

apis | partners

Growth Equity in Growth Markets Financial Services

**Code of Responsibility
- ESGI policy**



Introduction

Apis Partners, the Manager of APIS Growth Fund I, ('Apis') believes that the importance of rigorous economic, social, governance and impact ('ESGI') principles in building responsible and enduring relationships with partners and customers for sustainable value creation in growth markets cannot be overemphasised.

Maintaining solid ESGI principles in our target geographies has a significant developmental impact in these growth markets by improving the performance of companies and working conditions for workers and local communities, developing access to future capital, and also reducing investment risk. This includes high standards around financial inclusion, health and safety, environmental issues, social engagement, business integrity, corporate governance, as well as transparent accounting practices.

Apis also recognises that companies engaged in unsustainable activities or practices will be less profitable and sustainable in the medium to long term, and hence these companies are from the outset excluded from consideration in Apis' investment processes. On the other hand, companies that do conform to these principles are very likely to achieve superior investment returns as a result of their improved profitability and ultimately higher valuations at exit. This creates significant alignment between the core ESGI principles and the goal of providing superior returns to investors.

The Code of Responsibility (this 'Code') sets out Apis' requirements, recommendations and management systems to invest responsibly. Through this Code, Apis works closely with investee companies to make required improvements to build sustainable value creation into the core operations of their businesses; this starts with basic compliance requirements and works towards the adoption of internationally recognised standards of best practice.

Apis recognises that not every investee company will be in full compliance with this Code at the date of investment. In such cases, Apis will work with the investee company to develop an ESGI Action Plan (that seeks to achieve compliance) with clear deliverables in reasonable time frames, taking into consideration the risks and opportunities specific to that business and its size and resources.

Section 1 - Code of Responsibility

1. Apis Partners will not finance, either directly or indirectly, any activity on the specified Exclusion List as outlined in Section 5.
2. Apis will maintain ESGI implementation systems as outlined in Section 2.
3. Every Apis investee company will:
 - a. not finance any activity on the specified Exclusion List as outlined in Section 5;
 - b. comply with all Requirements specified in Sections 3 and 4. For any Requirements that a portfolio company does not comply with, the company must agree to an ESGI Action Plan to address this;
 - c. implement systems to ensure that the agreed ESGI Action Plan is implemented; and
 - d. implement systems to ensure they remain in compliance with this Code.
4. As long as Apis is invested in a portfolio company, Apis will ensure that:
 - a) any agreed ESGI Action Plan is implemented; and
 - b) the business otherwise remains in compliance with the relevant provisions of this Code.
5. In the event Apis co-invests with other parties, Apis may elect to apply requirements differing from, but substantially similar to, those in this Code in order to harmonise the requirements of all investors.

Section 2 - ESGI implementation systems for Apis Partners

Apis Partners has formally incorporated ESGI implementation into all aspects of its undertakings as below, which also outlines the investment management systems that Apis shall establish and maintain for these:

- **Pre-investment analysis and the decision making processes**
 - Before engaging in detailed due diligence, Apis' investment team is required to complete an initial Exclusion List to prevent any investment in an Excluded Activity. This checklist will be completed in conjunction with the senior management of the proposed investee company
 - If the company passes these exclusion requirements, as part of the due diligence process, Apis will undertake a baseline assessment of its current ESGI performance, contribution, risks and compliance with Apis' ESGI Code, again in close collaboration with the company's management
 - The results of the ESGI baseline assessment will provide input for an **ESGI Action Plan** that is articulated for the investee company. This includes specific impact goals and ESGI actions required to address any areas of non-compliance, with a timeframe and responsibilities that the investee company's management must agree to, before an investment can be made
 - Findings at this stage of due diligence may be shared with key stakeholders and investors to ensure full transparency on ESGI matters

- **Ownership policies and performance management**
 - ESGI responsibilities will be **assigned to a designated member of management**, who is also a member of appropriate investment and governing bodies, and also to a suitably trained ESGI officer
 - Progress against the agreed ESGI Action Plan will be monitored by **collecting, storing, validating and analysing data** from the investee company (or any applicable third party) on a **quarterly basis**, as well to ensure continued compliance with this Code
 - For monitoring, the Impact Reporting and Investment Standards (IRIS) generally accepted performance metrics will be utilised where possible, though custom metrics will also be proposed where this is deemed necessary, developed in close conjunction with investee companies
 - Apis requires that investee companies **identify and record any serious incidents** that occur that result in loss of life, severe permanent injury or severe permanent damage to health, a material adverse environmental or social impact, or material breach of law relating to environmental, social or business integrity matters, including financial irregularities, as per this Code
 - In the event that Apis considers there has been a breach of this Code by a portfolio company, Apis will **investigate** the matter and seek to **resolve any breach** together with that investee company, as appropriate. If discussions with the investee company do not adequately resolve the issue, Apis will consider a variety of options including third party investigations, negotiated settlements, contractual remedies and its future relationship(s) with the breaching parties

- **Feedback, reporting and review**
 - Any ESGI data / learnings from the processes described will feed directly into **Apis' ESGI strategy and broader investment process** including any future Investment Committees (where for a potential investee company a ESGI baseline assessment is conducted and current metrics are identified)
 - A **comprehensive ESGI report** will be provided to key stakeholders and investors on no less than an **annual basis**. This will include an update on the implementation of the Code and ESGI strategy, and review of each investee company's ESGI performance and contribution
 - Any **serious incidents**, such as fatalities or breaches of law, within investee companies will be **reported immediately** to governing bodies and investors
 - Apis will provide a **grievance mechanism** through which stakeholders can report alleged breaches of the Code
 - The suitability of the Code and these processes will be **actively reviewed**

Section 3 - Requirements for all businesses

Every Apis portfolio company is required to:

- operate in compliance with applicable local and national laws including laws covering environmental impacts, labour rights, social issues, health and safety, corporate governance and those intended to prevent extortion, bribery, corruption and financial crime;
- operate in compliance with relevant international sanctions, including those of the European Union and the United Nations¹;
- implement management systems, appropriate to the size and nature of the business, that ensure a systematic approach to ESGI risk assessment, addressing relevant risks, monitoring and reporting on progress and, to the extent possible, involving stakeholders²;
- ensure achievement of and continuous compliance with these Requirements and / or the specific ESGI Action Plan drawn up for that company; and
- identify and record any serious incidents that occur that result in loss of life, severe permanent injury or severe permanent damage to health, a material adverse environmental or social impact, or material breach of law relating to environmental, social or business integrity matters, including financial irregularities, as per this ESGI policy, and report any such incidents immediately to Apis Partners.

Working conditions and labour rights

- not employ or make use of forced labour³ or harmful child labour^{4 5};
- pay wages which meet or exceed industry or legal national minima⁶;
- not discriminate in terms of recruitment, progression, terms and conditions of work and representation, on the basis of personal characteristics unrelated to inherent job requirements, including gender, race, colour, caste, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, marital status, membership of workers' organisations, legal migrants, or HIV status⁷;
- adopt an open attitude towards workers' organisations and respect the right of all workers to join or form workers' organisations of their own choosing, to bargain collectively and to carry out their representative functions in the workplace⁸, and allow consultative work-place structures and associations which provide employees with an opportunity to present their views to management; and
- provide reasonable working conditions including a safe and healthy work environment, working hours that are not excessive and clearly documented terms of employment⁹; and in situations where workers are employed in remote locations for extended periods of time to ensure that such workers have access to adequate housing and basic services.

¹ See www.hm-treasury.gov.uk/fin_sanctions_index.htm for a full list.

² See IFC Performance Standard 1 for guidance:

http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Our+Approach/Risk+Management/Performance+Standards/

³ Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

⁴ Harmful child labour means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

⁵ Persons may only be employees if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2, see <http://www.ilo.org/dyn/gender/docs/RES/309/F946263477/WEB%20Promoting%20Gender%20ANG.pdf>, unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

⁶ See <http://www.ilo.org/dyn/travail/travmain.home> for guidance.

⁷ As covered by the ILO Equal Remuneration Convention (No. 100) and the ILO Discrimination (Employment and Occupation) Convention (No. 111), allowance could be made where positive discrimination is mandated in law and is intended to address a historical imbalance. See www.ilo.org/ilolex/english/docs/declworld.htm

⁸ As defined by the ILO Freedom of Association and Protection of the Right to Organise Convention (No. 87) and the Right to Organise and Collective Bargaining Convention (No. 98). See www.ilo.org/ilolex/english/docs/declworld.htm

⁹ See IFC Performance Standard 2 for guidance:

http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Our+Approach/Risk+Management/Performance+Standards/

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Intra-company reporting

- provide an appropriate grievance mechanism that is available to all workers and where appropriate other stakeholders¹⁰; and
- implement a procedure for the reporting of wrongdoing and misconduct in the workplace that includes protection for the reporter and appropriate disciplinary action for anyone found to harass the reporter.

Business integrity

- uphold high standards of business integrity and honesty, and promote transparency and accountability grounded in sound business ethics;
- adopt and implement policies to prevent extortion, bribery, fraud, corruption and financial crime¹¹ in accordance with local law requirements and international best practice, including employee training programmes and appropriate due diligence procedures to evaluate the integrity and business history of persons and entities with whom they wish to transact;
- properly record, report and review financial and tax information¹²;
- establish corporate governance practices appropriate to the size and nature of the business;
- deal with regulators in an open and co-operative manner; and
- use information received from its business partners only in the best interests of the business relationship and not for personal financial gain by any worker.

¹⁰ See IFC Performance Standard 2 at: http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Our+Approach/Risk+Management/Performance+Standards/, and the “Effectiveness Criteria for Non-Judicial Grievance Mechanisms” within the UN Guiding Principles on Human Rights (http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf for guidance.

¹¹ As per the UK Bribery Act 2010.

¹² All Apis investee companies are required to report to the International Financial Reporting Standards (IFRS).



Section 4 - Additional requirements for specific activities

If the activities of a portfolio company (either their own, or of those they enable) involve or could be reasonably expected to involve:

- significant air emissions (including greenhouse gases), use of water or generation of liquid effluents, generation of hazardous or other solid wastes; or resource use inefficiencies;
- transactions that generate adverse community health and safety impacts;
- the acquisition and/or use of land that result in economic or physical displacement;
- significant negative impacts on biodiversity, habitats or ecosystem services¹³;
- impacts to Indigenous Peoples (or other marginalised and vulnerable groups);
- impacts to cultural heritage; or
- other significant negative¹⁴ environmental or social impacts;

then Apis requires that the relevant IFC Performance Standards should be implemented, an appropriate stakeholder engagement plan should be developed¹⁵, and an environmental and social impact assessment and/or issue specific action plan (e.g. a resettlement action plan)¹⁶ should be developed for such activities.

In addition, if the activities of a portfolio company could reasonably be expected to involve:

- significant risks to the health and safety of workers or to other stakeholders, including affected communities

then Apis requires the company to assess and mitigate those risks, for example through a Health and Safety audit and action plan, in line with the relevant IFC Performance Standards; for microfinance businesses, the company should endorse and apply the SMART Campaign Client Protection Principles.¹⁷

¹³ As defined in IFC Performance Standards 6, paragraph 2.

http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Our+Approach/Risk+Management/Performance+Standards/ These include but are not restricted to (a) provisioning services such as food or timber; (b) regulating services such as water flow regulation; (c) cultural services such as sacred sites; and (d) supporting services such as soil formation.

¹⁴ Activities with potential significant adverse social impacts which are diverse, irreversible or unprecedented

¹⁵ See IFC Performance Standard 1 for guidance:

http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Our+Approach/Risk+Management/Performance+Standards/

¹⁶ Should be carried out in line with Apis' Requirements and the appropriate IFC Performance Standards:

http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Our+Approach/Risk+Management/Performance+Standards/

¹⁷ More detail available at: <http://www.smartcampaign.org/about-the-campaign/smart-microfinance-and-the-client-protection-principles>

Section 5 - Exclusion List

Based on guidelines provided by IFC, below is a list of activities that Apis Partners **does not** finance either directly and also indirectly through the activities of portfolio companies' borrowers / investees:

- Production of, or trade in any product or activity deemed illegal under host country local or national laws, or regulations, or subject to internationally agreed phase-outs or bans as defined in global conventions and agreements such as certain:
 - hazardous chemicals, pharmaceuticals, pesticides and wastes¹⁸;
 - ozone depleting substances¹⁹;
 - endangered or protected wildlife or wildlife products²⁰; and
 - unsustainable fishing methods such as blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 kilometers in length;
- Production of, or activities involving harmful or exploitative forms of forced labour²¹/harmful child labour^{22 23};
- Production of, or trade in arms (i.e. explosives, weapons, munitions or nuclear products, primarily designated for military /police purposes (including sporting weapons also);
- Production of, use of, or trade in radioactive materials. This does not apply to the purchase and use of medical equipment, quality control (measurement) equipment;
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products;
- Production of, or trade in unbonded asbestos fibres;
- Commercial logging operations for use in primary tropical moist forest;
- Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples;
- Production or activities that destroy high conservation value areas²⁴;
- Production or activities which result in limiting people's individuals rights and freedom, or violation of human rights²⁵ ;
- Prostitution; or
- Racist and / or anti-democratic media

In addition, Apis Partners will not finance (either directly or indirectly), any businesses, if any of the following activities represents a substantial portion²⁶ of such business:

- Production of, or trade in alcoholic beverages (excluding beer and wine);
- Production of, or trade in tobacco or tobacco related products;
- Gambling, gaming casinos and equivalent enterprises; or
- Pornography.

¹⁸ As specified in the 2004 Stockholm Convention on Persistent Organic Pollutants ("POPs"), see www.pops.int; the 2004 Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, see www.pic.int; the 1992 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, see www.basel.int and WHO Recommended Classification of Pesticides by Hazard Class Ia (extremely hazardous); or Ib (highly hazardous) www.who.int/ipcs/publications/pesticides_hazard/en/; as may be amended from time to time.

¹⁹ As specified in the 1999 Montreal Protocol on Substances that Deplete the Ozone Layer, see www.ozone.unep.org, as may be amended from time to time.

²⁰ As specified in the 1975 Convention on International Trade in Endangered Species or Wild Flora and Fauna ("CITES"), see www.cites.org, as may be amended from time to time.

²¹ Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

²² Harmful child labour means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

²³ Persons may only be employees if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2, see <http://www.ilo.org/dyn/gender/docs/RES/309/F946263477/WEB%20Promoting%20Gender%20ANG.pdf>, unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

²⁴ Destruction means the elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or modification of a habitat in such a way that the area's ability to maintain its role is lost.

²⁵ As specified in the Charter of Fundamental Rights of the European Union.

²⁶ "Substantial" means either more than 10% of consolidated balance sheet or earnings, or more than 10% of underlying portfolio volumes.