

C4D Partners, Netherlands B.V.

Environmental, Social & Governance Policy

C4D Asia Fund

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Amsterdam, 25 October 2019

ABOUT C4D PARTNERS & THE C4D ASIA FUND

The Capital 4 Development Asia Fund (C4D Asia Fund, below referred to as 'The Fund') is a 50 M USD fund that had its first closing in December 2018 at 30 M USD. The Fund focuses on financing SMEs in India, Philippines and Indonesia. The Fund is managed by the Impact Fund Manager C4D Partners. Through the Fund, C4D Partners is able to leverage the promise of Asian SMEs. With **experienced teams** based in all three target countries as well as The Netherlands, C4D Partners is tapping into the opportunities by providing appropriate financing as well as non-financial support, through local operational structures.

With its **regional experience** and learnings, **network**, organizational set up and reputation C4D Partners is well positioned to service the local SME segment. Our **local presence** and our teams consisting of **Indian, Filipino and Indonesian professionals** enable us to find promising SMEs, appropriately assess the risks involved, make balanced investment decisions and support and guide these companies on their path to growth and positive impact.

The Fund offers various forms of **equity, hybrid-debt and venture debt** financing to (early) **growth stage SMEs**. This type of more flexible financing (as compared to the traditional financing through private equity and debt), is clearly lacking in the region: we notice that many early growth stage companies are trying to fulfil their need for cash with straight forward equity structures, whereas hybrid debt of quasi equity products often offer more fitting financing solutions. The Fund gives companies the opportunity to be supported by the type of financing that suits their needs best.

The Fund has a sector agnostic investment strategy, but sees clear finance and development opportunities in Agri Value Chains, Renewable Energy, Healthcare, Education & Skilling and the Water and Sanitation sectors. Core to the investment strategy is a gender lens approach, made explicit by targeting to invest at least 30% of the committed capital in female-owned and female-led businesses.

The Fund's **return enhancement features** offer a layered fund structure, where a downside protection of up to 10 M USD is provided by the Sponsor Investor. In addition, the Sponsor Investor offers a **preferred minimum return of 2%** to other investors. This combination creates an opportunity for investors with modest risk appetites to invest in this specific SME market segment in order to contribute to the development of local inclusive economies. The target IRR of the Fund is 9.4%.

The Fund is strengthened by **Portfolio Support Program Asia** (PSPA), providing Business Development Services (BDS), to improve performance of the portfolio companies and increase the chances of success for them as well as the Fund. The support offered will be specific to each company, based on its needs and challenges. We have learned that such additional non-financial services contribute to safeguarding our objectives.

C4D Partner's operational set up and experience, combined with the well-designed features of C4D Asia Fund provides a good opportunity to grow the SME space in India, Indonesia and the Philippines in a focused way. We aim to have a positive impact on value chains and local livelihoods and contribute to developing inclusive local economies and achieving the SDGs. C4D Has developed an impact measurement and monitoring framework based on IRIS indicators, that is used to track impact achievements during the investment period. Impact achievements are reported on in our annual impact report that is published on our website.

Our specific impact goals can be summarized as follows:

- Create decent and sustainable jobs
- Improve the market position of non-commercialized (agri-) suppliers
- Offer basic products and services to clients, benefitting those with low-incomes and vulnerable population
- Achieve gender equality, by including women in supply chains and staffing and by investing at least 30% of the committed capital in female-led SMEs

Investors

We partner with investors that aim for strong social-economic impact on the lives of people from underserved communities in Asia and accept a risk-adjusted return on their investment. The Fund's first closing investors are:

- ICCO Cooperation, Sponsor Investor (USD 10 M)
- Dutch Good Growth Fund (USD 8.5 M)
- FCA Investments (USD 8.5M)
- DFAT/Investing in Women (USD 3M)

OBJECTIVE OF THIS ESG POLICY

As a responsible investor, we strive to invest in SMEs that operate to internationally acceptable standards when it comes to Environmental, Social and Governance aspects. It is inherent to the objective of C4D Partners to contribute to fair economic development in emerging economies, and the companies we are financing are the 'building blocks' for these inclusive economies. It is therefore important that we ensure that the SMEs we finance, comply with and operate according to standards that prevent irrevocable environmental effects, take into account social wellbeing of employees and other stakeholders. Moreover, we encourage our portfolio companies to adopt best-practice ESG standards and make them aware about the positive effects these have on mitigating risks and improving performance in general.

The purpose of this policy is to describe and provide guidance on how ESG is integrated in the way how the Fund makes, manages and monitors investments. Identifying ESG risks in an early stage prevents spending unnecessary resources on cases that do not comply with the Fund's primary ESG criteria. Thoroughly assessing ESG aspects prior to any investment also provides the fund manager with insights on where (potential) investees score weak on ESG, providing input to discuss necessary improvements with investees and design improvement plans. If required ESG improvement plans can be conditional to an investment and become part of a term sheet or contract, to ensure the investee is dedicated to improve on certain ESG aspects. The outcome of the ESG analysis also provides valuable input to closely monitor certain ESG aspects during the investment stage, to manage and mitigate ESG related risks, and to benefit from ESG related opportunities when applicable.

SCOPE OF THIS ESG POLICY

This ESG policy and management system is applicable to all C4D's investment activities, and all investee companies regardless of our forms of [equity](#), [hybrid-debt](#) and [venture debt](#) financing.

This policy focuses on the ESG aspects that are applicable to Small and Medium Size Enterprises (SMEs) which apply for funding from the Fund. The Fund will only invest in SMEs whose business practices comply with the ESG criteria of the Fund, described in this policy. The Fund does not invest in businesses that undertake activities on our Exclusion List. If potential investees show a poor performance on other ESG (aspects), investing in such companies can only be considered if a clear and realistic path to improve on ESG is formulated and approved by the IC as part of the decision-making based on the investment memorandum.

Because this ESG policy specifically focuses on the ESG aspects of the investment process it should not be considered in isolation, but should be considered with other policy documents such as C4D's investment criteria as well as C4D's guidelines for portfolio management. This means in practice that ESG aspects are integrated in the processes and tooling that is used in the different steps of the investment process. Therefore, this policy is structured in line with the investment process of C4D Partners.

Summarized, the specific objectives of the EGS policy are:

- To identify potential ESG related risks and opportunities prior to any investment.
- To assess to what extent (potential) investee companies comply with the Funds ESG requirements.
- To identify support needs investee companies have to improve on ESG aspects.
- To build support programs for investee companies to ensure ESG compliance and improve their ESG performance to reduce and mitigate ESG associated risks and harvest ESG related opportunities, with the objective to improve the Fund's performance.

C4D's COMMITMENT TO ESG

We strive to invest in SMEs that operate according to internationally acceptable standards when it comes to environmental, social and governance aspects. The C4D ESG Policy describes the specific ESG related activities that C4D performs in different parts of the investment process, to ensure that the fund manager at all times works in compliance with and according to internationally accepted ESG standards.

The Fund has committed to adhere to the DGGF's International Corporate Social Responsibility Guidelines (ICSR Guidelines, Annex A). These guidelines are based on internationally accepted performance standards, procedures and instruments, such as the IFC performance standards, OECD Guidelines and the UN Guiding principles for Business and Human Rights. A full list with references to these standards can be found in Annex B.

Besides complying with International accepted standards regarding ESG, the Fund operates in compliance with national and local laws and regulations relating to environment, social and governance issues.

ESG MANAGEMENT AT C4D PARTNERS

As ESG compliance is important, C4D Partners has secured that management responsibility for ESG compliance always lies with the CEO. However, as implementation of the ESG policy framework takes place at the level of Investment Officers and Associates up to and including Analysts, monitoring of ESG implementation on a day-to-day basis is overlooked by the Senior Investment Officers at country level.

As decision making on individual investment takes place in the Investment Committee, Investment Managers presenting the Investment Memorandum, have to ensure that the section on ESG is complete and comprehensive in order for the IC to form an informed opinion on ESG associated risks.

The different ESG roles and responsibilities are further described further in this policy in the section 'ESG in the investment process'

ESG MANAGEMENT FRAMEWORK

The C4D ESG Management framework is designed around the complete investment process, and applies to all our forms of [equity](#), [hybrid-debt](#) and [venture debt](#) financing.

For each phase in the investment process the ESG related objectives and activities are described and specified as well as the tools that we use to achieve the ESG objectives, who is involved and who is responsible for ESG compliance to our standards.

The different stages of the investment process are as follows:

1. Screening and selection
2. Clearance in Principle
3. Due Diligence
4. Investment Decision and Contracting
5. Monitoring and Reporting
6. Exit

The way ESG is integrated in the investment process has the objective to identify ESG obstacles and issues as early in the process as possible. In the first stages of the process (screening) it is most important to identify so called 'showstoppers' and 'severe and unacceptable ESG related issues'.

C4D Partners will stop assessing a company if it is found to be involved in activities that are present on the EDFI exclusion list. Such companies are not eligible for investment.

During the first screening, each company is ranked using the C4D ESG Toolkit that includes a Risk Categorization Framework. Companies that are ranked in Category A, will require directly a closer ESG risk inspection in order to assess:

a) where the ESG related risk is arising from;

- b) what the potential associated damage of the risk may be;
- c) whether risks can be mitigated;

The outcome of the assessment on Risk A category companies, always needs to be shared with the manager responsible for ESG. If based on the assessment, the risk is considered to be unacceptable, further analysis of the company is cancelled.

Unacceptable risks are those that cannot be mitigated or (fully) controlled and that:

- can cause discontinuity of the Fund;
- can cause unacceptable (reputational) damage to The Fund, the fund manager, its LPs or other relevant stakeholders.

ESMS (Environmental and Social Management System): THE C4D ESG TOOLKIT

C4D Partners has developed an ESG Toolkit that helps the Investment Officers to screen (potential) portfolio companies on ESG aspects and to design Action Plans for investee companies to improve on ESG and to monitor their progress of implementation.

The excel based ESG Toolkit is developed based on the earlier mentioned internationally accepted IFC performance standards and methodologies for assessing and screening companies on ESG aspects. Furthermore the tooling is designed around the investment process that C4D applies, to safeguard ESG is embedded in all phases of the investment process. The ESG Toolkit is integral part of this policy and is attached hereto in Annex E.

Investment Officers will assess and screen the (potential) portfolio companies on ESG aspects, and report on their findings in various stages of the investment process to ensure that ESG is integrated in selection-, decision making- and monitoring phase.

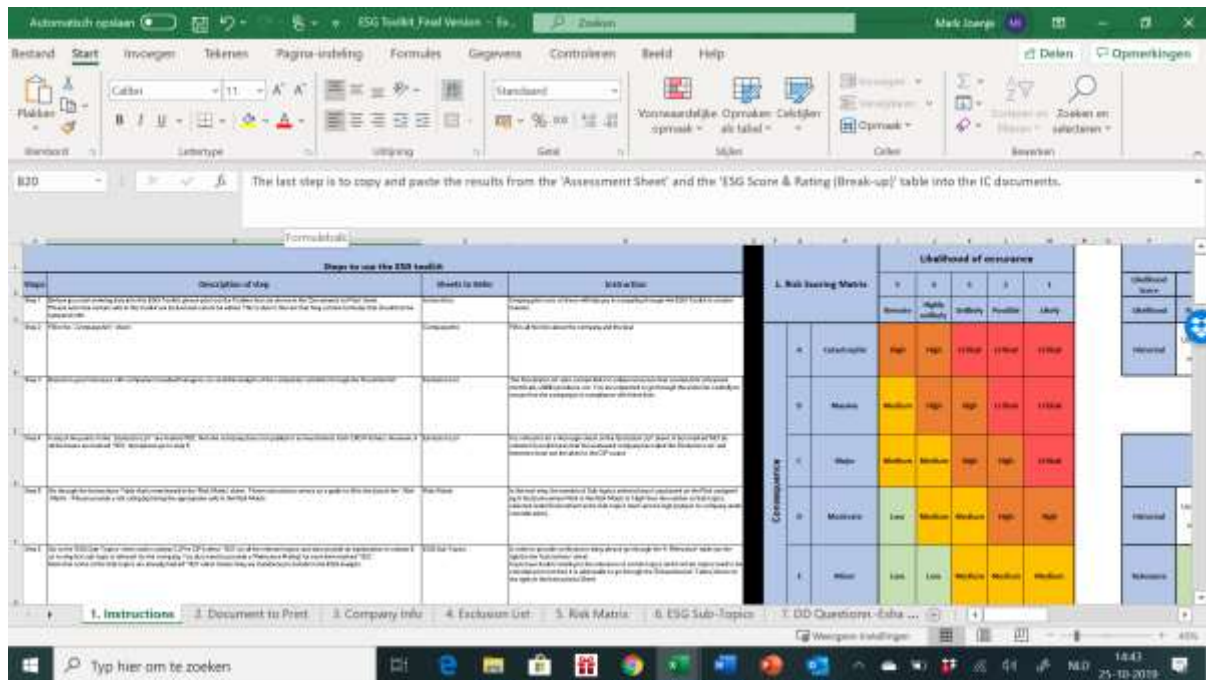


Fig 1: Screenshot of the C4D ESG Toolkit

On a regular basis the ESG Toolkit is updated and improved, based on experiences of its users. All investment personnel working with the ESG Toolkit receives a special training of how to use the toolkit. Every year all investment personnel receive a refresher training on ESG and on applying the ESG Toolkit.

ESG IN THE INVESTMENT PROCESS

The following sections describe how ESG is integrated in each phase of the investment process.

1. Screening and selection

Investment process: The investment process starts with screening of potential investment opportunities and selection of opportunities that represent the most promising combination to create impact and to make a financial return. The objective is to identify showstoppers already in an early stage to avoid spending valuable resources on deals that have little potential to be approved for investment in a later stage.

ESG Objective:

- Assess eligibility of the investment from ESG perspective (compliance with exclusion list).
- Identify (potential) ESG risks and define ESG risk category.

Activity:

- Initial risk screening through questionnaire, interviews, market assessment, desk research and benchmark sector studies and risk scoring using the C4D ESG Toolkit.

Output:

- Initial ESG risk assessment with ESG risk categorization.
- Identification of ESG risks related topics and attention points.

Tools:

- Initial screening template.
- C4D ESMS Toolkit, Tab 4: Exclusion List & Tab 5: Risk Matrix

Who:

- Responsible: Investment Manager
- Involved: Investment Manager, Investment Analyst, Promotor, potentially external parties (such as experts).

2. Clearance in Principle (CIP)

Investment process: In this phase, the Investment Manager produces a summary investment proposal, describing the ins and outs of the proposed investment. The objective in this part of the process is to seek approval to develop the deal further and to get clearance from C4D's Managing Partners to allocate resources. Each Clearance in Principle proposal includes the key ESG issues related to the potential investment.

ESG Objective:

- Understanding of (potential) ESG risks and formulating key issues that need to be addressed in detail during the next, Due Diligence (DD), phase.

Activity:

- Write ESG chapter in Clearance in Principle document including the initial Risk Rating and specifying the key ESG issues that need to be addressed in the DD.

Output:

- ESG Chapter in CIP document with a clear Risk Rating and conclusions on what ESG Risks need to be addressed in detail during the DD phase.
- Decision on Due Diligence approach based on ESG risk categorisation and a list of ESG related topics and questions that need to be addressed in the Due Diligence phase.

Tools:

- Clearance in Principle template
- C4D ESMS Toolkit, Tab 5: Risk Matrix
- C4D ESMS Toolkit, Tab 6: ESG Sub-Topics

Who:

Responsible: Managing Partners as decision makers in CIP committee.

Involved: Investment manager, Analyst, CIP Committee (that includes also other investment managers and Analysts).

3. Due Diligence

Investment process: The objective is to make an in depth assessment of the investment opportunity to thoroughly understand the company and the market it is serving and gather the necessary information to make an informed investment decision and structure the deal. The objective of a positive DD process is an investment memorandum for the IC, that forms the basis for decision making. In an interactive process between the Investment Manager and the company, and possibly also external experts, an overall picture is created describing the relevant ins and outs of the investment opportunity. ESG risk categorization and the ESG topics to address in DD that have been formulated in the CIP document, are the basis for an in depth ESG analysis.

ESG Objective:

- To have a thorough understanding of the relevant ESG related risks and opportunities.
- To identify the improvement points for the company on ESG.
- To formulate conditions related to ESG, that need to be in place before the investment can be executed (CP) or that need to be in place within a specified timeframe after the moment of investment (CS).
- An assessment of the support needs the company might have to improve on ESG and the associated costs.

ESG Activity:

- Interviews with the company, management and staff, desk research, site visits and benchmark

studies, to thoroughly assess the ESG risks and opportunities.

- Write ESG chapter in Investment Memorandum with clear answers to the ESG related questions raised in the CIP document.

Output:

- ESG risks and opportunities analysis in Investment Memorandum.
- ESG related investment conditions identified to be taken into account as CPs or CSs in term sheet drafting and contracting phase.
- Proposal to improve performance with regard to ESG, including requirements and conditions.
- Identification of support needs the company might have with regard to their ESG improvement and a proposal on how to arrange this support including a budget.

Tools:

- Investment Memorandum template
- C4D ESMS Toolkit, Tab 7: DD Questionnaire Exhaustive List
- C4D ESMS Toolkit, Tab 8: ESG DD Questionnaire
- C4D ESMS Toolkit, Tab 9: Action Plan
- C4D ESMS Toolkit, Tab 10: DD Questionnaire Results
- C4D ESMS Toolkit, Tab 11: Assessment Sheet

Who:

- Responsible: Investment manager, Deal Team
- Involved: Investment Manager, Deal Team, and potentially external parties (such as experts).

4. Investment Decision and Contracting

Investment Process: Based on the Investment Memorandum prepared by the Investment Manager, the Investment Committee decides whether or not to approve a deal. In case a deal gets approved, the IC usually attaches specific conditions to the investment and formulate CPs and CSs that will be part of the term sheet and the actual contracts.

ESG Objective:

- To ensure that ESG related conditions (CPs and CSs) are part of the conditions related to a positive investment decision, if applicable.

Activity:

- Discussion on ESG related matters in the IC.

Output:

- When applicable, specified ESG conditions attached to the Investment Approval Form.

Tools:

- C4D ESMS Toolkit, Tab 9: Action Plan

Who:

Responsible: Investment Committee Chair.

Involved: IC, Investment Manager

5. Monitoring and Reporting

Investment process: After an investment is approved and disbursed, the progress of the investee is closely monitored by the Investment Manager. Deviations from the approved plan are discussed and challenges faced by the promotor are input to provide support by the Investment Manager or third parties. Progress and developments are reported back to investors on a quarterly basis. Annually, an ESG scan is made of the individual portfolio companies and results are reported back to the LPs. The Investment manager monitors the progress in cases where an ESG action plan is being implemented. During the investment period, the Investment Manager will continue to work with the company to improve its ESG performance. Specifically in the case of Equity investments, this is relevant as a good ESG rating facilitates a better exit (see 6).

ESG Objective:

- Identify the ESG risks and opportunities of individual portfolio companies to assess if the ESG requirements the fund manager has committed to, are still complied with.

Activity:

- Discussions with promotor(s)
- Monitoring of ESG action plan (CPs & CSs)
- Perform annual ESG scan.
- Write annual ESG report for LP's.

Tools:

- C4D ESMS Toolkit, Tab 9: Action Plan
- ESG annual progress report (annual template)
- Serious incident report template

Who:

Responsible: Investment Manager for Company ESG Scan, Managing partner for compiling Annual ESG report.

Involved: Promotor, Investment Manager, Managing Partner.

6. Exit

Investment process: For exiting Equity deals it is important to prepare the company to realize the exit. ESG is important in this respect, as it has been proven that companies that are performing well on ESG, provide a better exit. Better in value, and easier to realize an exit, mostly because a good ESG rating is an indication that the company is in control, well organized and operating according to internationally accepted ESG standards. To be ESG-ready for an exit, the monitoring phase is important (see 5). To facilitate (potential) investors that provide the exit, a detailed ESG report is important.

ESG Objective:

- To provide potential investors with an ESG report that shows how the investee is performing on ESG.

Activity:

- Perform ESG analysis (can be done by independent third party).
- Write ESG report on investee (can be done by independent third party).

Output:

- ESG report on investee company.

Tools:

- ESG Exit report template (to be developed Annex C)

Who:

- Responsible: Investment Manager, Managing Partner, IC (for approving the exit).
- Involved: Investment Manager, Managing Partner, IC, Promotor, potentially independent third party.

CODE OF CONDUCT

C4D Partners is a values-based organisation and as such requires all of its employees, advisers, consultants, contractors and the like, operating both within The Netherlands and in the investment target countries, to adopt standards of personal and professional behaviour that are consistent with the Company's values. C4D Partners practices a zero tolerance policy on all forms of corruption, bribery, facilitating payments or any other similar conduct.

Consequently, C4D Partners implements a Code of Conduct Policy that is intended to clarify the standards of behaviour that are expected of its personnel when performing in their duties.

The Code of Conduct Policy requires that all C4D Partners' employees, advisers, consultants, contractors and the like, will at all times during the course of their employment, comply with the company standards as defined in the Code of Conduct. The Code of Conduct can be found in Annex D.

COMPLAINTS MECHANISM

The Fund has established a complaints mechanism to allow stakeholders to report complaints about the Fund or the Fund Manager. The C4D Complaints procedure is published on the website www.C4DPartners.com/connect and can be used by anyone with an internet connection. C4D Partners employees are pro-actively informed on how the complaints procedure works.

Submission of complaints:

- Complaints can be submitted to C4D as indicated on the website, by email, telephone or written in hard copy. Contact details are specified on the complaints page of the website of C4D Partners.

Handling of complaints:

- The CEO, is responsible for the handling of complaints.

- Each complaint is recorded, assessed and the appropriate response determined if applicable. This is reported back to the person that has submitted the complaint.

Communication regarding complaints:

- Involved parties are informed about the nature of the complaint as well as to what the response has been (and may be involved in formulating the response). Communication is appropriate and timely.

Governance of complaints process:

- Physical and non-physical safety of person submitting complaint is ensured throughout the process, e.g. through anonymity and/ or separation of duties.
- A monitoring system is in place to ensure that complaints have been resolved satisfactorily. All submitted complaints are documented and recorded.
- All complaints are discussed in meetings of the Management Team and used to improve policies, processes and operations to prevent re-occurrence of complaints on similar issues.

SMEs level complaints mechanism

The Fund also requires SMEs to implement a mechanism to allow stakeholders to report complaints. The complaints mechanism should allow for usage by anyone. The SME level complaints mechanism should be in accordance with the principles below.

Submission of complaints:

- Transparent, publicly available and easily accessible process for submitting complaints (e.g. phone number; website; email address; suggestion box etc.).
- Employees and clients are informed about their right to complain.

Handling of complaints:

- Each complaint is assessed and the appropriate response determined if applicable. Staff involved in complaints handling have been given appropriate training on how to deal with complaints.

Communication regarding complaints:

- Involved parties are informed about the nature of the complaint as well as the response (and may be involved in formulating the response). Communication is appropriate and timely.

Governance of complaints process:

- Physical and non-physical safety of person submitting complaint is ensured throughout the process, e.g. through anonymity and/ or separation of duties

- An informal monitoring system is in place to ensure that complaints have been resolved satisfactorily, and complaints are analysed and used to improve policies/ processes/ operations and so on, e.g. complaints are discussed periodically
- SMEs report the filing of complaints to C4D Partners on an annual basis, or, if the complaint is of direct importance, immediately.

Note with respect to Financial Institutions (FI's): FI's have a lender-borrower relationship with their clients rather than an investor-investee relationship. FI's are not required to ensure that the SMEs they lend to implement a complaints mechanism, or to monitor the completeness of complaints about their borrowers. As FI's are mostly microfinance institutions with often thousands of small individual borrowers, rather than established companies that fall within the SME definition, such a requirement would not be applicable. However, if a complaint about one of their borrowers comes to their attention, they are required to document it and take follow up action. They are also required to report this to C4D Partners.

Reporting of complaints

The Fund reports annually about the number and nature of complaints at both the Fund level and SME level. Reporting of complaints will be done towards the LPs in the Fund and will be put on the agenda of the AC on an annual basis, unless complaints are severe, which can be a reason to share it with the AC as soon as they occur.

ESG REPORTING

In line and in compliance with the Membership Agreement, C4D Partners reports on the following ESG matters on an annual basis:

1. Changes in the ESG Policy
2. Number and explanation of breaches of the ESG Policy during past year
3. Changes in the ESMS since last reporting period
4. Changes in key staff members involved in ESG management during past year
5. Training of staff on ESG matter during past year
6. Number and explanation of complaints received during past year
7. Number and explanation of negative media reports during past year
8. Number and explanation on punitive fines and penalties incurred during past year
9. Any other ESG related incidents that happened during past year

ANNEXES:

Annex A: DGGF ICSR Policy

Annex B: Reference to internationally accepted ESG performance standards

Annex C: ESG Exit Report Template

Annex D: C4D Code of Conduct

Annex E: ESG Toolkit