responsAbility

OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

responsAbility Investments AG

1st April 2022

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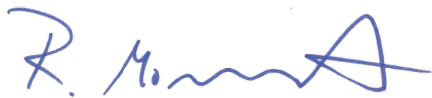
responsAbility Investments AG (**responsAbility**) hereby affirms its status as a signatory to the Operating Principles for Impact Management (**Impact Principles**). This disclosure statement applies to the investment products managed or advised by responsAbility.

The total assets under management in alignment with the Impact Principles is **USD 3.7 billion** as of 31st December 2021.



Rochus Mommartz
responsAbility Investments AG, Chief Executive Officer
1st April 2022

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PRINCIPLE 1

Define strategic impact objective(s), consistent with the investment strategy: The Manager shall define strategic impact objectives[1] for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- responsAbility is a leading asset manager in the field of impact investing in developing countries, offering professionally managed investment solutions to private, institutional and public investors. The company's investment solutions primarily focus on supplying debt and equity financing to non-listed firms in emerging and frontier economies. Through their business models, these firms can meet the basic needs of broad sections of the population, drive inclusive economic development and mitigate climate change – leading to greater prosperity in the long-term.

- responsAbility manages multiple investment products across three primary investment topics: climate finance, sustainable food, and financial inclusion. Every product is attributed three or more impact strategies, each of which detail how the investments made under a specific product create a positive impact and contribute to the United Nations Sustainable Development Goals (SDGs).

- The extent to which each investment contributes to an impact strategy is conceptualised using a framework created by the Impact Management Project and further developed by the Global Impact Investment Network (GIIN) in their IRIS+ platform. Impact pathways are shown across five dimensions: what, who, how, contribution and risk as detailed in figure 1 below.

FIGURE 1. INVESTMENT TOPICS AND IMPACT STRATEGIES

Impact Topic	Impact Strategy Examples	Management and Measurement Dimensions
Financial Inclusion	▪ Provide access to financial services for low-income households ▪ Create jobs by supporting MSMEs ▪ Support gender equality via women's economic empowerment	Each strategy is measured along five dimensions: ▪ What ▪ Who ▪ How ▪ Contribution ▪ Risk
Sustainable Food	▪ Improve rural livelihoods ▪ Promote sustainable agriculture ▪ Strengthen agricultural value chains	
Climate Finance	▪ Reduce CO_2 emissions ▪ Create technical capacity and support industry innovation ▪ Promote clean energy and efficient use of resources ▪ Provide access to clean and affordable energy for low-income households ▪ Boost economic development by providing reliable electricity to small businesses	

	▪ Invest and catalyse investment in CO_2 reduction	

- We have measured impact for all products since their launch. For certain products, an impact scoring model is applied to establish intentionality and alignment with the pre-determined impact strategies. Products where this scoring model is not applied will typically employ other means of quantitatively assessing impact ex ante, for example carbon emission targets for our climate finance products. Note that impact strategies can undergo a review process during the lifetime of a product – especially in the case of open-ended products. However, these reviews always take place within the limits set by the product documentation, or allow investors the option to remain or leave the fund in case of any changes to the prospectus itself.

PRINCIPLE 2

Manage strategic impact on a portfolio basis: The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- Impact metrics and scores for all investments are aggregated to demonstrate the extent to which impact performance is being attained at portfolio level. Impact performance is tracked over time and communicated to investors periodically. At a minimum, all responsAbility investments must demonstrate a positive contribution under at least one of the relevant impact strategies.
- responsAbility is an asset manager specialised in impact investing in emerging markets. As such, the achievement of impact is integral to responsAbility's various investment strategies. Some elements of remuneration are linked to performance at employee and at company level. Given that impact investing is the core business activity of responsAbility, sustainability considerations (including risks) are an integral part of such objectives.

PRINCIPLE 3

Establish the Manager's contribution to the achievement of impact: The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.[1] The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- responsAbility invests almost entirely in private debt and private equity in countries where access to capital is still underdeveloped and limited. Investments focus on business models

[1] For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, assisting with further resource mobilization, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

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that benefit low-income households, small and medium enterprises (SMEs) or specific impact themes such as climate finance. As such, each investment actively contributes towards a specific set of impact strategies in contexts where its contribution is particularly important and where, without responsAbility's investment, the impact outcome may not have occurred.

- responsAbility measures this contribution via:
    - Indicators that contextualise the actual need alongside the scarcity of funding in those markets.
    - Indicators relating to the scale of impact achieved by our investments (e.g. number of beneficiaries, CO_2 emission reductions etc.).
    - Indicators relating to qualitative developments achieved by our investments.
    - Indicators showing the share of an investee's overall funding provided by responsAbility.
    - Indicators that capture the fulfilment of very specific needs of the investee company[2] which are often unmet in developing markets e.g. long-term finance, local currency funding, technical assistance etc.[3]

  Where our impact scoring model is applied, this will include a contribution score that will specifically seek to quantify the additionality for all investees.
- Beyond the contribution achieved by providing funding or investment, responsAbility is also able to enhance the impact achieved by actively engaging with investees. The extent of, and channels for, this engagement will necessarily vary by investment theme, asset class and product type. For example, engagement to improve investee impact and/or ESG practices may occur during due diligence, in our approach to shareholder votes, or via technical assistance projects. Where necessary, actions to improve impact performance may be set out in loan agreements or shareholder agreements. Such actions will also take into account the other duties incumbent on responsAbility as fund manager, as well as the social, economic and financial context in which the investee is operating. See our Sustainability Engagement Policy for more details.

PRINCIPLE 4

Assess the expected impact of each investment, based on a systematic approach: For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[4] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact?[5] (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic

[2] Investee company is defined herein as a company financed, or invested in, directly or indirectly, by a responsAbility-covered asset.
[3] Technical assistance is defined herein as activities to provide advice, support and specialized consulting services to help investees overcome challenges that could undermine growth and stability.
[4] Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.
[5] Adapted from the Impact Management Project (www.impactmanagementproject.com).

impacts. Indicators shall, to the extent possible, be aligned with industry standards[6] and follow best practice[7].

- responsAbility's impact measurement and scoring system will allow responsAbility to estimate the impact for each investment *ex ante*.
- Impact scores are based on the framework created by the Impact Management Project and further developed by the Global Impact Investment Network (GIIN) in their IRIS+ platform. Measurement is carried out across five dimensions:
  - **What:** Illustrates the main SDG(s) to which the strategy contributes (outcome) and how far investee countries are from fulfilling them by 2030. The strategy then determines which products/services (output) are needed to achieve the SDG(s), based on available academic research.
  - **Who:** Measures the gap in the supply of the relevant products/services (output) in that country and to what extent the investee company targets those parts of the population that remain excluded due to this gap.
  - **How much:** The scale of the impact achieved by the investee company in resolving the development challenges set out under "What" and "Who".
  - **Contribution:** responsAbility determines its own contribution to each investee company's impact based on beneficiaries reached, local funding availability and other elements of value contributed (see principle 3).
  - **Risk:** For each deal, responsAbility identifies relevant ESG issues and other issues that could negatively affect the intended impact, assessing whether the investee company has policies and practices in place to mitigate that risk (see principle 5 and our Sustainability Risk policy).

  Additional, specific frameworks may be applied to certain products at the request of investors. Impact performance for responsAbility's investees and investment activities overall can be found in the annual impact report here.

PRINCIPLE 5

Assess, address, monitor, and manage potential negative impacts of each investment: For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)[8] risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.[9] As part of portfolio management, the Manager shall monitor investees' ESG risk and

[6] Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (http://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.

[7] International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

[8] The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

[9] Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2); the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm), and the ILO Fundamental Conventions (Conventions and Recommendations (ilo.org))

performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- Although a positive impact is central to our company's mission, for all our activities we also ensure that we are not contributing to potentially negative effects for the clients, employees and communities of our investee companies. Careful ESG assessment and monitoring thus is a central part of our investment processes.

- responsAbility reviews the overall ESG eligibility of every potential investee company according to its corporate sustainability risk policy at the pre-due diligence phase of our investment process. This policy is the cornerstone of the ESG management system: it applies the values of our company and our investors via proper ESG integration and engagement; it also defines the processes followed by responsAbility's investment teams to ensure that all ESG risks are adequately identified and managed.
- The ESG processes outlined in this policy are then translated into ESG procedures and tools (the 'ESG management system') specific to every product. This allows each of responsAbility's business lines to evaluate the ESG risks of each potential investment. The standard ESG process followed by responsAbility's teams could be summarized as follows:

    - The ESG exclusion lists for each responsAbility investment product covers, at minimum, industries and activities listed in the IFC exclusion list, and often much more, based on responsAbility's corporate sustainability risk policy and other product-specific criteria. For example, the responsAbility Access to Clean Power Fund applies a series of ESG exclusion criteria in addition to those applied by IFC. Prior to any investment, all potential investee companies are screened against these exclusion lists. No investments will take place for any product if the potential borrower is engaged in excluded activities (e.g. named as terrorists or on any financial sanctions lists; involved in harmful or exploitative forms of forced labour or harmful child labour; production or trading of weapons and munitions; involved in money laundering and terrorism financing; not respecting human rights, etc.).
    - Potential investee companies are screened against a set of investment criteria outlined in each product's Eligibility Guidelines. These guidelines also include specific requirements regarding the borrower's commitment to implementing environmentally and socially sound practices.
    - Each proposed investment is categorized as 'low', 'medium' or 'high' depending on its level of ESG risk. This classification is equivalent to IFC's proposed risk categorization. Regardless of the risk category, all investee companies must meet applicable national laws and regulations concerning ESG issues, a requirement that is stipulated in our Loan Agreements.
    - Even if a potential investment appears to comply with the ESG criteria set out for each fund, responsAbility's investment teams verify this compliance, normally during the due diligence (DD) visit carried out before disbursement. This ESG DD entails active engagement with each potential investee company, collecting and analysing their status on ESG performance.
    - responsAbility's investment universe mostly consists of mid-size companies that are rarely listed on capital markets. Consequently, almost no ESG information is publicly available, meaning that ESG data must be assessed and collected by the investment teams. Due diligence of ESG issues is carried out by responsAbility's investment teams and ESG experts. This active ESG approach allows responsAbility to ensure the appropriate values are integrated into investment strategies.
    - Even if a potential investee company is not involved in any excluded activities, it still may not fully meet responsAbility's ESG requirements, outlined in the corporate sustainability risk policy. In such cases, an ESG action plan is defined and included in the relevant transaction documentation. It therefore becomes mandatory for the investee company to put in place actions to address gaps in a timely manner. The

results of the whole ESG assessment are summarized in the final Investment Memorandum.

- Due to the importance of ESG analysis in the overall investment process, responsAbility has put in place internal metrics to ensure correct implementation. We have developed an internal 'traffic light' system that summarizes the status of the ESG management practices at an investee level. The methodology is based on IFC's internal scoring system for ESG aspects, which has been integrated into an internal ESG scoring tool. A range of inputs generates a simple ESG rating from 1-4 (where 1='excellent ESG management' 4='unsatisfactory ESG management') to rate each investment. This ESG rating is calculated by responsAbility's ESG analysts. Progress is regularly checked via monitoring reports and/or onsite visits, after which the rating is reviewed. This approach allows responsAbility to track how investee companies improve their ESG status from appraisal to project close.

- Furthermore, responsAbility constantly seeks to understand potential issues that might create ESG-related risks and therefore cause negative, unintended issues that responsAbility does not want to support (e.g. corruption, workers' rights, negative impact on end beneficiaries and/or the environment, etc.). Besides this, responsAbility strives to actively engage with investee companies to encourage the adoption of better ESG management practices when risks are identified. This approach is in line with our stated commitment to building markets and contributing value (see Principle 3).

- On aspects of diversity and inclusion, responsAbility's ESG eligibility process requires companies to have policies and procedures to address discrimination in line with fundamental ILO conventions (no 111), as well as comprehensive anti-sexual harassment procedures and policies. For some of our products, when such policies are found to be inadequate, model policy templates are shared with investees to provide guidance on how these might be improved. Our ESG officers may also propose revised policy wording in line with global best practice.

PRINCIPLE 6

Monitor the progress of each investment in achieving impact against expectations and respond appropriately: The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.[10] The Manager shall also seek to use the results framework to capture investment outcomes.[11]

- As shown under Principle 4, data on key impact indicators may be gathered *ex ante*, while a broader set of metrics is self-reported by investee companies on an annual, *ex post* basis. Metric definitions are taken, where available, from IRIS+, GOGLA or other industry standards. Metric selection is prioritised according to each product's pre-determined impact strategies.

[10] Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.
[11] Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).

- Some debt products will require that impact performance remains in line with a specific, quantitative target (sometimes with the introduction of technical assistance projects). While equity investments must also pass minimum impact thresholds, their performance may also be measured against impact targets set prior to investment. In the latter case, if there is a deterioration, we would engage with the investee company in our role as shareholder to improve performance (see Principle 3).

- Furthermore, responsAbility regularly monitors changes in the ESG structures and sustainability risk factors of investee companies via monitoring reports and, in some cases also on-site visits. Monitoring is typically also supported by monitoring reports or questionnaires and includes an assessment of the responses provided by each investment company on an annual or 18 month basis. This approach allows responsAbility to track the evolution of investees' ESG performance throughout the investment cycle.

PRINCIPLE 7

Conduct exits considering the effect on sustained impact: When conducting an exit[12], the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

- In the event that a decision to exit must be made, responsAbility always takes into consideration the impact of the decision for all stakeholders involved, including, but not limited to, the effect on impact duration/intensity and fiduciary duties owed to relevant stakeholders.[13]
- The impact rationale behind exits will be documented in exit memoranda for equity investments and, where it is deemed relevant, for debt investments. For private debt investments, the decision not to renew can come from responsAbility or the investee company. In the former case, this decision is often a function of liquidity, pricing and/or risk factors, factoring in the desire to avoid a negative impact alongside our fiduciary responsibilities.

PRINCIPLE 8

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned: The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- Since its foundation in 2003, responsAbility has continued to review and analyse the impact of its products and its overall approach to impact management. Our range of impact indicators was significantly broadened in 2017, with the impact scoring being introduced over the course of 2021.

[12] This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.
[13] For instance, when exiting private equity investments in microfinance institutions, responsAbility has regularly sought reassurance that new owners/shareholders will continue to support the organisation's focus on providing access to finance and support for small businesses.

- In 2021, responsAbility introduced an Impact and ESG Committee. This committee's responsibilities include:
  - Providing input to responsAbility's overall impact and ESG approach and concept.
  - Ensuring impact and ESG priorities are aligned with corporate and business line objectives.
  - Reviewing impact successes and lessons learnt.
- Technical assistance activities can also include projects to evaluate the impact of some investee companies, providing an insight into the performance of certain business models and how these relate to their impact outcomes.

PRINCIPLE 9

Publicly disclose alignment with the Impact Principles and provide regular independent verification[14] of the alignment: The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact 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.

- Impact is an integral part of responsAbility's overall business activity. For the last two years, our impact management and measurement processes have been reviewed by a special impact session of our Audit and Risk Committee. This year, responsAbility has decided to review its approach to verification, and will publish the outcome by the end of 2023.
- Additionally, for several of our products, external independent impact assessments and evaluations are carried out by third parties, when investors demand such verification and are also willing to fund such analyses. These assessments are only available for the investors of specific products.

[14] The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.