

Sustainability Risk Policy

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1 Introduction

1.1 Scope and Objectives

This policy applies to the Global Climate Partnership Fund (GCPF). The objective of this policy is to provide information on GCPF's approach regarding the integration of sustainability risks in the investment decision-making process.

Detailed information on GCPF's approach regarding the integration of sustainability risks in the investment decision process can also be found in the fund's Environmental and Social Management System¹ (ESMS). The ESMS sets out the Fund's approach to Environmental and Social assessment and risk management throughout the investment cycle and has been developed in line with the requirements described in IFC Performance Standard 1.

This policy is subject to change and may be amended, supplemented, or superseded by one or more separate policies.

1.2 Commitment

As a public-private partnership, GCPF uses public funding to leverage private capital in order to mitigate climate change and drive sustainable growth in developing and emerging markets. GCPF targets sustainable returns for their investors whilst promoting environmentally and socially responsible development. As such, it ensures that Environmental and Social (E&S) (also known as ESG) criteria are fully incorporated into all its investment decisions.

As a climate fund investing in emerging countries, GCPF strives to:

- Minimize the negative impacts and E&S risks of its investments and, in addition, generate positive financial, social, and environmental impact;
- Act in accordance with applicable laws and regulations, and ensure that its partner institutions comply as well;
- Align with relevant requirements of international standards and principles (i.e. IFC Performance Standards, etc.).

2 Sustainability Risks

2.1 General Approach

Sustainability Risks refer to environmental, social or governance events or conditions that, if occurring, could cause an actual or a potential material negative impact on the value of the investment.

An analysis of Sustainability Risks focuses on environmental, social and governance conditions such as environmental factors (water and land, the production of waste, greenhouse gas emissions, etc.), or social and governance matters (respect for human rights, labour conditions, etc.).

GCPF continuously assesses, on a best effort basis and for all its asset classes, the likely impacts of Sustainability Risks on the financial return of the Fund. This is achieved by integrating this assessment in its due diligence processes and therefore into all investment decisions.

2.1.1 Assessment Process

GCPF has established and implemented an ESMS to ensure that all potential investments are:

- Screened against an exclusion list that defines the types of projects that GCPF does not finance;
- Categorized according to their potential E&S risk profile;
- Evaluated through an E&S due diligence or similar form of robust assessment;
- Managed in order to mitigate negative issues and to favor positive outcomes; and
- Monitored on an ongoing basis throughout the investment period.

¹ The Environmental and Social Management System (ESMS) can be accessed upon request.

The assessment process defines a provisional E&S risk category for each proposed investment into high, medium, and low risk depending on its profile. This risk category determines the level of E&S due diligence required and the actions that may be needed to minimize potential E&S impacts.

Following the approach outlined in this sustainability risk policy, GCPF requests all prospective partner institutions to undertake that their business is conducted in a way that:

- Complies with all applicable laws and regulations;
- Upholds high standards of business integrity and honesty;
- Excludes harmful E&S practices and commits to continuous improvement;
- Provides safe and healthy working conditions for all its employees and contractors; and
- Seeks to enhance the sustainable economic development of the area in which the fund invests.

When required, the ESMS also includes investors' requirements on E&S issues.

2.1.2 Ongoing Monitoring & Continual Improvement

GCPF strives to actively engage with partner institutions to encourage the adoption of better management practices when risks are identified. Every 12 months, GCPF monitors the E&S performance of the partner institutions via monitoring reports and when possible on-site visits. The monitoring is typically also supported by questionnaires and the process includes an assessment of the responses provided by each partner institution. This approach allows GCPF to track how investments evolve their E&S performance during the entire investment cycle.

2.1.3 Escalation Procedure

If a partner institution does not fully meet the requirements of this policy, an E&S action plan is defined and included in the relevant transaction documentation. It therefore becomes mandatory for the investee to put in place actions to address gaps in a timely manner.

The results of the whole E&S assessment are summarized in the final investment memorandum. This ensures that the investment committee becomes aware of any potential Sustainability Risk, as well as the mitigation actions defined to minimize the negative impacts on the Fund.

If a breach with the requirements of this policy occurs after disbursement, the investment committee will be informed and decisions to how to mitigate the risks will be taken.

2.2 Principal Adverse Sustainability Impact Disclosure

To act in the best interests of GCPF investors, GCPF not only assesses the impact of Sustainability risks on the financial return of financial products in a systematic way. GCPF also considers Principal Adverse Sustainability Impacts (PASI) of its investment decisions on Sustainability factors. In contrast to the analysis of Sustainability Risks, an analysis of PASI's has an outward facing approach as it focuses on the negative impacts on the environment and society caused by a financial product and services GCPF manages and implements.

The Fund's Policy on Adverse Impact Disclosure will be available from 30th of June 2021.

3 Accountability

3.1 Responsibilities

The GCPF's Investment Managers' Impact & ESG Team is responsible for ensuring that this policy is adequately applied. GCPF will maintain adequate capacity and resources to facilitate the implementation of this policy and to ensure that E&S compliance of partner institutions are properly managed.

Furthermore, the control of the key elements of this policy on a regular basis is included in GCPF's Compliance monitoring program.

3.2 Document Owner and Review

The GCPF Investment Manager's Impact & ESG team is the owner of this policy.

The policy will be reviewed periodically by the document owner.

3.3 Definitions

In this policy, the following key terms apply:

ESG: Environmental, Social and Governance (also referred to as E&S in this policy).

Sustainable Investment: An investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance

Sustainability Risk: An environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment

Principal Adverse Sustainability Impact: PASI's capture the impact of investment decisions (and advice) that result in negative effects on Sustainability factors

Sustainability Factors: Environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters

4 Conflicts of Law

This policy is intended to comply with the laws and regulations in the place of establishment and in the countries GCPF operates.

5 Breaches of this Policy

All breaches of this policy must be escalated to GCPF Investment Manager's Legal & Compliance team which will decide on the further measures and/or sanctions, depending on the breach.

Ulrike Lassmann

Ulrike Lassmann (Mar 14, 2021 15:31 GMT+1)

Ulrike Lassmann, Director

Cornelis van Aerssen

Cornelis van Aerssen (Mar 4, 2021 18:57 GMT+1)

Cornelis van Aerssen, Director