QUONA
CAPITAL

FINTECH FOR INCLUSION IN EMERGING MARKETS

OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

DISCLOSURE STATEMENT

Disclosure Statement

Operating Principles for Impact Management

Quona Capital

4 February 2021

Quona Capital Management Ltd. ("Quona Capital" or "Quona") is a signatory to the Operating Principles for Impact Management (the "Principles")[1]. The International Finance Corporation ("IFC"), in consultation external stakeholders developed the Operating Principles for Impact Management. These Principles support the development of the impact investing industry by establishing a common discipline around the management of investments of impact.

Quona Capital is a venture firm dedicated to financial technology for inclusion in emerging markets. Quona invests in scale-up stage companies that are expanding access to quality financial services for underserved consumers and small businesses inSouth & Southeast Asia, Latin America and Africa & MENA.

The following disclosure statement applies to all funds managed by Quona: Frontier Investments Group (FIG); Accion Frontier Inclusion Fund (AFIF, or Fund I); Accion Quona Inclusion Fund (AQF, or Fund II).

The total assets under management in alignment with the Principles is USD 372 million as of December 31, 2020[2].

Monica Brand Engel
Co-founder and Managing Partner
Quona Capital
4 February 2021

[1] Please visit the Operating Principles for Impact Management website (https://www.impactprinciples.org/) for more information about The Principles and related resources.
[2] "The AUM provided here is based on total committed capital across Quona's accounts (two funds and two separately managed accounts)

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.

- Quona Capital is a venture firm dedicated to financial technology for inclusion in emerging markets. Quona invests in scale-up stage companies that are expanding access to quality financial services for underserved consumers and small businesses in South & Southeast Asia, Latin America and Africa & MENA. We back entrepreneurs whose companies have the potential to provide outstanding financial returns and promote breakthrough innovations in financial inclusion, which positioned prominently as an enabler of developmental goals in the 2030 Sustainable Development Goals, where it is featured as a target in eight of the seventeen goals[3].

- Quona's funds have clear and defined social impact objectives focused on financial inclusion. Quona's strategy contributes to and aligns with targets identified under SDG 1 (no poverty), SDG 3 (good health and well-being), SDG 5 (gender equality), SDG 8 (decent work and economic growth), and SDG 10 (reduced inequalities).

- Financial inclusion drives Quona's team and is core to its DNA. Quona's theory of social change marries the economic benefits of financial inclusion with the transformative power of technological change sweeping across emerging markets. Access to financial services fuels economic activity at both the household and macro levels. At the micro level, quality financial services enable aspiring consumers and enterprises to transact and engage in commerce, repair or improve their homes, invest in their businesses or in the education of their children, save to buy an asset or pay for other life goals, and insure their properties and lives against the unexpected. At the macro level, financial inclusion is positively correlated with gross domestic product ("GDP") growth, reduced income inequality, and more efficient capital markets.

- Quona's mission is to combine money and meaning—investing in companies with the potential to generate attractive returns on investment while improving livelihoods around the globe. Quona's team believes the social and financial impact of its investments in a company and on the broader community are intertwined. The firm's strategy is to find opportunities where social and financial drivers and returns are mutually reinforcing, rather than accepting a trade-off between the two. Quona aims for risk-adjusted market returns while backing companies that are making the world a better place.

[3] Financial Inclusion and the SDGs - UN Capital Development Fund

- Key criteria for investment decisions include the quality and reputation of the management team, the size of the addressable market, the defensibility of the business model, the measurable and sustainable impact of financial inclusion, the multitude of potential acquirers, and the strength of the investor syndicate. Quona is also hyper-focused on making investments in companies that have strong potential exit outcomes and build thriving venture ecosystems that foster further innovation.

PRINCIPLE 2: Manage strategic impact on a portfolio basis.

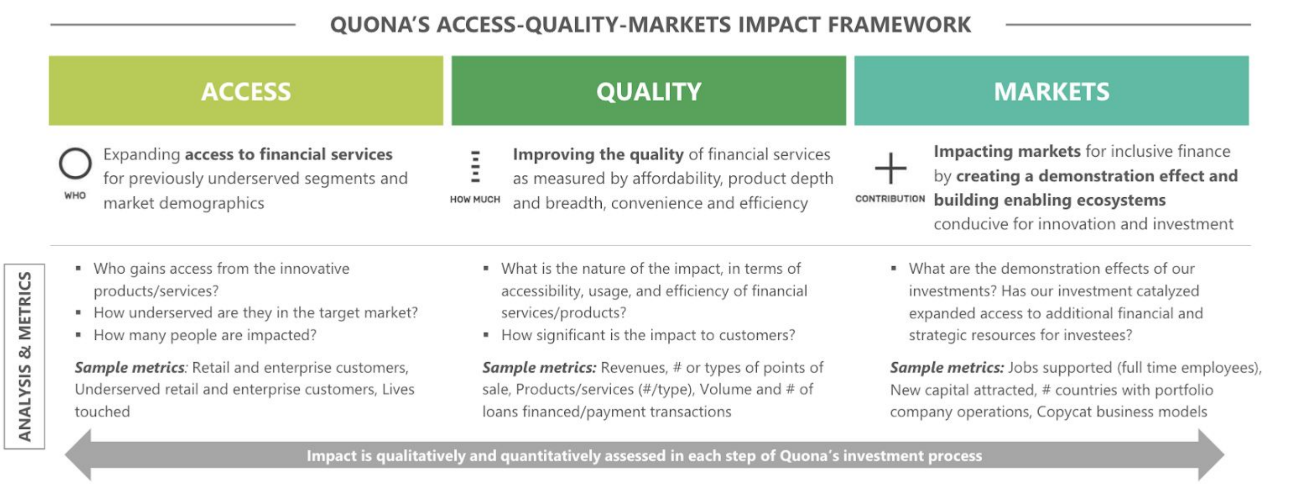
The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- Social performance management is core to Quona's annual strategy, and is included in the team-wide goals that are used to assess performance and determine individual compensation.

- Quona's investment activities are carried out under a rigorous, disciplined, and systematic process. Deals are sourced by the Quona Team through multiple channels, including referrals, peer investors, market intelligence, and industry-related activities. Deals are initially reviewed for fit with Quona's strategy and Investment Guidelines, which includes, but is not limited to, a determination of whether the investment opportunity can have a measurable impact in furthering financial inclusion.

- Impact is measured and monitored throughout Quona's investment process. Quona strives to shape portfolio company business strategies to enhance impact before investment and during the life of each portfolio investment, mainly achieved through its influence as board members and regular engagement by the Quona Team. The business objectives of the portfolio companies are expected to be aligned with the social mandate of Quona Capital, and it is through supporting company growth and profitability that Quona seeks to generate both social impact and attractive financial returns. In addition, by helping portfolio companies to scale profitably with quality, Quona expects to achieve the greatest social impact across various dimensions of social performance.

- All portfolio companies are measured and assessed against Quona's "Access, Quality, Markets" ("AQM") financial inclusion impact framework (below), which was developed in partnership with industry leaders and is harmonized with the Impact Management Project. Quona's AQM framework is applicable across the fintech verticals in which Quona invests, with some metrics being common across all Quona portfolio companies and some specific to a given fintech vertical or a given company. This enables Quona to measure financial inclusion at the company level and to aggregate a set of core impact metrics across the portfolio and assess progress towards financial inclusion at a firm level.



- In collaboration with investee companies during the diligence process, Quona selects appropriate impact, financial and operational data indicators to be shared with Quona on a regular basis. Impact metrics are aligned with Quona's "AQM" framework. Where possible, Quona aligns portfolio company impact, operational, and financial KPIs with the GIIN's IRIS+ metrics.

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[4]. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- Quona invests in emerging markets where the venture capital ecosystems are at the infant or adolescent stages of development. To help these ecosystems flourish, Quona not only invests capital in undersupplied markets, but also supports portfolio companies in ways that go beyond what might be required in more mature markets. This commitment is central to Quona's emerging market investing philosophy, and Quona is continuously iterating to find the best model to deploy resources and support entrepreneurs and their efforts.

- As a global team and portfolio of experienced fintech operators, Quona brings a compelling value proposition to its portfolio: unparalleled fintech and company-building **experience**, extensive financial services **knowledge**, and a powerful global **network**. This value-add is delivered through Quona's investment teams and Platform team:

[4] For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

- ○ Quona typically makes significant minority investments and seeks representation on company boards of directors to enable active governance and portfolio management. Through active governance and strong relationships with company leadership, Quona's investment team leverages its position to support company performance – social and financial – in regards to governance, strategy, operations and business development.
- ○ As its portfolio has grown, Quona has refined its value creation strategy based on input from its portfolio company CEOs and other stakeholders to understand the key challenges, gaps, and opportunities they face. In addition to value-add contribution from the active governance of investment teams, Quona also has a dedicated Platform team that collaborates with the investment team to contribute to portfolio company and ecosystem growth. These efforts are ongoing, as Quona seeks to ensure that it creates value in a differentiated way, including curated fintech insights and events; intra-portfolio networks and knowledge sharing; relationship building between Quona's global network of strategic partners, advisors, funders, and fintech operators; and access to priority resources such as leadership coaching and PR support.

- Quona is integrating explicit expected and actual contributions narratives into existing processes and our up and coming portfolio information management system, to more systematically document and assess Quona's expected and actual contribution to impact.

PRINCIPLE 4: Assess the expected impact of each investment, based on a systemic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[5] 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?[6] 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

[5] Impact is considered the material effect/s on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.
[6] Adapted from the Impact Management Project (www.impactmanagementproject.com).

consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[7] *and follow best practice*[8].

Quona's investment and impact theses are tied together. Quona leverages its "AQM" impact framework to establish and build upon a financial inclusion-focused theory of change for investee companies during each stage of the investment process, answering the below questions.

- *What is the intended impact?* Quona invests in companies focused on fintech for inclusion in emerging markets in order to improve access to quality financial services for underserved populations and MSMEs. Quona's intended impact is consistent across funds and investments, and companies must have alignment with this intended impact objective to be considered for investment. This is directly tied to the "What" dimension of the Impact Management Project's (IMP's) 5 Dimensions of Impact.

- *Who experiences the impact*? This addresses the "Access" pillar of Quona's impact framework, which assesses WHO each portfolio company is expected to reach by applying tailored, data-driven definitions for "underserved" customers for each company (contextualized by market); as well as HOW MANY customers or MSMEs are being reached. Quona's "Access" pillar is directly tied to the "Who" dimension of the IMP's 5 Dimensions of Impact.

- *How significant is the intended impact?* The "Quality" and "Markets" pillars of Quona's AQM impact measurement framework address this question. The "Quality" pillar assesses the expected nature and significance of the impact on the lives of the company's target customers, as well as the relative quality of the product in comparison to alternatives available to the customer. Some of the metrics included in this "Quality" pillar include affordability, product breadth, and customer satisfaction. The "Markets" pillar establishes a longer-term theory of change, focusing on the expected market-wide demonstration effects of a potential investment. Quona's "Quality" and "Markets" pillars are directly tied to the "How Much," "Contribution" and "Risk" dimensions of the IMPs 5 Dimensions of Impact.

During the due diligence process, the Quona team works with investee companies to ensure the full nature of their product and business (from an impact thesis perspective) is understood and vetted and to select impact metrics and KPIs that form a credible basis for monitoring the impact performance of investments established using the "AQM" impact framework. Quona relies on a range of resources including research from credible organisations, IRIS+, the UN SDGs and indicators for specific SDGs to establish metrics and indicators. The financial inclusion impact thesis and the planned set of impact metrics and KPIs is laid out and documented in the investment memorandum for each investment.

While Quona is thorough in its qualitative assessment of impact and identification of impact KPIs at the outset of each investment, Quona is currently implementing more systematic documentation of expected impact performance and Quona contribution to impact into the existing processes.

[7] Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (http://banalytics. net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.

[8] International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

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[9]. 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[10]. 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.

- Quona is committed to responsible ESG management. Each of Quona's funds have their own ESG policy, both similar but with slight differences driven by requirements by certain core LPs. Quona's ESG policies are aligned to industry standards, including the IFC's Corporate Governance Methodology.

- Risk assessment is core to Quona's due diligence process and, after investment, in the lifecycle of the companies. Companies must have a clear financial inclusion thesis in Quona's target investing markets to be considered for investment, which eliminates significant negative impact risk from the Quona portfolio. Assessing impact risk relates to specific business models (e.g. in lending, avoiding over-indebtedness) and stakeholders (e.g. investors that may be short term returns-focused). Quona manages risks where possible as a minority investor and actively identifies mitigants. Given Quona's focus on investing in asset-light fintech companies driving financial inclusion, the portfolio is generally categorized as low ESG risk. The main ESG risk for Quona's fintech portfolio companies is accountability to customers and responsible consumer relations/practices. Quona does occasionally invest in adjacency businesses with underlying physical operations, in which case ESG risk is considered medium.

- To address risks related to responsible consumer practices/relations, Quona has signed onto a set of guidelines for investing in responsible digital financial services. These are the Responsible Finance Forum's guidelines, established by an alliance of investors including the International Finance Corporation, and Quona, among others. Quona has incorporated these guidelines into its diligence practices and templates, and in its face-to-face interactions with prospective portfolio companies, Quona expresses the importance of such responsible practices.

- The due diligence process for new companies includes the submission and review of an ESG Diligence Questionnaire and Appraisal Report. In the event that risks or concerns are identified during due diligence, Quona works to establish an action plan with investee companies to address

[9] The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.
[10] Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/ themes/human-rights.htm).

identified risks. Standard ESG related terms and the given Quona fund ESG policy (and any ESG action plan, if applicable) are also included in the legal investment documents for the given investment.

- Post-investment, Quona's investment teams, which sit on company boards and take an active role in governance, are responsible for monitoring ESG aspects and risks of portfolio companies. Quona leverages annual Environmental & Social reports to monitor and report to LPs on ESG on an ongoing basis.

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 extent 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[11]. The Manager shall also seek to use the results framework to capture investment outcomes[12] .

- Quona's "AQM" impact framework drives the measurement, assessment, and reporting of company-level impact performance, and is core to Quona's intention to invest in companies that provide outstanding financial returns and promote breakthrough innovations in financial inclusion.

- The KPIs established during the investment process, inclusive of impact, operational and financial metrics and indicators, are reported by companies to Quona on a quarterly basis and are revisited on an as-needed basis as investment company business models scale and evolve.

- Quona measures and reports against the financial inclusion theory of change and corresponding KPIs established during the investment process. Quona has a standardized, pre-defined strategy for impact and performance reporting to LPs on a quarterly basis. Performance and impact are reported at an investee level, on a fund level, and on an aggregate level across Quona's funds.

- Company-level impact performance is assessed throughout the lifecycle of Quona's investment, including during follow-on investment rounds and during the exit process.

[11] Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.
[12] Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).

- To improve Quona's internal impact performance management process, Quona is establishing an annual, systematic review of company impact performance against the original impact theses.

PRINCIPLE 7 : Conduct exits considering the effect on sustained impact.

When conducting an exit[13] *, 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.*

- Quona's exit-focused strategy is core to the firm's investment thesis: Quona invests in scale-up stage companies that are expanding access to quality financial services for underserved consumers and small businesses in South & Southeast Asia, Latin America and Africa & MENA. Quona backs entrepreneurs whose companies have the potential to provide outstanding financial returns and promote breakthrough innovations in financial inclusion. Quona actively explores exit opportunities, typically including strategic trade sales, secondary sales to PE funds, or IPOs, throughout the holding period for each company.

- Quona documents company-level impact performance at the time of exit and impact lessons learned in an Exit Memo. In addition, Quona has recently implemented a standardized process and approach to assess how impact is considered at exit into the existing Exit Memo. The purpose of this document is to document considerations around impact, as well as exit merits and diligence on the buyer in the case of M&A.

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.

- Quona is committed to continuously reviewing and improving the impact management systems to adjust to industry standards and best practices.

- Quona's strategy was established to provide funding to companies that generate outstanding financial returns and intentional, measurable and positive impact. The impact performance, along with financial performance, of investments is reviewed regularly and proactively, in line with

[13] This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments

quarterly reporting cycles or after engagements with investee companies as members of boards and governance committees.

- Quona has recently launched a deeper internal quarterly review process to a) systematically assess and document financial and social performance, as well as Quona's contribution to impact, and b) establish future company-level priorities, leveraging lessons learned from the previous quarters.

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

Independent verification and public disclosure on an annual basis alignment of impact management systems with Principles.

- This Disclosure Note affirms the alignment of Quona's procedures with the Principles and will be updated annually.
- The independent assurance report on the alignment of Quona with the Operating Principles for Impact Management was completed by independent verifier BlueMark, a wholly owned subsidiary of Tideline Advisors, LLC. The verification will be replicated on an on-going basis.
- Qualifications of 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.
- Most recent review: 4 February 2021
- Next planned review: 2024