

**\*\*\*IMPORTANT NOTICE\*\*\***

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**SDG Outcomes Fund SCSp, SICAV-RAIF**

**1. Summary**

SDG Outcomes Fund SCSp, SICAV-RAIF (the “**Fund**”), the first vehicle of its kind, is dedicated to creating social and environmental outcomes through projects focused on health, employment, education and the environment, to benefit those who need it the most. The Fund represents an exciting new relationship between UBS Optimus Foundation and Bridges Outcomes Limited, a not-for-profit subsidiary of Bridges Fund Management Limited (a specialist impact-driven fund manager). The Fund is the first of its kind to bring together catalytic capital, blended finance and innovation in delivery, alongside the expertise of both organisations in outcomes-based mechanisms to achieve international development objectives with the potential to deliver financial returns. Bridges Outcomes Limited (the “**Portfolio Manager**” or “**we**”) will act as portfolio manager of the Fund and Bridges Outcomes Partnerships Limited (the “**Performance Manager**”) will act as performance manager (where appropriate) of the investments.

**2. No significant harm to the sustainable investment objective**

We work closely with delivery organizations<sup>1</sup> to reduce harm for people and planet as a first priority. The Portfolio Manager assesses potential negative impacts that can occur as a result of the core program implementation or through the delivery organization’s operations. The consideration of adverse impacts of programs on sustainability factors is integrated within each step of the Portfolio Manager’s investment process - as set out in the [Bridges Sustainable Investment Policy](#).

During the investment approval process, the Portfolio Manager conducts risk-based due diligence on all stakeholders involved in the delivery of the outcomes contracts, using a process designed to identify any actual or potential adverse impacts, including human rights abuses. This due diligence process is aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, where applicable, and is described in more detail in section 10 (*Due diligence*) below. Delivery organizations are engaged early on expectations related to managing actual or potential adverse impacts and our ongoing monitoring is designed to identify, prevent and mitigate such impacts and provide for appropriate remediation should they occur. Specifically, we expect delivery organizations to have a human rights policy which includes a commitment to the Declaration of the International Labour Organisation (ILO) on Fundamental Principles and Rights at Work and the ILO Basic Terms and Conditions of Employment.

**3. Sustainable investment objective of the financial product**

The sustainable investment objectives of the Fund are (i) to invest in economically or socially disadvantaged communities across the globe by delivering better health, employment, education, and environmental outcomes to those who need them the most, and (ii) to improve agriculture and/or ecosystems through delivering environmental outcomes. Individuals benefiting from these contracts include children and adults in or at-risk of extreme poverty, individuals at-risk of easily preventable illnesses, and young people lacking access to basic education and employment. The Fund aims to contribute towards achieving the United Nations Sustainable

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<sup>1</sup> Delivery organizations are also referred to as program implementers in the private placement memorandum of the Fund

Development Goals (“SDGs”) with a particular focus on SDGs 1 No poverty, 3 Good Health and Wellbeing, 4 Quality Education, 5 Gender Equality, 8 Decent Work and Economic Growth, 13 Climate Action, 14 Life under Water and 15 Life on Land.

#### 4. Investment strategy

The Fund will invest in approximately 15 to 20 outcomes contracts to provide upfront and ongoing working capital needs for programs which have a proven ability to positively contribute to at least one positive social or environmental outcome, specifically delivering an important outcome related to one of the Fund’s target SDGs for vulnerable or underserved groups. Outcome payers only pay for the results achieved, delivery organizations have the freedom to innovate and are incentivised to be as effective as possible, and social investors’ returns are entirely linked to verified results.

Our assessment of the governance practices of potential delivery organizations is embedded within our standard due diligence process as described in section 10 (*Due diligence*) below. Specifically, we will assess each potential delivery organization’s policies and procedures with respect to business integrity matters such as anti-money laundering, counter-finance terrorism and fraud, bribery and corruption, whistleblowing and investigations. We will also investigate their approach to data protection and information security, as well as their policies with respect to human resources, safeguarding and health and safety. During investment and delivery, we will work with delivery organizations to improve any policies or processes that are not at our required level. We will manage any material governance risk with the relevant delivery organisation collaboratively over the investment and delivery period, using a mitigation plan with respect to which progress will be reported and reviewed regularly at project board meetings and meetings of the ESG Sub-Committee (as described in section 10 (*Due diligence*) below).

#### 5. Proportion of investments

100% of the portfolio will go into sustainable investments. At least 10% will be invested in sustainable investments with an environmental objective and at least 50% in sustainable investments with a social objective. These are minimum thresholds and the actual percentages of sustainable investments with an environmental objective and a social objective, respectively, will be disclosed in the Fund’s periodic disclosures. Nevertheless, the Fund will be 100% invested in sustainable investments with either an environmental objective or a social objective.

100% of the Fund’s investments represent direct exposures to the risk and return associated with the outcomes contracts that the Fund is supporting.

#### 6. Monitoring of sustainable investment objective

At the design phase of each contract, the Portfolio Manager will work with the delivery organizations and, if appropriate, the Performance Manager, to agree the sustainability indicators and set in place the systems and structures to manage and report against the indicators. Part of the Portfolio Manager’s performance and adaptive management function is to support the delivery organizations to set up these systems and structures. For each outcomes contract:

- i. During the design phase, all partners will work together to design a theory of change. This is a collaborative design effort which may involve the local community, policy sector experts, people using the service and front-line staff;
- ii. The delivery organizations will be responsible for creating a case management system to facilitate monitoring and reporting of the sustainability indicators;
- iii. The Portfolio Manager, Performance Manager and/or partnership coordinator will set up a project board to meet monthly to collaboratively review performance of the outcomes contract and to jointly problem solve in order to maximize impact;
- iv. The Portfolio Manager, Performance Manager and/or partnership coordinator will meet regularly with the outcome payers to review outcome / impact achievement;
- v. The Portfolio Manager, Performance Manager and/or partnership coordinator may organise annual review events with a broader set of external stakeholders to challenge the outcomes achieved and review the delivery model to ensure continuous improvement; and

- vi. The outcome payer will commission an evaluation that analyses and identifies key positives and challenges within the outcomes contract. Delivery consortia may also commission evaluations which will help highlight delivery practices which maximize impact.

## 7. Methodologies

The sustainability indicators (“KPIs”) used to measure the attainment of the sustainable investment objective by the Fund are bespoke to each outcomes contract. This is because outcomes contracts are fully tailored to the situation and specific sustainable development need, so outcomes are agreed and respective individual KPIs are developed and defined only at the time the contract is formed, to understand KPIs that correlate with effective delivery. Therefore, any KPI applicable and to be measured is only available when the relevant project/programme has been agreed based on the specific delivery model being used. Each outcome contract will have clearly defined performance targets (by reference to the agreed KPIs), which must be achieved to prove the intended impact has been achieved and to release associated outcomes payments.

## 8. Data sources & processing

As the sustainable investment objective of the Fund covers a range of outcomes (across SDGs 1 No Poverty, 3 Good Health and Wellbeing, 4 Quality Education, 8 Decent Work and Economic Growth, 13 Climate Action, 14 Life under Water and 15 Life on Land) and geographies (i.e. global), we are unable to specify all the data sources which may be used to monitor the selected KPIs for every outcome contract to be made by the Fund. However, examples of data sources we may use include: student grades as reported by schools and / or ascertained by assessment exams, evaluation of the quality of a school's teaching, health outcomes data reported by primary and secondary health providers, employment outcomes evidenced and reported by employers.

Since outcomes payments are only released once defined performance targets have been achieved, it is essential for us to ensure we can obtain quality data for every outcomes contract we make. Without this data, it is also much harder for delivery organizations to understand the project participants, analyses what is working, and identify areas of improvement. The importance of data means that we will always assess data quality as part of our standard impact assessment methodology, and where the quality does not meet our standards, we will work with delivery organizations to design an improved data management system to ensure better data quality. For example, we will often work with delivery organizations to develop central data capture and reporting systems and processes where they were previously lacking, enabling them to track live delivery data, identify delivery trends and issues quickly, and use this information to inform service design to maximize outcomes achievement. This enables real time service innovations that lead to more impact.

We are able to support delivery organizations in this way, as we have, through the Performance Manager team, extensive expertise in data analysis. Every outcome contract will have assigned a dedicated data analyst from the Performance Manager, who will provide data analysis to support performance management, impact measurement and program evaluation.

Given our keen focus on data quality as described above, we do not use any estimated data to inform the Fund's KPIs.

## 9. Limitations to methodologies and data

The main limitation to our methodology described above is that we rely on delivery organizations to maintain robust data management systems and ensure data quality. However, we do not believe that this limitation will affect the attainment of the sustainable investment objective of the Fund for several reasons: (i) our diligence process ensures that we only partner with high-calibre delivery organizations, (ii) we have extensive experience in building data management and analysis capacity within delivery organizations and we supplement this with our own systems and (iii) through well-defined KPIs and reporting procedures, we are able to ensure a clear line of accountability from delivery organizations, on the one hand, and us and the Performance Manager, on the other.

## 10. Due diligence

The Portfolio Manager's approach to the due diligence of potential delivery organizations is aligned with British International Investment's guidance on effective fund-level Environmental and Social Management Systems (ESMS) and involves:

- i. Integrity, Regulatory and Finance (IRF) compliance checks which are in line with English AML Regulations and Joint Money Laundering Steering Group guidance;
- ii. Analysing risks at country-level, for example relating to legal risks, cyber risks and risks of fraud and corruption;
- iii. Conducting a ESG materiality analysis at project-level, considering both the relevant sector and country, using the SASB materiality map and British International Investment's sector profiles;
- iv. Using the analysis referred to in points ii. and iii. above to determine the material ESG risks for each potential delivery organization;
- v. For each delivery organization selected, creating an action plan to manage any identified material ESG risks, and ensuring that these are managed through ongoing monitoring and support and monthly check-ins with delivery organizations;
- vi. Including covenants in legal agreements with delivery organizations to manage IRF risks and any identified material ESG risks, where appropriate;
- vii. Review and scrutiny by the investment committee of the material risks identified in the steps above;
- viii. Periodic testing of the above processes by the Bridges Impact and Quality Assurance team;
- ix. Regular meetings of an ESG sub-committee to discuss the risk assessments and portfolio monitoring described in the steps above, and track emerging IRF and ESG risks and trends across the portfolio and changes in contracts' risk profile and reflect on lessons learnt to drive wider risk monitoring and mitigation.

The IRF compliance checks (point i.) will be completed by the Portfolio Manager investment team and reviewed by the compliance team within the Portfolio Manager. The UBS Optimus Foundation compliance team will also complete an internal investment review using the IRF information. The ESG risk analysis (points ii. and iii.) will be conducted by the Portfolio Manager investment team and validated by the Bridges Impact and Quality Assurance team. The Bridges Impact and Quality Assurance team will lead on creating the action plan described in point v., but the ongoing monitoring will be passed onto the investment team. The involvement of multiple teams in this due diligence process, including internal and external controls, ensures effective oversight.

*Prepared on 1 January 2023*