



sonen capital

Social & Environmental impact investment management

2020 IMPACT

GLOBAL MULTI-STRATEGY REPORT

PHOTO: Ghanaian company, Atlas Commodities Limited procures cocoa from 4,427 smallholder farmers and 36 farmer cooperatives across Ghana.

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Sonen Capital
456 Montgomery Street, Suite GC1
San Francisco, CA 94104
info@sonencapital.com
www.sonencapital.com

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LEAD AUTHOR
Will Morgan

EDITING & DESIGN
Amando Balbuena

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Sonen Global Multi-Strategy (GMS) is an absolute return strategy that seeks to invest in assets that have a low correlation to global equity and fixed income markets and achieve a unique and direct social and environmental impact.

The Strategy targets positive impacts across two main impact themes:

- › **Access to Capital:** GMS focuses on financial services, providing a suite of different services that extend financial resources to small businesses and individuals among emerging economies, as well as basic financial services in the US through small and regional community banks.
- › **Environmental Conservation:** GMS invests in renewable energy production and technologies, natural resource management and optimization, and water conservation and ecosystem protection in order to drive environmental sustainability through conservation.

GLOBAL MULTI STRATEGY



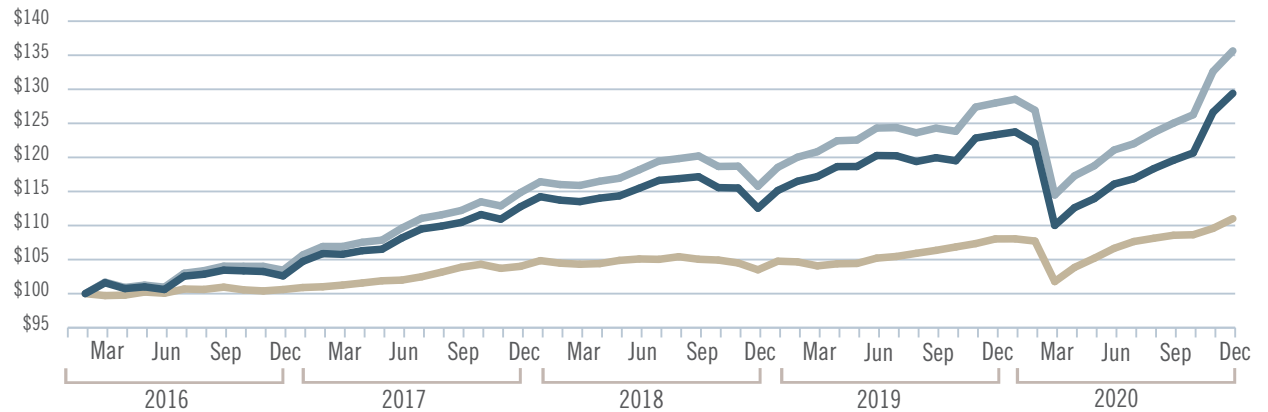
PHOTO: This store owner uses Amarthya, a GMS investment and a peer-to-peer lending platform, to run her small business.

2020 was the most challenging year since the 2008/2009 Financial Crisis and, many would argue, one of the most transformative years of the 21st century. By late March, once much of the world had almost completely stopped functioning, markets were in free fall. While Sonen GMS did not suffer losses to the same extent as equity markets did during this period, the first quarter of 2020 was nonetheless a difficult one for the strategy as exposures in clean energy, environmental equities, community banking and trade finance began to feel the early economic effects of the pandemic shutdowns.

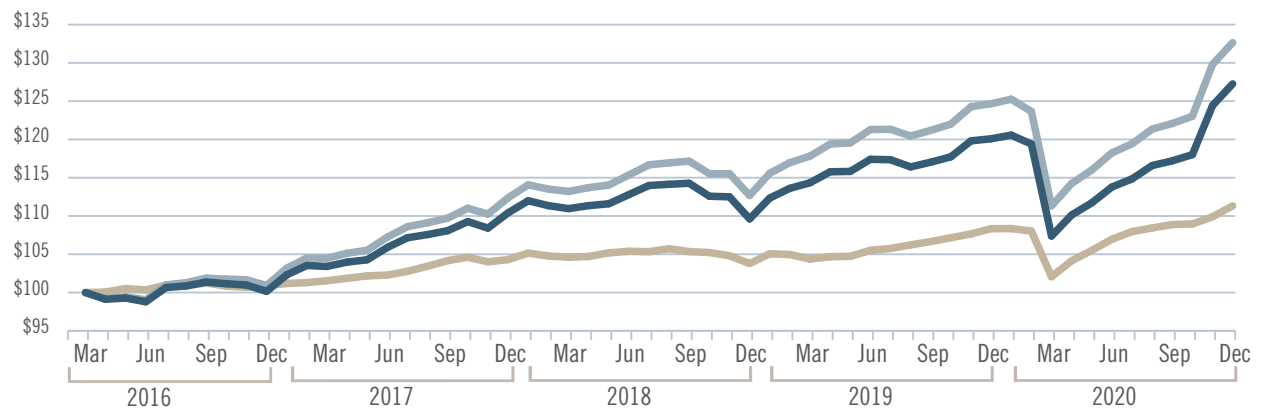
During the second quarter, the strategy began to recover as investors returned to the sectors they had quickly abandoned during the darkest moments of the crisis. Both environmental equities and community banking started to recover during this period. Q3 saw a similar pattern, as the recovery began to broaden into a wider swath of the environmental equities segment. The fourth quarter was potentially going to be a period of significant volatility, with one of the most consequential US elections in decades, and an unclear future regarding vaccinations, virus variants, and the trajectory of the global economic recovery. Ultimately, voters decided on a new administration with a positive market response. Sonen GMS benefited from this with strong performance from exposures to clean energy, environmental infrastructure, natural foods and water rights.

Sonen Global Multi-Strategy Financial Performance

- SONEN GLOBAL MULTI-STRAGY (OFFSHORE NET)
- SONEN GLOBAL MULTI-STRATEGY (OFFSHORE GROSS) VS
- HFRX ABSOLUTE RETURN (SINCE INCEPTION 3/1/2016)



- SONEN GLOBAL MULTI-STRAGY (ONSHORE NET)
- SONEN GLOBAL MULTI-STRATEGY (ONSHORE GROSS) VS
- HFRX ABSOLUTE RETURN (SINCE INCEPTION 4/1/2016)










Overall, in 2020, Sonen GMS Onshore Strategy returned 6.19%, and since inception the onshore strategy has returned 5.25% annualized, net of fees. Sonen GMS Offshore Strategy returned 4.94% in 2020, and since inception the offshore strategy has returned 5.54% annualized, net of fees.

Impact Evaluation: Sonen's Approach

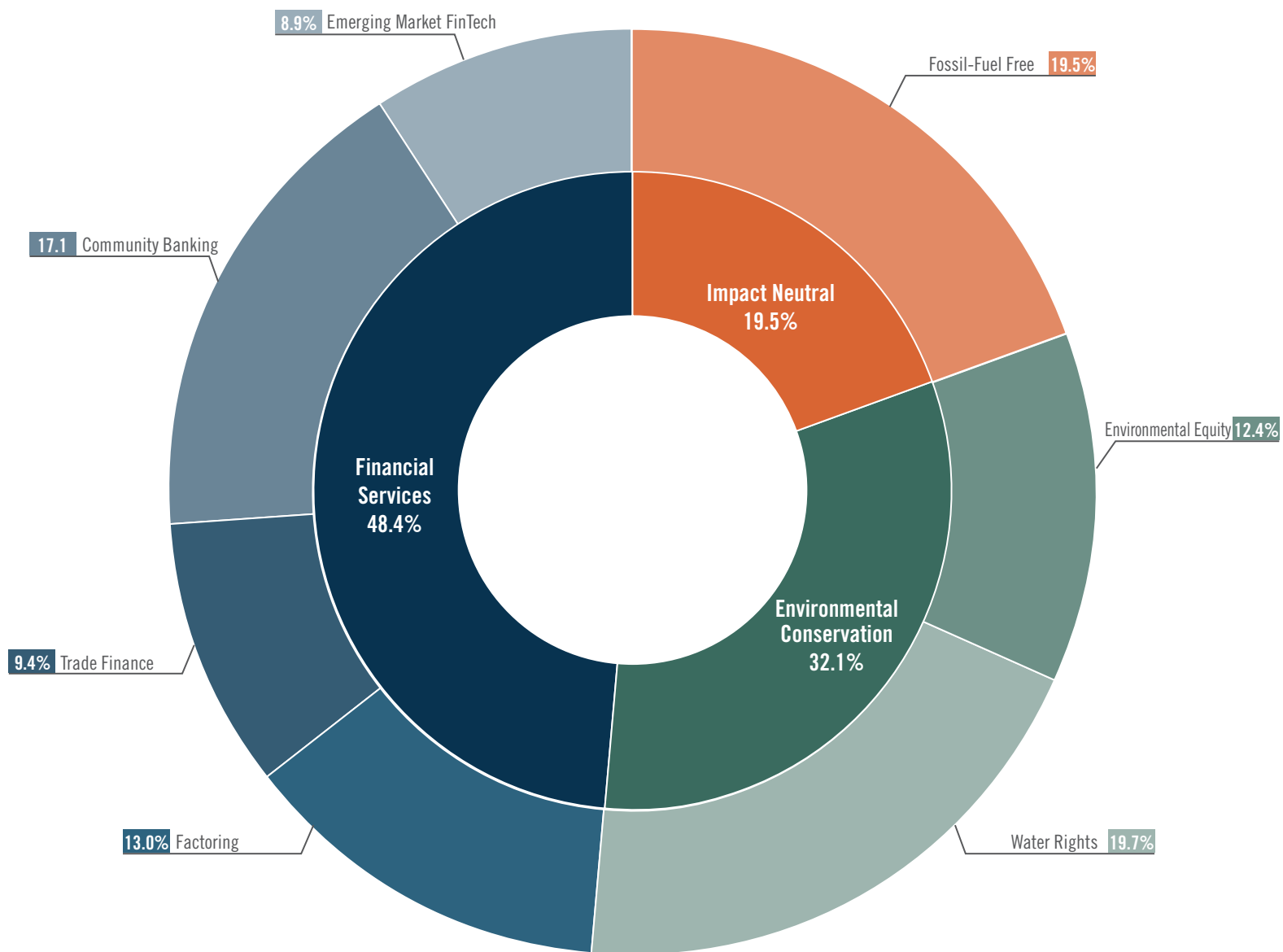
Sonen continues to strengthen the impact profile of GMS by adding exposures that complement both the impact and investment thesis of the strategy. In 2020, two new investments were made in GMS:

- › The first addition increases access to financial services among underbanked populations in Africa, Asia, and Latin America, complementing the existing investment strategies in GMS that provide financial services to small businesses.
- › The second addition focuses on water conservation and ecological benefits through water rights trading in Australia's Murray Darling basin, the largest water market in the world. Sonen is steadily adding highly thematic and targeted investments to GMS and reducing its exposure to the impact neutral fossil fuel-free series of investments in the strategy.

Specific components of the strategy and a description of each key impact activity are described on the right:

| IMPACT THEME | INVESTMENT APPROACH | KEY IMPACT ACTIVITIES | UN SDG CONTRIBUTION |
|----------------------------|---------------------------------|---|---|
| FINANCIAL SERVICES | Community Banking | Investing in small and regional banks in the U.S. that provide critical financial services to small businesses and households. |  |
| | Factoring | Providing capital to local financial institutions that support small business growth in Latin America, South Asia, and Eastern Europe. |  |
| | Trade Finance | Extending short-term loans to small businesses in Sub-Saharan Africa that export commodities to international markets. |  |
| | Emerging Markets FinTech | Lending to financial technology firms in Asia and Africa that expand financial inclusion among markets most underserved by the conventional banking system. |  |
| ENVIRONMENTAL CONSERVATION | Water Rights | Acquiring tradeable water assets to support the efficient allocation of water in Australia's water-stressed Murray-Darling Basin. |   |
| | Environmental Equity | Investing in solutions to global sustainability challenges, through technologies that offer alternatives to, or make more efficient use of, natural resources, particularly clean energy. |  |
| IMPACT NEUTRAL | Fossil Fuel-Free Multi-Strategy | Provides diversification and the potential for attractive risk-adjusted returns due to exposure to a variety of specialized investment strategies. | |

IMPACT THEMES



ENVIRONMENTAL CONSERVATION

WEIGHT:
32.1%

NUMBER OF INVESTMENTS:
2

GEOGRAPHIES:
Australia, Global

UNSDG:



RELEVANT OBJECTIVES FROM SONEN IMPACT FRAMEWORKS ▶

[Sustainable Infrastructure](#) ▶ [Sustainable Agriculture](#) ▶ [Water](#)

- › Restore water resources through natural ecological function
- › Increase water efficiency in agriculture
- › Protect and restore lands, watersheds and ecosystems, with high conservation value
- › Engage in water development rights and trading
- › Harness natural systems' capability to provide critical ecosystem services
- › Improve agriculture productivity
- › Ensure appropriate fertilizer application

IMPACT OBJECTIVES FROM UN SDGS

- ▶ SDG 2: Zero hunger ▶ SDG 6: Clean Water and Sanitation
- ▶ SDG 7: Affordable and Clean Energy

- › Increase water-use efficiency and ensure sustainable withdrawals
- › Implement integrated water resources management, including through transboundary cooperation
- › Protect and restore water-related ecosystems
- › Increase the share of renewable energy in the global energy mix
- › Ensure sustainable food production systems and practices that increase productivity and production

ENVIRONMENTAL CONSERVATION IMPACT EXPOSURES IN GLOBAL MULTI-STRATEGY

- › Integrated, landscape-scale water management planning that restores ecosystem integrity and encourages more efficient uses of water
- › Corporate equities that support clean power generation and clean power technology development
- › Corporate equities supporting sustainable agriculture technology and production

Impact Theme **Environmental Conservation**

GMS' positive impact creation in Environmental Conservation is achieved through investments that focus on:

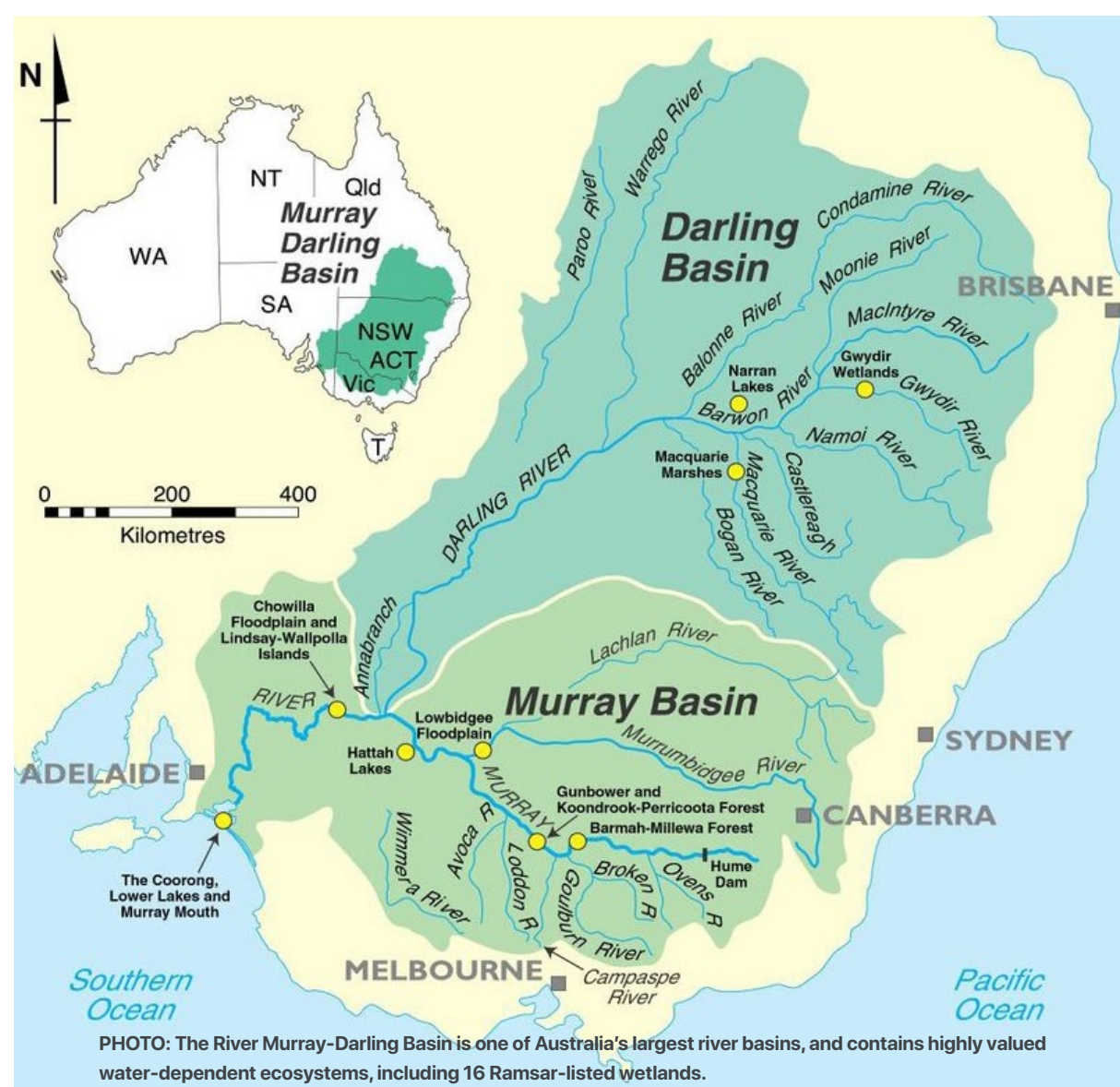
- A. Expanding clean energy production, related technology, and clean power infrastructure,
- B. Companies whose products and services help make more efficient use of natural resources,
- C. Supporting water conservation and ecological restoration in water-stressed regions.

Environmental Conservation: **Investment Strategy 1**

GMS' latest investment in Environmental Conservation (made during 2020) focuses specifically on water conservation and ecological rehabilitation in Australia's water-stressed Murray-Darling Basin (MDB). The Murray-Darling Basin is one of the world's largest and most productive river basins, supporting a \$24 billion agricultural industry and providing one-third of Australia's food supply. The Basin supports a diverse range of animals, plants and ecosystems of national and international significance, including 35 endangered birds and 16 endangered mammals.¹

The Basin is also one of the most vulnerable river basins on the planet. Decades of overuse and poor resource management in the region has resulted in severely diminished water runoff to rivers, creeks, and wetlands, leaving most local ecosystems in the region in poor health. In 2012, more than 80% of the Murray-Darling Basin's river valleys were rated as being in poor or very poor health based on assessments of fish, invertebrates and vegetation.²

To optimize limited water resources, Australia's 1994 Water Reform Framework created a national legal mechanism for a water "market," based on the view that water is a commodity that could be traded and



priced more accurately to reflect its scarcity. In 2012, the Australian Government created the Basin Plan, an initiative to rebalance environmental and consumptive use and to restore 2,750 gigaliters (equivalent to 1.1 million Olympic-sized swimming pools) of natural water flow in streambeds by 2024. The MDB water market is now the largest water market in the world and

is globally recognized as a successful example of a cap-and-trade mechanism for a natural resource, providing social, economic, and environmental benefits to all stakeholders. Since the water trading mechanism was implemented, social, economic and

environmental studies have revealed numerous benefits that result from this market-based solution. A study completed in 2020 by the Australian National Water Commission enumerates multiple positive outcomes, including:

- › Improved native vegetation and improved health for wetlands, floodplain forests, and woodlands.
- › Improved river connectivity and migratory and breeding habitat corridors for native fish, frogs, and waterbirds.
- › Increased protection and viability of rare and threatened biodiversity found in groundwater-dependent ecosystems.
- › Water trade in the MDB has encouraged on-farm innovation and efficiency in water use, and helped to move water from low to higher-value consumptive uses.
- › The Nature Conservancy also participates in the water trading market, and they estimate that nearly 4,600 hectares of connected floodplain landscapes have benefitted from the increased availability of water resulting from the Basin Plan.
- › The restoration of environmental flows (or water retained in waterways) helps conserve sites of important Aboriginal cultural and spiritual value.^{3,4}

The benefits of water trading have been particularly apparent during drought. Irrigators with flexible demands (such as rice and cotton growers) have been able to sell water to irrigators with more inflexible demands (such as horticulturalists with perennial crops). The provision of water refuges has been particularly important in maintaining breeding grounds during drought, supporting ecosystem resilience until rain returned.

DARLING RIVER

20 km south of Pooncarie, New South Wales.

Environmental Conservation: *Investment Strategy 2*

The first strategy in GMS to focus on Environmental Conservation invests in public companies that help optimize the use of natural resources, including food production, and expand alternatives to conventional, carbon-based energy production. The strategy invests in small- and mid-cap global equities that have direct relationships to these themes. Over 2020, the largest positions in the strategy included:

1. A manufacturer of plant-based beverages, non-GMO foods, and organic foods. Plant-based milks have experienced booming sales over the last five years, and their production entails significantly lower environmental impact than dairy-based milk - namely land use, climate emissions and water use. Apart from investing in food production with reduced negative environmental impacts, the company itself has a goal to divert 92.5% of its waste by 2025.⁵
2. A company focusing on railroad, aviation, and multi-modal transportation infrastructure, including the transport and storage of energy resources.
3. A producer of natural, organic pesticides made from plant extracts that provide alternatives to typical chemical-based crop assistance. These products are intended to

help farmers improve yields, reduce costs, reduce environmental impact, and provide healthier food to consumers. Plant-based pesticides are safer for workers and lower risk to pollinators, are biodegradable, and are designed to promote soil health by supporting or increasing microbial diversity in the soil.⁶

4. A company that specializes in treating waste, operates waste-to-energy facilities, and recycles metal in high volumes. In 2020, the company converted 21.6 million tons of waste to energy, saving 18.8 million tons of CO₂e from being emitted into the atmosphere, and providing enough energy to power 1,000,000 homes with renewable electricity. The company also recycled 1 million tons of material, including 570,000 tons of metal, 90 million gallons of industrial wastewater, and 2 million gallons of oil.⁷
5. The second largest renewable energy developer in the United States, with a global power generation portfolio over 30,000 MW in size, serving 2.5 million customers.⁸ By 2030, the company aims to reduce GHG intensities by 70% (from 2016 levels), focusing on retiring non-renewable power generation assets and growing its portfolio of solar, wind and hydro generation facilities.⁹

FINANCIAL SERVICES

WEIGHT:

48.41%

NUMBER OF INVESTMENTS:

4

GEOGRAPHIES:

US, Asia, Eastern Europe,
Latin America, Sub-Saharan Africa

UNSDG:



RELEVANT OBJECTIVES FROM SONEN IMPACT FRAMEWORKS

► [Financial Inclusion](#)

- › Expand access and improve affordability of basic financial services
- › Increase products and services that cater specifically to the underserved

IMPACT OBJECTIVES FROM UN SDGS

- SDG 1: No Poverty
- SDG 5: Gender Equality
- SDG 8: Decent Work and Economic Growth
- SDG 9: Industry, Innovation and Infrastructure
- › Ensure the most vulnerable have access to economic resources and financial services
- › Encourage growth of small enterprises through access to financial services
- › Give women equal rights to economic resources and access to financial services

FINANCIAL SERVICES IMPACT EXPOSURES IN SONEN GLOBAL MULTI-STRATEGY

- › Extending capital to local financial institutions that support small business growth and individuals' banking needs
- › Supporting financial institutions that are expanding financial inclusion among markets that are most underserved

Impact Theme: **Financial Services**

Nearly half (48.4%) of GMS is invested in four distinct approaches to expanding financial inclusion. As defined in our Financial Inclusion webinar in February 2021, Sonen's investments in financial services seek to expand the availability, affordability and offerings of essential financial services in communities where such services are limited or overly expensive for end-users. Across these various approaches within GMS, the common goal is to provide financial resources that lead to job growth, small business growth, and economic development within the communities

where these investments are made.

GMS' positive impact creation in Financial Services is achieved through investments that focus on:

- A. Providing capital to local financial institutions that support small business growth in Latin America, South Asia, and Eastern Europe through factoring.
- B. Extending short-term loans to small businesses in Sub-Saharan Africa that export commodities to international markets through trade finance.
- C. Investing in small and regional community banks in the U.S. that provide critical financial

services to small businesses and households.

- D. Lending to financial technology firms in Asia and Africa that are designed to expand financial inclusion among the markets most underserved by the conventional banking system. This investment was added to the strategy in 2020.

Three of Sonen's underlying investments in Financial Services report on small business creation and related employment. Data for 2020 is presented below.

| Financial Services Impact Data | | | |
|---------------------------------------|---------------------|---------------------|---------------------|
| Data | Investment 1 | Investment 2 | Investment 3 |
| Small Enterprises Financed | 17 | 12,686 | 11,664 |
| Individuals Financed (Total) | n/a | n/a | 1,141,773 |
| Individuals Financed (Women) | n/a | n/a | 339,517 |
| Employment at Small Enterprises | 3,530 | 140,751 | 1,240 |
| Number of Women Employees | 692 | 49,262 | Not Reported |
| Percent Women Employees | 19.6% | 35% | Not Reported |

* January 1, 2020 through December 31, 2020

** Cumulative through March 2020

SONEN'S PERSPECTIVE

The Impact Case for Investing in Financial Services

Financial services including credit, savings, insurance, and payment platforms play a critical role in global social and economic development. Evidence shows that expanding financial services reduces poverty and expands economic opportunity across all socioeconomic groups.

Small and Medium Enterprises (SMEs) play a critical role in economic growth in all economies as a significant source of employment generation (50% of employment worldwide)¹⁰ and output growth across the globe. SMEs contribute 50% of total GDP in high-income countries¹¹ and 40% of

GDP in emerging economies.¹² Despite their central role in global economic growth and employment, SMEs are systematically under-financed by over \$5 trillion annually,¹³ largely due to the perception of conventional banks that such enterprises are not creditworthy. According to the World Bank, 600 million new jobs will be needed by 2030 in order to absorb the growing global workforce – making SME development a high priority for the global sustainability agenda.¹⁴

Financial inclusion is a critical element to achieving multiple Sustainable Development Goals (SDGs). Research shows that access to financial services can contribute to 11 SDGs, particularly poverty, food security, health, education, and gender equality. Financial inclusion makes direct contributions to SDGs 1 (poverty), 8 (employment) and 9 (infrastructure).

Key impacts across Sonen's financial inclusion services-related investments include:

- › increased access to financial services,
- › enterprise and employment growth, especially for women-led businesses, and
- › wage growth and increased disposable income.



Financial Services: **Investment 1 - Factoring**

GMS' first investment in financial services targets small enterprises that are hardest to reach, namely those led by women, have fewer than 50 employees, or have been in business for less than two years. Using 'factoring' or 'invoice discounting' as a means of finance, participating small businesses can gain access to capital based on their accounts receivable to meet near-term liquidity and financing needs (these small businesses often are unable to qualify for financing from conventional banking institutions, or such short-term financing is cost prohibitive, leaving many of these enterprises without access to finance). Factoring does not require collateral, and it allows owners to retain full ownership of their company. Among the benefits of using factoring as a means of finance, small businesses indicate that it is easier and more expedient than bank-based loans and financing and financed amounts can be larger than those found at conventional financial institutions.

Cumulatively through March 2020, Sonen's factoring partner extended over \$3 billion in total funding to small businesses, which in turn supported over 140,000 jobs and helped create more than 26,000 jobs. Participating small businesses collectively report an increase in revenue of 104% since receiving

factor-based business loans.¹⁵ Importantly, 36% of all participating businesses are owned by women, and 35% of all small business employees are women. For comparison, the World Economic Forum reports

that only 14% of business owners are women across the geographies where these loans are provided, illustrating a disproportionate benefit provided to women by using this financing approach.¹⁶

JCS STRAIKAS

Based in Lithuania, JSC Straikas is one of the largest producers of natural birch sap and organic foods in Europe. The company exports white-label products alongside its own fruit and vegetable juices, organic baby food, and birch water across Europe, Asia, and Israel. The company's management is over 50% women, and its workforce is comprised of 63% women. Managing cash flow was a critical factor for the company as it grew rapidly and scaled its operations in recent years. JSC Straikas used factoring to smooth its cash flow, securing loans against the company's sizeable accounts receivables and invoices, to invest in marketing, export development, and tax payments.



Financial Services: **Investment 2 - Trade Finance**

GMS investments also provide access to financing for Small and Medium Enterprises (SMEs) in Africa that export commodities (e.g., juice, nuts, cocoa) using a similar mechanism called, 'trade finance.' Across Sub-Saharan Africa, 82% of the demand for credit among small businesses is unmet, totaling \$331 billion. An estimated 23 million small enterprises in the region do

not have access to the capital they need in order to survive or expand.¹⁷ SMEs comprise the backbone of Africa's economy and account for approximately 90% of all companies and provide nearly 80% of the region's employment. While such small businesses are Africa's engine of growth, their access to financial resources is restricted due to their size – falling between big and established corporations and many millions of micro-sized companies.

Trade finance, much like factoring in the previous example, helps smooth cash flow for smaller businesses that typically have difficulty accessing loans and other forms of interim financing. Trade finance is used most widely among export companies that do not wish to, or cannot, wait to receive payment for their goods while they are in transit to distant destinations.



PHOTOS: Atlas
Commodities, a Ghanaian
chocolate procurment
company recieved trade
finance loans in 2019 with
aims to expand market
share

A close-up photograph of a person's hand holding a small quantity of cocoa beans. The hand is positioned in the center-right of the frame, with the palm facing upwards. The beans are dark brown and have a slightly wrinkled texture. In the background, a large, flat pile of similar cocoa beans is spread out on a light-colored bamboo mat. The mat is made of thin, parallel bamboo strips, and the beans are piled in a way that creates a sense of depth and volume. The lighting is bright and even, highlighting the natural colors and textures of the beans and the mat. The overall composition is simple and focused on the cocoa beans, which are the central subject of the image.

ATLAS COMMODITIES

Atlas Commodities Limited (Atlas) is a licensed cocoa buying company in Ghana and oversees the procurement of cocoa directly from 4,427 smallholder farmers and 36 different farmer cooperatives across the country. Nearly 2,000 of these farmers are women. Atlas started receiving trade finance loans in 2019 and aims to significantly expand its market share in Ghana through various business efforts that aim to improve the welfare of its cocoa producers – all enabled by the company's improved financial position.

Atlas plans to improve farmers' margins by a full 40% through farmer training, and access to inputs that can improve productivity and yield. Further, because Atlas is able to access working capital more easily, it can provide more timely payments to its farmer base. One third (33%) of Atlas' farmer base are poor (living below \$US3.20/day), and up to 75% of their income is earned from cocoa production and sales. More than half of participating farmers indicate that their involvement with Atlas has positively affected their ability to predict the timing and income from cocoa production. The cooperatives Atlas works with are all fair trade accredited, helping ensure fair trade pricing and price premiums paid to farmers.

Financial Services:

Investment 3 - Community Banks

To support the growth of financial services to underserved businesses within the U.S., GMS invests in small and regional banks across the country. Community banks provide vital banking services to local households, nonprofit organizations, and small businesses. These banks often offer a personalized and non-standardized lending process that reflects the needs of the community in which each bank operates. Perhaps most importantly, however, is the role that such banks play for small businesses across the United States.¹⁸

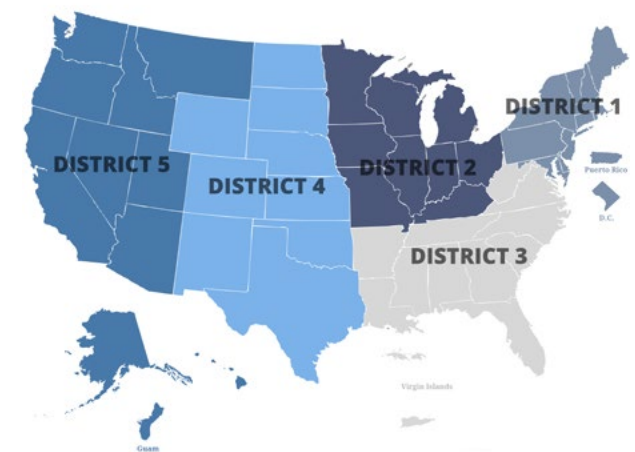
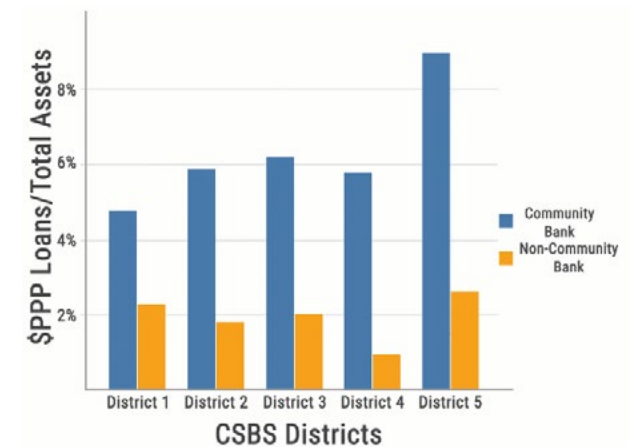
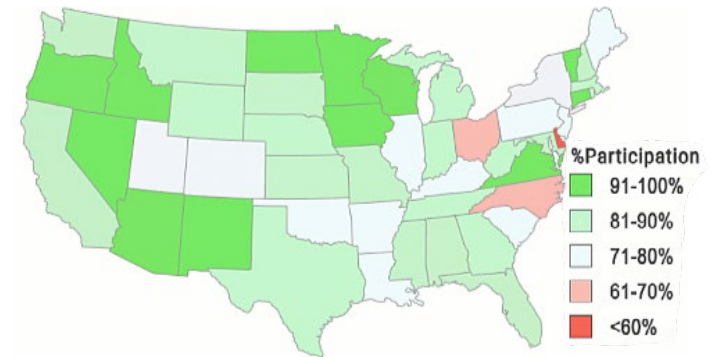
Small banks devote the greatest share of their assets to small business loans. Small banks are the primary lenders to small businesses, farms, and real estate transactions that create jobs and fuel economic growth for millions of Americans.¹⁹ In the U.S., more than 30 million small businesses create nearly half of all employment across the country, fueling economic growth for millions of Americans.²⁰ Community banks provide the low-cost banking, community support, and financial education that larger institutions do not. In rural communities in the U.S., community banks account for 58% of all banking offices and 49% of all deposits.²¹



Since the onset of the COVID-19 pandemic in early 2020, smaller and regional banks' role in their communities became even more important. Their experience in extending Small Business Administration loans made community banks leaders in processing and receiving approval of Paycheck Protection Program loans. Banks with less than \$10 billion in deposits approved approximately 60% of all PPP loans during the Program's first round.²² And banks with less than \$10 billion in deposits approved 20% of all PPP loan dollars – while accounting for just 6% of all U.S. banking assets.²³

In the aftermath of the pandemic's onset in early 2020, small banks' vital role in local communities came into focus: As business conditions began to deteriorate in Q1 and Q2 of 2020, 79% of community banks increased their lending (by \$) to small businesses and farms in order to provide liquidity for business continuity. Compared to the same period in 2019, small business loans among these institutions were up by 40%.²⁴

Percent of Community Banks Participating in PPP²⁵



Financial Services: **Investment 4 - Emerging Markets Financial Technology**

As we noted in our financial inclusion webinar in March 2021, bringing more people into the formal economy through basic financial services results in significant social and economic benefits. Additionally the proliferation of technology-based solutions over the last 10 years, largely based on the growing ubiquity of mobile phones, is rapidly expanding the number of new economic participants globally.

Over the last 10 years, 1.2 billion people accessed financial services for the first time. However, 1.7 billion people, or one third of the global adult population, still lives without access to a financial account.²⁶ Beyond just accessing basic financial services, there are also enormous unmet needs among individuals and small businesses that seek credit: Estimates show that small businesses - the engines of economic growth around the world and particularly in emerging economies - are still starved of more than \$5 trillion in credit annually.²⁷

Data shows numerous social and economic benefits of adding more people into the formal financial system: If digital financial services were extended to all who need it or want it, the global economy could grow by \$3.7²⁸ trillion. Other empirical data of the benefits of financial inclusion include the following:

- › People who can access financial services have greater security and privacy over their money. Savings accounts make it easier to save, so

people save more and earn more. [Women in Nepal](#) who were offered a simple bank account increased their total assets by 16%. In India, a government effort to open banks in rural areas helped cut rural poverty by up to 17%.

- › When savings accounts were offered to [female market vendors in Kenya](#), their daily expenditure increased by 37%, relative to a comparable group of women who did not receive an account.
- › When [Malawian farmers](#) had their earnings deposited into a new bank account, they spent 13% more on equipment and increased the value of their crop output by 21%.
- › A [study in Kenya](#) found that giving people a safe place to store money increased health spending by 66%.²⁹

Sonen's most recent addition to GMS focuses on technology-based investments that continue to expand financial participation among unbanked individuals and underbanked small enterprises.

The following types of investment are made:

- A. loans that advance asset ownership for micro-entrepreneurs (assets that assist in livelihoods, such as motorcycle taxi drivers).
- B. small enterprise loans.
- C. consumer loans particularly focused on female borrowers.
- D. electronic payment platforms that enable anyone with a mobile phone to transact digital-

ly. In September 2020, this investment helped finance over 1 million borrowers in total, including 340,000 female borrowers. Investment activities are focused in Kenya, Ghana, Nigeria, South Africa, Mexico, and Indonesia.

PAYJOY

In Q4 2020, PayJoy received a \$26 million debt facility from Sonen's GMS manager to expand lending operations in Mexico. Founded in 2015, PayJoy has a mission to deliver access to consumer finance and smartphone technology to people in emerging markets worldwide.

PayJoy offers installment payment plans for smartphones, and customers can also get access to cash loans using their smartphones as collateral. Beyond providing access to smartphones and cash loans, PayJoy's technology helps new clients establish credit histories: in Mexico, 25% of the company's portfolio has no credit history and 45% of Mexican customers do not have a bank account.³⁰ Data from 2020 show that repayments from PayJoy's customers have been stable since the pandemic took hold through 2020, with only slight repayment decreases from pre-coronavirus levels. The company maintains a long-term goal of reaching one billion people in emerging markets and expanding access to smartphones as important tools for communications, commerce, and digital financial services.

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APPENDICES

HFRX ABSOLUTE RETURN INDEX. The HFRX Absolute Return Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity

market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. As a component of the optimization process, the index selects constituents which characteristically exhibit lower volatilities and lower correlations to standard directional benchmarks of equity market and hedge fund industry performance. Hedge Fund Research, Inc. (HFR) utilizes a UCITSIII compliant methodology to construct the HFRX Hedge Fund Indices. The methodology is based on defined and predetermined rules and objective criteria to select and rebalance components to maximize representation of the Hedge Fund Universe. HFRX Indices utilize state-of-the-art quantitative techniques and analysis; multi-level screening, cluster analysis, Monte-Carlo simulations and optimization techniques ensure that each Index is a pure representation of its corresponding investment focus.

DISCLOSURES

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