

Verifier Statement

Independent Verification Report

Prepared for Norfund: February 2, 2023

Introduction

As a signatory of the Operating Principles for Impact Management (the Impact Principles)¹, Norfund engaged BlueMark to undertake an independent verification of the alignment of Norfund's impact management (IM) system with the Impact Principles. Norfund's assets under management covered under the Impact Principles total \$3.05 billion², for the period ending 04/2022.

Summary assessment conclusions

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

Principle 1: Norfund has a clear impact strategy for both its climate and development mandates; its impact objectives are organised into four key themes, each of which can be mapped to the SDGs. Norfund has demonstrated a strong strategic approach for developing a well-evidenced theory of change for each theme and sector.

Principle 2: Norfund's use of its Additionality Calculator and Development Effects monitoring templates enables portfolio-wide management of impact data. To improve, Norfund should explore ways to explicitly align staff incentives with impact performance.

Principle 3: Norfund has a strong approach for assessing its potential investor contribution for each investment through its taxonomy of additionality and additionality calculator. Norfund has also built an evidence base to validate its contribution strategies through case studies.

Principle 4: Norfund assesses the expected impact of investments via transaction-specific additionality calculators, which are presented in IC Memos with key impact indicators and targets. To further align, Norfund should more consistently document the target beneficiaries, scale, and type of impact of each investment, as well as explicitly consider all relevant types of impact risk.

Principle 5: Norfund applies a comprehensive ESG risk assessment framework to each investment, which is aligned to relevant industry standards and consists of a risk assessment framework and in-depth due diligence. The implementation of ESAPs containing conditions for disbursement allows Norfund to monitor and manage ESG underperformance.

Principle 6: Norfund has a clearly defined data collection process centred around the Development Effects data collected annually from investees. To further align, Norfund should formalise a process for managing impact underperformance and enhance monitoring to assess the outcomes and ultimate impacts of investments as well as the outputs.

Principle 7: Norfund is in the process of developing a responsible exit framework. To further align, Norfund should codify existing informal exit practices and ensure that its IC Exit Approval Memo captures all framework considerations.

Principle 8: Norfund reviews overall portfolio performance against key impact targets and reviews the impact of each investment using the Post-Exit Analysis Memo. Norfund should establish a formal protocol for ensuring that lessons captured in impact reviews are consistently documented and translated into strategic and operational changes.

¹ Principle 9 states that signatories "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."

² Assets under management figure as reflected in Norfund's 2022 Disclosure Statement as of 04/21/2022. BlueMark's assessment did not include verification of the AUM figure.

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Detailed assessment conclusions

The chart below summarizes findings from BlueMark’s verification of Norfund’s extent of alignment to the Impact Principles, using the following four ratings:³

- Advanced (Limited need for enhancement);
- High (A few opportunities for enhancement);
- Moderate (Several opportunities for enhancement); and
- Low (Substantial enhancement required).⁴

| Principle | Alignment |
|---|-----------|
| 1. Define strategic impact objective(s), consistent with the investment strategy | ADVANCED |
| 2. Manage strategic impact on a portfolio basis | HIGH |
| 3. Establish the Manager's contribution to the achievement of impact | ADVANCED |
| 4. Assess the expected impact of each investment, based on a systematic approach | HIGH |
| 5. Assess, address, monitor, and manage potential negative impacts of each investment | ADVANCED |
| 6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately | HIGH |
| 7. Conduct exits considering the effect on sustained impact | MODERATE |
| 8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned | HIGH |

³ The scope of BlueMark’s assessment procedures does not include the verification of the resulting impacts achieved. BlueMark’s assessment is based on its analyses of publicly available information and information in reports and other material provided by Norfund. BlueMark has relied on the accuracy and completeness of any such information provided by Norfund. The assessment results represent BlueMark’s professional judgment based on the procedures performed and information obtained from Norfund.

⁴ The decision to publicly disclose the results of BlueMark’s detailed assessment, and the specific ratings assigned to each Principle, is left to the sole discretion of Norfund.

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Assessment methodology and scope

Norfund 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 February 2023. BlueMark’s assessment of the IM system included an evaluation of both the system itself and supporting documentation, as well as the consistency of the draft disclosure statement with the IM system. BlueMark believes that the evidence obtained in the scope of its assessment is sufficient and appropriate to provide a basis for our conclusions.⁵

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 Norfund staff responsible for defining and implementing the IM system;
3. Testing of selected Norfund transactions to check the application of the IM system; and
4. Delivery of detailed assessment findings to Norfund, 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 Norfund in accordance with the agreement between our firms, to assist Norfund in fulfilling Principle 9 of the Operating Principles for Impact Management. We permit Norfund to disclose this statement in its entirety online, or to furnish this statement to other interested parties to demonstrate Norfund’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 Norfund for our work or this statement except where terms are expressly agreed between us in writing.

About BlueMark

BlueMark 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.

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