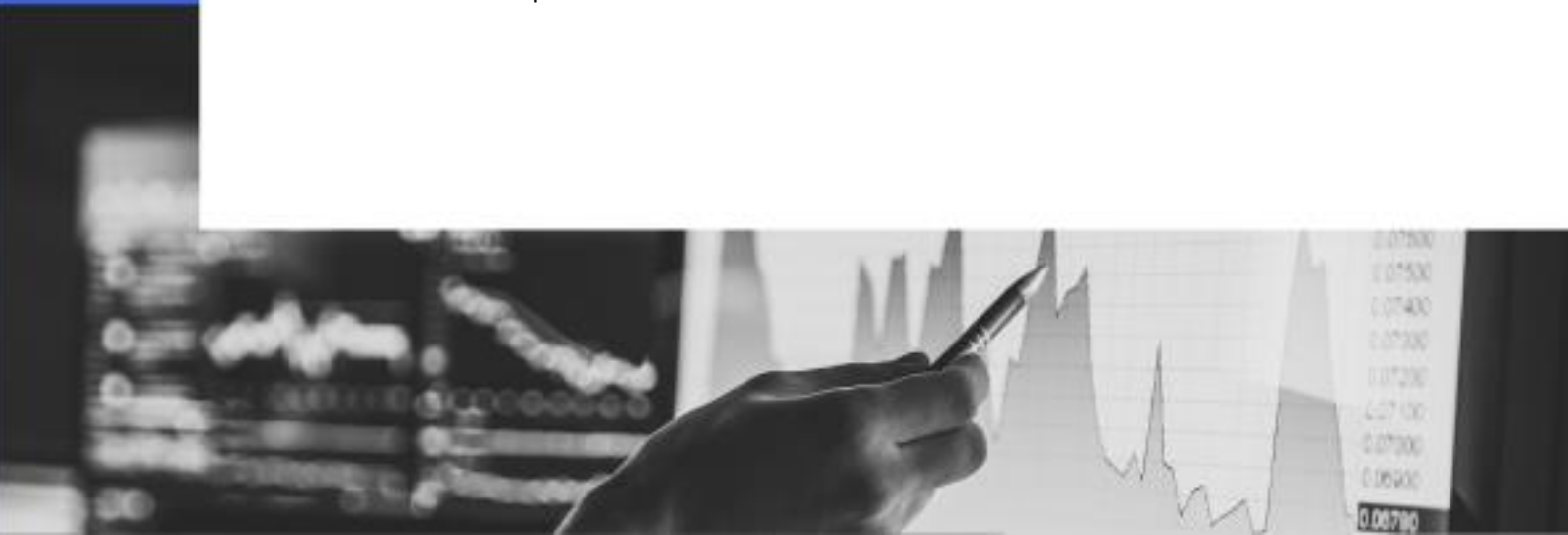
⁶<https://www.bcorporation.net/pt-br/>

⁷<https://www.sasb.org/>

⁸<https://www.fmo.nl/esg-toolkit>


⁹<https://toolkit.cdcgroup.com/>

- Part of the process is also to evaluate the company's commitment and ability to address ESG issues as part of its strategy and integrated with the company's management.
- We also use IMP's nine types of impact risk to assess the potential negative effect and delivery impact risk for each company.
- For each step of the process, we have developed proprietary frameworks and systems to standardize the approach (besides the impact frameworks already mentioned), including an ESG categorization tool, an ESG questionnaire based on best practices (as described above) and an initiative prioritization for our post-investment action plan. For more details on our process, please refer to our [ESG and Impact Policy](#).
- When applicable, potential ESG risks and issues will be included into legal documentation.
- Our investment and impact team will collaboratively develop, with the portfolio companies, an impact and ESG action plan with completion targets aligned to metrics, that will focus on the small number of ESG issues which are potentially material, and where we can drive improvements.
- The generated score in the B-Impact Assessment will be benchmarkable to comparable businesses within the portfolio and among companies in its respective sectors and will be reported to investors.
- We work together with management teams to support them with the implementation of mitigation and value enhancement measures and assist in building ESG capacity within the company. The action plans and targets will be frequently monitored and reviewed throughout the investment period.



PRINCIPLE 6:

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.

- We have a standardized process to monitor the progress of each invested company, both in achieving impact and financial goals against expectations. As already stated, measurement forms the backbone of our impact system. The primary motivation for measuring impact is not to prove whether the firm is impactful, rather, it's about using data to continually learn about the companies' customers and work to improve the impact
- As mentioned previously (Principle 4), by the end of the due diligence phase, we will have: 1) Defined with the company the impact and ESG metrics; 2) Established the baseline for each outcome; 3) Calculated the multiple of impact and 4) Defined the impact and ESG customized plan. As we advance in our practice, we will also include benchmarks for the metrics.
- Data collection occurs through a defined process with the investee companies on a monthly, quarterly, and annual basis. Our impact team is involved with the company's team to implement the defined metrics as well as the impact and ESG action plan. The findings risen from the monitoring will feed into strategic investment decision making and the management process more broadly.
- Discrepancies between the actual and estimated impact will be discussed periodically, with actionable and timely remedy plans.



- Different type of metrics are collected, being a mix of company-customized and portfolio-standardized; qualitative and quantitative; and output and outcome indicators. We leverage on existing reporting frameworks (such as IRIS+, HIPS0 and JII) to identify appropriate metrics. We assist the company in collecting and using data collected from the beneficiary, to better understand its customers and continually improve the value proposition (aligned to IMP's five dimensions of impact). Certain metrics are obtained through publicly available data sources, such as the World Bank Development, World Health Organization, among others. We also plan to include the voice of the customer in our process, using Lean Data's¹⁰ approach to really understand how our investments impacts the lives of our customers, and use this to improve the investees value proposition, when applicable.
- Our preliminary analysis includes the calculation of the Multiple of Impact (MOI) that generates the number of how many times each dollar invested can generate of social and/or environmental impact. During the due diligence process, this number is updated and help us understand the ESG and Impact metrics and KPIs during the investment. In this period, we review and update, with the company, the action plan based on the KPI's to ensure the achievement of the goals, always comparing it with the initially expected progress. Besides that, as mentioned, we currently compare the real impact versus the projected in the MOI methodology.
- If we identify that the expected investment will not come true, initially we must understand what lead to that result. Based on conversations with the investee and the collect of new documents/evidence, we will take new measures and include them in the "ESG Value Creation Plan", so we can adjust the new reality helping the company in its needs. Furthermore, annually we review the Multiple of Impact and adjust it as necessary. We will continue to review third-party research that are relevant for the calculation, as well as collecting outcome date from the company.
- Annually, we will consolidate the quantitative impact data to form an aggregated view of the portfolio's year-on-year performance and share it with our investors.

¹⁰<https://acumen.org/lean-data/>

PRINCIPLE 7:

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.



- Our exit planning begins during the investment process, where we look for companies where there is a clear lockstep between generating competitive financial returns and generating impact, meaning that impact is embedded into the business model. This is vital to ensure that there is no risk of the company losing its impact focus as it grows and subsequently upon our exit, or that its impact focus acts as a barrier to grow.
- A thorough due diligence of the company's expected impact translated into our multiple of impact framework will also consider the probability and extent of impact continuation post-ownership. This process will assist us in the investments' prioritization.
- Each company will have an Exit Strategy defined and reviewed periodically. Part of the strategy is to consider the alternatives and evaluate the options from both an impact and financial return perspective, considering the risks. When presenting the divestment recommendation for approval, the perspectives will be considered in accordance with fiduciary obligations, which can influence the timing, structure, and choice of who to sell to.
- Post exit, we will follow-up with the company and this process will serve as a learning loop to our investment process.

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.

- During the post investment phase, we follow a defined and standardized process to collect, track and monitor performance over time and relative to expectations, including the refinement of the projections.
- A member of the Impact team is appointed to each investee to assist the companies in implementing, monitoring, and reviewing the action plan and risks.
- Annually, we will report to the firm's investors, impact and ESG performance in a consolidated and investee basis. We integrate lessons learned into our investment process, communicate them when relevant, and build case studies for the companies.
- Findings from the monthly, quarterly, and annual reviews are used to improve operational and investment decisions in the delivery of positive impact outcomes as well as the overall impact management process.
- Seeking to exchange and gain best practices in impact and ESG management, we will continue to be involved and engaged with the main industry bodies and initiatives.



PRINCIPLE 9:

Publicly disclose alignment with the Impact 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 Impact 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.

- We publicly affirm that our IMM Framework (i.e. our impact management system and processes) aligns with the Impact Principles, and all changes will be reported in the Disclosure Statement annually.

- As part of our alignment with the Impact Principles, we commit in conducting a regular (at least every three years) independent verification of our IMM Framework, at least every three years. The conclusions of the verification reports will also be publicly disclosed.

- Information on the independent verifier is as follows:
 - Name and organization: NINT (formerly known as SITAWI's Sustainable Finance Program is the largest ESG research and advisory firm in Latin America, with a +100 staff and local presence in Brazil and Latin America.)
 - Most recent review: January 2023
 - Next planned review: January 2026

- Link to Verification: https://gkpar.com/wp-content/uploads/2023/02/OPIM-Verification_GK-Ventures-20230123.pdf



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