

## Independent Verification Report

### **Independent Verification:**

Investing for Development SICAV<sup>1</sup> (the “Signatory”) hired Luminis Advisors, LLC (the “Verifier”) to independently re-verify<sup>2</sup> that the Forestry and Climate Change Fund’s (“FCCF’s”) impact management system (“IMS”), as described in its internal policies and procedures (collectively, the “Policies”), and summarized in the disclosure statement dated July 25, 2023 (the “Statement”) aligns with the Operating Principles for Impact Management (each, an “Impact Principle” and collectively, the “Impact Principles”) in accordance with Impact Principle 9. The Signatory reports FCCF’s total assets under management in alignment with the Impact Principles of USD 10.9 million as of March 31, 2023 (the “Covered Assets”).

### **Methodology and Scope of Independent Verification:**

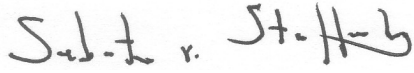
- Verify that the Policies address, and are in alignment with, each of the Impact Principles.
- Assess the alignment of FCCF’s IMS as outlined in the Policies and summarized in the Statement with the Impact Principles.
- Evaluate the effectiveness of FCCF’s IMS in assessing, managing, monitoring, recording, and reporting impact, considering the system’s quality, completeness, reliability, neutrality, and ease of understanding.
- Interview key members of FCCF’s management team responsible for the implementation of its IMS, as outlined in the Policies and summarized in the Statement.
- Verify that all Covered Assets align with the Impact Principles.

### *Verifier’s assessment:*

- *Does not include any appraisal of the adequacy or effectiveness of FCCF’s IMS;*
- *Does not verify actual impacts achieved;*
- *Is based on public information as well as internal material provided by FCCF;*
- *Assumes FCCF-provided information is accurate and complete; and*
- *Reflects Verifier’s professional judgment based on its analysis of the information provided by the Signatory.*

### **Verifier Endorsement:**

Based on the procedures performed and the review conducted, Verifier believes that FCCF’s Statement is aligned, in all material respects, with the Impact Principles, as it pertains to the Covered Assets. Verifier is independent of the development and implementation of the Signatory’s impact strategy, management system, and investment process.



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**Sebastian von Stauffenberg**  
Principal and CEO  
Luminis Advisors, LLC  
August 29, 2024



<sup>1</sup> A société d’investissement à capital variable incorporated under Luxembourg law and registered with the *Registre de Commerce et des Sociétés au Luxembourg* (“RCSL”) under number B.148 826.

<sup>2</sup> Verifier issued its first OPIM verification of FCCF on August 31, 2021.



**Forestry and Climate  
Change Fund**



### **About Luminis Advisors, LLC**

Luminis Advisors, LLC (“Luminis”) is an independent advisory firm that provides a range of solutions to the impact investment market based on deep industry knowledge, expert risk analysis, and a comprehensive suite of benchmark data. Since its founding in 2014, Luminis has worked with a wide range of stakeholders, including asset managers, investors, as well as other service providers, and completed more than 550 evaluations of over 150 impact investment funds. For more information, visit [www.luminisadvisors.com](http://www.luminisadvisors.com).

### Operating Principles for Impact Management – Verifier findings<sup>3</sup>:

Impact Principle (“IP”)	Score <sup>4</sup>	Comments
IP 1. Define strategic impact objective(s), consistent with the investment strategy	✓+	The strategic impact objective remains clearly defined and aligned with the United Nations Sustainable Development Goals (“SDGs”) and FCCF’s investment strategy. Providing further evidence or research-based linkages to impact outcomes would enhance FCCF’s Theory of Change (“ToC”).
IP 2. Manage strategic impact on a portfolio basis	✓	Portfolio monitoring and reporting has improved as the portfolio and institutional knowledge have matured. Good integration of impact considerations in the entire investment process. Nonetheless, some focus areas demonstrate stronger key performance indicators (“KPIs”) and links to portfolio-level outcomes, while others are still aggregations of individual investments. Having a more formalized and standardized approach across the portfolio would allow for measurable comparisons to targets and historical performance.
IP 3. Establish the Manager’s contribution to the achievement of impact	✓	Clear and credible narrative backed by preliminary data and research on the ToC. Given FCCF’s small size and limited capacity as well as the esoteric nature of its target sector, both impact and evidence of FCCF’s contribution have proven difficult to obtain. Third-party sector research is limited and difficult for FCCF to conduct itself (understandably, given the limited staff capacity).  Although achieving positive outcomes is largely a result of FCCF’s intervention, the question of <i>how</i> FCCF is contributing to the outcomes could be made clearer.
IP 4. Assess the expected impact of each investment, based on a systematic approach	✓	Strong screening, robust feasibility studies, and a thorough due diligence process together provide the basis for impact expectations and social risk assessment. Measurement framework is well-defined and designed with flexibility to accommodate changes over time. Improved data quality since last verification.
IP 5. Assess, address, monitor, and manage potential negative impacts of each investment	✓+	Continued excellence in progress reporting and monitoring. The addition of a full-time field staff member strengthens engagement with investees and exchange of information. ‘Equity & Inclusion’ focus area is now included in investee monitoring process. Third-party subcontractor helps investees measure ESG criteria. Risk mitigation to avoid negative impacts could be fortified, although this may be too advanced given the maturity level of investees.
IP 6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	✓+	Systematic impact monitoring and reporting of individual investments. When compared to the previous verification, FCCF has stronger board participation and more frequent field visits by local staff and third-party subcontractor. The closer interaction allows FCCF to better triangulate investee reporting. Regular (bi-weekly) meeting to discuss each investee’s progress and needs (with respect to impact metrics) allows for consistent engagement with investees to evaluate impact and respond with flexibility.  Improved information gathering to monitor progress and respond in order to modify and strengthen outcomes. Nonetheless, social performance data sharing with investee could be improved. Anonymous client satisfaction surveys are a valuable addition to get “voice-of-the-client” feedback.
IP 7. Conduct exits considering the effect on sustained impact	✓	Exit policy is rudimentary but included in investment decision-making process (e.g., factors considered include: impact risk, viability of business, different ownership structures, and impact engagement of ownership). Formal policy on responsible exits is still being finalized, which is expected given that FCCF is a pioneer in an emerging sector and the evolving nature of the eventual market is highly uncertain at this stage.

<sup>3</sup> The decision to publicly disclose these Verifier findings, and/or the specific score assigned to each Impact Principle, is left to the sole discretion of the Signatory.

<sup>4</sup> Scoring scale:

- ✓+ Alignment with Impact Principle exceeds expectations
- ✓ Aligned with Impact Principle
- ✓- Aligned with Impact Principle but with room for improvement
- X Not aligned with Impact Principle



<p>IP 8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned</p>	<p>√+</p>	<p>Excellent and improved review of impact performance and risk report documentation. Progress reports have lessons learned and next steps. Feedback loop for adapting policies/procedures based on lessons learned is an integral part of the process.</p> <p>Strong change management that relies less on whether or not the impact is likely to be reached, and more on adapting policies, processes or measures need to achieve impact (e.g., May 15, 2024 strategic meeting with all levels of FCCF stakeholders).</p> <p>Although there is no formal or systematized process to institutionalize knowledge across FCCF, its approach toward information sharing and openness to adapting and learning is exemplary. Formalizing these practices could ensure continuity and standardization.</p>
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## Operating Principles for Impact Management – Comparability Assessment<sup>5</sup>:

Impact Principle (“IP”)	Best Practice <sup>6</sup>	Comparison to Best Practice:
IP 1. Define strategic impact objective(s), consistent with the investment strategy	★★★★	Linkage between impact strategy/objective and impact outcomes could be stronger. Finding strong KPIs that help identify real social impact advancement (vis-à-vis Input > Output > Outcome) to measure and gauge targets and to understand impact performance over time.  Measuring the sustainability of the investee is important but FCCF could add more ways to measure impact potential systematically. It is commendable that FCCF critically evaluates the strategy for achieving impact objectives and the assumptions supporting the strategy. This approach goes beyond outputs by testing the evidence to validate the strategy and its underlying assumptions.
IP 2. Manage strategic impact on a portfolio basis	★★	Stronger formalization and standardization would allow for more consistency and easier comparability across the portfolio. Although staff incentives are still being tested for impact criteria, this is an area where a small fund in particular can experiment.
IP 3. Establish the Manager’s contribution to the achievement of impact	★★★	FCCF seems to rely on outputs and potential outcomes without a strong contribution narrative. Although there are outcomes that were probably not possible without FCCF, its contribution to impact does not seem to be measured. The Convergence study helps build credibility by strengthening the narrative.
IP 4. Assess the expected impact of each investment, based on a systematic approach	★★★	Systematic assessment of impact potential could be improved with quantifiable impact measures and risk factors that are determined ex-ante and measured ex-post.
IP 5. Assess, address, monitor, and manage potential negative impacts of each investment	★★★	Information gathering and appropriate action steps to modify and improve outcomes seems strong. Open and continuous line of communication is very good. Notably, verifier not been able to verify ESG checklist or standardized risk mitigation process.
IP 6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	★★★★	Scope of impact data sharing with investees could be improved. Impact reporting to stakeholders is good but could be more frequent.
IP 7. Conduct exits considering the effect on sustained impact	★★★	FCCF’s current exit policies/procedures seem less formalized and structured which is understandable given the fluidity of FCCF’s target market and impact outcomes. Having clear exit policies/procedures is important to guide investment decisions and mitigate impact related risks.
IP 8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned	★★★★	Continuous improvement and adaptability are notable strengths of FCCF. However, an opportunity remains to strengthen strategic decision making by systematically reviewing and documenting the actual versus expected impact of initiatives and lessons learned, thereby enriching FCCF’s institutional memory.

<sup>5</sup> The decision to publicly disclose this Comparability Assessment, and/or the specific star grade assigned to each Impact Principle, is left to the sole discretion of the Signatory.

<sup>6</sup> Best Practice star grading scale:

- ★★★★★ *World-class*
- ★★★★ *Among the market leaders*
- ★★★ *Average*
- ★★ *Below best practices*
- ★ *Nascent and/or inadequate*