# DISCLOSURE STATEMENT

The impact funds within LS Capital Limited's unit-Laxmi Specialized Investment Fund (the "Signatory) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Impact Principles"). At present there is only one fund under Laxmi Specialized Investment Fund.

This Disclosure Statement serves to affirm that Laxmi Specialized Investment Fund has the policies and procedures in place to manage impact investments through it's the first fund-Laxmi Sustainable Energy Fund in accordance with the Impact Principles.

The total assets under management of Laxmi Sustainable Energy Fund in alignment with the Impact Principles amounts to US $2,810,316.32 (NPR 389,804,516.22) as of mid-February 2025. The fund received approval from the Securities Board of Nepal, the regulatory body, in August 2023 and initiated unit issuance in November 2023. Presently, the fund is actively raising capital with the aim of reaching NPR 1 billion by mid-2025.

Mr. Bijaya Lal Shrestha
Chief Executive Officer
LS Capital 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.***

LS Capital received the approval for its first fund -Laxmi Sustainable Energy Fund (LSEF) under Laxmi Specialized Investment Fund in accordance with Specialized Investment Fund Regulation 2019. 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 major global challenges that can have far-reaching consequences. Therefore, Laxmi Sustainable Energy Fund directly servers SDG No. 7 (Affordable and Clean Energy), SDG No. 13 (Climate Action) and SDG No. 8 (Decent Work and Economic Growth). The objectives have been outlined in the Investment Policy of Laxmi Sustainable Energy Fund.

The Fund plans to invest 90% of the fund in private equity firms focused in investment in hydropower, solar energy and other form of sustainable energy sources and remaining 10% on other firms.

**SDG No. 7 Affordable and Clean Energy**

The Fund focuses on renewable power generation and clean energy, specifically targeting companies engaged in generating electricity through hydropower, solar, and wind resources. Given Nepal's rich water resources, the majority of the investment shall be directed towards electricity generation through hydropower. However, the fund remains open to exploring other potential sources of clean and renewable energy generation without neglecting their viability. 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 focuses on investing in development and production of sustainable energy that shall assist to switch dependence of the economy from fossil fuels. By assisting to generate affordable and sustainable sources of clean energy LSEF shall play its part to counter climate change. Our investment in green energy supports global cause of transitioning from fossil fuel consumption to sustainable energy sources.

**SDG No. 8 Decent Work and Economic Growth**

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 is focused in development of affordable and sustainable clean energy. The fund plans to invest 90% of the portfolio in private equity firms focused in investment in hydropower, solar energy and other form of sustainable energy sources and remaining 10% on other firms.

Laxmi Sustainable Energy Fund prioritizes transparent communication and alignment of impact goals with portfolio companies from the beginning of investment discussions. These objectives are formalized within the Shareholders Agreement, ensuring mutual understanding and commitment to sustainability objectives. Moreover, the fund establishes a comprehensive checklist prior to initiating due diligence processes. This checklist encompasses criteria essential for fulfilling the fund's requirements on clean energy impact, thus ensuring that potential investee companies align with the fund's sustainability goals.

During the initial screening stages, the fund manager diligently evaluates prospective portfolio companies to ensure alignment with the fund's impact objectives. Rigorous screening processes are integral to this phase, ensuring that investments not only contribute positively to shareholder wealth but also address impact concerns effectively. Subsequently, the fund manager prepares detailed Investment Appraisal Reports (IARs), meticulously assessing potential portfolio companies' environmental and social aspects. These reports serve as comprehensive evaluations presented to both the Investment Committee and the Risk Committee, aiding informed decision-making regarding investment selections.

Recognizing the importance of on-the-ground oversight, the fund manager conducts periodic visits to portfolio companies and their production units. These visits serve to verify that operations are conducted in a manner consistent with shareholder interests and sustainable development goals (SDGs). Comprehensive documentation of these field visits and impact reporting by portfolio companies ensures accountability and transparency in monitoring progress towards impact objectives.

Continual monitoring of investment performance, both at the individual investment level and across the entire portfolio, is essential. Regular reporting to the Investment Committee enables timely assessment of progress and facilitates informed decision-making. Furthermore, the fund manager emphasizes a dual focus on generating the necessary impact alongside achieving optimal financial returns. Performance appraisal of staff reflects this dual mandate, considering both profitability and impact created as key metrics.

Lastly, the fund remains committed to seeking out industry best practices and consistently striving to fulfill its impact objectives. This dedication underscores the fund's long-term commitment to sustainable investment practices and its role as a steward of positive environmental and social change within the energy sector.

**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:

- LSEF brings together investors for the fund who understand and are motivated by the Impact Principles primarily relating to sustainable energy sources.
- LSEF educates 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.
- LSEF encourages investors to invest in firms and funds that follow the Impact Principles and have shown tangible impact in the society.
- Shall periodically 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)
- LSEF have a research team of its own which continuously monitors new development in the field of impact investing.
- LSEF oversees 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.
- LSEF is working 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:

- LSEF educates portfolio companies about sustainable development goals and impact objectives of the fund and positive impacts of the same.
- LSEF carries 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.
- LSEF regularly supervises 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.

The fund received approval from its regulatory body, the Securities Board of Nepal (SEBON), on August 25, 2023. As mentioned in the regulation, it is required to commence unit issuance within three months of receiving approval. Hence, the fund collection began from November 17, 2023.

The fund received numerous investment proposals. After multiple rounds of screening and evaluation, Laxmi Sustainable Energy Fund (LSEF) has invested a total of NPR 153 million as of mid-February 2025 across three hydropower projects. Two of these projects are already generating electricity, while the third is currently under construction. Although the third project is still under development, the two operational projects have begun contributing to sustainable energy production, in line with our impact goals.

The impact objective and the Fund's adherence to Impact Principles has been communicated to the investee company, including through the Shareholders Agreement. Periodic impact reports will be obtained from the investee company to monitor progress.

Through these steps, the fund manager aims to demonstrate how investments align with checklist considerations and contribute to positive social, environmental, and economic outcomes over time.

**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 plans to use a suitable results measurement framework to access 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. During the screening phase, we have developed a checklist to evaluate prospective portfolio companies. The fund manager has developed impact narrative in line with our screening checklist considerations. This process involves:

- Establishing specific assessment methodologies in alignment to checklist: This involves defining evaluation criteria related to areas such as, clean energy produced, insurance coverage for workers, employment opportunities for women and local people, waste management practices, and health and safety standards.
- Implementing regular monitoring and evaluation systems: This involves conducting site visits, reviewing reports, and engaging with stakeholders to assess the actual impact on the ground.
- Developing a structured framework for impact reporting: LSEF is in the process of refining and updating standardized templates and reporting formats to ensure consistency and comparability across its portfolio companies. A standardized template has already been developed, but ongoing updates are being made to enhance its effectiveness.
- Conducting periodic reviews and adjustments: Conduct periodic reviews of the impact narrative to assess its effectiveness and relevance. Based on the findings, the fund manager will make adjustments to the assessment methodologies, monitoring processes, and reporting framework as needed to ensure continuous improvement and alignment with evolving best practices.
- Maintaining transparency and open communication channels with investors: LSEF is committed to maintaining transparency and fostering strong communication with its investors. As part of this commitment, LSEF provides regular updates on the progress of its portfolio companies, ensuring stakeholders are well-informed about performance, strategic initiatives, and key developments.

  In line with this, LSEF has successfully published its Annual Report for the Financial Year 2023/24 within six months of the conclusion of the financial year, adhering to its established timeline. The report offers a comprehensive overview of the fund's performance, including financial highlights, portfolio company updates, and strategic insights. Moving forward, LSEF will continue to prioritize timely and transparent communication, ensuring that investors have access to accurate and relevant information to support informed decision-making.

- Manager identifies potential challenges or obstacles that may arise during the implementation of the investment, as well as the strengths and weaknesses of the project.
- Manager analyzes risk factors and assess their potential impact, including any negative effects that may be greater than anticipated.
- Manager plans to 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 plans to 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 utilize established frameworks and metrics such as IRIS+, HIPSO, Joint Impact

Indicators, or other similar tools, coupled with thorough analysis and consultation with concerned stakeholders. While these tools are highly effective, we recognize that they are rarely used in our region, which has presented a unique challenge in identifying the most suitable methodology for measuring impact. Despite this, we are actively exploring additional tools available in the market that could better meet our requirements for impact measurement and reporting.

**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 have put clauses related to abiding to Impact Principles by Investee Company. We also have checklist that incorporates 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 prepares 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 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 Investment Appraisal Report which also includes 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.

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. While a formal Exit Policy may not be in place, our approach remains focused on transparency, fiduciary responsibility, and the long-term sustainability of impact.

**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.***

The impact fund within LS Capital (erstwhile Laxmi Capital Market Limited)'s unit-Laxmi Specialized Investment Fund became Signatory of the Impact Principles in February 2022, being this disclosure our third one, we confirm LS Capital's commitment to aligning its first private equity fund, Laxmi Sustainable Energy Fund, with the Impact Principles. The disclosure statement shall be publicly available in the official website of LS Capital Limited.

Given that the fund was initiated on November 17, 2023, and has recently begun making investments without any exits thus, an independent verifier has been assigned and plans to complete this assessment in 2025.

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.