

Verifier Statement

Independent Verification Report

Prepared for Finnfund: March 25, 2021

Introduction

As a signatory of the Operating Principles for Impact Management (the Principles)¹, Finnfund engaged BlueMark to undertake an independent verification of the alignment of Finnfund’s impact management (IM) system with the Principles. Finnfund’s assets under management covered by the Principles (Covered Assets) totals \$639 million², for the period ending March 2020.

Summary assessment conclusions

BlueMark has independently verified Finnfund’s extent of alignment with the Principles. Key takeaways from BlueMark’s assessment are as follows:

Principle 1: Finnfund has a theory of change (ToC) for each of its four sectors. The ToC’s are based on evidence, linked to SDGs, and lay out target impacts for stakeholders. Finnfund’s Development Effectiveness Assessment Tool (DEAT) could more explicitly link TOC-related outcomes, and the evidence-base underlying the TOCs could be more clearly and comprehensively documented.

Principle 2: DEAT provides a consistent framework to assess and monitor an investment’s impact, including linking staff incentives to target DEAT points. Finnfund could systematically capture target results and better incorporate how impact is considered throughout the investment process within its operating investment guidelines.

Principle 3: Finnfund has developed a clear process to identify its investor contribution, including capturing additionality in investment evaluations. To further align, Finnfund could monitor its contribution initiatives and develop robust supporting evidence (e.g., drawing on studies/surveys) to validate expected additionality.

Principle 4: Finnfund uses DEAT to assess each investment, embedding scores and supporting narratives in IC memos. The firm draws on the IMP dimensions and leverages HIPSO indicators. To further align, Finnfund could deepen its assessment of impact risk and opportunities to increase impact. Finnfund could also integrate SMART/SPICED frameworks, and map indicators to relevant standards.

Principle 5: Finnfund implements a thorough Environmental, Social, and Governance (ESG) risk management process, which leverages the IFC Performance Standards. Finnfund develops Action Plans, monitors investments annually, and engages investees in cases of underperformance.

Principle 6: Finnfund collects data annually from investees and monitors investee progress using standardized tools and documents. Finnfund has recently developed a framework to capture investment outcomes. Finnfund could more systematically set and monitor targets and engage investees in cases of impact underperformance.

Principle 7: Finnfund has not yet developed a clear process for considering sustainability of impact at exit. To further align, Finnfund could develop an impact at exit process and ensure intentional documentation. Finnfund could also develop frameworks for assessing key criteria and potential mitigation strategies across various asset types.

Principle 8: Finnfund reviews each investment’s performance annually using standardized templates and has instituted studies to assess several elements of its impact strategy. To further align, Finnfund could institutionalize its process for leveraging impact lessons in decision-making and expand impact review criteria to capture unexpected impacts.

¹ Principle 9 states that signatories “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.”

² Assets under management figure as reflected in Finnfund’s Disclosure Statement as of 03/31/2020. BlueMark’s assessment did not include verification of the AUM figure.

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Detailed assessment conclusions

The chart below summarizes findings from BlueMark’s verification of Finnfund’s extent of alignment to the Principles, using the following four ratings:³

- Advanced (Limited need for enhancement);
- High (A few opportunities for enhancement);
- Moderate (Several opportunities for enhancement); and
- Low (Substantial enhancement required).⁴

Principle	Alignment
1. Define strategic impact objective(s), consistent with the investment strategy	ADVANCED
2. Manage strategic impact on a portfolio basis	ADVANCED
3. Establish the Manager's contribution to the achievement of impact	HIGH
4. Assess the expected impact of each investment, based on a systematic approach	HIGH
5. Assess, address, monitor, and manage potential negative impacts of each investment	ADVANCED
6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	MODERATE
7. Conduct exits considering the effect on sustained impact	LOW
8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned	MODERATE

³ The scope of BlueMark’s assessment procedures does not include the verification of the resulting impacts achieved. BlueMark’s assessment is based on its analyses of publicly available information and information in reports and other material provided by Finnfund. BlueMark has relied on the accuracy and completeness of any such information provided by Finnfund. The assessment results represent BlueMark’s professional judgment based on the procedures performed and information obtained from Finnfund.

⁴ The decision to publicly disclose the results of BlueMark’s detailed assessment, and the specific ratings assigned to each Principle, is left to the sole discretion of Finnfund.

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Assessment methodology and scope

Finnfund provided BlueMark with the relevant supporting documentation for the policies, processes, and tools related to the IM system applicable to the Covered Assets. The scope of BlueMark’s work was limited to processes in place related to the Covered Assets as of March 2021. BlueMark’s assessment of the IM system included an evaluation of both the system itself and supporting documentation, as well as the consistency of the draft disclosure statement with the IM system. BlueMark believes that the evidence obtained in the scope of its assessment is sufficient and appropriate to provide a basis for our conclusions.⁵

BlueMark’s full assessment methodology, based on its professional judgment, consisted of:

1. Assessment of the IM system in relation to the Principles, using BlueMark’s proprietary rubric, and examining processes and policies against the following criteria:
 - *Compliance* of the IM system with a threshold level of practice;
 - *Quality* of the IM system’s design in terms of its consistency and robustness; and
 - *Depth* of sub-components of the system, focused on completeness
2. Interviews with Finnfund staff responsible for defining and implementing the IM system;
3. Testing of selected Finnfund transactions to check the application of the IM system; and
4. Delivery of detailed assessment findings to Finnfund, outlining areas of strong alignment and recommended improvement, as well as BlueMark’s proprietary benchmark ratings on the extent of alignment to each of the Principles.

Permissions

This statement, including our conclusions, has been prepared solely for Finnfund in accordance with the agreement between our firms, to assist Finnfund in fulfilling Principle 9 of the Operating Principles for Impact Management. We permit Finnfund to disclose this statement in its entirety online, or to furnish this statement to other interested parties to demonstrate Finnfund’s alignment with the Operating Principles for Impact Management. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Finnfund for our work or this statement except where terms are expressly agreed between us in writing.

About BlueMark

BlueMark, a Tideline company, is a leading provider of impact verification services in the impact investing market. BlueMark was founded with a mission to “strengthen trust in impact investing” and to help bring more accountability to the impact investment process. BlueMark is a wholly owned subsidiary of Tideline Advisors, LLC, a certified women-owned advisory firm in impact investing. Since its founding in 2014, Tideline has become a recognized leader in impact measurement and management, working with leading asset owners and managers to design and implement impact management systems.

BlueMark has conducted this verification with an independent and unconflicted team experienced in relevant impact measurement and management issues. BlueMark has implemented a Standard of Conduct requiring our employees to adhere to the highest standards of professional integrity, ethics, and objectivity in their conduct of business activities.

BlueMark has office locations in London, UK; New York, NY; Portland, OR; and San Francisco, CA and is headquartered at 915 Battery St, San Francisco, CA 94111, USA. For more information, please visit www.bluemarktideline.com.

⁵ The scope of BlueMark’s assessment procedures does not include the verification of the resulting impacts achieved. BlueMark’s assessment is based on its analyses of publicly available information and information in reports and other material provided by Finnfund. BlueMark has relied on the accuracy and completeness of any such information provided by Finnfund. The assessment results represent BlueMark’s professional judgment based on the procedures performed and information obtained from Finnfund.