Disclosure Statement

Operating Principles for Impact Management (OPIM)

For Purpose Investment Partners Ltd

June 30, 2023

For Purpose Investment Partners Ltd ("FPIP" or the "Signatory") hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Impact Principles").

This Disclosure Statement applies to all our advised and managed funds, with total Covered Assets in alignment with the Impact Principles is US$40.7m as of 30 June 2023.

Michael Traill

Founder and Executive Director, For Purpose Investment Partners

30 June 2023

Strategic Intent: Principles 1 & 2

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.

For Purpose Investment Partners Limited (FPIP) has been incorporated to advance health, education, and social and public welfare in Australia by catalysing, supporting, and funding organisations, programs and other initiatives that have a core purpose of generating positive health, education and social or public welfare outcomes (the "Purpose"). This Purpose is legally embedded into all that we do at FPIP through our governing document.

We are a not-for-profit social impact investment manager and are responsible for delivering social impact for both FPIP and its portfolio assets, bridging the gap in "For Purpose" investing by sitting at the intersection of business discipline and social impact. We seek to run businesses with efficacy while deeply embedding social purpose at the core of the business we invest in.

At the manager level, our overarching impact objective is to contribute to improving the quality and accessibility of key social services in Australia through the development of social impact investing as a mainstream asset class. While we focus intently on our investment and fund-level impact objectives, we always keep this broader objective as an overarching focus of our longer-term intentions.

Core to our manager-level impact strategy is our theory of change known as the "For Purpose Flywheel." We believe that deeply embedding social purpose in an organisation leads to meaningful social and financial returns through a larger focus on customer centricity and the attraction of mission-driven talent. This talent then drives operational success, leading to great social and financial impact, which then leads to a repeat of the virtuous cycle. Our mission is to prove this theory to the market, which we believe will result in more mainstream adoption of impact investments by institutional investors.

We invest in a range of projects and businesses through a variety of investment structures, but our preference is to invest through not-for-profit structures, which we do via subordinated debt instruments. This is because we believe the enshrining of Purpose in the constitutional documents of not-for-profits helps to maintain their ability to deliver social impact into the long-term, even beyond our investment horizon. We also tend only to invest in structures where we have control or significant influence, as we believe that to generate impact additionality with our capital, we need to be able to guide strategic decisions made by the company or partner organisation.

Our fund and investee companies' impact goals revolve around five core themes:

1. **Quality:** to raise the quality of products or services accessible to individuals who are end recipients of the services or products of our portfolio companies.

2. **Inclusion:** to ensure that people of all backgrounds can access high-quality products and services that help address their needs.

3. **Advocacy & Influence:** to leverage the outputs of our social impact measurement processes to build evidence bases that inform further practice and which can be used to advocate for greater change.

4. **Financial Sustainability:** to generate a surplus above and beyond what is required for obligations to reinvest in the business and fulfil our purpose.

5. **Great People:** to build great businesses that enable people to have a meaningful and fulfilling career in the social impact sector.

We believe that these objectives are broadly applicable to all businesses operating in the social sector and which generate positive impact.

We explicitly focus on social impact, and within this, on 5 sub-sectors that have in common significant gaps in service provision or infrastructure that require spending that exceeds the capacity of federal and state governments. Each of our sub-sectors also align with the UN SDGs:

1. **Skills Education:** high-quality training to equip the workforce of the future. With significant workforce shortages in many key sectors of the economy, and a substantial transition of workforce needs as technology drives further automation, we see a need for the provision of high-quality training that is flexible and relevant, adapting to the workforce needs as they develop, and providing those who receive it the opportunity to find and maintain meaningful employment. SDG Alignment: Goals # 4, 8, 10.

2. **Aged Care:** delivering a standard of care that adequately respects elders' rights. We believe that all people should have access to the supports required to live a dignified, satisfying life regardless of their age and socioeconomic status. We see an opportunity to create a market-leader in the Australian aged care sector that brings together the best of the for-profit financial rigor with the care of the not-for-

profit sector, creating a sustainable impactful aged care provider that generates great health and wellbeing outcomes and ensures customers are able to celebrate the later years of their life in comfort with the agency to decide how they wish to spend those years. SDG Alignment: Goal # 3, 10.

3. **Mental Health:** timely, ongoing, and adequate levels of support for all who need it. We see an opportunity to increase support to those suffering from mental ill-health before and/or after they access existing government services, to reduce the burden on public-funded interventions and deliver better outcomes for the individual. SDG Alignment: Goal # 3, 10.

4. **Disability:** breaking down the barriers to a quality life for individuals living with disabilities, and their families. We believe that all people, able-bodied or otherwise, should be able to access the supports and services they need to live an enjoyable, independent life. Our goal is to increase the quality of services (including designed-for-disability housing) available to Australians living with a disability to close the current service gaps. SDG Alignment: Goals # 1, 3, 4, 8, 10.

5. **Social & Affordable Housing:** access to safe, secure housing for all people regardless of life circumstances. Through the creation of innovative financing structures that bring together multiple stakeholders to deliver truly affordable housing, we hope to increase the supply of social and affordable housing in Australia for the benefit of the many thousands of people on waitlists for public, social and affordable housing across Australia. SDG Alignment: Goals # 1, 3, 10.

As part of our post-investment impact additionality, we work with portfolio companies to develop a framework for delivering social impact. This approach is central to our investment process and is explored in further detail in Principle 3.

Principal 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.

We work towards five impact goals at a fund level (Quality, Inclusion, Advocacy & Influence, Financial Sustainability, and Great People), but do not set numerical impact targets at the fund level due to the broad variety of impact objectives across our different focus sectors. We also believe that impact metrics should be tailored to each investment to be most meaningful for managing their impact.

<u>Pre-Investment</u>

We begin assessing the potential impact of a company during the early stages of the investment process. Specifically, we employ an "Impact Investment Framework" that guides the investment team through four questions that helps us remain focused on measurable, meaningful impact. The questions are:

1. Do we have a clear, robust theory of social change related to the investment or investee company that we will be able to objectively test along the journey to post-investment?

2. Will our capital deliver impact additionality, or incremental impact beyond the status quo?

3. Is there a potential for deep social impact, either initially or over time through scaling?

4. Does the investment have characteristics that will act as mitigants to ensure minimal risk of a negative impact outcome?

We assess each prospective investment against these criteria throughout the due diligence process and provide our view to the Investment Committee which considers both financial and impact considerations when making an investment decision.

<u>Post-Investment</u>

Along with the investee company or operating partner management team, we will co-develop an impact measurement and management framework soon after making the investment. We develop this framework using our seven-step process (refer to Principle 4), which involves a significant level of collaboration between the FPIP team and our investee companies.

Once the impact measurement and management process has been implemented and impact KPIs defined, we link company management's remuneration to the achievement of these impact objectives. This ensures alignment of impact goals and management incentives. Central to this approach is understanding how to create meaningful incentives that avoid outcomes that run against the social impact we aim to achieve (i.e., perverse incentives such as serving less vulnerable populations to increase operational metrics that may be perceived as impact).

The FPIP investment team own the social impact performance as well as the financial performance of our investee companies and are held accountable by our Board and investors for any negative deviations. We track comparable metrics across our portfolio companies wherever possible. This enables us to demonstrate portfolio level impact through our investments. For example, as part of our FY23 Impact Report, we are collating diversity, equity, and inclusion metrics across our portfolio to assess and report on progress across our investee companies.

We currently do not have any staff incentive systems in place for the FPIP investment team, however we hope to introduce these in the coming years, and will ensure at the time of introduction that incentives are tied to achievement of both financial and impact KPIs. For our portfolio company management team's we have already tied incentives to specific impact KPIs where possible, or otherwise to implementation of the IMM system and resultant development of KPIs.

Origination & Structuring: Principles 3, 4 & 5

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 and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

Our team brings distinctive capabilities to our investments that makes us the partner of choice for social sector businesses looking to scale their impact, or for vendors looking for an aligned purpose-driven buyer. Three specific capabilities set us apart from other potential investors or owners and enable us to generate impact alpha; the first is our deep expertise in structuring for-purpose acquisitions by employing social notes structured through not-for-profit entities; the second is the explicit focus on social impact that we bring as an impact investor and the values-alignment that comes from our unique position as a not-for-profit fund manager ourselves; and the final capability is our many channels of generating value-add post-acquisition, often in partnership with leading not-for-profit organisations which we are able to tap into due to our deep networks in the sector.

Pre-investment (see Principle 2), we assess the social impact potential of prospective investments. In that process, we assess the narrative and conviction around our ability to contribute impact additionality through the investment, both financially and through non-financial means. This ensures that we are confident about our ability not only to invest in a high-impact company, but that our presence as the new owners will materially help it to achieve even greater impact whilst under our ownership.

Through structuring the investment, we also seek to generate additional impact by, where possible, taking businesses and assets in for-profit structures and converting them into not-for-profit entities. This embeds impact through enshrining charitable Purpose into the constitution of the business. Relative to traditional investors, we also enable management to focus on the social impact of the business. We believe this contributes significantly to the delivery of incremental impact, as strategic decisions are made with impact in mind. This is reflected through meaningful changes to the composition of Board meetings and ongoing reporting from portfolio companies, with impact-relevant information front and center.

Post-investment, we provide a range of supports to portfolio companies to increase their impact. For example, we have taken the following approaches:

1. **Impact Workshop Sessions with Management:** following our diligence and acquisition process and as part of developing the impact reporting framework, we deliver impact workshops with company management to help further clarify and articulate the intended social impact of the business.

2. **Portfolio Company Leadership Days:** an opportunity for senior leadership at our portfolio companies to come together, share and discuss their approach to social impact. We host and facilitate this opportunity for the entire portfolio to collaborate on their shared goal of delivering positive social impact.

3. **Linking Management Remuneration to Impact:** we tie impact to remuneration for our companies' management teams. We take a company-by-company approach to determine how to best structure this opportunity and seek to implement the changes within one year of acquisition.

4. **Develop Partnership Opportunities for Companies:** leveraging our deep networks, we work with companies to secure business partnerships across the for-purpose sector, which in many cases may be more difficult to achieve without our involvement.

5. **Staff Resources & Time:** we dedicate staffing resources from our investment team to support strategic and operational priorities in our portfolio companies. This helps us to deliver more commercial acumen into social impact businesses, which we see converting to social outcomes through better services.

6. **Advisor Network:** we leverage our networks in the social impact sector to secure high quality professionals to support our portfolio companies as needed. This can be through informal one-off support as well as on an ongoing basis, including appointments as non-executive director.

7. **Allocated Budget for Impact:** we are also in the process of considering how we can encourage portfolio companies to allocate a defined budget towards impact activities, both to help management to resource and further prioritise impact.

8. **Policy Review and Alignment:** we have recently commenced a process to review all company policies to ensure alignment across our portfolio. Specifically, we will review company Diversity, Equity, and Inclusion (DEI) policies, Reconciliation Action Plans, and other policies such as leave to benchmark against best practice. Where policies, such as a DEI policy, have not yet been adopted by our portfolio companies, we will seek to implement the adoption of these policies.

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.

Our impact assessment for investments begins by understanding the potential scale of impact across our five focus sectors. This ensures that each potential investment assessed is likely to meet our impact objectives. When reviewing these opportunities for pre-investment, we consider four key questions:

1. **Is there a robust theory of change related to the investment or investee company that is readily testable/measurable along the journey?** We do not believe in a "one size fits all" approach to measuring impact. Instead, we believe that metrics should be tailored to a theory of change that ties to the specific investment, and that this provides investors with more meaningful insights than a collection of metrics. We also believe that "you can't manage what you can't measure." Thus, tracking thoughtful measures indicative of our delivery on the theory of change enables us to monitor impact on an ongoing basis and take necessary action if we are falling behind targets.

2. **Is there 'impact additionality'?** We believe meaningful impact means achieving what would not have been achieved were it not for our investment. 'Additionality' is achieved in several ways. For example, the capital itself (if other sources of capital were unavailable); the nature of capital (longer-term vs. shorter- term timeframes); the skills and talent we bring to the business through the investment team and more broadly through access to top executive and Board talent, as well as access to partnerships with like-minded organisations that could not be delivered without our involvement.

3. **Is there impact depth and scalability?** As a large-scale impact investor, we seek to deliver enduring, large-scale impact. Scalability can be achieved through different avenues including the development of platforms, catalytic capital, and

advocating for deeper systems change. We also consider the depth of impact and potential for cross-pollination between our five focus sectors. The more avenues of impact open to an investment, the better.

4. **Are there sufficient protection / mitigants in place to minimize the risk of a negative impact outcome?** We look for known characteristics that reduce the risk of poor impact investment outcomes. These include a motivated, purpose-driven management team; values-driven leadership; and the right incentives to ensure that management remains focused on key impact KPIs tied to the theory of change, in addition to financial performance. These aspects are thoroughly considered during the diligence process, and we are unafraid to make executive changes post-investment should it make a material contribution to the delivery of impact.

The theory of change for the investment and the risk profile are then considered by the investment team and discussed with the investment committee before going ahead with further diligence on the opportunity.

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.

Governance risks are central to our assessment of potential investments. Following each investment, we ensure that the company Board is represented by strong non-executive directors. Additionally, we have made a conscious decision to incorporate as a not-for-profit to best align interests with our portfolio companies.

Our property investments often consider environmental impacts. For example, our investment team assesses prior land use to ensure that it does not pose health risks for new tenants. However, environmental considerations are also balanced with social considerations. When there are material tradeoffs, we have in certain cases chosen to prioritise social objectives. For example, one of our portfolio companies, Able Foods, a meal delivery service for individuals living with disabilities, assessed whether it could reduce its carbon footprint by altering its meal packaging to reduce the amount of plastic. They found that non-plastic packaging was more challenging to open for customers living with physical disability. They therefore decided to retain the existing packaging given its primary focus on maximising access to healthy meals for people living with disability.

We recently committed to reporting ESG risks in our Board papers and investment committee meetings. Given our existing focus on social impact, these papers will emphasise environmental and governance risks. There is more work to do on ESG risks at a fund and investment level. We aim to create a more streamlined process around ESG risks within our portfolio companies. This process would consider any outstanding ESG items to consider at the company and portfolio level. We anticipate establishing the process at our Board level and then implementing across our portfolio companies.

Where possible, we will seek to align our investee companies with best practices on transparent ESG reporting and disclosure. For instance, we have provided support to one of our portfolio companies in their reapplication for B Corp Certification, as we believe adhering to rigorous industry-wide standards such as those required to be certified as a B Corp further enhances the focus on ESG.

Portfolio Management: Principle 6

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 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.

Post-investment, we work through a seven-step measurement and reporting process. Detailed below, this starts with stakeholders and the theory of change, and ends with the core ingredients of an impact reporting framework. The output includes the implementation of any new data collection processes and a digestible, easily communicable reporting approach.

1. **Stakeholders:** identify and understand key stakeholders, their needs, and the context within which we operate.

2. **Theory of Change:** understand the key issues we are trying to address, our activities and their desired outcomes, and the evidence supporting their effectiveness addressing the issues identified (our impact).

3. **Measurement Framework:** develop an outcome measurement framework to define prioritised outcomes and to identify appropriate measurement tools and their indicators.

4. **Data Collection Plan:** develop and implement a data collection plan to determine what should be measured, how, when, and by whom. Part of this is identifying what data is already collected and what needs to be implemented to collect additional data required. We aim to keep the administrative burden as low as possible.

5. **Data Analysis Plan:** develop an analysis plan to outline how data should be interrogated and interpreted to demonstrate outcomes and social impact.

6. **Communication and Reporting:** develop and implement a communication plan for key stakeholders identified. This includes the purpose of each communication, to whom and frequency. Transparency and education are key to this step.

7. **Strong Measurement Culture:** develop a strong measurement culture within the organisation which connects staff to the social purpose. Embedding the social impact in an organisation is crucial to the success of the strategy.

Once an investment is approved, we work towards regularly quantifying the social impact of each company, including publishing quarterly investor reports. These reports ensure that we are tracking social and financial performance against our investment's original theory of change. The theory helps to define the intended impact alongside the beneficiaries of the intended impact. Investor reports also ensure that investors are regularly kept informed of both financial and social returns on their investments.

Our portfolio companies each undertake our seven-step impact measurement process, and are at varying stages along the sequence, largely based on time since investment. Once impact KPIs have been agreed and the tools required for data collection are in place, these KPIs are then monitored on an ongoing basis and reported either quarterly or annually to investors. Companies are responsible for collecting the data, and we are responsible for presenting the data to investors. New investments work up to regular reporting whilst more mature investments have established processes.

Portfolio company management also refer to this impact data to assess their progress against the theory of change developed in collaboration with our investment team. By undertaking impact workshops with company management soon after acquisition, we ensure that we are aligned on the most important social impact metrics. These metrics are then regularly referred to in Board meetings and more informal contact with company management, ensuring that impact remains an equal priority to other concerns.

As impact metrics are developed and agreed upon with portfolio company management post-investment, we do not have specific pre-investment targets to compare these metrics against. Instead, we look to track trends in these business metrics over time, comparing against previous periods to assess whether our impact investment thesis is unfolding as anticipated. Where possible and without compromising on the relevance of the selected KPIs, we prefer to use metrics for which industry-wide data is available, to also allow for benchmarking against the market. Company progress is regularly reviewed by the investment team, Board, and investment committee. Thus, any underperformance related to impact and/or business performance are addressed in a timely manner.

We will often leverage learnings and materials from portfolio companies that are further along our seven-step impact process to support companies earlier on in the sequence. By doing so, we ensure that best practices are shared across our portfolio. Here, events like the Portfolio Company Leadership Days enable organic cross-pollination of ideas across different impact areas.

Impact at Exit: Principles 7 & 8

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.

As our first investment was made in April 2021, we are yet to exit any investments under our management. Despite this, we have put in place an Impact Beyond Exit policy, which outlines our approach to embedding impact through capital and governance structures and codifies an exit hierarchy to be followed at the time of an exit.

(1) Approach to Embedding Impact

- (a) **Business Model and Team:** we invest in sectors where meaningful social impact inherently requires high-quality operations. This ensures alignment between financial performance and social good. Where we do not acquire 100% of the company or asset, alignment is assessed through ensuring other shareholders' prioritisation of impact.

- (b) **Upfront Deal Structuring:** we prefer to structure investments through a not-for-profit company limited by guarantee, which embeds impact into the founding constitution. This provides greater certainty that the business or assets will continue to generate positive impact after exit. Where investments are not structured as a not-for-profit, impact alignment is achieved with other shareholders and governance protections (e.g., documentation and Board seats).

- (c) **Managing Exits:** we recognise that an exit to a non-impact investor risks undermining the social contribution of operating businesses. To address this risk, we prioritise exits to impact-aligned investors over those that are less impact-aligned, subject to there not being a material difference in pricing. This decision is made based on our Exit Hierarchy.

(2) Exit Hierarchy

When exiting investments, we refer to our Impact Beyond Exit policy which includes a hierarchy of exit options ranked by likelihood of the incremental impact we have generated remaining after our position is exited. The hierarchy is tied to the initial investment structure. Our first preference, for our investments in not-for-profit structures, is to refinance our position with passive debt and remain in control of the company. Where we are required to relinquish control as part of an exit, we work to ensure that the incoming investor is equally as focused on impact. We will only exit to a non-impact aligned entity if every other exit option were exhausted.

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.

Our impact measurement process enables the relaying of feedback and learning to the investment team, who then inform future impact measurement and management of portfolio companies. This has ensured a more effective and efficient impact measurement and management process each time we've made an investment. Many of the impact measurement challenges we've faced to date relate to data collection. This is due to our preference for bespoke, decision-useful metrics that track outcomes rather than readily available outputs. The data collection plan usually includes surveys, which can be challenging or inappropriate to make mandatory for the investee's customers or clients.

The FY23 Impact Report is our first foray into a detailed review of tracking the impact of each investment over time. We will then use these findings to improve future investment decisions and management processes.

Further work will be undertaken to review expected impact compared to actual impact to thoughtfully improve operational and strategic decisions that guide portfolio companies towards increased social impact whilst delivering on financial performance.

Independent Verification: Principle 9

Principle 9: Publicly disclose alignment with the 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 Principles and, at regular intervals, arrange for an 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.

This Disclosure Statement outlines the alignment of our impact management systems with the Impact Principles and will be updated on our website on an annual basis.

In 2023, we engaged BlueMark, a wholly owned subsidiary of Tideline Advisors LLC as its external, independent advisor. Our website presents further information on BlueMark, along with the latest independent verification report from 2023 regarding our alignment of practices with the Operating Principles for Impact Management. Our verification statement can be found here.

We plan to conduct an independent verification of our impact management systems every two years.