

## OPERATING PRINCIPLES FOR IMPACT MANAGEMENT | ANNUAL DISCLOSURE STATEMENT

8 April 2021

The statement includes:

- i. Affirmation of Phatisa's status as a signatory to the Operating Principles (the Principles).
- ii. A list and total value of the assets aligning with the Principles.
- iii. A description of how each principle is incorporated into Phatisa's investment process.

### i. DISCLOSURE STATEMENT:

Phatisa hereby affirms that it is a signatory to the Operating Principles for Impact Management.

In April 2019 the firm was among the first adopters to the Principles and hereby attests that the operating principles are incorporated into all its current and future investment activities. A clear signal of Phatisa's enduring commitment to meaningful and sustainable development and impact across Africa and beyond.

### ii. PHATISA INVESTMENT PORTFOLIO

Phatisa is focused on feeding and housing Africa and currently has three funds under management: the African Agriculture Fund (AAF); the Pan African Housing Fund (PAHF); and Phatisa Food Fund 2 (PFF 2) – totalling US\$ 111.73 million of assets under management as of 31 March 2021.

#### Food Fund 1 investment portfolio:

- **Kanu** – a specialist in the supply of world-class agriculture, forestry, earthmoving and road construction equipment. It is one of the largest dealers for *Liebherr* and *Bell Equipment* in eastern, western and southern Africa with a network of spare part distribution centres across the territories.
- **Continental Beverage Company** – specialises in the production and marketing of water and juice in Côte d'Ivoire under the *Olgane* and *Doucy* brands. It is one of the largest safe bottled water producers in the country with a distribution network that spans the country.
- **Goldenlay** – the largest producer, supplier and distributor of table eggs across Zambia. The company's integrated farm and production facilities are strategically located in the Copperbelt outside of Luanshya, commercially the fastest growing province in Zambia, with easy access to several export markets.
- **Goldtree** – a commercial palm oil plantation and milling operation located near Daru, Sierra Leone. Apart from relying on its own nucleus plantation, the business partners with the local farming community by purchasing fresh fruit bunches (FFB) from c. 10,000 registered outgrower farmers. The mill processes the FFB into crude palm oil (CPO) and palm kernel oil (PKO).
- **AAF SME Fund** – was established as a subsidiary fund of the AAF and is independently managed by Databank Agrifund Manager Limited (vintage year; 2012). The private equity fund was established to focus on food production and processing at the small and medium enterprise (SME) level throughout the African continent. The AAF SME Fund was established out of the AAF. With eight investments, these small and medium businesses (formal and informal) represent the real economy and remain critical to the economic development of the continent.

#### Exits:

- **Meridian** – Meridian's core focus is the importation, blending and distribution of high-quality fertiliser. The Mauritius-based group operates across Malawi, Mozambique, Zambia and Zimbabwe. The group's subsidiaries locally manufacture, distribute and trade in agricultural commodities that allow for partnership with local farmers and provide them with best value, tailor-made solutions.
- **General Plastics Limited (GPL)** – a family business founded in 1977 and a manufacturer of packaging products servicing major customers in the food, beverage and agri chemical sectors. GPL is ISO-certified with a combined workforce (permanent and contract) of more than 900 people. GPL specialises in four key production processes: extrusion blow moulding, injection moulding, thin-wall injection moulding and polyethylene terephthalate injection stretch blow-moulding. The production facilities utilise a wide range of polymers and pigments as raw materials to produce packaging options for local and regional consumption.

- **Feronia** – a palm oil business that has three remotely located plantations in Lokutu, Yaligimba and Boteka, based in the Democratic Republic of Congo. The plantations produce CPO and PKO for the domestic market. The company is listed on the Toronto TSX Venture Exchange.

#### **Housing Fund investment portfolio:**

- **Westpoint Heights** – a 66 two-bedroom unit development located in Kikuyu, Nairobi; complete and fully operational.
- **Westlands Place** – comprises of a 95 one-bedroom high-rise apartment block located in the Nairobi central business district; complete and fully operational.
- **Nakuru Meadows** – a development of 200 units of varying typologies located in the burgeoning city of Nakuru in Kenya; 70 units complete and partially operational.
- **Izuba City** – a development of 304 units of varying typologies located in Kigali, Rwanda; 64 units complete and partially operational.
- **Camland Villas** – consists of 298 serviced plots development located in Makeni, Lusaka; three show houses complete and provision of water, electricity and sewage to plots underway.
- **72 Magadi Road** – centrally located 2.4-hectare plot in Karen, Nairobi, earmarked for sale of the plot, i.e., will not be developed.

#### **Food Fund 2 investment portfolio:**

Food Fund 2, a follow-on to AAF, achieved a final close of US\$ 143 million in January 2021. PFF 2 is in the process of making its first investments, with a strong pipeline of food-focused investments.

- **Rolfes Group** – established in 1938, Rolfes is a supplier of agricultural, food, industrial and water chemical management solutions and services for both the South African and international markets. The company's divisions include: agricultural, food ingredients, industrial chemicals and water. With a projected global population increase to 10 billion people by 2050, Rolfes caters for the ever-increasing food security, water treatment and manufacturing demand.
- **Farming and Engineering Services** – an industry-leading equipment and integrated contracting services provider to the agricultural sector in Malawi. It has provided a full range of world-class products, expert technical services and practical know-how for over 50 years in the Blantyre, Nchalo, Lilongwe and Dwangwa regions.

### **iii. HOW PHATISA INCORPORATES THE OPERATING PRINCIPLES FOR IMPACT MANAGEMENT INTO ITS INVESTMENT PROCESS**

#### **Principle 1: Define strategic impact objective(s), consistent with the investment strategy**

**The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs) or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.**

- Our investment strategy, in addition to delivering the target returns to investors, is to seek investments that will make a positive contribution to our ultimate goal of feeding and housing Africa.
- Phatisa has defined clear strategic impact objectives, including commitments and specific targets. These are centred on the United Nations Sustainable Development Goals (SDGs), in particular SDG 1: no poverty; SDG 2: zero hunger and SDG 11: sustainable cities and communities. We are also committed to making contributions to SDG 5: gender equality; SDG 8: decent work and economic growth; SDG 10: reduced inequalities; and all the environmental goals, including SDG 13: climate action and SDG 15: life on land. Through our focus on strong governance within portfolio companies, we are also committed to SDG 16: peace, justice and strong institutions. We believe in partnering with our portfolio companies and

other relevant players to implement programmes and actions aimed at ensuring we achieve our strategic impact targets and as such, see our contributions as partnerships for the goals (SDG 17).

- Each fund and investment has a theory of change that describes the activities that are projected to bring about the intended outcomes and impacts. This helps to guide the investment process.
- Our investment track record dating back to 2011 enables us to project specific impact targets which we believe are achievable going forward, particularly as we begin investing through our new fund, PFF 2.

## **Principle 2: Manage strategic impact on a portfolio basis**

**The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognising that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.**

- Phatisa has in-house impact capacity and competency to manage and deliver against its impact goals. In addition, the AAF was pioneering in blended finance: a €uro 10 million technical assistance facility to help the AAF achieve its impact goals was established alongside the fund. PFF 2 is actively raising a similar facility to ensure the ongoing delivery of inclusive business models, which deliver business value while also achieving sustainable positive impacts for people and the environment.
- Phatisa has a formal impact measurement and management (IMM) system, which details all the processes necessary to achieve impact goals and targets, ranging from deal sourcing through exit. Data is gathered quarterly against bespoke indicators for each investment, based on its particular impact profile.
- Specific impact projects have been implemented at the portfolio company level to help ensure the achievement of certain defined SDGs and staff incentives in the portfolio management team are aligned with the realisation of stated impact targets against these projects.

## **Principle 3: Establish the Manager's contribution to the achievement of impact**

**The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.<sup>1</sup> The narrative should be stated in clear terms and supported, as much as possible, by evidence.**

- Phatisa publishes stand-alone, evidence-based fund impact reports, which detail the narrative of how the fund manager has contributed to the achievement of sustainable impacts at portfolio companies and on a fund level.
- Our contributions to the achievement of impacts are through both financial and non-financial channels. Through active shareholder engagement, we are able to grow our companies and thereby increase the reach of the business's primary activity, be it related to food or affordable housing. For example, we grew Meridian from producing 220,000 tonnes of fertiliser for the year ended 2015 to producing 490,000 tonnes by the end of 2018, a large proportion of which is sold to smallholder farmers.
- We also contribute to the achievement of impacts through the provision of technical assistance by the AAF's Technical Assistance Facility, which directly linked 26,261 beneficiaries to portfolio companies, providing market linkages, inputs training and other key agricultural services.

## **Principle 4: Assess the expected impact of each investment, based on a systematic approach**

**For each investment the Manager shall assess, in advance and where possible, quantify the concrete, positive impact<sup>2</sup> potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?<sup>3</sup>**

<sup>1</sup> For example, this may include the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

<sup>2</sup> Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

<sup>3</sup> Adapted from the Impact Management Project ([www.impactmanagementproject.com](http://www.impactmanagementproject.com)).

**The Manager shall also seek to assess the likelihood of achieving the investment’s expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.**

**In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager’s strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards<sup>4</sup> and follow best practice.<sup>5</sup>**

- Phatisa’s IMM details the systematic approach to be followed when assessing the expected impact of our activities.
- Our deal-scoring process anticipates the impacts that can be achieved in an investment and we have a clear scoring system that assigns the impact potential of that investment against our targeted SDGs.
- At the due diligence stage, impact opportunities are identified and included in the Investment Committee paper.
- For each investment, we define bespoke indicators, aligned with IRIS+ and other industry standards, which are designed to reveal (i) the intended impact; (ii) the beneficiary of the impact; and (iii) the significance of the intended impact.
- Annual site visits to gather qualitative narratives supporting quantitative data are also planned and conducted.
- Our measurement and reporting procedures are aligned with the principles and processes defined by the Impact Management Project, whereby we assess each impact based on: what, who, how much, contribution and risk.
- Risk factors which could prevent the intended impacts from being achieved are defined and monitored (risks are aligned with the impact risks defined by the Impact Management Project). Where necessary, course corrections are performed to ensure that an investment stays on track in terms of achieving anticipated impacts.

#### **Principle 5: Assess, address, monitor and manage potential negative impacts of each investment**

**For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)<sup>6</sup> risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.<sup>7</sup> As part of portfolio management, the Manager shall monitor investees’ ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.**

- Phatisa is wholly committed to the identification and management of environmental, social and governance (ESG) risks, and addressing these in the companies its funds invest in.
- At the scoring stage, each deal is assessed for potential ESG risks and a score out of five is assigned to the investment. A minimum of an aggregate 3.5 out of five should be achieved for the deal to progress.
- ESG due diligence is carried out on each potential investment, evaluating performance against the International Finance Corporation Performance Standards and applicable industry or country specific regulations and guidelines.
- ESG capacity and competency are internalised in Phatisa, with three persons dedicated to the management and monitoring of ESG risks and performance.

<sup>4</sup> Industry indicator standards include HIPSO (<https://indicators.ifipartnership.org/about/>); IRIS ([iris.thegiin.org](http://iris.thegiin.org)); GIIRS (<http://b-analytics.net/giirs-funds>); GRI ([www.globalreporting.org/Pages/default.aspx](http://www.globalreporting.org/Pages/default.aspx)); and SASB ([www.sasb.org](http://www.sasb.org)), among others.

<sup>5</sup> International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

<sup>6</sup> The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

<sup>7</sup> Examples of good international industry practice include IFC’s Performance Standards ([www.ifc.org/performancestandards](http://www.ifc.org/performancestandards)); IFC’s Corporate Governance Methodology ([www.ifc.org/cgmethodology](http://www.ifc.org/cgmethodology)), the United Nations Guiding Principles for Business and Human Rights ([www.unglobalcompact.org/library/2](http://www.unglobalcompact.org/library/2)); and the OECD Guidelines for Multinational Enterprises (<http://mneguidelines.oecd.org/themes/human-rights.htm>).

- Phatisa has a social and environmental management system (SEMS) which details the processes to be followed when managing an investment from an ESG point of view.
- Data is gathered every quarter from portfolio companies, included in sales and purchase agreements is a requirement that at least one ESG monitoring visit be conducted to each portfolio company annually. Where necessary, ESG conditions precedents are included in sales and purchase agreements.
- ESG action plans are compiled for each company, with clearly defined timelines to resolution of non-compliances.
- Support is provided by the fund manager to investees to ensure compliance with best international standards and to resolve any unexpected events.

**Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately**

**The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.<sup>8</sup> The Manager shall also seek to use the results framework to capture investment outcomes.<sup>9</sup>**

- Phatisa has a detailed IMM in place which guides the investment process from an impact point of view.
- A theory of change both for the fund and for each individual portfolio company defines the expected outputs, outcomes and impacts of an investment.
- Indicators are defined according to the theory of change and align with internationally accepted indicators, such as IRIS+, HPSO and the Joint Impact Indicators.
- Impact data is shared by the portfolio company quarterly and annually (depending on the indicator) with the fund manager and verified on-site at least annually. Data is reported in both quantitative and qualitative formats to the Head of Impact at Phatisa. This data is then analysed to identify progress against the baseline as well as trends and used for reporting to investors and to shape the impact projects within each portfolio company.
- When monitoring indicates that the investment is no longer expected to achieve its intended impacts, measures are taken including providing additional support to portfolio companies to help them achieve their goals, adjusting targets or, in exceptional cases, the consideration of early divestment.

**Principle 7: Conduct exits considering the effect on sustained impact**

**When conducting an exit,<sup>10</sup> the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.**

- Phatisa's IMM is designed to embed impact-enhancing activities within the normal operations of the business: inclusive business or shared value. As such, when we exit, these activities continue beyond our management of them as they are designed to deliver value both to the business as well as to targeted beneficiaries.
- For example, at Meridian – a fertiliser blender in Malawi – in collaboration with AAF's Technical Assistance Facility, we set up the Farm Services Unit (FSU) which deploys agronomists to smallholder farmers and trains them on the correct timing and application of bespoke fertiliser blends depending on the crop. The FSU is now fully integrated into Meridian and helps drive revenue for the business as the activities result in brand loyalty from the smallholders. Demonstration plots show that yields increase between 18% to 30% as a result of these activities which, in turn, results in increased incomes and therefore improved quality of life indicators for smallholder farmers.

<sup>8</sup> Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.

<sup>9</sup> Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC ([www.oecd.org/dac](http://www.oecd.org/dac)).

<sup>10</sup> This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

**Principle 8: Review, document and improve decisions and processes based on the achievement of impact and lessons learned**

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- Phatisa's IMM guides us to review and document the performance of each investment. This is done as described under Principles 5 and 6 above.
- Actual results are compared to the theory of change and to expected impact objectives. These findings are used to improve operational and strategic investment decisions, as well as management processes.
- Lessons learnt are used as opportunities to improve performance going forward, and where necessary, the Phatisa IMM is updated to reflect findings.

**Principle 9: Publicly disclose alignment with the Principles and provide regular, independent verification<sup>11</sup> of the alignment**

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- This Disclosure Note affirms the alignment of Phatisa's procedures with the Principles and will be updated annually.
- Phatisa underwent an independent external verification of its alignment to the Principles. This verification audit/limited assurance was performed by IBIS Consulting (IBIS), an independent ESG and sustainability consultancy based in South Africa.
- The limited assurance engagement was conducted in accordance with the International Standard on Assurance Engagements 3000 (revised), Assurance Engagements other than audits or reviews of historical financial information issued by the International Auditing and Assurance Standards Board.
- The Assurance Conclusion is as follows: 'We believe that the information provided by Phatisa and the work performed by IBIS are sufficient and appropriate to form a basis for our limited assurance conclusion. In our opinion, and based on our limited assurance procedures, nothing has come to our attention that causes us to believe that Phatisa has not complied, in all material respects, with the Operating Principles for Impact Management.'
- The independent assurance report on the alignment of Phatisa with the Operating Principles for Impact Management is available at <https://www.phatisa.com/about-us/>. The verification will be replicated periodically.
- Information on the current independent verifier is as follows:

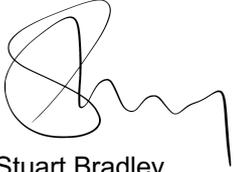
**Name and address:** IBIS ESG Assurance (Pty) Limited  
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South Africa

**Qualifications:** 'IBIS is a premier emerging market sustainability consultancy that helps companies unlock value by improving their environmental and social performance. We provide a unique combination of executive management and on-the-ground expertise supported by our extensive experience working with multinational companies and local clients across Africa and Asia. IBIS is an independent and licensed provider of sustainability assurance services.'

**Most recent review:** 24 March 2020

<sup>11</sup> The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.

**Next planned review:** March 2022

A handwritten signature in black ink, appearing to read 'Stuart Bradley', with a large loop at the start and a wavy tail.

Stuart Bradley  
**Managing Partner**

**Date:** 8 April 2021

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