



Case study

GLOBAL IMPACT CREDIT STRATEGY



MercadoLibre

The following case study is a selected example of a recent engagement with a company held in or considered for the portfolio. The example is not meant to be representative of every engagement held, but to illustrate the types of ESG engagements we are having with the managements of our investment companies.

ENABLING SOCIAL EQUITY

MercadoLibre

Pressure Points

Micro, small, and medium-sized enterprises (MSMEs) are meaningful contributors to the sustainable growth of developing economies by creating jobs, reducing inequalities, and driving economic activity. However, the growth of MSMEs in the region is limited by lack of access to credit. According to the World Bank, there is a potential MSME funding gap of USD 1.2 trillion in Latin American countries.¹

Impact Thesis

MercadoLibre's technologies increase financial inclusion through the democratization of commerce and payments in Latin America. The company used sustainability bond proceeds to finance MSMEs and entrepreneurs and to promote programs that support socioeconomic advancement in communities across Latin America.

KPI: Number of MSME and entrepreneur loans, number of people trained in socioeconomic programs

Five Dimensions of Impact

What: Drive financial inclusion for underbanked MSMEs within Latin America, helping to combat poverty and advance socioeconomic development.

Who: People: Entrepreneurs and MSMEs operating in 18 countries across Latin America. One in four family-owned MSMEs is led by a woman.²

How much: In 2021, USD 31.95 million of proceeds were used to grant 15,244 loans to certified MSMEs and entrepreneurs, most of whom did not have access to other forms of financing previously. USD 3.14 million of proceeds were directed to socioeconomic advancement and empowerment through education, which led to over 5,000 people receiving training.²

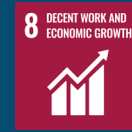
Contribution: Approximately 50% of MSMEs selling on MercadoLibre's marketplace online platform received their first credit offer through it. In 2021, over 500,000 MSMEs sold in MercadoLibre's marketplace and 900,000 families made their livelihood from the online platform, generating an average of six direct jobs per hour and between four and 11 jobs by each family-owned MSME.²

Risks: Uneven access to internet and technology can lead to inequitable distribution of the benefits from e-commerce, bypassing those with little education or rural MSMEs with limited ability to connect.

Progress Monitoring

We await further sustainability bond post-issuance allocation and impact reporting, which will provide the full impact of the sustainability bond.

PRIMARY UN SDG



IMPACT PILLAR

Social Equity and Quality of Life

IMPACT SUB-PILLAR

Enabling Social Equity

IMPACT JOURNEY²

Input

USD 31.95 million bond proceeds allocated to MSME and entrepreneur loans; USD 3.14 million directed to socioeconomic advancement and education

Output

15,244 loans provided to MSMEs and entrepreneurs, with 8,679 in Brazil, 5,829 in Mexico, and 736 in Argentina; over 5,000 people trained

Outcome

Loans provided to borrowers who, for the most part, did not have prior access to financing; 54% employability rate of people trained

Impact

124,239 additional permanent jobs created (estimated)³

¹ International Finance Corporation, World Bank Group (2018)

² MercadoLibre Impact Report (2021)

³ International Finance Corporation – Small Business, Big Growth (2021)

GLOBAL IMPACT CREDIT STRATEGY

Objective

The composite of the Global Impact Credit Strategy simultaneously seeks benchmark outperformance and positive environmental and social impact by investing in durable, growing businesses with measurable impact criteria.

Risks—the following risk is materially relevant to the portfolio:

ABS and MBS risk - Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS) may be subject to greater liquidity, credit, default and interest rate risk compared to other bonds. They are often exposed to extension and prepayment risk.

Contingent convertible Bonds risk - Contingent Convertible Bonds may be subject to additional risks linked to: capital structure inversion, trigger levels, coupon cancellations, call extensions, yield/valuation, conversions, write downs, industry concentration and liquidity, among others.

Convertible bonds risk - Convertible bonds contain an embedded equity option which exposes them to risks linked to equity as well as fixed income. They may be subject to higher market and liquidity risk.

Credit risk - Credit risk arises when an issuer's financial health deteriorates and/or it fails to fulfill its financial obligations to the portfolio.

Distressed or defaulted debt risk - Distressed or defaulted debt securities may bear substantially higher degree of risks linked to recovery, liquidity and valuation.

Default risk - Default risk may occur if the issuers of certain bonds become unable or unwilling to make payments on their bonds.

Derivatives risk - Derivatives may be used to create leverage which could expose the portfolio to higher volatility and/or losses that are significantly greater than the cost of the derivative.

Emerging markets risk - Emerging markets are less established than developed markets and therefore involve higher risks.

High yield debt risk - High yield debt securities are generally subject to greater risk of issuer debt restructuring or default, higher liquidity risk and greater sensitivity to market conditions.

Interest rate risk - Interest rate risk is the potential for losses in fixed-income investments as a result of unexpected changes in interest rates.

Liquidity risk - Liquidity risk may result in securities becoming hard to value or trade within a desired timeframe at a fair price.

Prepayment and extension risk - Mortgage and asset-backed securities could increase the fund's sensitivity to unexpected changes in interest rates.

General Portfolio Risks

Capital risk - the value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

Counterparty risk - an entity with which the portfolio transacts may not meet its obligations to the portfolio.

ESG and Sustainability risk - may result in a material negative impact on the value of an investment and performance of the portfolio.

Geographic concentration risk - to the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk - a portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk - investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk - the investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

Operational risk - operational failures could lead to disruptions of portfolio operations or financial losses.

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