ALCB FUND

Environment & Social Policy

The Environment & Social Policy ("E&S Policy") for the ALCB Fund sets out framework to monitor and report the Fund's E&S risk and developmental impact in line with the aims of its principal stakeholders. The documente is complimented by the Fund's Environmental and Social Management System Policy ("ESMS Policy"), and other relevant Fund policies.

CONFIDENTIAL

Revised 25 April 2025

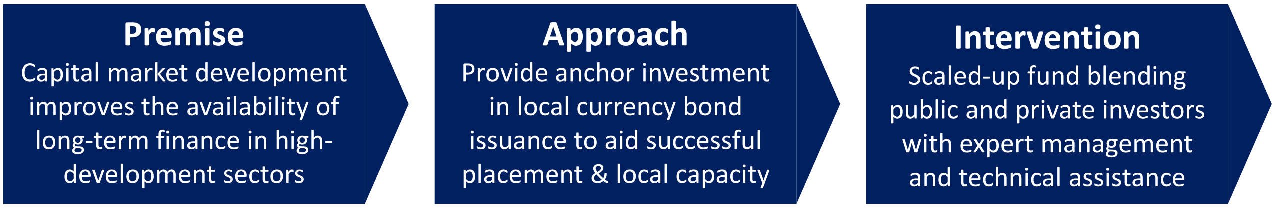
Table of Contents

Introduction

The African Local Currency Bond Fund ("ALCB Fund", the "Fund") invests in corporate local currency bonds across a large number of different African jurisdictions. The Fund's overall objective is to generate risk adjusted returns, while meeting its development targets which are set out in the Fund's Investment Policy.

1 1.1 Logical Framework

The chart below outlines the logical framework set by the Fund Manager for the Fund. This starts with the premise that deeper and more active capital markets in Africa will improve the availability of long-term finance for development. The Fund's approach is to offer financial services to enable local currency bond issuance based on a sustainable and professional business model.



1.2 Environmental & Social Due Diligence

The Fund shall apply its E&S Policy through its investment screening and due diligence; application of Technical Assistance to promote market and issuer development; and subsequent reporting to stakeholders. This is shown through the different fund management functions below.

The process for E&S due diligence is provided in the Fund's ESMS Policy.

1.3 Monitoring & Evaluation

The Fund Manager will undertake Monitoring of the Fund's investments and overall portfolio on a regular basis through a standardized system based on indicators. The Fund Manager and Investment Committee ("IC") will undertake *Evaluation* of the expected results and impact of the Fund before and after issuance.

This E&S Policy and the ESMS Policy therefore provide a framework for Monitoring and Evaluation (M&E) of investments and the Fund's portfolio. This has six primary functions:

- Assess the progress of the Fund's social impact;
- Assess the relevancy, effectiveness, efficiency and management of the Fund;
- Evaluate E&S Risk of investments in line with the relevant Fund policies and benchmarks set;
- Evaluate compliance to the Client Protection Principles (CPP) for relevant financial institutions;
- Deliver input for adjustment to the Fund where necessary to achieve the objectives; and
- Analyse disparities between expected results and final results.

The E&S Policy and the ESMS Policy outline the Fund's target transactions, impact framework and monitoring/ evaluation/ reporting requirements for the Fund.

1.4 E&S Risk

The Fund is overall expected to maintain a low level of E&S Risk, since it predominantly targets investments in financial institutions that provide microfinance, financial services to SMEs, or commercial and corporate (wholesale) financing to non-sensitive industries.

The Fund evaluates its proposed investments using the IFC environmental and social categorization. The key reference materials for assessing the E&S Risk of investments include:

- The IFC Performance Standards and Application of Performance Standards for FIs Requirements for categorisation of FIs according to E&S risk, i.e. FI-1/ FI-2/ FI-3) and categorisation of corporate companies according to E&S risk, i.e Category A/B/C. Typically, *project finance and long-term corporate finance transactions carry increased E&S Risk compared to microfinance, mortgage finance, insurance and short-term finance products*. In addition, certain transactions, such as asset-backed finance for renewable energy and other target sectors, may involve additional E&S risk in relation to disposal of waste and inactive equipment, covered by IFC Performance Standard 3.
- Exclusion List (as included in the Fund's Investment Policy).
- Adherence to the World Bank EHS Guidelines (if applicable).[1]
- Adherence to ILO Core Labour Standards.[1]
- Adherence to certain client protection standards with a focus on ensuring fair treatment of customers
- For relevant FI portfolio companies, adherence to the Client Protection Principles as highlighted in the Fund Environmental and Social Management System.
- For infrastructure projects, and corporates (where applicable), the Fund shall require that Issuers demonstrate all required environmental consents according to national law, including an approved Environmental and Social Impact Assessment (ESIA) meeting World Bank Group standards of practice and/ or the Equator Principles (which refer to the IFC Performance Standards). The Fund may contract external E&S Advisor to review the compliance of an ESIA in line with national and international requirements.

The Fund Manager shall implement these processes through upfront due diligence and shall require Issuers to remedy any material short comings prior to an investment or commit to remedy any shortcomings, primarily through a Side Letter, prior to any investment. The Fund Manager shall evaluate E&S risk in the portfolio on an ongoing basis and require reporting from Issuers every 12 months in relation to their progress in meeting the E&S standards set out at the time of execution.

The Fund recognizes that as a bond investor it may not always have influence over an issuer that is breaching any E&S requirement post investment[2]. Disposing of its investment in an Issuer that is in breach of a material E&S requirement is considered the last resort if a consensual remedy cannot be found.

1 The World Bank EHS Guidelines and ILO Core Labour Standards are integrated within the IFC Performance standards and are thus not comprehensively referenced in the policy. ILO standards are applied for all investments as part of the Fund's IFC PS2 evaluation.
2 The Fund invests in bonds which generally contain limited maintenance covenants. Furthermore, even in scenarios where an issuer breaks a covenant, the Fund may not have enough voting rights to force corrective action against the will of other bond investors.

Target Sector	Focus	Method/ Reference Materials
General	E&S risk assessment e.g. SE Diligence Report	IFC Performance Standards Applicable local E&S laws/ regulations
Financial Institutions with no or limited exposure to E&S risk through lending	E&S Management System	IFC Performance Standard 1
	Sample survey of loans	Fund Exclusion List
	Lending practices	Client Protection Principles as highlighted in the ESMS.
	Labour practices	IFC Performance Standard 2
	Waste disposal	IFC Performance Standard 3
Companies and Financial Institutions with operations/lending in elevated-E&S risk sectors	Social and environmental impact assessment e.g. review of ESIA	Equator Principles reconciled to all applicable IFC Performance Standards and applicable local E&S laws/ regulations

1.5 Sustainable Finance Disclosures Regulation (SFDR)/ EU Taxonomy Requirements

The Fund falls within the scope of Article 8 of the SFDR, which means that the Fund does not have a sustainable investing objective but promotes various environmental and social characteristics. Thus, the AIFM/PM will be required to complete and maintain the relevant entity level and product level pre-contractual and periodic disclosures under the RTS. In addition, where the Fund promotes environmental characteristics, the PM must provide information on the relevant environmental objective(s) promoted as outlined in the Taxonomy Regulation.

Where an investment meets the parameters of an environmentally sustainable investment, the PM must conduct the relevant assessments to identify the level of Taxonomy alignment of each environmentally sustainable investment. While the Fund has not committed to a minimum percentage of Sustainable investments within the meaning of the SFDR, the PM will assess each investment to identify whether it meets the criteria for qualification as a sustainable investment and will report on these sustainable investments in accordance with the requirements under the SFDR. Relevant definitions under the SFDR/ EU Taxonomy are stated in Appendix A.

2 Target Transactions

The Fund provides investments and technical assistance on the basis of eligible issuers, issuances and beneficiaries as follows. These criteria are set out in the Fund's Investment Policy.

2.1 Issuers

As per the Fund's Investment Policy, eligible Issuers include:

- All types of locally registered and licensed financial institutions, i.e. commercial MSME banks, micro finance institutions (MFIs), housing/ mortgage lenders, MSME leasing companies in addition to subsidiaries and branches of non-local institutions, which operate primarily in the Fund's regional focus.
- Corporations or projects which qualify for issuing bonds. Preference is given to Small and Medium Sized Enterprises (SME) that comply with the EU SME definition as updated from time to time.

SMEs are defined[3] in the EU recommendation 2003/361 according to number of employees and turnover/ or balance sheet size.

Category	Employees	AND	Turnover	OR	Balance Sheet
Medium	<250		<= EUR 50 million		<= EUR 43 million
Small	<50		<= EUR 10 million		<= EUR 10 million
Micro	<10		<= EUR 2 million		<= EUR 2 million

2.2 Issuances

The Fund aspires to contribute to developing the capital markets of its focus region. As per the Investment Policy, particular emphasis will therefore be placed on supporting first-time issuers of bonds or active bond issuers who issue in a given eligible market for the first time. In addition, the Fund can invest in issuances that extend the maturity of an existing bond program or those that provide an innovation in the market in terms of structure, tenor or investor participation.

Relevant impact indicators and impact assessment criteria are summarised in the ESMS Policy.

2.3 Beneficiaries

As per the Investment Policy, the Fund's ultimate beneficiaries are micro, small and medium enterprises (MSMEs) and private lower income households, who will benefit from the Issuer's improved or expanded capability to provide financial services for, or direct investments in, housing, education, infrastructure, agriculture, renewable energy and energy efficiency.

3 Impact Framework

The Fund's Impact Framework provides the basis for assessing whether and how it is meeting the objectives of the Fund. There are three broad impact objectives:

(i) Contributing to local capital market development;
(ii) Improving the financial capacity of local issuers (issuer benefit); and
(iii) Supporting investment in certain key sectors.

4 The analytical basis, and indicators for evaluating, these objectives in alignment with Impact Framework is set out in the ESMS Policy.

Integration of the E&S Policy and Client Protection (CP) in the Investment Cycle

The Fund will implement its E&S Policy, and complimentary ESMS Policy, as an integral part of the risk assessment, and investment process. Specifically, the following measures will apply at various stages of the investment cycle.

General communication: The Fund's E&S approach is addressed in its general external communication (e.g. in the Annual Report, presentations, internet site, etc.).

First contact with borrower: During initial discussion on a prospective investment, the Fund Manager will communicate the Fund's commitment towards ensuring E&S standards as part of its investment process.

3 http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm

Screening of investment: The Investment Officer will summarise the key E&S features of the prospective investment in the preliminary New Business Committee Memo.

Due Diligence: For Cat C and FI-2&3, the E&S assessment is carried out by the Fund IOs with support from the E&S Officer, while Cat B and FI-1 will either be carried out by the E&S Officer or by an external E&S Advisor depending on the scope of the project and the project risk. The Investment Officer with support from the E&S Officer will also be responsible for the assessment of CP risk. As part of due diligence, the Fund carries out an E&S review of the prospective investment to get an overview of the institution's commitment and capacity to manage E&S risks and to screen out institutions that indicate a heightened risk of E&S non-compliance.

All E&S DD and CP risk assessment will be reviewed by the E&S Officer and approved by the E&S Manager. The findings of the due diligence are subsequently summarised in the Investment Committee Proposal (IC Proposal) presented to the Investment Committee (IC) of the Fund. The IC proposal will include (for both E&S and CP) risk classification, gaps identified, and proposed action plan, where relevant.

If red flags are revealed during due diligence, the institution may either fail for consideration for investment, or be subject to recommendations to be decided on a case by case basis. An Environmental and Social Action Plan (ESAP) may be developed which defines the roles and responsibilities of all relevant parties involved in order to enable the institution to achieve compliance with this policy and with internationally accepted principles of responsible finance. The E&S Officer will be review and approve the ESAP and its implementation time frame in compliance with the Fund's E&S requirements.

Monitoring: Following the investment**,** E&S activities and CP risk are monitored and reported regularly by the Investment Officer, with support from the E&S Officer in relevant monitoring and risk reports as appropriate. In cases where considerable shortcomings are identified or the Fund identifies a lack of capacity within the institution to ensure compliance with the Fund's E&S requirement, it may be appropriate to make the entity a recipient of the Fund's Technical Assistance Facility.

5 Sustainability Bond Framework

The ALCB Fund has in place a Sustainability Bond Framework (SBF) for the issuance of sustainability bonds. The Framework establishes guidelines with respect to eligible assets/ use of proceeds, the process of asset selection and evaluation, and reporting requirements.

The ALCB Fund's Sustainability Framework requirements, and selection of assets, is overseen by the Fund's Sustainability Committee; composed of at least two members of the Investment Committee. The Fund E&S Officer is assigned to conduct the initial evaluation of investments against the SBF requirements and proposing applicable transactions to the Sustainability Committee.

6 E&S Policy Updates

To ensure continuous improvement, the Fund will review the E&S Policy at a minimum once every two years. The policy will be amended to ensure alignment with possible changes to international best practices, reference materials, investor requirements and Fund investment activities. Changes to the E&S Policy are approved by the Fund's Advisory Committee.

Policy Log

7

Version	Date Approved	Approval Process
6	25 April 2025	AC Approval
5	12 April 2023	AC Resolution
4	7 May 2019	Board Minutes
3	11 April 2018	Board Minutes
2	23 November 2017	Board Minutes
1	17 February 2016	Board Minutes

Appendix A: SFDR/ EU Taxonomy Definitions

Sustainable Investment: Sustainable investment under SFDR 2019/2088 (17) means 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: A sustainability risk means under SFDR 2019/2088 (14) an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment, as specified in sectoral legislation, in particular in Directives 2009/65/EC, 2009/138/EC, 2011/61/EU, 2013/36/EU, 2014/65/EU, (EU) 2016/97, (EU) 2016/2341, or delegated acts and regulatory technical standards adopted pursuant to them.

Objectives Environmentally Sustainable: Under Taxonomy Regulation 2020/852 Art.2(1), investment in one or several of the activities qualifying as environmentally sustainable in this case such providing a substantial contribution to climate change mitigation.

Sustainability/ESG factors: Under SFDR 2019/2088 Art.2 (24) ‘sustainability factors’ mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

PASI: Under Taxonomy Regulation (18) principal adverse sustainability adverse impacts whether material or likely to be material, of investment decisions on sustainability factors (see Annex).