Mbuyu Capital Impact Policy and Methodology

Impact as an objective

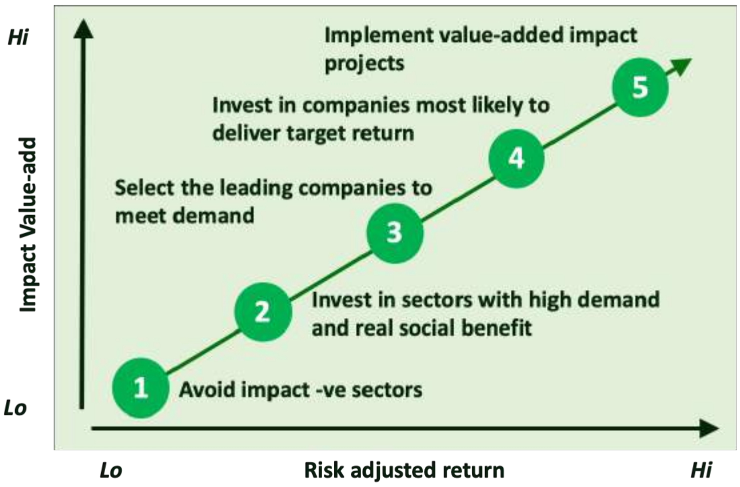
Mbuyu Capital Partners seeks to provide attractive financial returns from African private market investments which can compete with those delivered in growth markets globally, with impact an important co-product of investment. Through our impact strategy, we aim to create more valuable businesses and contribute to the UN's Sustainable Development Goals.

Specifically, this can be achieved by growing businesses in key sectors in Africa, where we direct our investments: healthcare, food and agribusiness, financial services, renewable energy and access to products and services at the bottom of the pyramid, often technology-enabled. We also believe that looking through a gender lens is an important way to build better businesses.

Our approach to creating financial and impact value for investors

Mbuyu Capital follows a **5-step FinPact Process** to deliver financial returns with impact:

1	**Avoid impact negative sectors**, such as oil & gas, mineral extraction, subject to government interference, corruption, commodity price volatility.	⇒ Reduces portfolio risk
2	**Invest in sectors with high demand and real social benefit**, such as healthcare, education, financial services, energy, selected consumer products which benefit the growing middle class and especially the bottom billion.	⇒ Creates opportunities for sustainable high returns ⇒ Real social benefit reduces risk from consistency of demand ⇒ Impact through real social benefit
3	**Select the leading companies to meet demand**, in order to deliver quality at the right price: ongoing innovation, responsible, quality management and a sustainable, profitable company which will continue to grow after exit	⇒ Creates opportunities for sustainable high returns as through sector leadership and innovation ⇒ Most likely to deliver sustainable impact and products at the right price/value point
4	**Invest in companies most likely to deliver the target return**, because they have greatest growth potential, potential for ESG and/or operational improvement, or can be bought at an attractive valuation	⇒ Achieve target return (IRR & multiple) ⇒ Greatest potential for impact and sustainable growth ⇒ Mitigates risk of multiple compression on exit if bought at an attractive valuation
5	**Implement value-added impact projects**, funded at attractive rates (grants, technical assistance, blended finance, impact finance) by agencies and investors, such as conversion to renewable power, smallholder sourcing programmes, innovation pilots.	⇒ Increases financial returns through growth and/or operational efficiency ⇒ High potential for impact value addition ⇒ Mitigates risk through alternative sources of finance



Where investments are made through funds, the FinPact process is applied by diligencing the manager and assess their approach.

Africa provides unique opportunities compared to other global markets to achieve attractive financial returns and to deliver impact. Whilst the region's economies are diverse, a requirement common to all of its 54 countries is a need to create jobs, increase incomes and access to affordable education, healthcare, financial services and power. These are co-products of investment in our key sectors. And there is significant room for improvement in ESG of companies, using well-established best practices.

Implementing the FinPact Process

Mbuyu Capital focuses exclusively on African private markets and the firm's Partners are extensively networked in Africa, across commercial and impact businesses and investors. They also have hands-on experience of starting, growing, buying and selling businesses in Africa. This results in high volume dealflow of co-investment and fund investment opportunities and a comprehensive dataset of over 600 companies with current or past private equity sponsors and over 200 fund managers.

Before investment

Impact due diligence (IDD) is an integral part of our due diligence process. This consists of three parts:

- IDD on the lead investor (for a co-investment) or fund manager (for a fund investment) to gauge their commitment, processes, experience and track record of delivering impact;
- For a co-investment or a commitment to a fund with existing investments, IDD on the company, its management and expected delivery of impact benefits, including review of third party ESG due diligence, business and action plans, management incentivisation and legal commitments to implementing impactful change through e.g. the shareholders' agreement;
- Agreeing and establishing impact metrics and reportable events (e.g. death of an employee or a serious environmental incident) to be used and reported on by the companies and the fund manager and recording a baseline, using available historic data. The agreement is documented in a side letter with the company or manager.

After investment

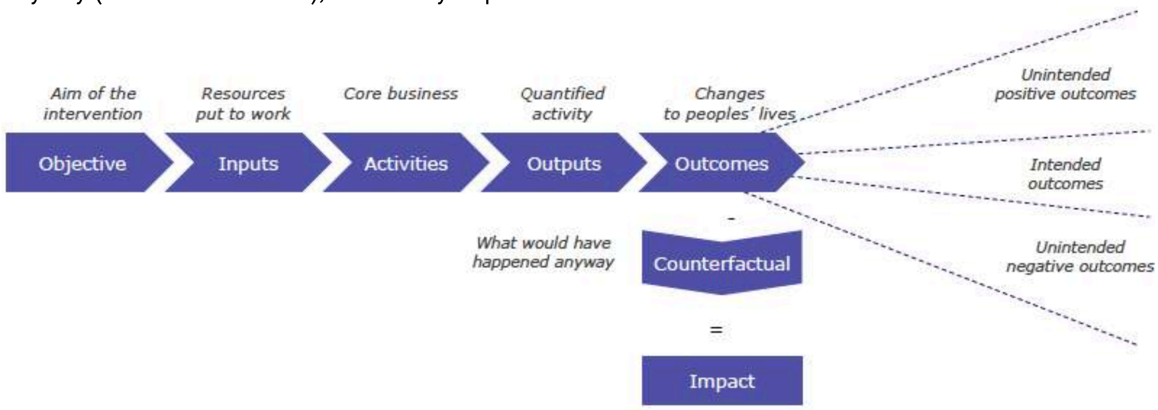
Impact is an integral part of our ongoing monitoring of investments:

- We review progress against impact action plans annually (or more frequently if we consider it necessary) and the impact consequences of any changes in business plans or strategy;
- If an issue arises, we investigate its cause and corrective actions taken;
- We collect impact metrics and review these against expected performance;
- Where we have a seat on a company's board, we will be pro-active about seeking to maximise the company's impact while delivering financial returns.

We also seek to add impact directly to companies and/or managers (Step 5 above), using our network to access funding for projects or introductions to partners. For example, we introduced a fund manager with an investment in a poultry business to a development finance institution interested in funding projects promoting egg consumption for children. We also introduced a working capital lender to a sugar producer in East Africa sourcing through an outgrower programme, to enable the programme to be extended.

Measurement

Clear financial and impact objectives are our starting point for achieving impact. This needs to be followed by appropriate and rigorous measurement of outcomes and what would have happened anyway (the counterfactual), to identify impact.



Mbuyu Capital has adopted a flexible, relevant and practical impact measurement methodology, based on common impact categories which apply to all sectors, with individualised metrics for each sector and company[1].

	Components	Example Metrics
1 Access	How many target clients can access the products & services? • Client base – *Who are the target clients?* • Distribution – *How are they being reached and how far?* • Outreach – *Number of beneficiaries & usage?*	• Clients (personal or businesses) poor/very poor • Operational model/distributor organisations, individuals • Client individuals: new access & locations • Number of clients using the product
2 Quality	What is the value-add of products & services? • Product fit – *What products & what value provided?* • Usage – *How much are products being used?* • Affordability – *Pricing structure vs alternatives?*	• Volume and value of product sold • Product benefit to client e.g. yield increase • Client savings premium • Volume & value of product sold
3 Sector	Second order benefits of the company's activities? • Sector – *Contribution to sector development?* • Innovation – *Fostering innovation?* • Scale – *Scaleability of the business/product?*	• Volume and value of product sold • Product benefit to client e.g. yield increase • Client savings premium • Volume & value of product sold
4 Makers	Impact on makers of the product (employees and suppliers)? • Employment – *Jobs creation and income improvement?* • Gender & diversity– *Promotion of equality & diversity?* • Talent – *Skills development & training?* • Governance – *Quality of company governance*	• Jobs created male/female, employment benefits • Gender and diversity policies • Proportion of female managers/board directors • Vocational / technical training, training hours provided • Board of directors: total, independents
5 Planet	Impact on the environment? • Power – *Energy sources, usage & savings?* • Waste – *Volumes, treatment & avoidance/recycling?* • Environment – *Conservation & improvement?* • Governance – *Policies & procedures?*	• Energy savings from products sold, greenhouse gas emitted • Waste % hazardous/non-hazardous produced, % recycled • Land sustainably managed • Environmental management system present

In order to standardise, metrics are based on the Global Impact Investing Network's IRIS metrics[2], which can be aligned to the SDGs.

[1] Based on concepts from Frontier Group's methodology (JP Morgan, Impact Assessment in Practice, 4 May 2015).
[2] See https://iris.thegiin.org/sdgs-iris for details

Mbuyu Capital's Commitment to Impact

Portfolio companies

Mbuyu Capital's portfolio includes 21 companies, whose financial and impact returns are co-products of the investment, illustrated through two co-investments.

Africa Logistics Properties
Africa Logistics Properties (ALP) is the first dedicated Grade A warehouse developer in Kenya, building and leasing modern warehouses, which are essential infrastructure for commerce, enabling efficient operation and expansion of businesses. ALP has built 47,000sqm of warehouse space with a further 100,000sqm in the pipeline. ALP has achieved the IFC's EDGE Green Building certification, the first for warehouses in Africa. Construction supported 175 contractor jobs in 2018, of which 21% were female.

Meridian
Meridian is a distributor of nearly 500,000 tonnes of fertiliser in five countries in Southern Africa, supporting government smallholder programmes and impacting over 53,000 smallholders. It also produces seeds, from 26,750ha of smallholder farms, retailing together with fertilisers through a network of 113 farm stores. Innovations include development of bespoke fertiliser blends and the farm store concept, a one-stop shop for quality farm products. Meridian has also developed the Farm Services Unit, using extension services to support the sales of fertiliser and seeds.

Mbuyu Capital Team Impact track record

Mbuyu Capital's team have personal experience of creating impact through sustainable businesses in emerging markets.

Michiel Timmerman (Founder & Managing Partner) – EFTA Ltd
Michiel is the co-founder and chairman of EFTA Ltd (efta.co.tz), an informal SME-focused equipment leasing company in Tanzania. EFTA has made 1,100 loans of an average USD 27,000, providing access to USD 30m of capital in a commercially sustainable way, using only the equipment as collateral. This has preserved or created over 8,000 jobs of which 17% are for women. Tanzanian banks will not lend to these SMEs as they are considered too risky and transaction costs are too high. Around 40% of the portfolio is in the agriculture and agribusiness sector and 70% of loans are made in rural areas. Other sectors are services, transport and manufacturing. EFTA has 50 staff and seven branches. The company was a winner of the G20 SME Finance Challenge in 2010, has been used as a case study in Insead's social entrepreneurship programme, and is currently collaborating with Columbia's Impact Investing Initiative.

Michiel is also a co-founder of LAFCo Ltd, which provides supply chain finance to SMEs in the agriculture sector in Africa.

Marleen Groen (Partner) – African Wildlife Foundation
Marleen is Board member, Treasurer and Chair of the Finance Committee at AWF, a longstanding pan-African focused conservation organisation, headquartered in Nairobi. Marleen is also a member of AWF's Impact Funding Committee. These activities were formerly known as African Wildlife Capital and to date have involved nine conservation impact investments in a variety of industries, including agriculture and tourism, resulting in impact outcomes including reduced wildlife habitat destruction and better agricultural practices. The team responsible for these investments has now combined forces with an impact focused African private equity group to enhance its reach and capacity.

Ed Rushton (Principal) – Wesley Hospital, Kalay, Myanmar
Ed has had a focus on impact investment since 2014 when he moved to Myanmar to advise SMEs on accessing finance unavailable from local banks. In 2017 Ed advised the Wesley Hospital in Kalay on its potential to transform a highly impactful charitable hospital into a sustainable business that can attract investment capital. Since it opened its doors in 1987, the hospital estimates it has performed over 50,000 operations and helped deliver 18,000 babies. Around 500,000 people within a 75km radius rely on the hospital's services in this area of Myanmar where incomes are extremely low and where maternal mortality, HIV / AIDS, and tuberculosis are significant problems. Expansion of the hospital is expected to reduce preventable deaths by 2,000 between 2019 and 2030.

In Myanmar, Ed also advised a Mandalay-based rice processing business to establish a processing facility to add value to broken rice instead of exporting, creating new and skilled jobs by extending the agriculture value chain. He also supported a business in the Ayeyarwady Delta region, transforming agri by-products treated as waste to quality feed for aquaculture. In both cases the objective was to transform an informal SME into a business capable of attracting international capital, increase local employment and improve health and safety standards. The projects were with Infra Capital Myanmar – ReEx on behalf of InfaCo Asia Development, a member of the Private Infrastructure Development Group (PIDG).

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Investors are reminded that past performance should not be seen as an indication of future performance and that they might not get back the amount that they originally invested.

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