



SAMPLE IMPACT REPORT

Produced by
GREENARC

TABLE OF CONTENTS

- EXECUTIVE SUMMARY ----- 3
- INTRODUCTION ----- 4
- OVERVIEW ----- 5
- GREENARC &
IMPACT MEASUREMENT & MANAGEMENT ----- 9
- COUNTRY/STATE LEVEL SOCIO-ECONOMIC
BENCHMARKS ----- 11
- SWF-X IMPACT PORTFOLIO ----- 12
- IMPACT SCORE & ANALYTICS ----- 13
- CONCLUSION & RECOMMENDATIONS ----- 18
- GLOSSARY ----- 19



INTRODUCTION

Over the past few years, environmental and social issues have taken an increasingly important role in investors' decision making. This has led to an exponential rise in the demand for sustainable and responsible investing, with an accompanying growth in financial products to meet investor expectations.

Most prominent within the socially responsible investment sector is ESG investing, which has a focus on mitigating the negative impact of business activities, or avoiding investments that cause environmental, social or governance harm. Impact investing, a sub-sector of socially responsible investing, goes much further and aims to direct financial capital towards actively making a positive impact, either social or environmental, whilst simultaneously generating profitable financial returns.

Impact investing seeks to channel private investment towards addressing the world's most pressing problems, and market participants pursue investment strategies and policies that are aligned to achieve both impact and financial returns, with portfolio investments selected to achieve both these objectives. A key feature of impact investing therefore includes an impact management framework, with associated measurement tools and practices, to capture the positive social or environmental impact of the investments, as well as mitigating against negative impact.

FUND

US Sovereign Wealth Fund

INVESTMENT TYPE

Private Debt

PURPOSE

Accelerating Covid Recovery

LAUNCHED

2020

GEOGRAPHY

USA

INVESTED CAPITAL

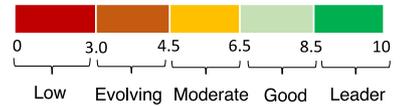
US\$ 87.75M

This impact report aims to measure the impact of the US Sovereign Wealth Fund's SME Financing Program. The fund, managed by a private equity firm, deploys debt financing to support small to mid-sized businesses in the state of its operation, that have been negatively during the Covid pandemic. Financing deployed through the Fund aims to provide strong crisis intervention and help businesses mitigate against the slowdown in mobility and commercial activity that resulted in job loss, negative cashflows, liquidity shortages and loss in revenue.

Thus, the Fund's impact objective is to protect livelihoods and incomes in its target state, ensuring the economy and communities remain financially resilient.

The results presented in this report are based on data collected directly from the managing PE firm's due diligence documents that were provided to GreenArc Capital, representing financing deployed since 2020.

EXECUTIVE SUMMARY



- As of 2020, the Sovereign Wealth Fund’s target state ranked as the **47th** poorest state in the US by per capita income, with almost **19%** of its population living below the poverty line, offering a significant opportunity for socially driven investing in the state to improve the livelihoods of the population
- The Sovereign Wealth Fund generated a good impact score of **6.59** through the provision of debt financing and is mapped to the below **SDG goals**:



- A total of **US\$87.75m** was deployed through the Fund in debt financing, representing the disbursement of loans to **29 businesses** for Covid recovery, impacting approx. **1,484 lives** since inception of the Fund in 2020
- Approx. **2,602 jobs** were saved across all businesses due to the provision of financing by the Fund
- Through the businesses supported, approx. **US\$11m** was paid in taxes, and approx. **US\$127m** was the total expenditure across all businesses in the local community, representing key indicators of economic activity and local development support
- Small and mid-sized firms**, those that struggle to attain financing, were the largest beneficiary group, accounting for more than **90%** of the Fund’s capital deployment. Businesses that suffered the **greatest loss in revenue** and **employees** were also the top 2 loan recipient groups, accounting for approx. **41%** and **55%** of the Fund respectively. This shows a significant portion of financing being targeted at businesses most impacted during the pandemic
- Currently, **female and/or ethnic minority owned/led businesses** as beneficiary groups represent approx. **34%** of the businesses supported, however, they represent approx. **53%** of the total financing provided

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IMPACT SCORE & ANALYTICS

PORTFOLIO IMPACT & SDG CONTRIBUTION

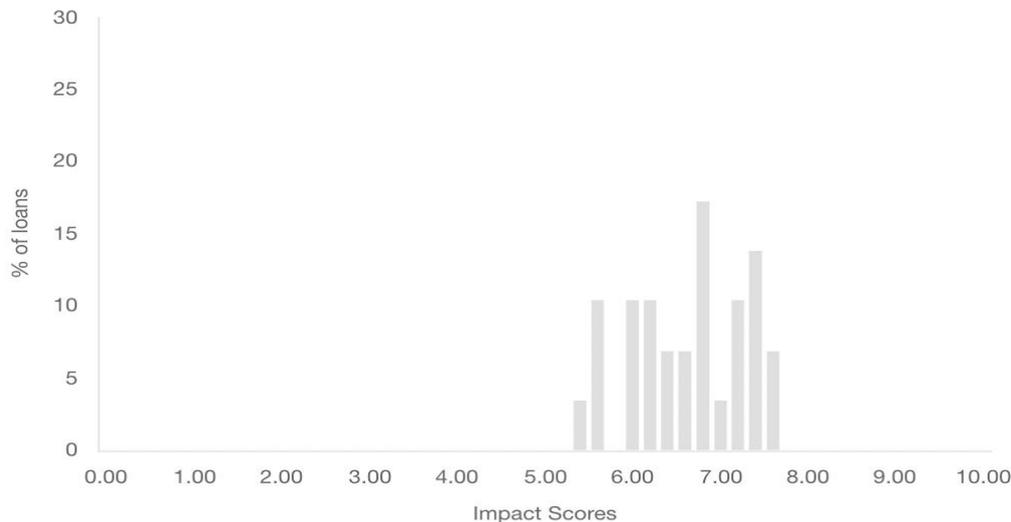


This product contributes to the following UN Sustainable Development Goals:



The total impact score of the SWF-X Fund is 6.59. This is based on 29 loans representing US\$87,750,000 of financing provided. With loans being scored on a scale of 1 to 10, the SWF-X portfolio has a good ex-ante impact rating for its beneficiaries. The ensuing analysis provides a more detailed breakdown and interpretation of the impact scores.

DISTRIBUTION OF IMPACT SCORES



Based on the distribution of impact scores across the Fund, loans have scores ranging from 5.40 to 7.60, with more than half the Fund's loans, 59%, scoring at the higher end of the scale, between 6.60 and 7.60. 39% of loans scored between 5.40 and 6.40. This indicates that the majority of loans in the SWF-X portfolio are expected to have a good to significant impact on beneficiaries as per the stated target social objectives.

LOAN FINANCIALS OVERVIEW



As of 2020 end, the portfolio blended interest rate stood at 4.29% with average loan tenor of 4 years. All loans were secured with some form of security. The default rate of the portfolio stood at 0% as of April 2022 and of the 29 loans, 2 have been fully repaid long before maturity.

PURPOSE OF LOAN AND FINANCING BREAKDOWN

COVID-19 disruptions did not affect all businesses equally. The severity of the operational and financial impact of the Covid-19 pandemic varies for each business and sector, with the borrowing entity's ability to withstand resulting losses, and their need for financing, subject to both micro and macro factors. Using qualitative information³ provided by the borrowing entities during DD, the provision of financing has been divided by three categories of loan purpose.



PURPOSE	FINANCING DEPLOYED
Maintenance of business functions (payroll, var. op expenses OR cap ex)	US\$40,850,000
Critical to business survival (payroll & fixed op expenses)	US\$24,900,000
Continuation of B.A.U	US\$22,000,000

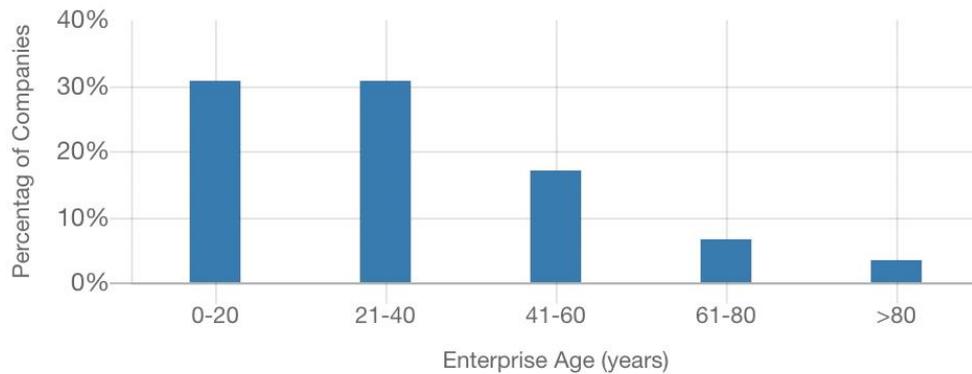
- **Critical to business survival:** businesses that suffered a significant loss of revenue, laid off the majority of their employees, faced difficulty to pay fixed costs, experienced negative cash flow and would struggle to continue without additional funds
- **Maintenance of business functions:** businesses that suffered moderate revenue losses, temporarily laid off employees, were unable to meet expenses due to reduced operations but were able to continue without additional funding, only not at full capacity
- **Continuation of business as usual:** businesses that were fully operational and had only suffered minor business disruptions and were able to continue at almost full capacity without additional funding

Nearly half of the loans were financed to entities that fall under the second category at US\$41 million, followed by entities in the first category at US\$25 million and third category at US\$21 million.

³ In the absence of qualitative data, quantitative data such as revenue loss, employee loss were used to gauge the financial and operational impact to categorise the entities

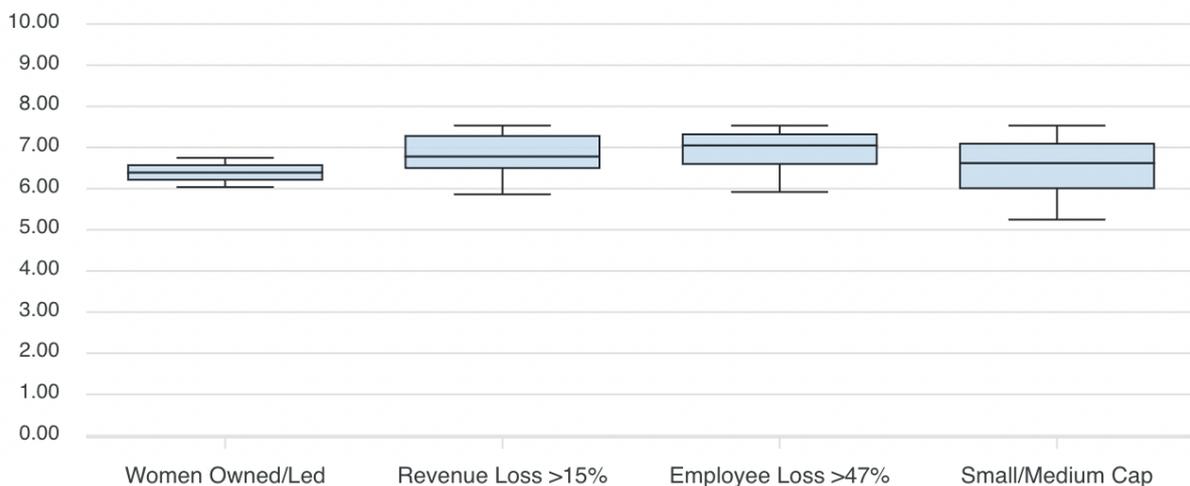
BENEFICIARY ANALYSIS

Enterprise Age Distribution



The above graph shows the portfolio entities by age. 62% of businesses fall in the age category of 1 to 40 years, 17% fall between 41 & 60 years, 7% between 61 & 80 years and 3% over 80 years. The majority of the SWF-X fund has not only provided financing to relatively new businesses, often the more vulnerable and less able to withstand a crisis, but the Fund also supported historic businesses in the state of the state that have been operating over a span of 100 years.

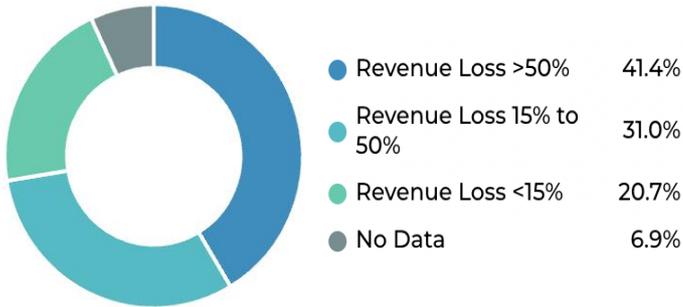
Impact Scores by Key Beneficiary Group



Breaking down the impact created within beneficiary groups, as seen in the boxplot, the expected impact is the highest for businesses that fall into these 3 categories: small/medium cap, businesses that suffered revenue loss of at least 15% and employee loss of over 47%⁴ in 2020 compared to 2019. Their median impact scores are therefore on the higher end of the scale, at 6.6, 6.8 & 7.0 respectively. They are followed by women owned/led entities with a median impact score of 6.4. It should be noted that the absolute difference in scores between groups is small, and therefore, the overall impact created is comparable across beneficiaries.

⁴ 47% is the average employee loss from 2019 to 2020 among small businesses in the US.

Revenue Loss



Employee Loss



The above donut charts⁵ show that 41% of businesses suffered a declined revenue of over 50% in 2020 compared to 2019, followed by 31% of businesses enduring losses somewhere between 15% and 50% and 21% of businesses with less than 15% in losses. There were a few companies that were able to post a positive bottom line as they benefitted from pre-pandemic order commitments.

55% of supported businesses had an employment decline of over 50% in 2020, followed by 14% of businesses with decline between 26% and 50% and 30% of them between 0% and 25% decline.

Financing by Key Beneficiary Group

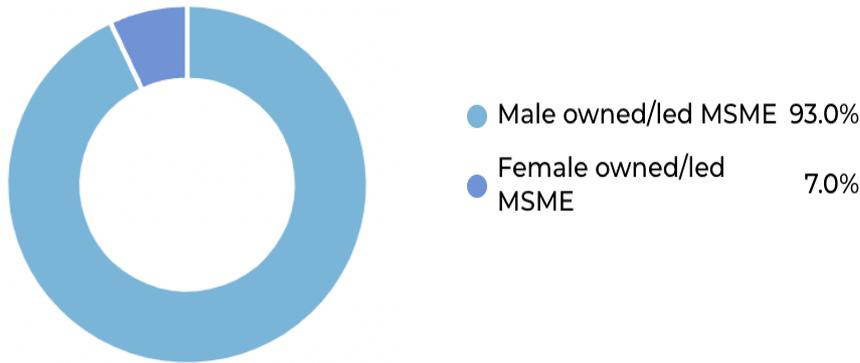
Group	Financing Deployed
Small/Medium Cap	US\$80,250,000
Revenue Loss >15%	US\$54,750,000
Employee Loss >47%	US\$32,500,000
Women Owned/Led	US\$10,500,000

In terms of financing provided to vulnerable beneficiary groups, small/medium cap businesses received a significant share of financing at US\$80.25 million. Businesses that suffered a revenue loss over 15% and employee loss over 47% were financed a sum of US\$54.75 million and US\$32.50 million respectively. While financing provided for women owned/led businesses stood at US\$10.50 million.

The data above shows that the proceeds of the SWF-X fund have been invested as per the stated impact objective of Covid Recovery, directing financing to those businesses that suffered the greatest loss during the Pandemic, supporting jobs, revenue and economic activity in the community.

⁵ Note that there will be overlap between beneficiary financing groups e.g., Small/Medium Cap and Women Owned/Led. Percentages in 'Revenue Loss' and 'Employee Loss' donut charts are calculated based on 'total number of loans' and not on 'total financing provided'.

Gender of Beneficiaries



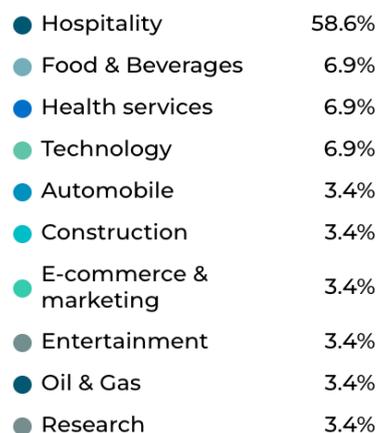
Examining the profile of borrowers, there is a stratification of the population groups that have been accorded access to loans. The majority of loans were disbursed to male owned/led businesses (93%) compared to female owned/led businesses (7%).

In addition, SWF-X has extended loans to 8 businesses owned/led by people from various ethnic/minority group (27.5%), 2 of which are ethnic minority owned family businesses.

Across industries, in-person retail and service businesses had declined massively due to Covid-19. Although hard hit, the impact was not as extreme for professional services firms in the banking and finance, real estate sectors.

The sector analysis donut shows that SWF-X has actively advanced funds to businesses within the hospitality sector, a key driver of economic activity in the state through tourism and employment, and one of the most severely impacted by the pandemic.

Sector Analysis



NB. Percentages in 'Gender of beneficiaries' and 'Sector analysis' donut charts are calculated based on 'total number of loans' and not on 'total financing provided'.

CONCLUSION & RECOMMENDATIONS

The target state is among one of the poorest states in the US, ranking 47th by per capita income. The state has one of the highest poverty rates across the country, at approx. 19%, due to economic inequality, high rates of working poor and high unemployment. MSMEs employed over half of the state's private workforce and represent 99% of the enterprise sector, being a key driver of the state's economy. Therefore, this report attests there is a strong need for the provision of financing for businesses during the Covid 19 pandemic to support greater socio-economic development for the state.

The US Sovereign Wealth Fund sponsored SME Financing Program provided a total of US\$87.75 mln of financing since its inception in 2020. This represents a total of 29 loans (and 1 follow-on loan) with an average loan size of US\$5.1 mln. Through the Fund's capital deployment, 1,484 lives have been directly impacted, and 2,602 jobs were saved at the businesses financed. SWF-X's loan size far exceeded those available through government Covid relief programs, providing businesses with greater flexibility and reprieve during the crisis.

In terms of the profile of beneficiaries reached, SWF-X was relatively successful in reaching those businesses that have suffered the most during the Pandemic. Approx. 40% of the businesses financed suffered a revenue loss of greater than 50%, the average revenue loss experienced by small businesses during the pandemic in 2020. In addition, more than 50% of SWF-X's financing was directed at businesses that suffered an employee loss of greater than 50%, greater than the average 47% employee loss threshold experienced by small companies in the US during the period, showing the Fund meeting its impact objectives of employment stability and income generation.

There is scope for further improving upon the impact created, by targeting key segments of the population to represent greater diversity and inclusivity. 47% of businesses in the state are owned by females, and there is an average of 46.8% female workers across the state. Racial minorities make up 20.6% and own 7.3% of businesses, with Hispanic's making up 47.5% of workers and owning 33% of businesses in the state. To boost impact in the state through programs such as SWF-X, we suggest collecting data on the employee profiles of enterprises supported to enhance diversity and inclusion.

The expected impact scores are also calibrated with considerations of various risks contributed by the lender that could impede the impact that is created. The private equity firm in this case, has relatively low risk in terms of mission alignment, given that it has a stated impact focus in supporting businesses to expedite covid recovery, collecting both qualitative & quantitative data to support the impact thesis. Execution risk is medium-high, due to the smaller Fund size and newer asset class relative to the Manager's AUM, however this is moderated by the very low levels of default risk. Evidence risk is low-medium given that key socio-economic indicators needed for ascertaining impact were available from the dataset for a large proportion of the loans.

GLOSSARY

Indicator	Description
Total financing provided	Total amount, in USD, of credit loans extended to target population.
Number of businesses supported	Total number of businesses supported through disbursement of credit loans.
Average size of loans	Weighted average size of loans disbursed in USD.
Number of female led/owned MSMEs	Total number of MSMEs that are either led (CEO) or owned by a female. A higher impact score is allocated for financing directed to female led/owned MSMEs to show gender inclusivity.
Average proportion of females across management team	The percentage of females across the management team. The more females as a proportion of management, the greater the gender inclusivity.
Average proportion of ethnic minorities across management team	The percentage of ethnic minorities across the management team. The greater the proportion, the greater the diversity & inclusivity.
Average revenue loss	The revenue loss suffered by the business during the Covid pandemic.
Average employee loss	The employee/job loss suffered by the business during Covid.
Number of lives impacted	Total number of employees impacted through financing the supported businesses. Shows the scale of the potential impact of credit finance.
Total taxes paid	Total taxes paid by businesses supported to the tax authorities.
Total number of jobs saved	Total number of jobs retained, rehired across all businesses due to the provision of SWF-X credit loans.
Total expenditure on local community	Total expenditure by businesses supported spent on the local economy products & services.
Average interest rate paid	Blended interest rate across loans in the portfolio. Shows loan affordability (risk).
Average loan tenor	Average term of loans, in years.
Default rate	Proportion of loans that have been written off.
Proportion of unsecured loans	Proportion of loans that are unsecured. Shows wealth/income level of loan recipient.



CONTACT US

 www.greenarccapital.com

 info@greenarccapital.com

 #10-01, Parkview Square, Singapore

 5901 Indian School Rd NE, Albuquerque,
New Mexico, USA

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The impact scores computed in the report are based on version 2.1 of the GreenArc Impact Methodology. This methodology is subject to change based on future sector development.