



Operating Principles for  
Impact Management

# IMPACT PRINCIPLES VERIFICATION STATEMENT AND REPORT

SIIF IMPACT CAPITAL

April 2024

**SIIF Impact Capital**



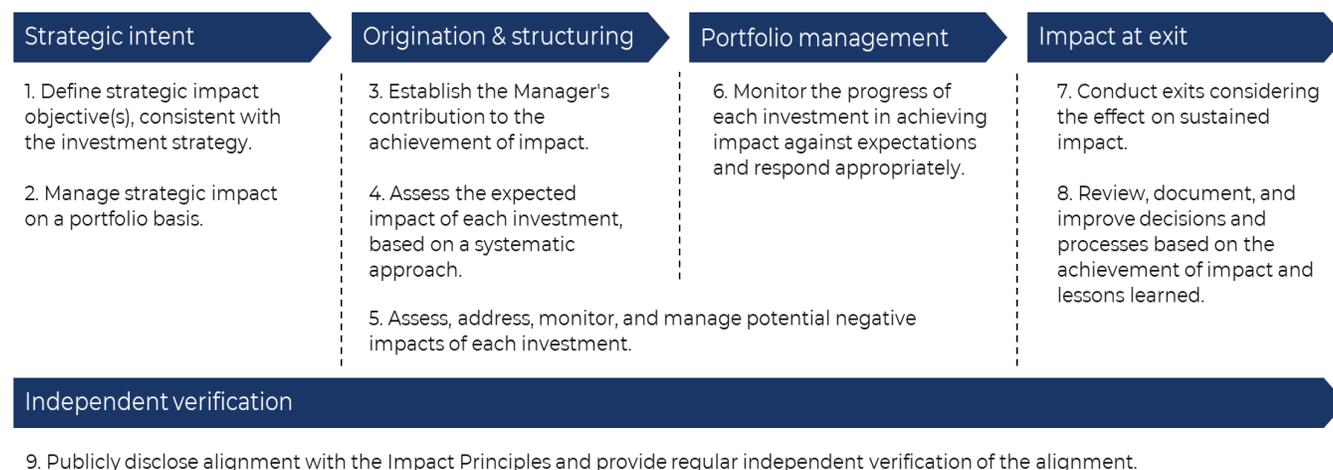
# SIIF IMPACT CAPITAL

<b>FUND MANAGER</b>	SIIF Impact Capital (SIIFIC)
<b>AUM COVERED BY THE IMPACT PRINCIPLES</b>	1,525,100,000 yen as of 31 December 2023
<b>PERIOD OF ASSESSMENT</b>	January 2024 – April 2024

<b>FUND(S) ASSESSED</b>	<b>ASSET CLASS(ES)</b>	<b>STATUS</b>
SIIFIC Wellness Fund	Private Equity	Fundraising period; first investment made

## OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

The Operating Principles for Impact Management (the Impact Principles) are a framework to guide investors in designing and implementing their impact management systems, integrating impact considerations throughout the investment lifecycle. They are scalable and applicable to all types of impact investors and sizes of investment portfolios, assets, sectors, and geographies. The Impact Principles were developed by a range of stakeholders for managing investments to achieve measurable positive social or environmental impact alongside financial returns. The graphic below showcases the nine Impact Principles.



# OVERVIEW OF THE ASSESSMENT METHODOLOGY

Phenix provides a 'limited assurance' conclusion regarding a fund manager's alignment with each of the nine Impact Principles. We assess the alignment of SIIFIC's impact measurement and management (IMM) systems, policies, processes, and tools with these Impact Principles. Our assessment process involves:

- Interview with SIIFIC staff
- Review of documents and templates provided by SIIFIC
- Discussion during the preliminary call to share initial findings and review any additional documents and clarifications provided, where applicable

Phenix assessed SIIFIC's alignment with each Impact Principle using a proprietary rubric. The rubric is developed with reference to the guidance provided by the Impact Principles, global best practices in the IMM field, and draws on Phenix's 12-year track record as an impact investment advisory firm. This report is based on the assessment started in January 2024 and completed in February 2024.

# PHENIX'S ASSESSMENT SCALE AND RATIONALE

RATING	RATIONALE
<b>HIGH</b>	Strong alignment to the Impact Principles, limited need for improvement
<b>MEDIUM</b>	Significant alignment to the Impact Principles, some areas for improvement
<b>LOW</b>	Weak alignment to the Impact Principles, several areas for improvement

## VERIFICATION STATEMENT AND FINDINGS

Phenix reviewed the SIIFIC's set of impact management and measurement systems, policies, and tools to assess the degree of alignment to the Impact Principles as of 26th April 2024. SIIFIC's AUM covered by this assessment amounts to Yen 1,525,100,000, comprising SIIFIC Wellness Fund, currently in the deployment phase. A summary of the assessment is provided below :

IMPACT PRINCIPLE	LEVEL	SUMMARY OF FINDINGS
1. <b>Impact Objectives</b>	MEDIUM	<ul style="list-style-type: none"> <li>The Fund's mission is the pursuit of wellness equity. It seeks to "address systemic challenges in the wellness sector while also nurturing talent development in this field". Further definition of the objectives at fund level would strengthen the strategy.</li> </ul>
2. <b>Portfolio-level Impact Management</b>	LOW	<ul style="list-style-type: none"> <li>Having only recently completed the Fund's first investment, the fund portfolio level management of impact has yet to be developed.</li> </ul>
3. <b>Investor Contribution</b>	HIGH	<ul style="list-style-type: none"> <li>The fund assesses the investor contribution in line with guidelines from Impact Frontiers. Further the fund is able to provide evidence of investees proving the manager's added value in improving the their IMM, leading to potential new investors.</li> </ul>
4. <b>Impact Due Diligence</b>	HIGH	<ul style="list-style-type: none"> <li>The fund has created an Impact Rating Tool in line with best practices from IMPs 5 Dimensions of Impact including IMP's 9 Impact risks. Further the fund assesses indirect and systemic impact as part of its IMM framework.</li> </ul>
5. <b>ESG Risk Management</b>	LOW	<ul style="list-style-type: none"> <li>The fund has an ESG policy in place and showed commitment to engage with companies in the event of potential negative impacts. However, standard procedures for assessing and bridging ESG gaps are in development and so far, event driven.</li> </ul>
6. <b>Impact Monitoring</b>	LOW	<ul style="list-style-type: none"> <li>The fund sets investee-level KPIs ex-ante and intends to monitor progress on a quarterly basis. There is the opportunity to clearly establish the methods to collect the impact data, i.e. data source, and when/how to address gaps between target/actual.</li> </ul>
7. <b>Impact at Exit</b>	HIGH	<ul style="list-style-type: none"> <li>The fund has a policy in place for a value-focused exit and has a system in place for retaining ownership post-IPO, if needed, to pursue a responsible exit.</li> </ul>
8. <b>Impact Review</b>	LOW	<ul style="list-style-type: none"> <li>The fund has the intention to report on its impact performance to its investors, aligning to Impact Frontiers Reporting Norms. The fund has the opportunity to further develop an MEL approach.</li> </ul>
9. <b>Independent Verification</b>	HIGH	<ul style="list-style-type: none"> <li>SIIFIC'S disclosure statement is published and in line with this assessment. SIIFIC is committed to verify periodically, at the minimum every 3 years.</li> </ul>

Based on the assessment findings, nothing came to the attention of Phenix Capital Group that would suggest SIIF Impact Capital has not complied, in all material aspects, with the Impact Principles.

## Declaration of Independence

The Phenix Team confirms that there is no conflict of interest in conducting this independent verification. The team has not been involved in developing or implementing the impact strategy and management system, writing the disclosure statement, or participating in SIIF Impact Capital's operations, management, or investment process.



*Dirk Meuleman, CEO Phenix Capital Group ;*

*26 April, 2024*

# DETAILED ASSESSMENT FINDINGS

## Impact Principle 1: Define strategic impact objective(s) consistent with the investment strategy

<b>MEDIUM</b>	<p><i>Current areas of alignment:</i></p> <ul style="list-style-type: none"> <li>▪ The fund has defined a strategic impact intention: “[c]entral to the Fund’s mission is the pursuit of wellness equity — an ambitious and transformative goal aimed at reshaping societal norms around wellness....reflecting our commitment to creating a more inclusive and equitable wellness landscape..” The fund further seeks to “address systemic challenges in the wellness sector while also nurturing talent development in this field.” Additionally, the fund describes itself as “embody[ing] the principle that wellness is a fundamental right, accessible to all, regardless of health conditions, age, socio-economic status, or geographic location.”</li> <li>▪ There are four themes divided into the two larger pillars of education and well-being. Under the first pillar of education there are the themes of 1) Revolutionizing Healthcare: Pioneering Trustworthy Medical Standards; and 2) Empowering Holistic Well-Being: Inspiring Lifestyle and Activity Choices. And under the larger pillar of well-being: there are the themes of 3) Connecting Lives: Fostering Independent Yet Interlinked Communities; and 4) Cultivating Local Prosperity: Igniting Job Creation and Vibrant Communities.</li> <li>▪ The fund aligns to Global Goals such as the SDGs, while also adapting to local implementation needs in Japan. SDGs and targets are mapped in the due diligence phase of investees.</li> </ul> <p><i>Areas with room to improve alignment:</i></p> <ul style="list-style-type: none"> <li>▪ SIIFIC can strengthen its fund level objective utilising thresholds or quantified impact targets, supporting the selection of investees to maximise the contribution to the objective and ensuring the intended impact is proportionate to the investment of the portfolio.</li> </ul>
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## Impact Principle 2: Manage strategic impact on a portfolio basis

<b>LOW</b>	<p><i>Current areas of alignment:</i></p> <ul style="list-style-type: none"> <li>▪ The fund manager has the intention to, and is working towards, linking staff compensation to the fund’s impact performance. It also implicitly links the achievement of its carry to impact.</li> </ul> <p><i>Areas with room to improve alignment:</i></p> <ul style="list-style-type: none"> <li>▪ The fund has made one investment to date, therefore the portfolio management systems and processes at the portfolio level are yet at an early stage. Therefore the recommendation is to develop a portfolio level overview of the portfolio, in line with fund level objectives (and the two thematic pillars) that would enable the management of impact at portfolio level, beyond individual investments.</li> <li>▪ The fund can create a more formalised structure through which the fund carry is linked to the achievement of fund level impact goals.</li> </ul>
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### Impact Principle 3: Establish the Manager's contribution to the achievement of impact

**HIGH**

*Current areas of alignment:*

- For each investment, the fund assesses the investor contribution in line with Impact Frontiers' Investor Contribution 2.0, it maps components such as: individual contribution (causation via action of one investor), collective contribution (concerted action of multiple investors) and the additionality of capital allocation (financial activities) and/or engagement. (non-financial activities).
- The fund has collected evidence of its added value for an investee in the context of improving its IMM practice. The investee shared positive feedback on the IMM improvements SIIFIC implemented, which led to their ability to "explain the specific methods, timelines, and progress of the IMM for impact evaluation" attracting potential additional funding.

### Impact Principle 4: Assess the expected impact of each investment, based on a systematic approach

**HIGH**

*Current areas of alignment:*

- The fund has created an Impact Rating Tool based on IMP's 5 Dimensions of Impact. The fund manager assesses indirect and systemic impacts as part of its IMM framework, and investments are assessed based on the IMP's 9 impact risks.
- The likelihood of achieving impact is assessed throughout the due diligence in different forms, including through the system change analysis exercises, where more than just linear cause and effects are considered.
- The Fund will actively promote hands-on support and engagement through business development and IMM. The Fund will work together to advance "structural issue analysis in the wellness arena," meticulously set the desired impact and business milestones, and pursue enterprise value creation.

### Impact Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment

**LOW**

*Current areas of alignment:*

- The fund has an ESG policy in place describing the intention to assess and manage potential negative impacts, aligning to standards such as EDCI and SASB.
- The fund shows how it addressed an unexpected negative impact event engaging with the investee to find a resolution, via leadership changes and putting in place specific trainings to create long-term adaptation of new approaches.

*Areas with room to improve alignment:*

- The fund is currently drafting a standardised operating procedure to implement its ESG policy but to date, it has been approached ad hoc and event driven.
- The recommendation is to develop and implement as soon as possible such standardised system to assess potential risks and bridge any gaps investees may have with regards to potential negative impacts and risks.

**Impact Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately**

**LOW**

*Current areas of alignment:*

- The fund sets investee-level KPIs ex-ante investment and has a centralized document for ex-post monitoring of the investee that includes, Impact KPIs, Financial KPIs and reference to the Theory of Change of the investment.

*Areas with room to improve alignment:*

- The fund has the opportunity to link the monitoring of Impact KPIs to the expected impact performance, adjusting targets to the reporting frequency (e.g. annual cycles).
- The fund has the opportunity to centralise the process of collecting Impact KPIs with its investees by documenting the requirements and agreements on the data collection methodology, sources, responsibilities, frequency etc.

**Impact Principle 7: Conduct exits considering the effect on sustained impact**

**HIGH**

*Current areas of alignment:*

- The fund has in place a policy for "Value-Focused Exit - Impact IPO (Crossover Investment)". For promising investments, the Fund will consider the best capital structure for impact-oriented companies when realising an IPO or M&A. Particularly when investing in impact-oriented companies from N-2 periods onwards, the Fund may maintain ownership for a certain period after the IPO to pursue a responsible exit that has achieved an increase in enterprise value as an "Impact IPO".

**Impact Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned**

**LOW**

*Current areas of alignment:*

- The fund is committed to prepare an impact report to share with its investors and will make it public after termination of the partnership.

*Areas with room to improve alignment:*

- The fund has only made its first investment and no impact performance is available yet. SIIFIC has developed an initial structure of an impact report, in alignment with Impact Frontiers, however in this mock report it is not yet clear whether it will report on actual vs targeted impact, especially as the targeted impact.
- The fund has recently started the deployment phase implementing its IMM framework. However, SIIFIC has the opportunity to develop a Monitoring, Evaluation and Learning (MEL) process setting the intention to review its IMM processes and collecting feedback from investees to be considered for improvement on a periodical basis (e.g. every 2 years).

**Impact Principle 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification of alignment**

<b>HIGH</b>	<p><i>Current areas of alignment:</i></p> <ul style="list-style-type: none"><li>▪ The fund's 2024 disclosure of alignment to the Impact Principles is publicly available and has been screened in alignment with this assessment. There was no evidence that the assertions in this disclosure statement were materially misstated.</li></ul>
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**ASSESSMENT PARTICIPANTS**

SIIFIC team	<b>Reiri Miura, Founding Partner SIIFIC</b> <b>Nanako Kudo, Executive Director SIIF</b>
Phenix Capital Group team	<b>Carol Tarr, IMM Lead</b> <b>Misa Takaramoto, Senior Advisor</b> <b>Chiara Borneman, Director</b>

Disclaimer:

This assessment report is prepared with the utmost diligence, relying on the information provided during the period of assessment (January 2024 – February 2024). This report does not serve as investment advice or any other form of professional advice concerning the manager or the fund.



# CONTACT US LET'S CONNECT ON IMPACT INVESTING

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E: [info@phenixcapitalgroup.com](mailto:info@phenixcapitalgroup.com)

T: +31 20 240 27 31

[www.phenixcapitalgroup.com](http://www.phenixcapitalgroup.com)



[www.phenixcapitalgroup.com](http://www.phenixcapitalgroup.com)



<https://nl.linkedin.com/company/phenix-capital-bv>



+31 20 240 27 31

