

GLIN Impact Capital

Disclosure Statement

Operating Principles for Impact Management

2024.02.28

Introduction

- **GLIN Impact Capital hereby affirms its status as a Signatory to the Operating Principles for Impact management (the “Impact Principles”).**
- **The Disclosure Statement applies to the following assets or business lines (the “Covered Assets”): GLIN Impact Capital LPS (VC/Growth Equity)**
- **The total Covered Assets in alignment with the Impact Principles is US\$ 10 mil as of February 2024.**
- **Signed: Masato Nakamura**
- **Name of Institution: GLIN Impact Capital LLP**
- **Authorized Representative: Masato Nakamura**
- **Title: Founding Partner**
- **Date: 28th February 2024**

Principle 1: Define strategic impact objective(s), consistent with the investment strategy

- **PRINCIPLES GUIDANCE:**

- **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.**

Principle 1: Define strategic impact objective(s), consistent with the investment strategy

- GLIN Impact Capital has a theory of change with a long term mission “To realize a sustainable society where the well-being of individuals is high, and people coexist with the environment.”
- With the long term mission, GLIN does impact investment and support portfolio companies which generate an immediate outcome: “Impact-oriented funds flow into companies contributing to the resolution of societal challenges in Japan, such as environmental issues, diversity, an aging population, agriculture, etc., and Impact Measurement and Management (IMM) are implemented.”
- GLIN has articulated an impact investing strategy, as detailed in its Theory of Change, emphasizing the firm’s role in promoting impact investing in Japanese society by demonstrating the viability of the industry and catalyzing the local market. The strategy is in part based on GLIN’s founders’ research at Harvard Business School into how to promote impact investing in Japan. Moreover, we have identified eight “sample social issues” that it will seek to address, which include women’s social advancement, the declining birth rate, and supporting the aging population. Some evidence for these challenges is cited in the Theory of Change documentation.
- GLIN has linked each “sample social issue” to the relevant SDGs in its Theory of Change documentation.

Principle 2: Manage strategic impact on a portfolio basis.

- **PRINCIPLES GUIDANCE:**

- **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 recognising 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.**

Principle 2: Manage strategic impact on a portfolio basis.

- GLIN has developed and started to apply a set of IM processes, including a qualitative assessment of four impact criteria, a quantitative impact scoring framework, a KPI-setting process in collaboration with the investee, as well as an impact monitoring system. The development and implementation of the framework is chiefly captured in the ESG/Impact Investment Process deck.
- GLIN has tied its staff incentive systems to the achievement of impact by setting a portfolio-level hurdle rate. If the hurdle rate is not achieved, 50% of GLIN's carry will be donated to relevant NGOs and other organizations.

Principle 3:

Establish the Manager's contribution to achievement of impact.

- **PRINCIPLES GUIDANCE:**


- **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.**

Principle 3:

Establish the Manager's contribution to achievement of impact.

- GLIN has a strong focus on indirect (i.e., market-building) investor contribution in its Theory of Change. In addition, GLIN has developed a process for assessing and documenting its direct contribution to the achievement of impact systematically for each of its investments. For each investment, GLIN assesses its potential to contribute at the levels of Capital Allocation, Engagement, at the Enterprise level, and at the Stakeholder level. At each of these levels, potential investor contribution activities are detailed and counterfactuals are discussed.
- GLIN has started to collect feedback and testimonials (to be featured in GLIN's annual impact report) from its investees that detail how GLIN has contributed as an investor to its investees' achievement of impact.

Principle 4: Assess the expected impact of each investment, based on a systematic approach.



- **PRINCIPLES GUIDANCE:**

- 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.

Principle 4: Assess the expected impact of each investment, based on a systematic approach.

- GLIN has demonstrated a clear approach in evaluating the expected impact of its investments across the five investments it has made so far. Using GLIN's "impact rating" tool, each investee is assigned a rating, for which GLIN utilizes the Impact Management Project (IMP)'s 5 Dimensions of Impact, where each dimension houses at least 4 sub-criteria. Ultimately, the tool aggregates these ratings towards a final "impact rating". For the investment to be approved, it must earn a score of at least 6 of 10 for the investment committee to consider it. The results of this assessment are weighed alongside other factors by the Investment Committee.
- Having confirmed the impact viability of a prospective investee, GLIN works with the investee post-investment to develop an impact logic chain to map its investee's future inputs, activities, outputs, outcomes, and impacts. Informed by the logic chain analysis, GLIN and the investee also select the appropriate KPIs to track across the life of the investment. GLIN draws on IRIS+ to select the right KPIs, where appropriate.

Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment.

- **PRINCIPLES GUIDANCE:**

- **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)⁷ 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 practice⁸ . 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.**

Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment.

- GLIN has established a process to identify and assess the ESG risks of its investments ex-ante, which includes leveraging due diligence conducted by third-party providers (i.e., MSCI) and conducting due diligence for material risks based on sector-specific SASB standards. A summary of material ESG risks are included in the IC memos for each transaction, and GLIN measures and monitors a range of ESG KPIs.
- GLIN also draws up Environmental/Social Action Plans (ESAPs) and implements those action plans by providing active support. GLIN uses a three-tier process to identify the most material issues that will drive enterprise value creation and engages with investee management to implement action items.

Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

- **PRINCIPLES GUIDANCE:**

- **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 recognising 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.**

Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

- GLIN maintains a KPI tracker spreadsheet for each investee where it monitors the progress of its investments towards impact targets. GLIN records the following data in the spreadsheet: impact targets, data collection methods, expected collection cadence, and impact data from the latest collection period, among other relevant data.
- In addition, GLIN's process of setting KPIs and associated targets allows the firm to compare impact performance against expectations on an ongoing basis.
- GLIN has begun to track impact outcomes; we contracted with 60 decibels to produce a report on stakeholders' experience with On the Slope's work and the firm intends to expand this practice.

Principle 7:

Conduct exits considering the effect on sustained impact.

- **PRINCIPLES GUIDANCE:**

- **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.**

Principle 7:

Conduct exits considering the effect on sustained impact.

- Reflecting its early stage, GLIN has not had any exits yet. However, GLIN envisions itself as a future market leader in facilitating “impact IPOs” for social enterprises in Japan. Though it is still too early for GLIN to have brought an Impact IPO to pass, it has taken some concrete steps to prepare for such an eventuality. GLIN has begun to formulate in its ESG/Impact Process Documentation the strategies to best support the listing of one of its own investees; these plans include a roadshow for the investee and the facilitation of contacts with large public equities investors. GLIN has also worked as one of the committee members at “Impact IPO Working Group” under GSG Japan’s banner, where the members worked to create a disclosure guideline for social enterprises that decide to become listed companies to better disclose their social impact to listed equity investors.

Principle 8: Review, document and improve decisions and processes based on the achievement of impact and lessons learned

- **PRINCIPLES GUIDANCE:**

- **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.**

Principle 8: Review, document and improve decisions and processes based on the achievement of impact and lessons learned

- GLIN has included a basic outline of GLIN's review process for the performance of ongoing investments; GLIN has adopted the “Continuous Cycle of Measurement Objectives” as a guide for assessing impact performance. Furthermore, GLIN has proposed a framework for reviewing impact performance of investments post exit, though GLIN has not yet exited an investment yet.
- Current ways of review include setting aside time at an annual off-site retreats for reflection on possible improvements to GLIN's own impact management systems, allowing each of staff to offer their opinions on the firm's internal systems.

Principle 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

- **PRINCIPLES GUIDANCE:**

- **The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.**

Principle 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

- This Disclosure Statement confirms the alignment of GLIN’s procedures with the Impact Principles and will be updated annually.
- The independent assurance report on the alignment of GLIN with the Operating Principles for Impact Management is shown in the following pages.
- BlueMark is the independent verifier for GLIN.
- Qualifications: “BlueMark is a leading independent provider of impact verification services in the impact investing market. BlueMark is a subsidiary of Tideline Advisors, LLC, a specialized consulting firm that works with asset managers and allocators to design and implement best-in-class impact management and measurement systems.”
- BlueMark’s address: 915-2 Battery St. San Francisco, CA 94111
- Most recent review: September 2023 “diagnostic verification”. We will conduct our first full verification in 2024.
- GLIN intends to undertake verification every 3 years.

Principle 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.



Verifier Statement

Independent Verification Report

Prepared for GLIN: [09/25/2023]

Introduction

GLIN engaged BlueMark to undertake an independent diagnostic verification of the alignment of GLIN's impact management (IM) system with the Operating Principles for Impact Management (the Impact Principles).¹ BlueMark's diagnostic conclusions are intended to provide GLIN with learning output on the extent of its alignment.

Summary assessment conclusions

BlueMark has independently verified GLIN's extent of alignment with the Impact Principles. Key takeaways from BlueMark's assessment are as follows:

Principle 1: GLIN has developed a theory of change primarily centered around advancing impact investing in Japan. To further align, GLIN should build out its theory of change to explain how its activities will help achieve the social/environmental objectives the firm has identified.

Principle 2: GLIN has developed and begun to apply a set of processes for assessing and managing impact across the investment lifecycle, and has tied impact performance to its staff incentive systems. To further align, the firm should develop tools to allow for comparison of impact across the portfolio and consolidate its impact management policies.

Principle 3: GLIN incorporates an extensive assessment of its possible investor contribution into its pre-investment process and the firm has started to collect evidence of its contributions. To further align, GLIN should continue to systematize its tracking of progress against investor contribution activities.

Principle 4: GLIN has implemented a three-stage impact assessment process, consisting of a qualitative and quantitative impact scoring tool, that incorporates industry-standard considerations such as the IMP's 5 Dimensions.

Principle 5: GLIN has developed an ESG risk management framework, aligned with relevant industry standards. GLIN should codify a process to identify underperformance and address new or unexpected ESG risks arising throughout each investment's holding period.

Principle 6: GLIN monitors the impact progress of its investments in transaction-specific KPI spreadsheets, where it monitors against targets, determines KPI collection cadence, and records recent KPI data. To further align, GLIN should systematize a set of actions to assess and address impact underperformance in its portfolio.

Principle 7: GLIN has laid out the principles of a strategic approach involving "impact IPOs"—likely to be its dominant form of exit—and has executed some parts of this plan for one portfolio GLIN nearing an IPO. To further align, GLIN should build out and codify a responsible exit framework that lays out its contributions toward sustaining impact after exit.

Principle 8: GLIN incorporates concepts of impact review in its impact management practice, but has yet to formalize the process, though it has set aside time at firm-wide meetings for reflections on internal processes. To further align, GLIN should codify a process for reviewing and implementing improvements to its impact strategy its IM system on a regular cadence.



Verifier Statement

Independent Verification Report

Prepared for GLIN: [09/25/2023]

Assessment methodology and scope

GLIN provided BlueMark with the relevant supporting documentation for the policies, processes, and tools related to the IM system applicable to the Covered Assets. The scope of BlueMark's work was limited to processes in place related to the Covered Assets as of September, 2023. BlueMark believes that the evidence obtained in the scope of its assessment is sufficient and appropriate to provide a basis for our conclusions.²

BlueMark's full assessment methodology, based on its professional judgment, consisted of:

1. Assessment of the IM system in relation to the Impact Principles, using BlueMark's proprietary rubric, and examining processes and policies against the following criteria:
 - *Compliance* of the IM system with a threshold level of practice;
 - *Quality* of the IM system's design in terms of its consistency and robustness; and
 - *Depth* of sub-components of the system, focused on completeness
2. Interviews with GLIN staff responsible for defining and implementing the IM system;
3. Testing of selected GLIN transactions to check the application of the IM system; and
4. Delivery of detailed assessment findings to GLIN, outlining areas of strong alignment and recommended improvement, as well as BlueMark's proprietary benchmark ratings on the extent of alignment to each of the Impact Principles.

Permissions

This statement, including our conclusions, has been prepared solely for GLIN in accordance with the agreement between our firms. We permit GLIN to disclose this statement in its entirety online, or to furnish this statement to other interested parties to demonstrate GLIN's alignment with the Operating Principles for Impact Management. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than GLIN for our work or this statement except where terms are expressly agreed between us in writing.

About BlueMark

BlueMark, a Tideline company, is a leading provider of impact verification services in the impact investing market. BlueMark was founded with a mission to "strengthen trust in impact investing" and to help bring more accountability to the impact investment process. BlueMark is a wholly owned subsidiary of Tideline Advisors, LLC, a certified women-owned advisory firm in impact investing. Since its founding in 2014, Tideline has become a recognized leader in impact measurement and management, working with leading asset owners and managers to design and implement impact management systems.

BlueMark has conducted this verification with an independent and unconflicted team experienced in relevant impact measurement and management issues. BlueMark has implemented a Standard of Conduct requiring our employees to adhere to the highest standards of professional integrity, ethics, and objectivity in their conduct of business activities.

BlueMark has office locations in London, UK; New York, NY; Portland, OR; and San Francisco, CA and is headquartered at 915 Battery St, San Francisco, CA 94111, USA. For more information, please visit www.bluemarktideline.com.

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

GLIN
IMPACT CAPITAL