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Laxmi Capital Market Limited

DISCLOSURE STATEMENT

February 2023

DISCLOSURE STATEMENT

Laxmi Capital Market Limited (the “Signatory) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the “Impact Principles”).

This Disclosure Statement serves to affirm that Laxmi Capital Market Limited has the policies and procedures in place to manage impact investments through proposed fund- Laxmi Sustainable Energy Fund in accordance with the Impact Principles.

The total assets under management of proposed Laxmi Sustainable Energy Fund in alignment with the Impact Principles are US $7.5 Mil as of February 2023. The proposed Fund is under review of Securities Board of Nepal, the regulatory body.

Mr. Rajiv Sapkota
Chief Executive Officer
Laxmi Capital Market Limited

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.

Laxmi Capital Market Limited has received license to act as a fund manager for Private Equity and Venture Capital Fund under Specialized Investment Fund Regulation 2019 from Securities Board of Nepal (SEBON), regulator of Nepalese Capital Market. Laxmi Capital Market Limited is planning to launch first scheme under Laxmi Specialized Investment Fund. The first scheme Laxmi Sustainable Energy Fund will be involved on projects related to clean and sustainable energy. It is in the process of getting final approval from SEBON.

The main objective of Laxmi Sustainable Energy Fund is Commercial and Impact Investment related to clean and sustainable energy and switch dependence from fossils fuel to counter climate change which is one of the biggest threat to our own survival. Therefore, Laxmi Sustainable Energy Fund directly servers SDG no. 7 i.e. Affordable and Clean Energy, SDG No. 13 Climate Action and SDG No. 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. The objectives have been defined in the Investment Policy of Laxmi Sustainable Energy Fund which includes environmental and social impact as well. The fund plans to invest 90% of the portfolio in private equity of the firms focused in investment in Hydropower, Solar energy and other form of sustainable energy sources and remaining 10% on startup firms preferably contributing in the same sector.

SDG No. 7 Affordable and Clean Energy

Fund’s investment shall be focused on renewable power generation and clean energy i.e. to the companies focused in generating electricity through Hydropower, Solar and wind resource. Nepal being rich in water resources, majority of the investment shall be focused in electricity generation through hydropower. However, any other potential sources of clean and renewable energy generation shall not be neglected. Potential investments shall be analyzed on risk reward basis and investment decisions shall be based on the same.

SDG No.13 Climate Action

The fund is focused on investing in energy sources that shall assist to switch dependence of the economy from fossil fuels. By assisting to generate affordable and sustainable sources of clean energy fund shall play its part to counter climate change. In the Financial year 2021/22, out of the total import, Nepal’s share of petroleum products was 13.25%, which is equivalent to 6.21% of GDP. Fossil fuels are very expensive as well as non-renewable energy sources. It has high contribution in increasing Balance of Payment (BOP) deficit in Nepal. Additionally, Nepalese use gas stoves in urban areas & wood fodder in rural areas extensively. Gas stoves emit methane and wood fodder emits carbon monoxide both of which hampers the atmosphere. With the production of electricity, people are using induction stoves which has decreased the use of gas stoves. Our investment in green energy shall also supports this transition. In order to support

Nepal as well the entire world to shift from use of fossil fuels to sustainable energy source, our fund shall provide investments for development and production of sustainable energy.

SDG No. 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Part of the fund's investment will be used to support per capita economic growth and job creation, with the goal of achieving full and productive employment and decent work for all, including young people and equal pay for equal work. The aim is also to eliminate forced labor and reduce the number of youth who are not in employment or training.

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.

Laxmi Sustainable Energy Fund, as mentioned earlier, is focused in development of affordable and sustainable clean energy. The fund plans to invest 90% of the portfolio in private equity of the firms focused in investment in Hydropower, Solar energy and other form of sustainable energy sources and remaining 10% on startup firms who preferably contribute in the same sector. The fund shall carry out following activities to ensure that its portfolio investment is aligned with the impact goals of the firm:

- Fund shall communicate the impact goals that it is aligned with to the portfolio company's management team from the beginning phases of investment discussion. Impact Principles shall also be mentioned which investee company has to follow.
- While investing in the private equity of portfolio companies, in the initial stages of Due Diligence Audit, the fund shall ensure that the company fits investment criteria's which corresponds impact objective of the fund.
- A check list shall be drawn before instigating the due diligence process. Check list shall have criteria that fulfils funds requirement on clean energy impact that the investee company should oblige to.
- Fund shall undergo rigorous screening process during the initial stages of investment to ensure that the investments add to shareholder's wealth while addressing the impact concerns.
- Fund manager can pay periodic visits to the firms and the production units and ensure that they are not carrying out activities that harm the shareholder's wealth and are against the SDG goals.
- Fund shall maintain proper documents of the field visits as well as the impact reporting made by portfolio companies.
- Fund shall regularly monitor the performance of its investments as well as portfolio as a whole and make reporting regarding the same with Investment committee of the fund.
- Fund Manager shall focus on generating required amount of impact with optimum level of financial returns, alongside. Performance appraisal of the staff shall be done along with the profitability wherein impact created will also be considered.

- Furthermore, the fund shall always seek for best practices in the industry and shall be dedicated towards fulfillment of its impact objectives.

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.

The fund manager shall contribute in achievement of impact in two different levels i.e. fund level and portfolio level.

At the fund level, Fund manager shall be engaged in following activities:

- Shall bring together investors for the fund who understand and are motivated by the Impact Principles primarily relating to sustainable energy sources.
- Shall educate the general public regarding Sustainable Development Goals and why they are important. Fund manager may ensure that its Corporate Social Responsibility related activities include activities related towards achievement of SDGs, Goal no. 7 and 13, more favorably.
- Shall encourage investors to invest in firms and funds that follow the Impact Principles and have shown tangible impact in the society.
- Shall regularly report to investment committee of the fund and get suggestions from the investment committee relating to the investment and additional tangible impact that can be created by the fund (if any)
- Shall have a research team of its own which shall continuously monitor new development in the field of impact investing.
- Shall oversee the investment and manage the project to ensure that it is on track to achieve its goals. This includes monitoring the financial performance of the project, identifying and addressing any issues that arise, and ensuring that the project remains aligned with the impact goals of clean and sustainable energy development.
- shall work to establish partnerships and collaborations with other organizations and stakeholders to promote clean energy development. This includes working with governments, NGOs, and other impact investors to develop policies and programs that support clean energy development.

At portfolio Level, Fund manager shall carry out the following activities:

- Shall educate portfolio companies about sustainable development goals and impact objectives of the fund and positive impacts of the same.
- Shall carry out appropriate screening to ensure probable investment opportunities shall add value to the shareholders as well as create a tangible impact in the energy sector.
- Shall regularly supervise the portfolio companies to ensure they are adhering to the impact objectives.
- Shall carry out proper documentation of the impact reporting performed by the portfolio companies. The fund manager shall also assist the portfolio companies in their impact reporting process.

- Shall communicate the impact of the investment to investors, including reporting on the progress of the project, the financial performance, and the social and environmental impact.

Since the fund is still in the registration process, there is no impact narrative as such till date.

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.

- The intended impact of Laxmi Sustainable Energy Fund is to switch dependence from fossils fuel to counter climate change alongside uplifting the economic growth of the economy.
- The intended impact is experienced by environment, local population and country's economy.
- Manager can use a suitable results measurement framework to quantify the expected impact of the investment. This will include identifying specific indicators and targets that will be used to measure the impact and assessing the relative size of the challenge addressed within the targeted geographical context.
- Manager can identify potential challenges or obstacles that may arise during the implementation of the investment, as well as the strengths and weaknesses of the project.
- Manager can analyze risk factors and assess their potential impact, including any negative effects that may be greater than anticipated.
- Manager can develop a framework to identify the potential impacts that could further accelerate the impact goals. Framework shall be developed depending upon the projects since there might be unprecedented circumstances with the varying projects.
- Manager can maneuver feasibility study on various related established projects before developing a proper framework to inspect the impact and shall ensure that the impact corresponds with the impact goals.

Overall, systematic approach will provide a comprehensive assessment of the expected impact of each investment and will ensure that the investment is aligned with the impact goals of clean energy development. We may use IRIS+, HIPSO, Joint Impact Indicators or other similar metrics after the fund is in operation with proper analysis with the concerned stakeholders.

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.

Upon deal origination, the Manager rules out projects that fail the ESG standards on aspects such as environmental and social regulatory compliance. During the due diligence process the Manager may engage professional third party advisors to examine the financial, technical and legal aspects of the projects, especially those that would translate into ESG risks. Potential risks and mitigation measures are presented to the investment committee of the fund and rectification work is carried out to address such issues.

Initially, in our investment agreement with portfolio companies, we shall have checklist that will incorporate IFC Performance Standards to the extent possible. Additionally, we shall require our portfolio companies to submit impact reporting as well as do periodic visits to ensure compliance with Impact Principles. Our asset managers shall regularly monitor these investments and ensure that these investments align with our impact objectives. Further we may appoint an external expert periodically or as required basis to review/ monitor the working of the investee and negative impact that may be caused by the activities of our portfolio companies. Reports provided by such external experts shall be minutely studied and communicated with portfolio companies so that they can take corrective actions, if required.

Further, companies investing in energy sectors in Nepal have to conduct Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA) to ensure that operations of power plants will have minimized environmental impact in the production area before getting generation license from Department of Electricity Development (DOED), Nepal. This provides us a safety net.

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 Impact 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. The Manager shall also seek to use the results framework to capture investment outcomes.

Manager shall prepare financial projection as well as ESG checklist initially. Manager shall regularly track and report on the performance of the investment including its financial performance and its impact on the targeted areas. This will involve collecting and analyzing data on the specific indicators and targets identified during the impact assessment process. Periodic review shall be done to compare planned and actual positions.

Manager shall address challenges or obstacles that were not identified during the impact assessment process, as well as addressing any issues related to the financial performance of the investment.

Internally, Fund manager shall have three bodies regularly reviewing its activities, namely, Board of Directors, Investment Committee and Risk Committee. Investment Committee shall be responsible for directing the firm's investment, risk committee shall be responsible for risk assessment whereas BOD shall overlook overall activities of the fund. These committees shall have regular meetings and fund manager shall ensure that the members of these committee receive impact report before these meetings are held. The topic related to Impact Principles shall be topic of discussion in each of these meetings and the discussion and conclusions shall be documented. The suggestions provided by these committees shall be seriously implemented by the fund and the implementation of these decisions shall be monitored by the respective committee in the consecutive meetings.

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.

Fund has not done any exit till date but sure has exit plan.

PEVC funds in Nepal are required by the regulator to be a close ended fund with an investment horizon of 5 years to 15 years. Laxmi Sustainable Energy Fund plans to create a sustainable impact in the society for as long as possible and hence is in process of being registered.

There are two major ways of exit from a portfolio investment i.e. selling the shares to another investor through private placements or through Initial Public Offering(IPO). Department of Electricity Development (DOED) in Nepal grants generation license for 35 years only i.e. all hydropower projects should be returned to the government after 35 years of operation. Additionally, promoter shares of hydropower companies invested by PEVC funds, shall have a lock in period of 1 year after the initial Public offering of the company. These provisions play key role in exit from a portfolio investments of the fund.

Regardless of the exit strategy the fund chooses to adopt, Fund manager shall be conscious to ensure that impact created by the portfolio investment shall remain for a prolonged period of time. In the initial investment agreement itself, clause relating to the minimum basic requirement of sustainable impact that the investee shall maintain even after the exit of the fund shall be mentioned.

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.

As mentioned in the principle 2 and principle 3, fund manager shall receive impact report from all its portfolio companies and properly review these reports. Fund manager shall comment and take actions, if necessary, being based on these reports as well as periodic visits to the portfolio companies and production sites.

Moreover, Fund manager shall have its own reporting procedure where it shall circulate reports to its committee, investors as well as other stakeholders. Fund manager can also appoint an independent expert for impact assessment. Fund manager shall have a monitoring and evaluation team, as part of research team and to be looked upon by risk committee, which shall continuously monitor new development in the field of impact investing and try to adapt to these practices. Also, as mentioned in principle 6, the three committees i.e. BOD, investment committee and risk committee shall play its part in the monitoring and implementation process.

PRINCIPLE 9:Publicly disclose alignment with the Impact 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 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.

As mentioned earlier, our fund is in process of registration in SEBON and has not yet come into operation. Hence, we have not made any kinds of public disclosures as such. We have made a product paper and circulated it to potential investors where we have clearly mentioned that Laxmi Sustainable Energy Fund is an impact fund and we have also mentioned our impact objective in the same.

Disclosures required by regulator:

Specialized Investment Fund Regulation 2019 prepared by SEBON requires the following disclosures:

- Fund have to carry out audit of each fund under specialized investment fund unit separately each year.
- Funds have to prepare annual report and submit it to SEBON within 6 months of completion of fiscal year.
- Prospectus of the fund should include its investment areas and should explain about the nature of fund. Such prospectus is made public to the potential shareholders.
- Any changes in the funds regulation, MOA or AOA and changes in the management or board of the fund manager have to be notified to SEBON.

Additional Disclosures

Additional Disclosures we plan to provide to our stakeholders are:

- Information relating with our investment portfolio which shall be made available in our company website.
- Information relating to tangible impacts created by the fund shall be mentioned in our annual report and this information shall also be made available in our website.

Since the fund is yet to come under operation, we have not assigned any independent verifier. We plan in assigning one as soon as the fund comes into operation. We shall submit the Independent Verification report in 2024. Fund manager shall publish the risk assessment report from independent expert in the company website as well as shall provide a copy of such report to Operating Principles for Impact Management.