



EU SUSTAINABLE FINANCE
DISCLOSURE REGULATION



PRINCIPAL ADVERSE IMPACT INDICATOR STATEMENT

Umgang mit nachteiligen Nachhaltigkeitsauswirkungen

Erklärung zu den wichtigsten nachteiligen Auswirkungen von Investitionsentscheidungen auf Nachhaltigkeitsfaktoren gem. Artikel 4(1)(a) der Verordnung (EU) 2019/2088

GLS Alternative Investments – Mikrofinanzfonds

Zusammenfassung

Frankfurt School Financial Services GmbH (LEI: 5299001ZH2UHDAZ7ZI92) berücksichtigt die wichtigsten nachteiligen Auswirkungen seiner Investitionsentscheidungen auf Nachhaltigkeitsfaktoren. Bei der vorliegenden Erklärung handelt es sich um die konsolidierte Erklärung zu den wichtigsten nachteiligen Auswirkungen auf die Nachhaltigkeitsfaktoren („Principal Adverse Impact“, kurz PAI) von **Frankfurt School Financial Services GmbH**.

Diese Erklärung zu den wichtigsten nachteiligen Auswirkungen auf die Nachhaltigkeitsfaktoren bezieht sich auf den Bezugszeitraum vom 1. Januar 2023 bis zum 31. Dezember 2023.

Der primäre Zweck des GLS Alternative Investments - Mikrofinanz Fonds ist die Förderung der Entwicklung sowie die Verbesserung der Lebensbedingungen der Menschen unter Beachtung nachhaltigen Handelns. Dies geschieht durch Investition in zulässige Anlageinstrumente mit dem Ziel eine angemessene Wertentwicklung zu erreichen. Frankfurt School Financial Services GmbH als Portfoliomanager folgt dabei den Investitionsgrundsätzen und Richtlinien der GLS Bank als Initiator des Fonds. Der Fonds ist ein Finanzprodukt im Sinne von Artikel 9 der Verordnung (EU) 2019/2088 des Europäischen Parlaments und des Rates vom 27. November 2019 über die Offenlegung von Informationen zur Nachhaltigkeit im Finanzdienstleistungssektor ("Sustainable Finance Disclosure Regulation" oder "SFDR"). Der Fonds finanziert Mikrofinanzinstitute in Südosteuropa, Lateinamerika, Asien und Afrika. Spezifische Positiv- und Negativkriterien für Mikrofinanzinvestitionen werden vom Anlagebeirat des Fonds kontinuierlich weiterentwickelt und geschärft. Entscheidend ist dabei immer, dass und ob ein Kriterium die Erfüllung des Leitbildes des Fonds fördert.

Frankfurt School Financial Services GmbH berücksichtigt in dem von uns verwalteten Fonds die 14 obligatorischen Principal Adverse Impact („PAI“) sowie zwei zusätzliche Indikatoren jeweils aus den Bereichen „Klimaindikatoren und andere umweltbezogene Indikatoren“ sowie „Soziales und Beschäftigung, Achtung der Menschenrechte und Bekämpfung von Korruption und Bestechung“.

Fondsname: GLS Alternative Investments – Mikrofinanzfonds

Finanzmarktteilnehmer: Frankfurt School Financial Services GmbH

Datum des Berichts: 28. Juni 2024

Transparency about adverse impacts on sustainability factors

Statement on the principal adverse impacts of investment decisions Investment decisions on sustainability factors in accordance with Article 4(1)(a) of Regulation (EU) 2019/2088

GLS Alternative Investments – Mikrofinanzfonds

Summary

Frankfurt School Financial Services GmbH (LEI: 5299001ZHUUHDAZ7ZI92) considers the principal adverse impacts of its investment decisions on sustainability factors. This statement is the consolidated statement on the principal adverse impact (PAI) on sustainability factors of **Frankfurt School Financial Services GmbH**.

This statement on the principal adverse effects on sustainability factors relates to the reference period from 1 January 2023 to 31 December 2023.

The primary purpose of the GLS Alternative Investments- Microfinance Fund is the promotion of development and the improvement of people's living conditions in a sustainable manner. This is achieved by investing in authorised investment instruments with the aim of achieving an appropriate performance. Frankfurt School Financial Services GmbH acting as portfolio manager follows the investment principles and guidelines of GLS Bank as initiator of the fund. The Fund is 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"). The fund finances microfinance institutions in Southeast Europe, Latin America, Asia and Africa. Specific positive and negative criteria for microfinance investments are continuously developed and refined by the fund's advisory committee. The decisive factor is always whether a criterion promotes the fulfilment of the overall fund's mission.

Frankfurt School Financial Services GmbH takes into account the 14 mandatory Principal Adverse Impact ("PAI") and two additional indicators from the areas of "climate indicators and other environmental indicators" and "social and employment, respect for human rights and combating corruption and bribery".

Fund name: GLS Alternative Investments – Mikrofinanzfonds

Financial Market Participant: Frankfurt School Financial Services GmbH

Date of the report: 28 June 2024

Description of principal adverse impacts on sustainability factors

In the context of this statement, the term principal adverse impacts refer 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 in relation to the Fund and its portfolio companies. The mandatory indicators set out in Annex I of the SFDR Delegated Regulation (EU) 2022/1288, as well as one optional indicator each from the environment as well as the anti-corruption and anti-bribery areas, are listed in Tables 1, 2 and 3 below. No further voluntary indicators were used to identify and assess additional principal adverse impacts on sustainability factors.

Indicators applicable to investments in investee companies

Table 1

Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period	
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	287 tCO ₂ eq.	671 tCO ₂ eq.	The Fund Manager uses GHG emissions data reported by microfinance institution (“MFI”) investees as well as 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	Data availability from MFIs has increased. Ongoing efforts to further 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	1,304 tCO ₂ eq.	1,287 tCO ₂ eq.		
		Scope 3 GHG emissions	92,885 tCO ₂ eq.	127,560 tCO ₂ eq.		
		Total GHG emissions	94,476 tCO ₂ eq.	129,519 tCO ₂ eq.		
	2. Carbon footprint	Carbon footprint of investee companies expressed as tCO ₂ /€million invested	610 tCO ₂ eq./€million	740 tCO ₂ eq./€million		
	3. GHG intensity of investee companies	GHG intensity of investee companies	3,125 tCO ₂ eq./€million	4,231 tCO ₂ eq./€million		

					(category 15 as per PCAF ¹). 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. The breakdown of the economic sectors has been done more granular, hence the GHG emission data is more precise and lower than in the previous period. Non-productive loans i.e. personal/ consumer loans, have not been included in the assessment in order to not overestimate their emissions, as no accurate proxy for those is currently available. On average, non-productive loans have a share of only 15% of the MFIs' portfolios.	
					Response rate: 36% of the MFIs in the Fund's portfolio	
4.	Exposure to companies	Share of investments in companies active in the fossil fuel sector	0.13 %	0% ²	MFIs typically do not derive revenues from direct activities from the exploration, mining,	No actions planned for the next reference period.

¹ 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.

² In summary, 4 MFIs have responded to have exposure to clients active in the fossil fuel sector with a loan portfolio share of 0.03% or less.

	active in the fossil fuel sector				extraction, production, processing, storage, refining or distribution in the fossil fuel sector as they operate in the financial industry. Altogether, 6 MFIs have reported to have minimal exposure to companies active in the fossil fuel sector ranging between 0.10-1.50%.	
					Response rate: 53% of the MFIs in the Fund's portfolio	
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: 90 %	77%	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.	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.
			Share of non-renewable energy production: 86%	98%	Response rate: 53% of the MFIs in the Fund's portfolio	
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.	No actions planned 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 %	0%	<p>Altogether 5 MFIs, i.e. 9% overall have confirmed to have branches in proximity to biodiversity sensitive areas whereas all of these have reported to have 0% exposure of their GLP to activities negatively affecting such areas. Overall, 19% of the MFIs have a biodiversity policy in place.</p> <p>Response rate: 76% of the MFIs in the Fund's portfolio</p>	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. The Fund Manager is part of an industry working group to further develop specific audit indicators to evaluate this PAI and also share best practices in terms of tools, databases and methodologies to assess biodiversity risks of MFIs.
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 negligible amounts of direct emissions to water given the nature of financial services operations. Water pollution data e.g. nitrogen and phosphor emissions by crop are available for the agricultural sector. For financial services, estimates are existing but minimal and therefore negligible in their impact.	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 companies per million EUR invested, expressed as a weighted average	N/A	N/A	MFIs generate a negligible amount of hazardous waste given the financial services operations of its direct activities.	The Fund Manager has currently no actions taken or planned for the next reference period in relation to this indicator.
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	0.7% ³	5%	<p>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 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.</p> <p>Response rate: 83% of the MFIs in the Fund's portfolio</p>	Ongoing efforts 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.

³ From the entire portfolio, one MFI reported one conviction around anti-bribery, corruption or extortion related crimes during the reference period. The Fund Manager also takes note of the fact that this should be considered a case of violation of the law by an individual and does not reflect the legal integrity of the entire institution.

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	9.5% ⁴	25%	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.	The Fund Manager takes note of the fact that the indicator has decreased which is why there are currently no actions taken or planned for the next reference period in relation to this indicator.
12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	23.2%	20.3%	<p>Response rate: 83% of the MFIs in the Fund's portfolio</p> <p>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, experience, or education. A positive gender pay gap value indicates a gap favoring the</p>	The Fund Manager has currently no actions taken or planned for the next reference period in relation to this indicator.

⁴ Based on a set of 7 questions on whether MFIs have policies in place in areas such as human rights, freedom of association, anti-bribery and corruption, regulatory disclosures or discrimination, an average of 18% of MFIs responded to have no policies in place in single areas. Another question is whether the MFI has joined the Client Protection Pathway, an important industry standard developed by the organizations Cerise+SPTF that was developed to protect microfinance end borrowers from e.g. the risk of over-indebtedness and these are in total 57% of the MFIs.

remuneration of male staff, while a negative one in favor of female employees.

Response rate: 76% of the MFIs in the Fund's portfolio

13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	27%	24%	Board gender diversity practices may vary across MFIs and can be influenced by geographical location, cultural context, organization size or regulatory requirements. Each MFI may adopt approaches that align with their specific goals, values, and operational context.	The Fund Manager has currently no actions taken or planned for the next reference period in relation to this indicator.
				Response rate: 83% of the MFIs in the Fund's portfolio	
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 treated as a strict exclusion criteria for the Fund. More specifically, the Fund restricts investments in institutions that may be associated with controversial weapons such as anti-personnel mines, cluster	The Fund Manager has currently no actions taken or planned for the next reference period in relation to this indicator.

munitions, chemical and biological weapons.

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 2. Weighted average percentage of water recycled and reused by investee companies	5.80m ³ water used on average per million EUR revenue of investees	31.79m ³ water used on average per million EUR revenue of investees	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: 60% 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.
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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	5%	19%	Altogether, 95% of MFIs confirmed to have a dedicated policy on the respect and adherence to human rights in place and consider in their internal control framework human rights abuses as a risk to be protected from.	The Fund Manager acknowledges that the number of MFIs with no human rights policy in place has decreased. Therefore, there are currently no actions taken or planned for the next reference period in relation to this indicator.
					Response rate: 79% of the MFIs in the Fund's portfolio	

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 by conducting prior to any new investment 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 mandatory on-site visits, an investment proposal is prepared and presented to the investment committee for a final investment decision. The Fund Manager is furthermore engaged in a working group together with other social investors from the inclusive finance sectors with the target to further develop common approaches, standardized methodologies and metrics for the reporting of PAI indicators in the scoring tool ALINUS.

According to the Fund's investment guidelines, investments in institutions with controversial environmental behaviour or that can be associated with any kind of controversial business practices are prohibited. 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.⁵ The ESG Policy is covering a wide range of considerations about sustainability risks along environmental, social, economic or governance-related matters and how these may be mitigated through governance measures within the Fund

⁵ <https://www.fs-finance.com/wp-content/uploads/2024/02/2024-02-Information-Sustainability-Requirements-Financial-Services.pdf>

Manager's organisation and compliance framework. The policy is reviewed on a recurring basis. The Fund Manager's management body has approved the latest version of this ESG Policy on 03 April 2024. In order to govern internally the data collection and processing to disclose investment-related information at firm level, the Fund Manager has additionally developed a Disclosure Policy. This sets out relevant regulatory disclosures, including principal adverse impacts, to be made at firm level, their content, internal roles and responsibilities and verification. The Fund Manager's management body has approved the latest version of this Disclosure Policy on 16 January 2024.

Methodologies to identify and assess principal adverse impacts and additional indicators

The Fund Manager considers all mandatory adverse impacts on sustainability factors according to Table 1 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. 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. For the purpose of this report, to some extent, PAI data were retrieved on a proxy basis from the Joint Impact Model ("JIM"). The JIM's main methodology to estimate a company's economic and environmental impact is based on 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 and include the current value of investment, the investee company's enterprise value, revenue data or investee country or exposure to certain industry sectors.

Error margins within methodology and description

The Fund Manager takes note of the fact that the collection of PAI data from its portfolio companies being non-EU microfinance institutions is challenging and to some extent limited. Where collected data appeared faulty, this has been reviewed and if necessary requested to be corrected by the reporting MFI. Despite these data quality assurance measures, the Fund Manager cannot rule out errors entirely.

Data sources used

The Fund Manager's main objective is to focus in its investment activity on social performance data, where potential environmental adverse impacts that may come along will further be considered. The Fund Manager has implemented a tool-based due diligence and social performance audits via the tools Social Performance Indicators ("SPI") and ALINUS which are systematically used by the Fund Manager for new investments. The collection of PAI data at investee level is complemented by data from such tools which are specifically designed to satisfy SFDR reporting requirements through the dedicated "ESG Risk" tool integrated into ALINUS.

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 Policy⁶ to address amongst others its potential engagement in listed companies in respect to the exercise of shareholder rights, monitoring material matters of portfolio companies, cooperation with other shareholders as well as managing potential conflicts of interest. Whenever listed equity positions are held, the Fund Manager seeks to engage on shareholder-related matters and makes use of its voting rights at annual general meetings, especially in relation to matters that would potentially be controversial to the Fund Manager’s ESG agenda.

References to international standards

The Fund Manager is a contributing member of the non-profit organizations Cerise+SPTF who are specialized in developing standards and tools for social and environmental performance management. The Fund Manager is a signatory to the joint statement on the Client Protection Pathway (“CP Pathway”) which was developed by Cerise+SPTF to respond to specific risks prevalent in the inclusive finance industry, specifically the risk of over-indebtedness and foresees at the level of financial service providers trainings as well as, monitoring and awareness raising to mitigate such risks. 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 its pre-investment diligence process, the Fund Manager also verifies social governance measures as well as commitment and adherence to such client protection standards. 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 impact-focused investment managers in integrating impact considerations into their investment objectives, sustain 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. Furthermore, the Fund Manager is a member of the Joint Impact Model (JIM) which provides a framework for investors to measure and report on the social and environmental impact of investments. Initiated by a group

⁶ 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>.

of international finance institutions, the JIM focuses on the principles of collaboration, transparency, and materiality and enables investors to better understand the impact of investments, improve decision-making and enhance accountability towards stakeholders.

In addition to the mandatory PAI indicators, the Fund Manager has selected additional indicators that may complement environmental indicator, i.e. water usage and recycling (Table 2) as well as an additional social indicator, i.e. share of investments in entities without a human rights policy (Table 3).

Historical comparison

The present PAI statement is the Fund Manager's second statement. A historical comparison of the reference period 01 January 2024 to 31 December 2024 with the reference period of this present statement will be published in the year 2025.
