

sonen capital

Social & Environmental impact investment management

GLOBAL MULTI-STRATEGY

IMPACT

REPORT

2021



REPORT CONTENT

3

GLOBAL MULTI-STRATEGY

4

IMPACT PERFORMANCE

7

ENVIRONMENTAL CONSERVATION

11

FINANCIAL SERVICES

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PHOTO: Aerial view of eroding sandstone shores of the Murray River at dusk.

An aerial photograph of a river winding through a landscape of gum trees and wetlands at sunset. The sky is filled with dramatic, dark clouds, and the water reflects the warm, golden light of the setting sun. The trees are silhouetted against the bright sky, and the water has a shimmering, golden-brown hue.

GLOBAL MULTI-STRATEGY

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

- › **Access to Capital:** One of the strategy's core impact focus areas is providing financial services to small businesses and individuals all over the globe. In emerging markets, the strategy focuses mainly on small business growth, and in the US the strategy focuses on the financial needs of rural communities, including small businesses and individuals who are not served by major financial institutions.
- › **Environmental Conservation:** The strategy's other focus is on environmental issues, in particular natural resource conservation, the renewable energy economy and water conservation and ecosystem protection.

The balance of the portfolio is held in a fossil fuel free strategy.

PHOTO: Aerial view of Murray River and Wachtels Lagoon among an island of gum trees at Sunset. Riverland South Australia.

2021 YEAR IN REVIEW

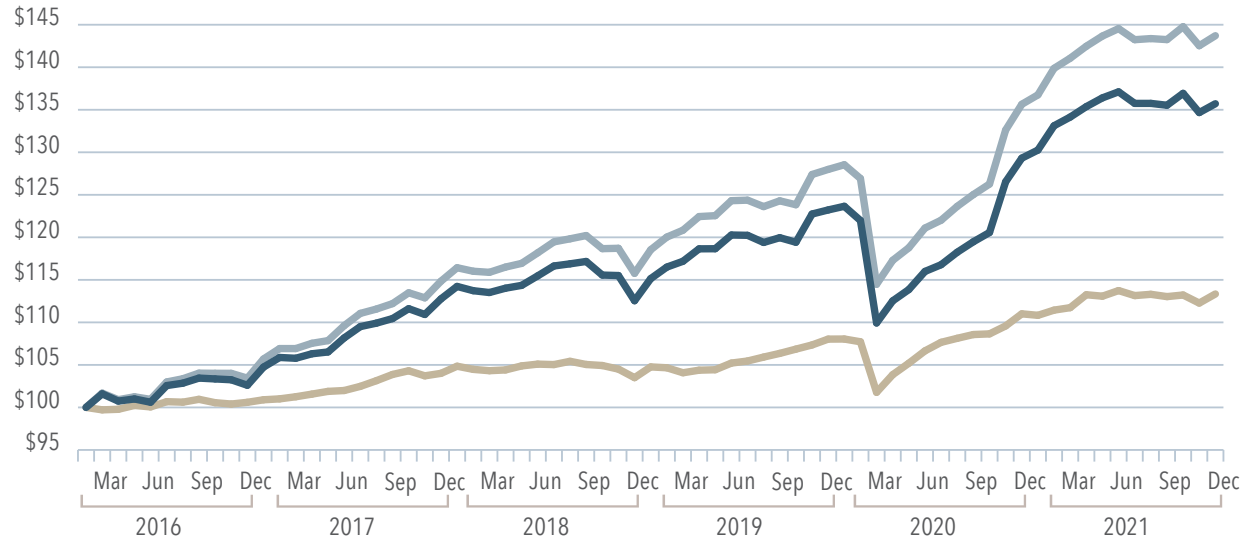
While 2021 was an unpredictable year in many ways, recovery from COVID-19 led to significant market growth around the globe. As part of a push for recovery during the pandemic, government stimulus programs helped regenerate investor confidence at the beginning of the year that held strong even in the face of new COVID-19 variants. The first two quarters of 2021 were marked by sizeable corporate earnings, accommodative monetary policies by most central banks and the reopening of major economies including the U.S. and China. During this time, GMS outperformed market growth and set the year off to a positive start.

In the latter half of the year, rising inflation concerns dampened market growth, leading to lower performance for the strategy. While equities and fixed income struggled globally, GMS' investments in emerging markets did well, as private lending practices were less susceptible to market fluctuations. Supply chain issues and labor shortages during this time caused issues for some managers.

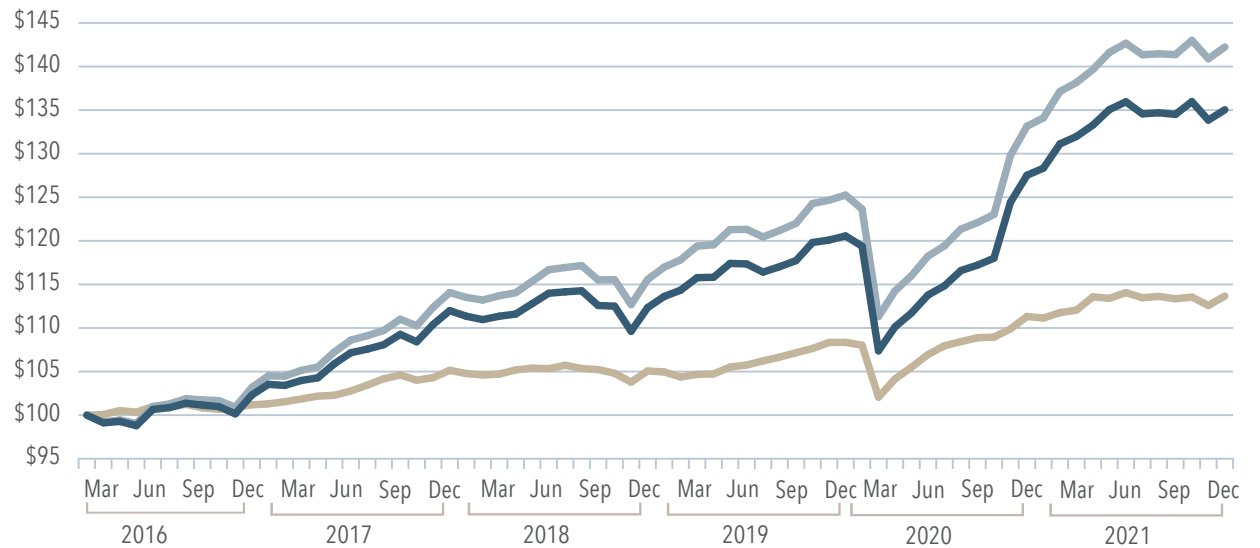
The fund regained some momentum by the fourth quarter, and finished the year with earnings of 5.9%, more than double the benchmark's (HFRX Absolute Return) returns. See chart to the right. The end of the year was strong in the U.S., with consumer spending increasing almost to pre-COVID levels and a growing labor market. As we look at what the rest of 2022 may bring, Sonen anticipates climbing interest rates and

SONEN GLOBAL MULTI-STRATEGY

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










- SONEN GLOBAL MULTI-STRATEGY (ONSHORE NET)
- SONEN GLOBAL MULTI-STRATEGY (ONSHORE GROSS) VS
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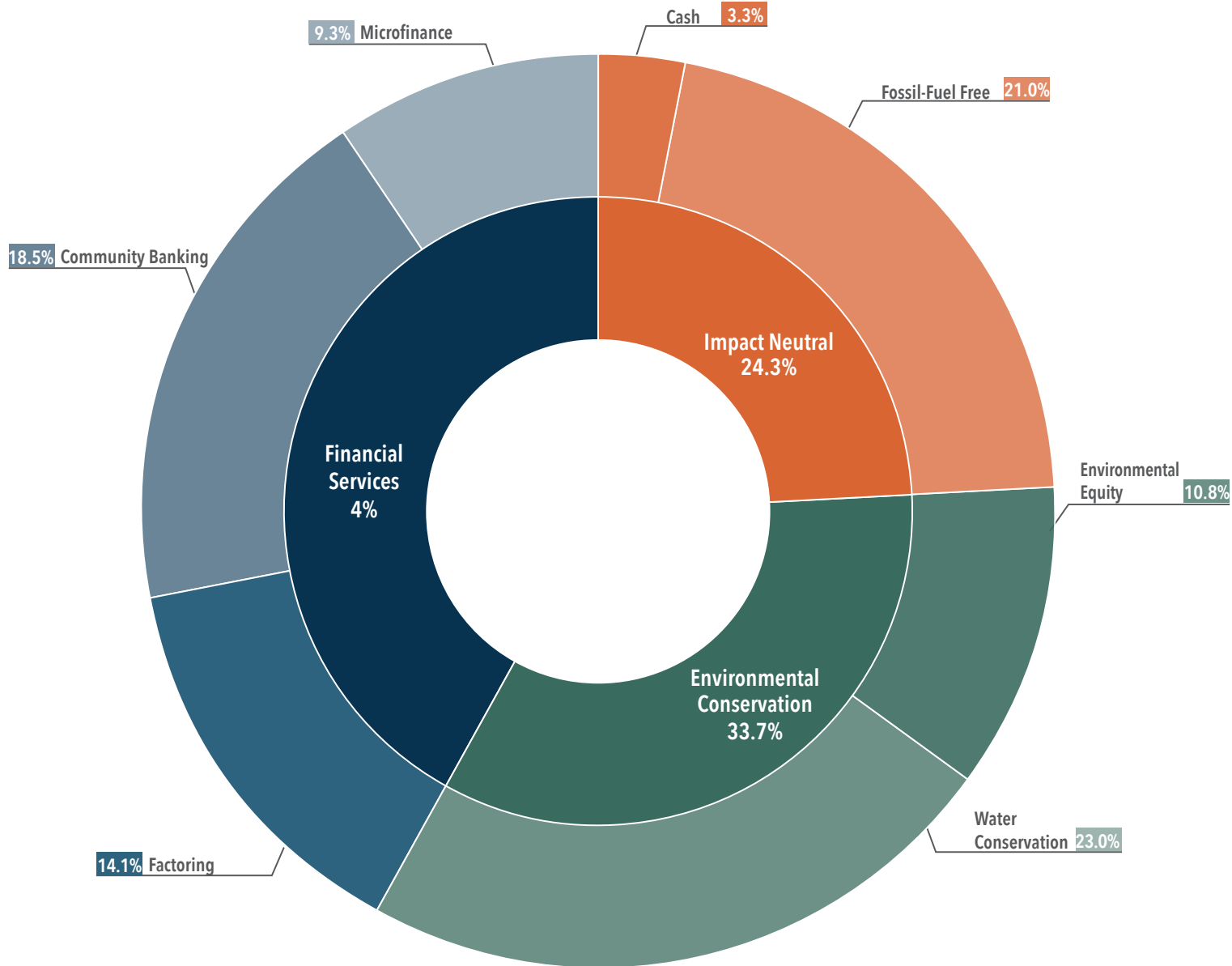
tightening monetary policies. This, in conjunction with conflict in Eastern Europe, foretells increased volatility in the market. We believe the Fund is prepared to meet these challenges with strategic moves intended to insulate it from potential public market volatility.

After adding two investments to the strategy during 2020, Sonen did not add any new investments to GMS in 2021. Throughout 2021, Sonen actively searched for new additions to the strategy, and is considering three new investments: one investment to expand access to financial services in the United States, and two investments focused on highly thematic public equities (including renewable energy).

Specific components of the strategy and a description of each key impact activity are described in the table on the right. Contributions to various UN Sustainable Development Goals (SDGs) are noted for each investment.

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.	

SONEN GMS IMPACT THEMES as of 12/31/2021



ENVIRONMENTAL CONSERVATION

WEIGHT:
30.8%

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 across all sectors, particularly in agriculture
- › Protect and restore lands, watersheds and ecosystems, with high conservation value
- › 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
- › 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 for municipal, industrial and agricultural needs
- › Corporate activities, goods and services that support clean power generation and clean power technology development.
- › Corporate activities supporting sustainable agriculture technology and production.

ENVIRONMENTAL CONSERVATION

GMS' positive impacts in Environmental Conservation are achieved through investments that focus on:


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

INVESTMENT STRATEGY 1

GMS's water rights investment is dedicated to water conservation and ecological rehabilitation in Australia's Murray-Darling River Basin (MDB). The MDB 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. It is also a diverse and unique habitat, with ecosystems of national and international significance. It supports 35 endangered birds, 16 endangered mammals and 60 fish species across 30,000 acres of wetlands. Heavy water use by agriculture and industry, alongside poor

resource management, resulted in 80% of the basin receiving a very poor health rating based on environmental assessments.¹

In 1994, Australia established a water "market" based on a cap-and-trade system to optimize its limited water resources. Following environmental assessments in 2012, the government created the Basin Plan, an initiative to rebalance environmental and consumptive use by creating annual environmental water priorities and sustainable diversion limits.² Since its implementation, the MDB water market has grown to represent \$2 billion worth of water traded annually, making it



the largest water market in the world.³ It 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 2020 government assessment of the program enumerated significant positive outcomes, including:

- › Improved native vegetation and wetland conditions,
- › Increased protection of rare and threatened biodiversity (such as in groundwater-dependent ecosystems),
- › Improved migration and breeding of native fish, frogs and waterbirds,
- › Viable breeding grounds and ecosystem resilience during droughts until rain returned, while avoiding further environmental degradation during dry periods.

These benefits create impacts extending far beyond the wetland systems by influencing and improving biodiversity across the broader landscape. Increases in 'environmental water' (i.e., water that remains within the system without withdrawal) improve the condition of terrestrial vegetation, providing important corridors of habitat for bird and other species, and support habitats for terrestrial fauna including reptiles, woodland birds and mammals.⁴

Among these successes, it is estimated that this water market has helped return more than 7,100 megaliters (the equivalent of more than 2,840 Olympic sized swimming pools) of water across 24 wetlands and 630 acres, leading to a 212% increase in bird diversity.⁵

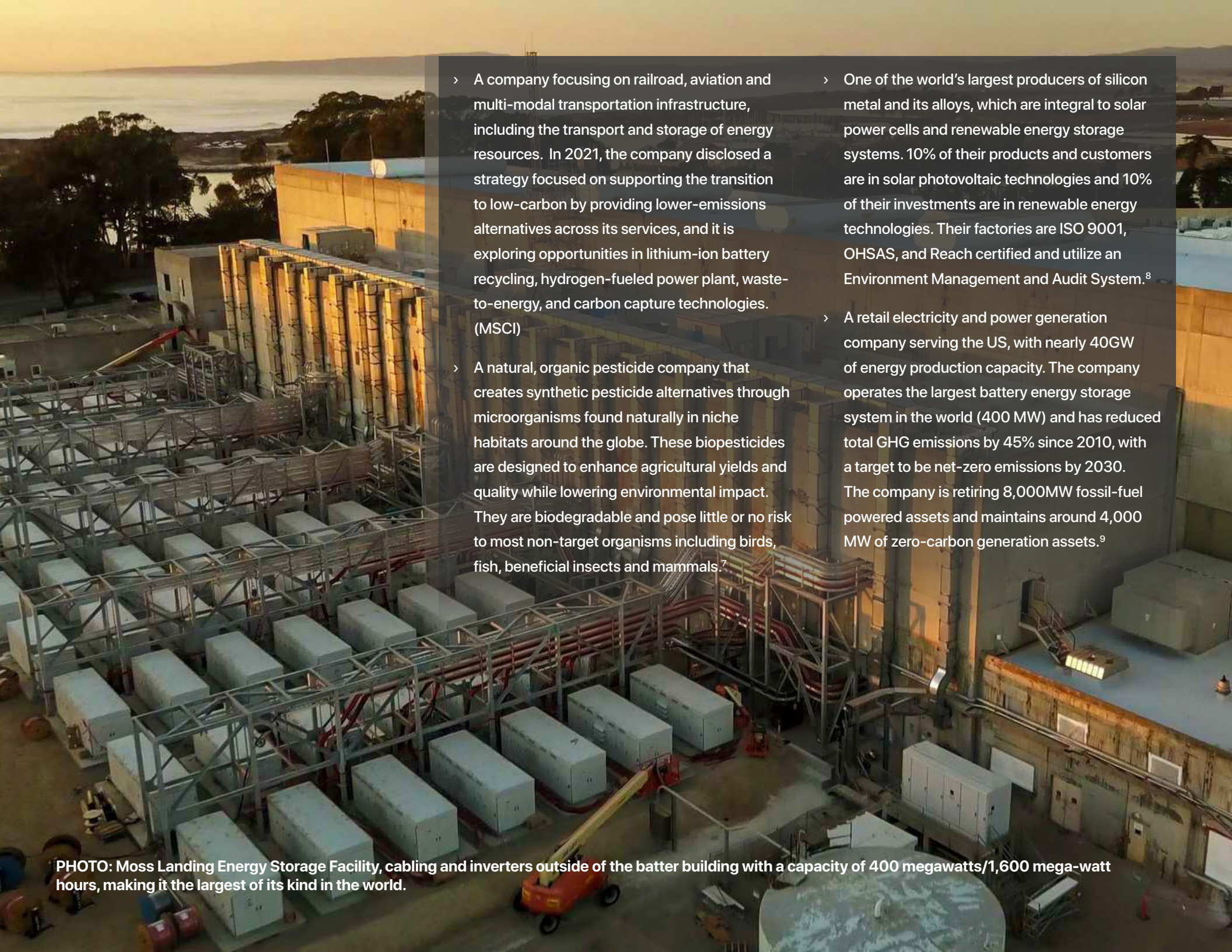
PHOTO: Aerial view of a meandering Murray River in Riverland, South Australia.

ENVIRONMENTAL CONSERVATION

INVESTMENT STRATEGY 2

The second strategy in GMS to focus on environmental conservation invests in public companies that help optimize the use of natural resources and companies that expand alternatives to conventional, carbon-based energy production. The strategy typically invests in small- and mid-cap global equities that have direct relationships to these themes. Over 2021, the largest positions in the strategy included:

- › A company that focuses on producing healthy, sustainable and organic foods and beverages, including plant-based milks and frozen fruits. Plant-based milks have a much lower water and land use footprint than traditional milk and have experienced a steady growth in sales over the past five years. Organic foods, specifically fruits, have a much lower impact on the environment through eliminating the use of synthetic pesticides and fertilizers. The company has also pledged to have all its factories and plants certified Zero Waste by the end of 2022.^{vi}



- › A company focusing on railroad, aviation and multi-modal transportation infrastructure, including the transport and storage of energy resources. In 2021, the company disclosed a strategy focused on supporting the transition to low-carbon by providing lower-emissions alternatives across its services, and it is exploring opportunities in lithium-ion battery recycling, hydrogen-fueled power plant, waste-to-energy, and carbon capture technologies. (MSCI)
- › A natural, organic pesticide company that creates synthetic pesticide alternatives through microorganisms found naturally in niche habitats around the globe. These biopesticides are designed to enhance agricultural yields and quality while lowering environmental impact. They are biodegradable and pose little or no risk to most non-target organisms including birds, fish, beneficial insects and mammals.⁷
- › One of the world's largest producers of silicon metal and its alloys, which are integral to solar power cells and renewable energy storage systems. 10% of their products and customers are in solar photovoltaic technologies and 10% of their investments are in renewable energy technologies. Their factories are ISO 9001, OHSAS, and Reach certified and utilize an Environment Management and Audit System.⁸
- › A retail electricity and power generation company serving the US, with nearly 40GW of energy production capacity. The company operates the largest battery energy storage system in the world (400 MW) and has reduced total GHG emissions by 45% since 2010, with a target to be net-zero emissions by 2030. The company is retiring 8,000MW fossil-fuel powered assets and maintains around 4,000 MW of zero-carbon generation assets.⁹

PHOTO: Moss Landing Energy Storage Facility, cabling and inverters outside of the batter building with a capacity of 400 megawatts/1,600 mega-watt hours, making it the largest of its kind in the world.

FINANCIAL SERVICES

WEIGHT:

46.9%

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
 - › Expanding access to capital among women borrowers

FINANCIAL SERVICES

Nearly half (47%) of Sonen's Global Multi-Strategy is invested in four distinct and complementary approaches to expanding financial inclusion. As articulated in our Financial Inclusion framework, Sonen's investments in financial services aim to expand the availability, affordability and variety of essential financial services, focusing on communities where such services are limited or cost prohibitive 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:

- › Providing capital to local financial institutions that support small business growth in Latin America, South Asia and Eastern Europe through factoring (using small business' accounts receivable as collateral for working capital loans).
- › Extending short-term loans to small businesses in Sub-Saharan Africa that export commodities and support employment creation in local markets.

- › Investing in small and regional community banks in the U.S. that in turn provide critical financial services to small businesses and households.
- › Lending to financial technology firms in Asia and Africa that expand financial inclusion among markets most underserved by the conventional banking system.

Sonen's underlying investments in Financial Services can report on small business creation and related employment. The most recent data available is presented on the right. All figures are annual.

* Individuals financed (female) is an estimate for 2021. 34% of all loan recipients in this strategy are estimated to be female.

Financial Services Impact Data

Data	Investment 1 2020 Data	Investment 2 2021 Data
Small Enterprises Financed	4,361	5,574
Small Enterprises Financed Led by Women	2,050	1,895
Individuals Financed (Total)	N/A	9,214,283
Individuals Financed (Women)	N/A	3,132,856*
Employment at Small Enterprises	257,299	3,912
Percent Women Employees	26%	Not Reported

SONEN'S PERSPECTIVE

The Impact Case for Investing in Financial Services

In March 2021, Sonen published its latest Impact Framework on Financial Inclusion. In our eighth such Impact Framework, Sonen identifies where we believe the opportunities are greatest for investors to create positive impact and generate financial returns through targeted investing in financial services of all kinds. Our financial inclusion framework articulates specific goals that we wish to result from our investments, including a) Expanding access to financial services, particularly among underserved markets; b) Increasing affordability of such services; and c) Creating more financial products specifically tailored to underserved markets, where opportunities are greatest. Excerpts from 2021's Financial Inclusion Impact Framework are below.

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 from 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).

Within GMS, key impacts of our financial services-related investments are (i) increased access to financial services, (ii) enterprise and employment growth, especially for women-led businesses, and (iii) wage growth and increased disposable income.



FINANCIAL SERVICES

Investment 1 - Factoring

GMS' original 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). 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 2021, Sonen's factoring partner extended over \$4.8 billion in short-term financing to nearly 21,300 small businesses (since May 2015). Nearly half of these enterprises employ fewer than 10 people, and these businesses have supported or are supporting nearly 940,000 jobs. On average over the last four years, 47% of the businesses

receiving finance are owned or led by women, and 34% 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.¹⁵

VOne is a specialty chemical company founded in 2015 that produces a series of environmentally-friendly car cleaning products in Poland (in Poland, 20% of small business loan applications are rejected by lenders; however, such small enterprises are a critical component of the Polish economy, contributing 67% of all employment in that country). VOne's product lines are designed to be an eco-friendly way to clean and maintain vehicles. The company has recently expanded into creating environmentally friendly concrete cleaning agents used in Poland, where demand for more eco-conscious products has increased significantly. The company currently employs five full-time staff and several dozen workers across its production sites in southern Poland. VOne uses factoring to make payments to staff without delays. In this case, factoring helps the company gain access to short-term working capital that is collateralized by the company's invoices and accounts receivable. (Manager)



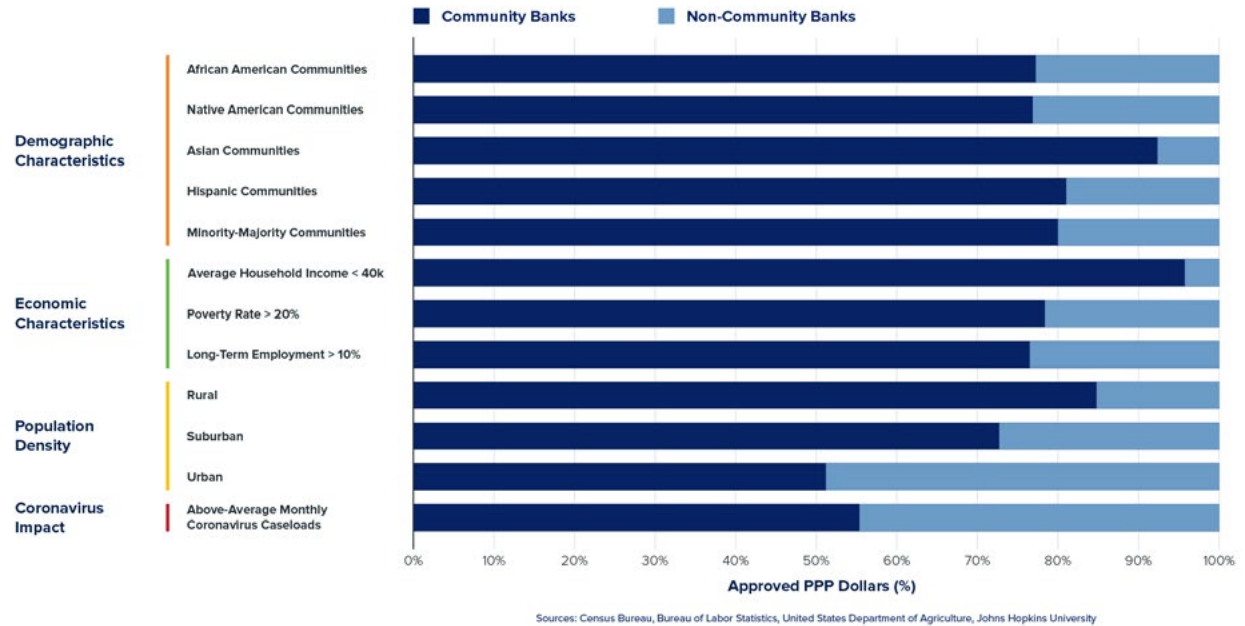
FINANCIAL SERVICES

Investment 2 - Community Banks

To support the growth of financial services to small businesses within the U.S., GMS invests in small and community banks across the country. These organizations provide a vital role in lending to small businesses and supporting local economies: small businesses make up the vast majority of U.S. businesses, comprising over 20 million¹⁶ businesses and employing 48% of the private sector workforce.¹⁷ Studies relay the critical role these businesses play in the U.S. economy: doubling small business loans (i.e., loans <\$100,000) could increase employment by 7% annually and lead to a 3% increase in firm growth annually.¹⁸

Small businesses are much more likely to turn to community banks for services such as borrowing funds to add to working capital and inventory or to purchase properties for their business. Such small banks often offer a more personalized and non-standardized lending process that reflects the needs of the community in which each bank operates. While community banks account for just 15% of the banking industry's total loans (by number), they hold 30% of all commercial real estate loans, 36% of small business loans, and 70% of all agricultural loans.¹⁹

PPP Loan Originations to Small Businesses in Demographically- and Socioeconomically-Underserved Communities



Source: ICBA, Paycheck Protection Program Data Show Community Banks Served Those Most in Need. Nov 10, 2021

In rural communities specifically, community banks account for 58% of all banking offices and 49% of all deposits.²⁰ Community banks are especially important because they channel their loans back into the neighborhoods where their depositors live and work, helping local communities thrive. They often know their customers and may consider family history and discretionary spending during underwriting, making loans more available and flexible than typical loans made by larger banks.²¹

During the pandemic, community banks played a vital

role in Paycheck Protection Program (PPP) lending. Such banks were responsible for disbursing 60% of all PPP loans, including 72% of PPP loans to minority-owned businesses.²² In micropolitan areas, community banks accounted for 63% of PPP loans, and in rural areas community banks held 84% of PPP loans, illustrating these banks' integral role in disbursing resources to underserved areas of the U.S.²³ Last, community banks provided more than 90% of PPP loans to communities with an average household income of less than \$40,000 per year.



FINANCIAL SERVICES

Investment 3 - 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. As an example, it is estimated that if digital financial services were extended to all who need it or want it, the global economy could grow by \$3.7 trillion.²⁴

Sonen's most recent addition to GMS (in 2020) is a firm that extends capital to emerging market fintech companies who in turn provide credit facilities to micro-, small- and medium-sized enterprises

(MSMEs). As in the United States in the previous example, such small enterprises are integral to employment creation, wealth creation and economic growth in emerging markets. According to the World Bank, 600 million jobs will be needed by 2030 to absorb the growing global workforce.²⁵ And during the economic crisis borne from Covid-19, a third of workers in emerging economies had lost their jobs or experienced pay cuts.²⁶

GMS's emerging markets fintech investment focuses on expanding financial inclusion and supporting MSME growth. In its recent investment in Workmate, a Bangkok-based job placement firm, GMS supports the needs of over 160 million informal workers in Southeast Asia who collectively earn \$US320

billion in wages per year. Workmate is a digital platform that helps companies find reliable and consistent employees, while also helping jobseekers find appropriate employment and career paths as they move from informal employment to formal employment.

During the Covid pandemic, Workmate's business grew by over 200%. Its focus on essential services, such as delivery, met key economic needs during the pandemic and offered jobs at a time when unemployment was rising in Thailand and Indonesia, the firm's two initial markets. Lastly, Workmate focuses on creating equal opportunities for women across SE Asia - in Thailand, over 60% of Workmate's placed workers are female.²⁷

IN CONCLUSION

Through Q1 2022, Sonen's GMS strategy has illustrated its potential to deliver consistent returns amidst considerable volatility across wider markets. As we look forward into 2022, we anticipate significant volatility in public markets and the possibility of a sizable downturn. We believe GMS is well positioned to benefit from such market conditions and the strategy is poised to accommodate new inflows from investors seeking more stability.

For the remainder of 2022, Sonen plans to strengthen GMS's financial and impact profiles through the addition of two new investments. Currently, we are considering an investment focused on clean energy (clean power production, energy efficiency technology and related infrastructure) as well as an investment focused on expanding financial inclusion in the United States, specifically to underserved communities.



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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.

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Social & Environmental impact investment management