

Verifier Statement

Independent Verification Report

Prepared for Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG): February 5, 2021

Introduction

As a signatory of the Operating Principles for Impact Management (the Principles)¹, DEG engaged BlueMark to undertake an independent verification of the alignment of DEG's impact management (IM) system with the Principles. DEG's assets under management covered by the Principles (Covered Assets) totals €8.5 billion², for the year ending December 2020.

Summary assessment conclusions

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

Principle 1: DEG has clear development impact objectives, tracked against various Sustainable Development Goals (SDGs). DEG's impact objectives are informed by a theory of change and linked to specific metrics. DEG could further build out the evidence base underlying its theory of change and consider how scale/or intensity of impact could be assessed in proportion to the size of the investment portfolio.

Principle 2: DEG's impact measurement and scoring mechanism Development Effectiveness Rating ("DERa") offers a framework and standardized documentation for considering and managing impact considerations throughout the investment process. DEG has aligned staff incentive systems with the achievement of impact by linking annual bonuses to a portfolio-level impact target.

Principle 3: DEG has developed additionality-related indicators to attribute investee impact to DEG's contribution. DEG could further document the implementation and ongoing monitoring of its value-add initiatives. DEG could also compile more robust supporting evidence to demonstrate how its contribution leads to investee achievement of impact.

Principle 4: DEG produces an expected DERa impact score for each investment and assesses intended impacts and beneficiaries, among other impact considerations, using standardized templates. DEG could more consistently and systemically assess; opportunities to increase impact, the likelihood of achieving impact, opportunities to mitigate impact delivery risks, and indirect impacts.

Principle 5: DEG has a consistent Environmental, Social, and Governance (ESG) management process, drawing on industry standards. ESG risks are monitored annually through a proprietary system. DEG has developed several mechanisms for engaging and supporting investees related to ESG management, when required.

Principle 6: DEG monitors and tracks an investment's progress against forecasted impact annually. DEG could further standardize and document its process to engage with investees in the case of impact underperformance (e.g., in cases of actual and expected DERa score variance) and its practice to actively evaluate and manage impact outcomes.

Principle 7: DEG does not currently have a consistent and standardized process in place to stipulate how the sustainability of impact is considered at exit. DEG could consider developing a framework and process for evaluating exit decisions against various impact factors, drawing on current informal impact considerations across different asset-types.

Principle 8: DEG compares expected and actual impact performance of investments regularly through DERa scores. DEG could establish a standardized process to review and draw lessons learned from each investment's impact performance. DEG could also monitor and review unexpected impacts that may emerge over the investment term.

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 DEG's Disclosure Statement as of 12/31/2020. 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 DEG’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	HIGH
2. Manage strategic impact on a portfolio basis	ADVANCED
3. Establish the Manager's contribution to the achievement of impact	MODERATE
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	HIGH
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 DEG. BlueMark has relied on the accuracy and completeness of any such information provided by DEG. The assessment results represent BlueMark’s professional judgment based on the procedures performed and information obtained from DEG.

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 DEG.

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Assessment methodology and scope

DEG 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 February 5, 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 DEG staff responsible for defining and implementing the IM system;
3. Testing of selected DEG transactions to check the application of the IM system; and
4. Delivery of detailed assessment findings to DEG, 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 DEG in accordance with the agreement between our firms, to assist DEG in fulfilling Principle 9 of the Operating Principles for Impact Management. We permit DEG to disclose this statement in its entirety online, or to furnish this statement to other interested parties to demonstrate DEG’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 DEG 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.

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