DEG Impact ESG and Impact Strategy

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Purpose and scope

DEG Impact is an investment adviser specialised in Private Markets in emerging markets. We support professional and institutional investors in accessing investment opportunities with a focus fund investments, direct investments, co-investments, development finance transactions and managed account mandates.

As a subsidiary of DEG –Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), part of KfW Group, DEG Impact combines specialised investment expertise with the long-standing experience, local market knowledge and international network of the DEG Group. Our objective is to support investors in accessing emerging markets through a disciplined approach to investment selection, risk management, Environmental Social and Governance (ESG) and impact.

This ESG and Impact Strategy describes how DEG Impact integrates environmental, social and governance considerations into its advisory activities and how we assess and monitor development impact. The specific application of the approach depends on the respective investment mandate and contractual framework.

As a subsidiary of DEG and part of KfW Group, DEG Impact operates within a wider institutional framework in which sustainability and impact are integral to investment activities.

DEG Impact is a financial adviser within the scope of the Sustainable Finance Disclosure Regulation (SFDR).

ESG and Impact Approach

For DEG Impact, ESG and impact are integral to how we assess investment opportunities in emerging and developing markets. Our objective is to connect financial performance, active risk management, sustainability and measurable development impact. We believe that economic success and sustainable development can and should be complementary objectives and that understanding both is particularly important when investing in emerging markets.

Emerging and developing markets are central to global economic development and to the achievement of sustainable development objectives. Their scale, growth dynamics and investment needs mean that private capital can play an important role in supporting long-term economic, social and environmental transformation. At the same time, these markets are highly relevant to global challenges such as the energy transition, employment creation, inclusive growth and the development of resilient economies.

This creates a distinctive investment proposition. Alongside the potential for long-term growth, investments in emerging markets can generate broader development contributions that extend beyond financial returns. For DEG Impact, understanding these effects is therefore an important part of assessing the overall quality and long-term relevance of an investment. Impact considerations help us evaluate how private capital contributes to sustainable development and how these contributions evolve over time.

ESG provides the complementary risk perspective. Emerging-market investments can involve environmental, social and governance risks that require careful assessment and active management. ESG considerations therefore extend beyond compliance: they help identify

material risks early, support appropriate mitigation and management measures, and provide a basis for ongoing monitoring throughout the investment period. DEG Impact integrates these considerations into its advisory process in order to support responsible and informed investment decisions.

Private Markets are particularly suited to this approach because they allow for longer-term engagement and closer interaction with fund managers and portfolio companies. Within the scope of the respective mandate, this can support the continued development of environmental and social management, governance and responsible business practices over time. The strategic value of ESG and impact therefore lies not only in assessing an investment at entry, but also in understanding and supporting its development throughout the investment lifecycle.

Thus, ESG and impact provide two complementary perspectives: ESG management helps us understand and manage material risks, while impact management and measurement helps us assess broader development contributions. Together, they support a more comprehensive understanding of the investments and portfolios we advise and strengthen transparency for our investors.

ESG Management

We believe that environmental protection, the sustainable use of natural resources and robust social standards are important foundations for sustainable economic development and resilient businesses. Our advisory activities therefore incorporate environmental, social and governance considerations with the objective of identifying relevant sustainability risks and, where possible, avoiding, reducing or managing them.

We also recognise that ESG performance can develop over time. Where appropriate, monitoring and engagement can therefore support improvements in areas such as environmental and social management, working conditions, resource use and governance.

In our advisory activities, DEG Impact is guided by the ESG approach of its parent company DEG and considers internationally recognised environmental and social standards, including:

- World Bank Environmental and Social Standards;
- IFC Performance Standards;
- ILO Declaration on Fundamental Principles and Rights at Work;
- ILO Fundamental Conventions;
- Harmonised EDFI Exclusion List;
- Harmonised EDFI Fossil Fuel Exclusion List, where applicable; and
- Operating Principles for Impact Management, where applicable on a fund-specific basis.

The applicable standards and requirements may differ according to the mandate, investment structure and contractual arrangements.

ESG considerations are integrated throughout the investment lifecycle. Our approach comprises four main stages: screening and risk categorisation, ESG due diligence, contracting and ESG risk management, and ongoing monitoring and reporting. Potential investments are screened against applicable exclusion criteria and assessed according to their environmental and social risk profile. Depending on the respective mandate, risk profile and specific requirements, due diligence may include a review of ESG management systems, portfolios and pipelines, climate and impact considerations and, where appropriate, site visits or specialist reviews. Identified measures may be reflected in an Environmental and Social Action Plan (ESAP) and relevant contractual requirements. During the investment period, DEG Impact monitors the implementation of agreed ESG requirements and action plans through regular engagement and ESG and impact reporting.

Impact Management

We understand impact investing as an investment approach that seeks financial returns alongside measurable environmental and/or social impact. Private investment in emerging and developing markets can contribute to employment and local income, strengthen markets and sectors, support environmentally responsible development and generate benefits for local communities. Given their economic relevance and development needs, emerging economies also play an important role in global sustainable development and in the transition towards more resource-efficient and resilient economic models.

Private Markets are particularly relevant in this context, as their long-term investment horizon can enable closer engagement with fund managers and portfolio companies. Within the scope of the respective advisory mandate, dialogue, monitoring and agreed measures can support the continued improvement of environmental and social management, governance and responsible business practices over the investment period.

DEG Impact incorporates the Development Effectiveness Rating (DERa), DEG's proprietary impact measurement and management methodology, into its advisory activities and portfolio development in line with the relevant mandate. The methodology is aligned with the United Nations Sustainable Development Goals and is based on a Theory of Change that links activities and outputs to outcomes and longer-term impact. The DERa assesses development contributions across five outcome categories:

- Decent Jobs: jobs supported, job quality and equal opportunities;
- Local Income: direct and indirect contributions to local economic activity;
- Market and Sector Development: solutions for sustainable development, investment in markets with significant development needs and innovation;
- Environmental Stewardship: environmentally responsible practices, climate and biodiversity; and
- Community Effects: positive and negative effects of business activities on local communities.

The DERa takes a multidimensional and net-impact perspective, capturing both the positive and negative effects of an investment. In its updated version, the methodology places greater emphasis on areas such as gender equality and climate action, reflecting their growing relevance to sustainable development outcomes. Where applicable, the DERa also supports the assessment of transformational change over time. DERa assessments are updated annually using actual performance data, enabling the monitoring of development results throughout the investment lifecycle.

Local expertise and engagement

Understanding ESG risks and development impact in emerging and developing markets requires local context and market knowledge. DEG Impact combines its own investment expertise with access to the international network, sector experience and local market knowledge of DEG and the KfW Group. Long-standing relationships and direct dialogue help us understand market conditions and engage effectively with relevant partners.

Within the scope of the respective advisory mandate, this experience supports the assessment of investment opportunities, ESG risks and development potential, as well as effective monitoring and engagement throughout the investment period. Ongoing engagement with fund managers, portfolio companies and other stakeholders helps identify opportunities

to strengthen ESG performance, enhance development outcomes and support long-term value creation.

Where available and appropriate, investee companies and fund managers may also benefit from dedicated financial and technical support. Such support may facilitate the implementation of ESG improvements, strengthen management systems and impact measurement capabilities, and contribute to targeted development and transformational outcomes. The availability of such support depends on the relevant mandate and investment context.

Governance and responsibilities

Responsibility for ESG integration is embedded in DEG Impact's advisory process throughout the investment lifecycle.

The DEG Impact Senior ESG Manager is responsible for ensuring that ESG risks are appropriately considered in investment assessments and for monitoring agreed environmental and social measures throughout the investment process. DEG Impact's investment advisers, including management and the investment team, are trained to identify relevant ESG risks and address them through appropriate measures. Impact assessment, monitoring and reporting using DERa are applied in line with the relevant advisory mandate.

Transparency is an important element of DEG Impact's ESG and Impact approach. As a financial adviser under the Sustainable Finance Disclosure Regulation (SFDR), DEG Impact publishes the applicable sustainability-related disclosures on its website.

Our objective

DEG Impact seeks to be a reliable partner for professional and institutional investors accessing Private Markets opportunities in emerging and developing markets. Our approach combines investment expertise, disciplined ESG risk management, internationally recognised standards, monitoring and active engagement, and structured impact measurement. In doing so, we aim to connect long-term investment opportunities with responsible risk management and a transparent understanding of development impact.

For DEG Impact, ESG and impact are integral to our investment approach. They inform how we assess opportunities, understand and manage risks, evaluate development contributions and advise investors in emerging and developing markets.