

# DPI Disclosure Statement

## Operating Principles for Impact Management

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September 2020



## Overview of DPI

Development Partners International, or DPI, is a leading private equity firm focused on investing for high returns and impact/ESG, believing that each support the success of the other. As an investment strategy, DPI's three ADP fund invest in companies that provide goods and services to Africa's rapidly expanding middle classes. DPI was founded on the belief that sustainability delivers impact, and therefore it seeks to generate strong financial returns for investors by creating competitive companies, while also focusing on the benefits these companies deliver for societies and the environment. DPI believes that top returns and true impact are possible and invests with this lens. While DPI's impact and ESG work is led by two senior professionals the entire DPI team is trained on impact and ESG work, the combination of returns and impact/ESG being part of DPI's "DNA" since inception.

While DPI invests commercially, and always strives to deliver a strong equity return for the Funds' investors, it has, since inception, been equally committed to driving and reporting developmental impact and ESG value add matters. DPI has sought to identify and actively drive ESG-related value add interventions to enhance Portfolio Company performance, as well as to leverage and maximise the developmental impact created by the products and services of Portfolio Companies the Fund is invested into. This is based on its belief that taking an intentional and direct engagement approach to driving value add and impact supports it in accessing capital, enhancing its reputation, driving value for stakeholders and, ultimately, improving financial returns.

The recently developed integrated Impact and ESG management system was adopted in January 2020 and provides an innovative and practical ESG and Impact Management Framework for effective incorporation and management across DPI's investment processes and decision-making, as well as in the day-to-day business activities of the firm. It guides how DPI shall drive the ongoing ESG and Impact performance of the Fund's investment portfolio, as a whole and at individual Portfolio Companies. The management system was designed to meet the Operating Principles for Impact Management and defines the internal ESG and Impact Core Commitments, Requirements and Standards that the Fund has established and that its Portfolio Companies are expected to adhere to.

## Commitment and Alignment with the Operating Principles for Impact Management

Development Partners International ("DPI" or the "Signatory") hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Principles").

This Disclosure Statement serves to fill DPI's obligations pursuant to Principle 9 of the Principles and confirms alignment of African Development Partners III (the "Covered Assets") with the nine Principles commencing 20 September 2019 and in the 12 months which comprise this reporting period. The total assets under management in alignment with the Principles is US\$ 609m as of publication of this disclosure statement (23 September 2020).

## Principle 1: Define strategic impact objective(s), consistent with the investment strategy

*The Manager shall define strategic impact objectives 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.*

While DPI invests commercially in multiple sectors across Africa, and always strives to deliver a strong equity return for the Funds' investors, it has, since inception, been equally committed to driving and reporting developmental impact and ESG value add matters. In this regard, it seeks to maximise the developmental impact created by the products and services of Portfolio Companies the Fund is invested into. This is based on its belief that taking an intentional approach to driving value add and impact supports it in accessing capital, enhancing its reputation, driving value for stakeholders and, ultimately, improving financial returns.

DPI established its Impact Agenda and designed a new combined Impact and ESG management system to ensure integration of impact into the investment process. The specific elements of DPI's Impact Agenda are outlined below, including key focus areas, goals and objectives and guiding principles and standards.

DPI has selected three main focus areas for its impact agenda which in turn are linked to the relevant Sustainable Development Goals (SDGs):

- Gender (contributing to SDG 5 and SDG 10);
- Job Growth and Job Quality (contributing to SDG 1, SDG 8 and SDG 10);
- Climate Change (contributing to SDG 7, SDG 12 and SDG13); and
- Any other key impact theme that is specific to the investment or geography and aligns with the UN SDGs.

The selection of these focus areas is based on their alignment with the following criteria:

- DPI has past experience working in these areas and will look to learn from this to enhance its ability to influence positive outcomes from such efforts (particularly in terms of work conducted in improving labour and workplace practices within Portfolio Companies, and driving climate adaptation approaches and increased energy efficiencies);
- These focus areas are considered most applicable for the Fund based on its sector and geographic focus. The three focus areas chosen are cross cutting issues that will likely apply across the entire Fund portfolio. In this way, the Fund will be in a position to leverage what is working in other parts of the portfolio to enhance individual Portfolio Company performance and ultimately make a larger contribution to driving efforts within these areas, as opposed to targeting a broader set of value add and impact objectives.
- These focus areas have been identified as key global priority areas (e.g. Sustainable Development Goals 5, 8 and 13) which means that by focusing on these, the Fund is contributing to the broader global development agenda. Also, there has been much research undertaken to develop frameworks and approaches to driving improved performance in these areas (i.e. 2X Challenge, Task Force on Climate-related Financial Disclosures, ILO Decent Work Agenda, etc.). DPI is looking to use these existing frameworks as a basis for its own approach, to benefit and build on the work that has been conducted to date.
- These focus areas are aligned to the priorities of ADP III investors, which amplifies the impact made by the Fund's investors in their selected areas of strategic priority.

It is recognised that individual investments within specific sectors or geographies may present unique opportunities to drive value for the company and/or for external stakeholders. For this reason, the system allows for the identification of focus areas aside from those outlined above in cases where potential impact is significant.

It should also be noted that the industries that DPI invests in are impactful industries, and include the pharmaceutical, education, micro-finance, insurance, banking and food processing industries , 70% of DPI's investee companies across three funds were deemed "essential" or "emergency" companies required to operate during national Covid-19 lockdowns.

## 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.*

DPI's Impact and ESG monitoring process seeks to ensure Portfolio Companies on-going compliance with applicable standards, internal ESG requirements (as contained in the investment documentation) and the implementation of the impact agenda which are documented within the Action Plan for each investment. The impact and ESG process is integrated in the entire investment process and all investment and value add professionals receive on-going training in these areas. DPI's Sustainability Managers work with the Investment and Value-Add teams to source, due diligence, invest, and create value in each company.

Incorporating indicators and targets which speak to value add and impact into the data collection process for each Portfolio Company will ensure that DPI can monitor the Impact performance and, over time, and will be in a position to assess the impact that the Fund's investment and strategic value add and impact interventions have had on each Portfolio Company and its respective stakeholders and at the Fund portfolio level.

Impact and Value-add reporting will be carried out in line with broader fund reporting. Impact and value-add indicators will be selected by the investment team at the point of selecting specific value add and impact interventions and incorporated into the monitoring plan for the Investee Company in question. The Investment Committee will validate the proposed Impact targets to be achieved during the holding period and indicators to be monitored and these will be included in the investment documentation.

Performance against these indicators will be reported internally throughout the year, usually during portfolio monitoring committee meetings, and externally in line with investor requirements. Monitoring in relation to value add and impact interventions will be supplemented by surveys submitted to Investee Companies for completion at strategic intervals, as well as deep-dive impact assessments at exit, and at other junctures at which these are seen to be valuable.

An annual Impact and ESG report will be developed using the information gathered during on-going monitoring and reporting activities. The report will include the review of each portfolio company progress against its ESG and Impact Action Plan as well as the progress of the fund against its Impact objectives.

The Fund will continually assess the most effective way to measure this, including looking at other tools which have emerged in the market, ensuring that best-practice models are incorporated into the Fund's measurement approach.

Currently, the measurement approach taken for value add and impact is integrated into the broader ESG measurement and data management process. DPI has picked third party and generally accepted measurement tools for each of its three main areas of impact so that the funds can be compared to other market entities, and to be held accountable on market leading measurement standards.

All investment professionals, portfolio managers and members of the Impact and ESG team have annual Impact and ESG objectives, which are part of their mid-year and their annual appraisal process which informs bonus allocations.

### 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. The narrative should be stated in clear terms and supported, as much as possible, by evidence.*

DPI's three impact themes mentioned above, climate change, gender and job creation and enhancements will be measured through proven measurement systems developed by organizations leading efforts in these areas. Since DPI carries out due diligence on impact and ESG alongside other due diligence streams, DPI is able to include impact goals into shareholder agreements and/or have internal goals set at the time of investment.

The management of value-add and impact considerations begins at screening stage and continues throughout the course of the investment life cycle. The process entails the identification of the intended outcomes arising from specific interventions or the everyday operations of Portfolio Companies, establishing DPI's contribution to these, and considering any negative impacts that may arise, with a view to mitigating these.

The identification, management and measurement of impact opportunities is conducted on an investment by investment basis, and dependent on a number of factors, including:

- the type of investment (including sector and geography), the potential value-add or impact opportunities that exist and their alignment with key value add and impact objectives set by DPI;
- the amount of leverage the Fund has in order to drive and/or support specific interventions at a Portfolio Company level;
- the capacity the Fund and/or DPI has to drive and/or support these opportunities within the Portfolio Company; and
- the measurability, extent of value (including the likeness of the Impact to be achieved without DPI's intervention), sustainability, and timing of the opportunity.

These aspects are properly assessed at the screening and due diligence stages of the investment process and presented to the Investment Committee to inform sound decision making and planning post investment.

DPI's due diligence process establishes the current baseline for the business, which allows the achieved impacts to be documented throughout the life of the investment. Contributions to impact are referred to as interventions to achieve impact in DPI's

management system. These are non-financial contributions to maximise impact throughout the investment period through active engagement to achieve impact outcomes.

By following this process DPI will be able to document a credible narrative on its achievement of impact for each investment.

## 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 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? (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 and follow best practice.*

DPI's management system, which was built with the input of key investors working in this area, provides a complete system to quantify the concrete framework that aims to answer the question raised above. The steps in the Management System are summarized below:

The screening stage of DPI's investment process informs the decision to proceed with detailed due diligence to ensure that the Fund allocates the correct resources to the assessment of ESG risks and impact opportunities for a prospective investment.

This includes identifying high level risks and impact opportunities associated with the prospective investment and what level of assessment is required in subsequent stages. All relevant impact information from screening is incorporated into the Initial Investment Committee (IIC) ESG and Impact Summary.

Impact focused due diligence findings allow the firm to establish the impact potential of the investment, the baseline of status for each impact theme (Gender, Job Quality, Climate Change) and any sector or geographical impact opportunities. This impact due diligence exercise follows the impact dimensions and seeks to answer the fundamental questions:

- (1) What is the intended impact?
- (2) Who experiences the intended impact?
- (3) How significant is the intended impact?

An Investment Proposal is then prepared by the investment team. The Investment Proposal includes due diligence findings and recommendations detailing ESG and Impact findings context and detailed actions plans. The results of the ESG value add and impact assessment process will also be summarised and captured in the Final Investment Committee (IC) ESG and Impact Summary.

For each potential investment, expected Impacts are identified and quantified from origination to closing. Investment professionals, portfolio management and Impact and ESG teams are all involved in the process using the different steps of the investment process.

The WHAT: Potential or desired Impacts are screened during the deal origination and integrated into the scope of work of the impact due diligence process to help identify the current baseline and the potential targets and indicators.

The WHO: Based on DPI's investment strategy, its reference framework and the results from the due diligence, specific stakeholders that will experience the intended Impacts are identified and listed in the Impact documentation.

The HOW MUCH: Results from the ESG and Impact due diligence are used to estimate the potential extent of the Impact, targets and KPIs. These are based on the UN SDG indicators or similarly accepted industry standards. At this stage, the following elements

are considered:

- Measurability
- Value
- Sustainability
- Timing
- Leverage
- External Funding
- Alignments

Impacts, targets and KPIs are discussed/negotiated with the company management ahead of each deal closing. The discussion with the management allows for the intent to be clearly communicated as well as to permit for geographic /regional considerations to be included. Where the nature of the deal allows it, the Portfolio Manager and Deal Team will facilitate the detailed strategy workshop with management of the company in which the ESG and Impact Action Plan will be reviewed, discussed and aligned.

The Impact and ESG and the Portfolio Management Plans are then integrated in the final IC documentation and a dashboard created to monitor advancement of the KPIs.

## 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) 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. 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.*

DPI believes that one cannot deliver impact without proper mitigation of ESG risk. The principle of “do not harm” is imbedded in ESG work. DPI has worked on ESG to a high standard since inception and as mentioned above the entire DPI team is constantly trained, and work together under the guidance of DPI’s Sustainability Manager to achieve this outcome.

DPI has developed a formalised and fully integrated ESG and Impact management system ,which includes procedures to assess the level of ESG risk posed by each prospective Portfolio Company and its compliance with prescribed ESG Requirements prior to investment, as well as procedures to monitor, manage and report on ESG performance and compliance post investment. The system has been developed in accordance with internationally and nationally accepted ESG principles, standards and guidelines, referred to as the “Reference Framework”. The Reference Framework is made up of the following standards:

- The International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability (dated January 2012);
- The World Bank Group Environmental, Health and Safety Guidelines (dated April 2007);
- The Smart Campaign Client Protection Certification Standards (dated May 2016);
- EIB Standards contained in Volume I of the EIB Environmental and Social Handbook (dated 2013)
- AfDB Environmental and Social Policies and Guidelines (dated 2013 to 2015) including:
- AfDB Group’s Integrated Safeguards System Policy and Operational Safeguards (dated December 2013);
- AfDB Group’s Environmental and Social Assessment Procedures (dated November 2015); and
- AfDB Group’s Environmental and Social Guidance Materials (December 2015).
- CDCs Code of Responsible Investing including, CDC’s Climate Change Policy
- UN Guiding Principles on Business and Human Rights (dated June 2011);
- ILO Declaration on Fundamental Principles and Rights at Work (last revised 15 June 2010);
- The 2X Challenge: Financing for Women;
- Addressing Gender-Based Violence and Harassment – Emerging Good Practice for the Private Sector (2020)
- Recommendations of the Task Force on Climate-related Financial Disclosures (dated June 2017); and
- Applicable national and local environmental and social laws and regulations.

The Fund shall not invest into any portfolio company that, in its reasonable opinion, cannot be expected to meet the minimum ESG requirements set out in the above standards over the life of the investment.

All Portfolio Companies include legal language that the company will comply with all ESG Requirements including a corrective ESG action plan with specified timelines.

The Fund Sustainability Manager or ESG Officer makes annual site visits to Portfolio Companies to review their ESG performance. Over and above possible specific issues of concern, the purpose of the site visit is to assess strengths and weaknesses and develop recommendations for improving ESG performance, focusing on adherence to key ESG commitments and set focus areas. Progress on existing ESG and impact related interventions should also be assessed.

Where new risks or issues are identified, new Impact and ESG Action Plans may be developed.

## 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. The Manager shall also seek to use the results framework to capture investment outcomes.*

Based on the results of the impact focused due diligence, the impact plan for each investment is developed and forms the baseline from which the progress against the expected impact outcomes.

The level of monitoring and management is to be determined on an individual Portfolio Company basis, based on the outcomes of the pre-investment Screening and Due Diligence processes. DPI has a Portfolio Monitoring Committee (the "PMC") which monitors the Portfolio Companies' performance against the original Investment Proposals' business plans and projections, the Portfolio Company Management Plans and the ESG, Impact and Corporate Governance Action Plans. The PMC seeks to provide perspective and independent monitoring of the portfolio.

Impact data collected from Portfolio Companies on a regular basis will be collated into an operational Impact and ESG reports highlighting ESG performance of that investment. This information will be shared with investment and portfolio management teams, DPI Partners and committees as relevant and act as a check for how impact performance compares to the baseline established during due diligence.

The operational Impact and ESG report is viewed as an internal document that will be used to alert the Fund and DPI to key issues across the Fund's investment portfolio that may require attention or further interrogation; as well as those areas where positive impact or outcomes are being achieved - which could also warrant further resources or focus.

The Fund will generate an annual Impact and ESG report. This document will be developed and shared with relevant external stakeholders and investors highlighting ESG performance across the Fund and underlying Portfolio Companies. This document is viewed as an external document for investors and other stakeholders to showcase the work that has been done on ESG related aspects; as well as how the Fund is performing from an ESG perspective. Relevant value add and impact data will be included in this report.

For each investment, a portfolio dashboard is developed during the investment process before closing. This dashboard includes financial, Human Resources and Environmental & Social as well as investment specific information (production for an industrial company or number of loans for a bank) that are collected on a monthly, quarterly or annual basis by the portfolio management team.

The data is included in the Impact dashboard and used to monitor the progress against the KPIs established before closing the transaction.

The investment team meet twice a year to discuss progress against the Impact & ESG Action Plan and appropriate actions are established if changes to the targets and KPIs are agreed.

The portfolio company completes an Impact & ESG questionnaire once a year that is used to complete the Fund annual Impact & ESG report shared with the investors.

## Principle 7: Conduct exits considering the effect on sustained impact

*When conducting an exit, 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.*

DPI has exited companies where the imbedded impact and ESG work has not only continued but has become a part of the company culture. DPI has seen in its work over 13 years that in Africa, imbedded impact and ESG culture attract more and stronger buyers, and can create additional financial value. That said, the Impact and ESG Exit Assessment process has been established to enable the Fund to add or create value, prepare strategies for approaching any issues identified, and to reduce uncertainty and risk of delays to the completion of an exit transaction. It is important to consolidate the Impact and ESG work completed to date and any positive outcomes achieved to ensure that such information is appropriately packaged for bidders to review and to ensure that DPI is able to effectively communicate its efforts to existing and future stakeholders.

For each prospective investment, an exit assessment is and will continue to be carried out to assess overall ESG and Impact performance as well as to identify any issues of interest to a potential acquirer. Monitoring in relation to value add and impact interventions throughout the investment period will be supplemented by a deep-dive impact assessment. This will allow for sustainability gains to continue throughout the exit and increase the chances that they will remain and further increased beyond DPI's exit.

The outcome of the assessment is expected to be a clearly written Impact and ESG Exit Assessment report, which will include DPI's measurement of impact, an impact and form part of the overall exit package to potential bidders.

## 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.*

The Fund seeks to drive improved fund performance on Impact and ESG aspects through accurately monitoring and reporting on performance against set objectives.

The monitoring and reporting of ESG aspects derive value for the Fund, through enabling on-going management of ESG performance, continual improvement and facilitating ADP III's ability to drive and support performance through results-based management. Furthermore, this allows the Fund to disseminate ESG performance information to internal and external stakeholders, thereby meeting its fiduciary duty and marketing its efforts amongst such stakeholders.

ESG data collected from Portfolio Companies on a regular basis will be collated into an operational Impact and ESG reports highlighting Impact and ESG performance of that investment. This information will be shared with investment and portfolio management teams, DPI Partners and committees as relevant and act as a check for how impact performance compares to the baseline established during due diligence and where changes to the process need to be made and communicated to stakeholders. The Fund will generate an annual Impact and ESG report. This document will be developed and shared with relevant external stakeholders and investors highlighting ESG performance across the Fund and underlying Portfolio Companies. This document is viewed as an external document for investors and other stakeholders. Relevant value add and impact data will be included in this report and DPI will seek to have these results verified by an external party before disclosure.

The same process and information is used internally in investment discussions and DPI's strategy discussions to disseminate knowledge and get feedback from all parts of the firm on how DPI can improve in achieving its impact goals.

## Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification of the alignment

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*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.*

The efficiency of DPI's integrated ESG and Impact management system will be assessed annually, and this Disclosure Statement will be updated to reflect any improvements and changes made to the system and be published annually and in compliance with the Principles.

DPI will complete and publish a third-party verification of our alignment with the principles in the first quarter of 2021.