Disclosure Statement
Operating Principles for Impact Management
WaterEquity
March 10, 2020

WaterEquity affirms its status as a signatory to the Operating Principles for Impact Management (the Principles). This Disclosure Statement affirms that all WaterEquity funds operate in alignment with the Principles. As of March 10, 2020, WaterEquity had USD60 million in assets under management between two funds.

Dr. Paul O'Connell, Managing Director WaterEquity	Gary White Co-founder and Chief Executive Officer WaterEquity

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.*

- WaterEquity is the first-ever asset manager exclusively focused on ensuring access to water supply and sanitation for all. Founded through the vision of social entrepreneurs Gary White and Matt Damon of Water.org, WaterEquity builds on 20+ years of experience in water and sanitation microfinance in emerging markets. Our funds invest in a portfolio of high-performing financial institutions and enterprises in emerging markets to deliver access to water supply and sanitation to families living in poverty.
- By supporting financial institutions and enterprises that finance or provide water and sanitation products and services, WaterEquity accelerates access to water supply and sanitation for millions of men, women, and children.
- WaterEquity's investment strategy contributes directly to Sustainable Development Goals (SDGs) 6.1 and 6.2, universal access to safely managed water and sanitation.
- Investing in safe water and sanitation leads to broad positive impacts for families, communities, and the environment. The evidence base for water and sanitation indicates outcomes linked to multiple SDGs, including Gender Equity (5), No Poverty (1), Good Health & Well-Being (3), and Climate Action (13).
- Prior to launching a fund, WaterEquity develops an investment strategy that considers: 1) how the strategy contributes to the goal of universal access to safe water and sanitation; 2) the evidence base for the strategy; and 3) how the strategy compares to other opportunities that WaterEquity could consider. This process ensures that each fund's investment strategy is aligned with the organizational mission and is an effective use of WaterEquity's resources.

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.*

- WaterEquity manages impact at a portfolio level and sets fund-level targets for social return. Decision-making for portfolio construction incorporates both financial and social returns, and portfolio management includes ongoing monitoring of both.
- WaterEquity's process to manage impact at the portfolio level includes evaluating the impact of the portfolio, structuring the investments to facilitate impact, and monitoring the impact at the individual investment and portfolio levels. Reporting on social performance focuses primarily on the key performance indicator (KPI), shared across every fund—the number of people reached with access to water and/or sanitation. However, in addition to this KPI, WaterEquity assesses the social return of fund portfolios across multiple dimensions of impact, recognizing that each investment may have a different impact profile and therefore contribute to different kinds of social performance relative to the financial return.[1] *(Refer to Principle 4 for more about this social impact rating.)*
- Each member of the investment management team is responsible for integrating impact into the investment process; this is reflected in annual performance reviews.

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.*

- Global investment in water and sanitation must triple to achieve SDG6, and increasing private investment is essential to reach the necessary investment levels. WaterEquity's mission is to accelerate private capital investments in the sector, both through our own assets under management and by demonstrating that water and sanitation is a viable investment opportunity. Therefore, every investment represents an opportunity to contribute to impact experienced by the individual end-clients of that company, and also an opportunity to contribute to systems change in unleashing private capital markets for SDG6. This systems-change narrative is articulated at the organizational and fund level.
- At the individual investment level, WaterEquity considers its contribution to each investment's projected impact based on the impact score described in the Principle 4 below. Every investment is scored for the level of investor contribution as part of the comprehensive impact scoring process, although a high contribution score is not required of every deal. This "Acceleration" section of the impact score includes objective indicators to identify the level of investor contribution for each individual deal.

[1] WaterEquity participates in the Impact Frontiers Collaborative, with the goal of integrating risk, return, and impact. Read more at: https://impactmanagementproject.com/about/impact-frontiers/

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*.

- WaterEquity's investment process incorporates impact at each stage. During the screening stage, WaterEquity evaluates the potential borrower as a fit for the fund's impact profile and develops initial impact projections (e.g., number of people reached). During due diligence, WaterEquity evaluates each potential deal across multiple dimensions of impact to assess its fit with the fund's impact objective, determine final impact projections, and produce an overall impact score.
- WaterEquity calculates the impact score by rating the investment across five dimensions, based on the Impact Management Project's impact management norms:
    - How many people will the investment reach? This includes the total potential for scale and the projected people reached with access to water and sanitation.
    - What type of water and sanitation impact does the investment support? This includes an assessment of the different types of benefits from the specific water and sanitation facilities financed, for example benefits to health, well-being, and labor savings.
    - Who does the investment reach? This includes an assessment of gender, income levels, relative poverty levels, and relative need for water and sanitation in each geographical context.
    - Will the investment accelerate the market solution for water and sanitation access? This includes an analysis of the borrower's potential for growing their water and sanitation-related business, and WaterEquity's contribution to impact.
    - What is the risk that impact will not occur as intended? This includes elements of historical performance or practices that could negatively affect one of the above dimensions.

- WaterEquity evaluates the impact projections and score for each potential investment alongside the broader risk/return profile, including financial return, credit risk, country risk, and environmental, social, and governance (ESG) risk. The impact projections and score directly inform investment terms such as investment amount and tenor, as well as the final investment decision.

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.*

- WaterEquity undertakes ESG analysis of every potential investment. This analysis identifies key risk areas across the environment, employees, and clients. Through this process, WaterEquity may set ESG-related improvement requirements for potential borrowers either as milestones during the investment, or as conditions precedent to the investment.
- WaterEquity bases this ESG analysis on industry standards, including the IFC's Environmental and Performance Standards, the Sustainability Accounting Standards Board, and relevant industry standards such as ISO standards for SMEs and the Client Protection Principles for Financial Institutions.
- Reporting requirements for borrowers include ESG.

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 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.*

- Social impact targets are incorporated into loan agreements or other investment documentation. WaterEquity monitors investment performance against social impact targets, using quarterly reporting of financial, operational, and social indicators via standardized reporting templates. Early detection of challenges and shortfalls enables timely corrective action to maximize social impact.
- WaterEquity also manages impact at the portfolio level. Quarterly reporting includes assessments of the portfolio's progress against impact targets and aggregates social performance of the portfolio.
- In addition to self-reported quarterly updates, WaterEquity has the right to visit, inspect, and evaluate investees to confirm the accuracy of reported information. For a sample of the portfolio, WaterEquity verifies self-reported data by conducting end-client surveys via founding organization Water.org or third-party consultants. These surveys verify that the water and/or sanitation improvement was completed, gather end-client feedback, and test ex-ante assumptions about outcomes.
- If an investee does not demonstrate use of investment proceeds for water and sanitation impact as agreed, WaterEquity works with the investee to improve results, and has the option to enforce the covenants of the investment agreement when necessary.
- WaterEquity produces quarterly reports for investors and fund dashboards for internal review that assess both financial and social performance. Indicators align with IRIS+ standards.

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.*

- The investee's continued commitment to water and sanitation and their track record of social performance are important considerations in the decision to extend or renew a loan, or to exit an investment.

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.*

- At maturity, WaterEquity reviews the social performance of each investment. This review compares outcomes at the end of loan terms to targets established at the due diligence phase. It also looks at any verification survey results.

- In addition, the Investment Management team reviews internal policies and tools annually, and revises them based on outcomes.

Principle 9 – Publicly disclose alignment with the Principles and provide regular independent verification30 of the alignment: *The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the 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.*

- This Disclosure Note re-affirms the alignment of WaterEquity's procedures with the Principles and will be reviewed annually.
- WaterEquity will complete an independent verification of this alignment by December 31, 2020.

ANNEX: SUMMARY ALIGNMENT

PRINCIPLE 1	
Define strategic impact objectives aligned with the SDGs	Exclusive focus on water and sanitation, in particular on SDG6, which is linked to several other SDGs
Impact objectives consistent with investment strategy	Investment strategy design based on impact objectives
Credible basis for achieving impact objectives	Evidence base supports investment strategy design
Scale/intensity of intended portfolio impact proportionate to its size	Investment strategy design considers best use of resources to achieve SDG6
PRINCIPLE 2	
Process to manage impact achievement on a portfolio basis	Yes: impact score and fund targets
Establish and monitor impact performance for the whole portfolio	Yes: impact score and fund targets
Consider aligning staff incentive systems with the achievement of impact	Individual performance reviews include impact achievements
PRINCIPLE 3	
Establish and document a credible narrative on investor contribution to the achievement of impact	Included in impact score
Narrative should be stated in clear terms and supported by evidence	Impact score uses objective indicators to assess contribution
PRINCIPLE 4	
Assess and quantify the concrete, positive impact potential deriving from the investment	Impact score calculated ex-ante
Answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?	These questions are included in the impact score
Assess the likelihood of achieving the investment's expected impact	Impact risk included in impact score
Identify the significant risk factors that could result in the impact varying from ex-ante expectations	Impact risk included in impact score
Seek evidence to assess the relative size of the challenge addressed within the targeted geographical context	Impact score assesses outreach to relatively high-need regions for water and sanitation in each country
Consider opportunities to increase the impact of the investment	Set impact targets for each loan
Consider indirect and systemic impacts	Do not consider indirect/system impacts on a deal basis, rather part of the organizational theory of change
Indicators shall, to the extent possible, be aligned with industry standards and follow best practice	Impact score uses the IMP's dimensions of impact, and monitoring indicators are aligned with IRIS+
PRINCIPLE 5	

Identify and avoid or mitigate and manage Environmental, Social and Governance (ESG) risks	ESG policy in place; assess ESG risks for each investment
Engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards	Where relevant, require improvements in systems, processes, and standards
Align with good international industry practice	ESG policy based on IFC, SASB, and other relevant industry standards
Monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events	Monitoring requirements include ESG
PRINCIPLE 6	
Use results framework (referenced in Principle 4) to monitor progress toward positive impacts in comparison to the expected impact for each investment	Monitoring includes tracking progress against impact targets for each investment
Progress shall be monitored using a predefined process for sharing performance data with the investee	WaterEquity works with borrowers to set targets upon negotiating the terms of the loan
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	Loan agreements include reporting requirements, which are primarily self-reported administrative data from the borrower on a quarterly basis
When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.	WaterEquity takes corrective action where necessary if impact is not achieved as projected, and has the option to exit the investment if necessary
Seek to use the results framework to capture investment outcomes	WaterEquity conducts end-client surveys to assess investment outcomes
PRINCIPLE 7	
When conducting an exit the Manager shall consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact	Each borrower's continued commitment to water and sanitation and their track record of social performance influences WaterEquity's decision to exit
PRINCIPLE 8	
Review and document the impact performance of each investment	Conduct a review of impact upon loan maturity
Compare the expected and actual impact	Compare actuals to targets, and where possible additional indicators included in the impact score
Use these findings to improve operational and strategic investment decisions, as well as management processes	Review investment policies and tools annually and incorporate learning and feedback as part of this process
PRINCIPLE 9	
Publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles	Disclosure statement will be published annually
Arrange for independent verification of this alignment; conclusions of this verification report shall also be publicly disclosed	First verification will be published by Dec 31, 2020