responsAbility

OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

responsAbility Investments AG
1st April 2020

responsAbility

responsAbility Investments AG (responsAbility) hereby affirms its status as a signatory to the Operating Principles for Impact Management (Principles). This disclosure statement applies to the following assets (Covered Assets):

- responsAbility Global Micro and SME Finance Fund
- responsAbility SICAV (Lux) Micro and SME Finance Debt Fund
- responsAbility SICAV (Lux) Micro and SME Finance Leaders
- responsAbility SICAV (Lux) Financial Inclusion Fund
- responsAbility Participations AG
- responsAbility Ventures I - KGK
- responsAbility BOP Investments S.C.A. SICAR
- responsAbility Renewable Energy Holding
- responsAbility Access to Clean Power Fund S.A.
- responsAbility Agriculture I, SLP
- responsAbility SICAV (Lux) Agriculture Fund
- Global Climate Partnership Fund S.A.
- responsAbility Financial Inclusion Investments 2019 DAC

The total assets under management in alignment with the Principles is **USD 3.47 billion** as of 31st December 2019.

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R. Mommartz

Rochus Mommartz
responsAbility Investments AG Chief Executive Officer
1st April 2020

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 supply debt and equity financing to non-listed firms in emerging and frontier economies. Through their business models, these firms are able to meet the basic needs of broad sections of the population, to drive inclusive economic development and to mitigate climate change – leading to greater prosperity in the long-term.

- responsAbility's activities focus on three investment topics: climate finance, sustainable food and financial inclusion. Each investment topic is fully aligned with the United Nations Sustainable Development Goals (SDGs) through six impact themes: Basic Needs, Well-Being, Decent Work, Healthy Ecosystem, Climate Stability and Markets & Infrastructure. The concept behind this approach is taken from work carried out by the University of Cambridge.

- The degree to which a particular investment corresponds to an impact strategy is managed and measured using a framework created by the Impact Management Project and further developed by the Global Impact Investment Network (GIIN) in their IRIS+ platform. Impact measurement is carried out across five dimensions: what, who, how, contribution, risk.

FIGURE 1. IMPACT THEME, STRATEGY AND MEASUREMENT DIMENSIONS

Impact Theme	Impact Strategies	Management and Measurement Dimensions
Basic Needs	▪ Provide access to clean and affordable energy ▪ Provide access to financial services ▪ Improve rural livelihoods	Each strategy is measured along five dimensions: ▪ What ▪ Who ▪ How ▪ Contribution ▪ Risk
Well-Being	▪ Reduce domestic and ambient pollution	
Decent Work	▪ Create sustainable jobs	
Healthy Ecosystem	▪ Promote efficient use of resources ▪ Promote sustainable agriculture	
Climate Stability	▪ Reduce CO_2 emissions	
Markets & Infrastructure	▪ Develop financial sectors	

	▪ Create technical capacity and support industry innovation ▪ Strengthen agricultural value chains	

- We have measured impact for all products since their launch – an impact scoring model is currently being piloted on certain products. In 2020, it will be rolled out across all products and ultimately applied to each investment. 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 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 measurement and scores for all investments are aggregated across the portfolio to demonstrate the extent to which impact performance is being attained. Performance is tracked over time and communicated to investors. At a minimum, all responsAbility products must demonstrate a positive contribution under at least three impact themes (see Annex for details).
- responsAbility is an asset manager in the field of development investments and the achievement of impact is integral to responsAbility's various investment strategies. Staff incentives are not specifically linked to impact performance. However, a small selection of responsAbility’s funds provide a performance fee for the Manager based on impact performance, implemented at the specific request of the investors and in accordance with the product’s legal documentation.

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.[11] The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- responsAbility exclusively invests private debt and private equity in countries where access to capital is still underdeveloped and limited, specifically for 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 themes 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 scale of impact achieved by our investments (e.g. number of beneficiaries, CO2 emission reductions etc.).
  - Indicators relating to qualitative developments achieved by our investments.
  - Indicators that capture the fulfilment of very specific needs of the investee company[2] which are often unavailable in developing markets e.g. long-term finance, local currency funding, technical assistance.[3]

[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.

[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.

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

- responsAbility's measurement and scoring system will allow responsAbility to estimate the impact for each investment *ex ante*.

- Impact measurement and score is based on the framework created by the Impact Management Project and further developed by the Global Impact Investment Network (GIIN) in their IRIS+ platform. The 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 whether the investee company targets those parts of the population excluded due to this gap.
  - **How:** The way the investee company distributes its product – pricing, product design – all can affect the intensity of the intended impact. Thus, responsAbility can check if the investee company amplifies its impact.
  - **Contribution:** responsAbility determines its own contribution to each investee company based on beneficiaries reached and other elements of value contributed (see principle 3).
  - **Risk:** For each deal, responsAbility identifies relevant ESG and other issues that could negatively affect the intended impact and assess if the investee company has policies and practices in place to mitigate that risk (see principle 5).

[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).
[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.

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 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 on 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 ESG policy as early as possible during the 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 investment team. 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 ESG 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 for this area. 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 activity (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 the product's Eligibility Guidelines. These guidelines also include specific requirements regarding the borrower's commitment to environmentally and socially sound practices.
  - Each proposed investment is categorized as 'low', 'medium' or 'high' to its ESG risks. 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.

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[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); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm).

  - Even if a potential investment appears to comply with the ESG criteria set out for each fund, responsAbility's investment teams must verify this compliance, normally during the due diligence visit (DD) carried out before disbursement. This ESG DD entails active engagement with each potential investee company, collecting and analyzing 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 corporate ESG 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 any ESG issues at an investee. 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" 4='unsatisfactory ESG') to rate each investment. The ESG rating is calculated by responsAbility's Senior ESG Officer during appraisal (initial investment). Progress is regularly checked via monitoring reports and onsite visits, after which the rating is reviewed. This approach allows responsAbility to track how investments 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, mistreatment of employees, negative impact on end beneficiaries and/or the environment). Of course, during a due diligence, responsAbility seeks to understand the current approach of its investee companies to key issues (anti-corruption, workers' rights, transparency, client protection). Furthermore, especially (but not exclusively) in relation to equity investments, responsAbility strives to actively engage with investee companies to encourage the adoption of better management practices when risks are identified. This approach is in line with our stated commitment to building markets and contributing value (see Principle 3).

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 indicators is 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.
- Some debt products will require that impact performance remains in line with a specific, quantitative target (sometimes with the assistance of technical assistance projects). While equity investments must also pass minimum impact thresholds, their performance is also 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.
- All data gathered is sorted by impact theme, with metric selection prioritised according to each product's impact strategies.

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 the sustainability of the impact and fiduciary duties owed to relevant stakeholders.[13]
- The impact rationale behind exits will be documented in exit memoranda for equity investments. For private debt investments, the decision not to renew can come from our side or that of the investee company. In the former case, it is typically a function of liquidity, pricing and/or risk factors, but will factor in the desire to avoid a negative impact alongside our fiduciary responsibilities.

[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/).
[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.

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 continues to review and analyse the impact of its products and its overall approach to impact management. For the latter, the framework of impact themes was introduced in 2016, with the impact scoring being introduced over the course of 2020.

- In addition, technical assistance activities can also include projects to evaluate the impact of certain investee companies, providing an insight into the performance of certain business models.

PRINCIPLE 9

Publicly disclose alignment with the 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 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 and impact measurement is an integral part of responsAbility's overall business activity. This year, our impact management and measurement processes have been reviewed by our Audit Committee. The conclusion of this review will be publicly disclosed on an annual basis. This year’s analysis can be viewed here.

- 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 analysis. These assessments are only available for the investors of a specific product.

[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.

Name of verifier: Audit Committee
Address: Josefstrasse 59
8005 Zurich
Switzerland

Qualifications:

The Audit Committee was established in 2014 and is nominated by the Board of Directors. In June 2018, Ursula Lang was appointed Chairwoman. The Audit Committee meets on a quarterly basis and discusses audit-related topics, as well as other control activities of the institutions.

Most recent review: 12th March 2020

Next planned review: March 2021

ANNEX 1 – OVERVIEW OF IMPACT THEMES/STRATEGIES FOR INVESTMENT TOPICS

Impact Themes	Investment Topics			
	Financial Inclusion	Climate Finance		Sustainable Food
		Energy Access	Green Lending	
Basic Needs	Provide access to financial services	Provide access to clean and affordable energy		Improve rural livelihoods
Well-Being		Reduce domestic and ambient pollution		
Decent Work	Create jobs			
Healthy Ecosystems			Promote efficient use of resources	Promote sustainable agriculture
Climate Stability		Reduce CO2 emissions	Reduce CO2 emissions	
Markets & Infrastructure	Develop financial sectors		Create technical capacity and support industry innovation	Strengthen agricultural value chains