

# RESPONSIBLE INVESTMENT POLICY

21 DECEMBER, 2021 |



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## 1. GLOSSARY

Board	Management Board of Mikro Kapital
Car sharing	Car sharing segment includes business related to short-term and long-term car rentals as well as fleet management services
ESG	<u>E</u> nvironmental, <u>S</u> ocial and <u>G</u> overnance factors
ESMS	<u>E</u> nvironmental and <u>S</u> ocial <u>M</u> anagement <u>S</u> ystem, a “set of policies, procedures, tools and internal capacity to identify and manage a financial institution's exposure to the environmental and social risks of its clients/investees”, as defined by FIRST for Sustainability
GIIN	<u>G</u> lobal <u>I</u> mpact <u>I</u> nvesting <u>N</u> etwork, a non-profit organization dedicated to increasing the scale and effectiveness of impact investing
Impact investing	Investments made with the intention to generate positive and measurable impact on environmental and/or social factors, alongside targeting financial returns
IMP	<u>I</u> mpact <u>M</u> anagement <u>P</u> roject, a framework on measuring, assessing and reporting impacts on people and the natural environment
Investor	Investors who purchased one or more debt or equity securities emitted by the SPVs
Impact Objectives	Set of goals defined with the aim of generating one or several specific positive ESG outcomes
IRIS+	<u>I</u> mpact <u>R</u> eporting and <u>I</u> nvesting <u>S</u> tandards, an easy-to-navigate and tailored system managed by the GIIN that provides streamlined, practical, how-to guidance that impact investors need to manage impact
MFI	<u>M</u> icro <u>f</u> inance <u>I</u> nstitution, a type of financial services that targets private persons and small businesses that do not have access to conventional banking services; Mikro Kapital’s MFIs provide lending and leasing services to entrepreneurs and small businesses only
Mikro Kapital	Mikro Kapital Management S.A., a public company limited by shares under the Luxembourg law, with a registered address at 10, Rue C.M. Spoo, L-2546, Luxembourg, Grand Duchy of Luxembourg, and registered in the Luxembourg Trade and Companies Register under number B227640
MK ESEL	<u>M</u> ikro <u>K</u> apital <u>E</u> nvironmental and <u>S</u> ocial <u>E</u> xclusion <u>L</u> ist, the list of excluded industries and business activities from Mikro Kapital’s investment universe because of their environment-damaging or ethically questionable nature
MSME	<u>M</u> icro, <u>S</u> mall and <u>M</u> edium-sized enterprises are defined in the EU recommendation 2003/361
OPIM	<u>O</u> perating <u>P</u> riniples for <u>I</u> mpact <u>M</u> anagement, a network and non-profit organization for impact investment that has defined 9 impact management principles which all signatory firms must respect and disclose on

Portfolio Company	Companies that are invested by the SPVs
SDG	<u>Sustainable Development Goals</u> , 17 goals set up by the United Nations in 2015 and intended to be achieved by 2030, for each of which a variety of targets and metrics were defined
SPV	<u>Special Purpose Vehicle</u> , an entity created to fulfil narrow, specific or temporary objectives. Mikro Kapital's two SPVs are MIKRO FUND and ALTERNATIVE, each an unregulated securitization fund without legal personality established in the Grand Duchy of Luxembourg for an unlimited duration in accordance with the Luxembourg law of 22 March 2004 on securitization, as amended from time to time, and constituting of a fiduciary estate in accordance with the Luxembourg law of 27 July 2003 on trusts and fiduciary contracts, managed by Mikro Kapital
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
Target company	MFIs or car-sharing entities that Mikro Kapital consider investing into
UN	The <u>United Nations</u> is an intergovernmental organization aiming to maintain international peace and security

## 2. INTRODUCTION

### a. How Mikro Kapital invests

Responsible investment, and more specifically impact investing, has been an integral part of Mikro Kapital's strategy and activities since the firm's creation in 2008.

As a supporter of micro, small and medium sized enterprises (MSMEs), Mikro Kapital Group continued to champion MSMEs in its regions of presence and provide funding and financing where it is most needed.

Mikro Kapital's purpose is to create positive impact by mainly investing into microfinance institutions and car sharing companies along the Silk Road. This purpose is reflected in the way Mikro Kapital conducts and manages all of its investments.

To Mikro Kapital, responsible investment is about incorporating environmental, social and corporate governance (ESG) criteria in investment decisions while following the ultimate goal of creating positive and mitigating negative impact.

Mikro Kapital is convinced of being able to provide the most benefit to society and investors by choosing Portfolio Companies with great potential to move in a more responsible and impact-oriented direction, as well as by choosing to invest in targets which are already there.

Mikro Kapital demonstrates responsibility by incorporating sustainability considerations into all stages of the investment process: in the selection of potential new portfolio companies and the ongoing monitoring and evaluation of investments. For instance, Mikro Kapital assesses the ESG strengths, weaknesses, risks and opportunities of potential targets and invested portfolio companies. This represents a significant part of the fundamental information Mikro Kapital uses to select investments, build portfolios, monitor companies and engage with them through a stewardship approach.

To continuously monitor its investment engagements, Mikro Kapital and its portfolio companies use internal tools to share data and knowledge across entities. Any progress is discussed in the relevant investment teams and at internal forums. Thanks to its active engagement with portfolio companies, Mikro Kapital gains insight into ESG and impact opportunities as well as risks that investments face. The ideal for Mikro Kapital is to have a frank but constructive two-way dialogue with portfolio companies, and to openly discuss about views on key short- and long-term issues as well as how to address them. Through a materiality-based approach, Mikro Kapital focuses on issues where it sees potential for meaningful impact on corporate value and sustainability.

Mikro Kapital considers that the involvement of team members at every hierarchical level within a solid governance structure is key in the success of its sustainability ambitions. This ambition is therefore supported across all business areas and the set-up of a centralized ESG governance.

Moreover, as a leader in impact and responsible investing, Mikro Kapital adopts internationally recognized standards and is committed to collaboration with organizations that are aligned with its own approach to responsible investment. The full list of all commitments is to be found in Mikro Kapital’s Sustainability Risk Policy.

**b. Aim of the policy**

It is Mikro Kapital’s priority to meet and exceed the expectations of clients, investors, regulators and society regarding responsible and impact investing. Mikro Kapital decided to formalize this commitment by becoming signatory of the Operating Principles for Impact Management (OPIM) in 2022. Launched in April 2019, the impact principles provide a framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle. Figure 1 reflects the 9 OPIM principles that all signatories must adopt.

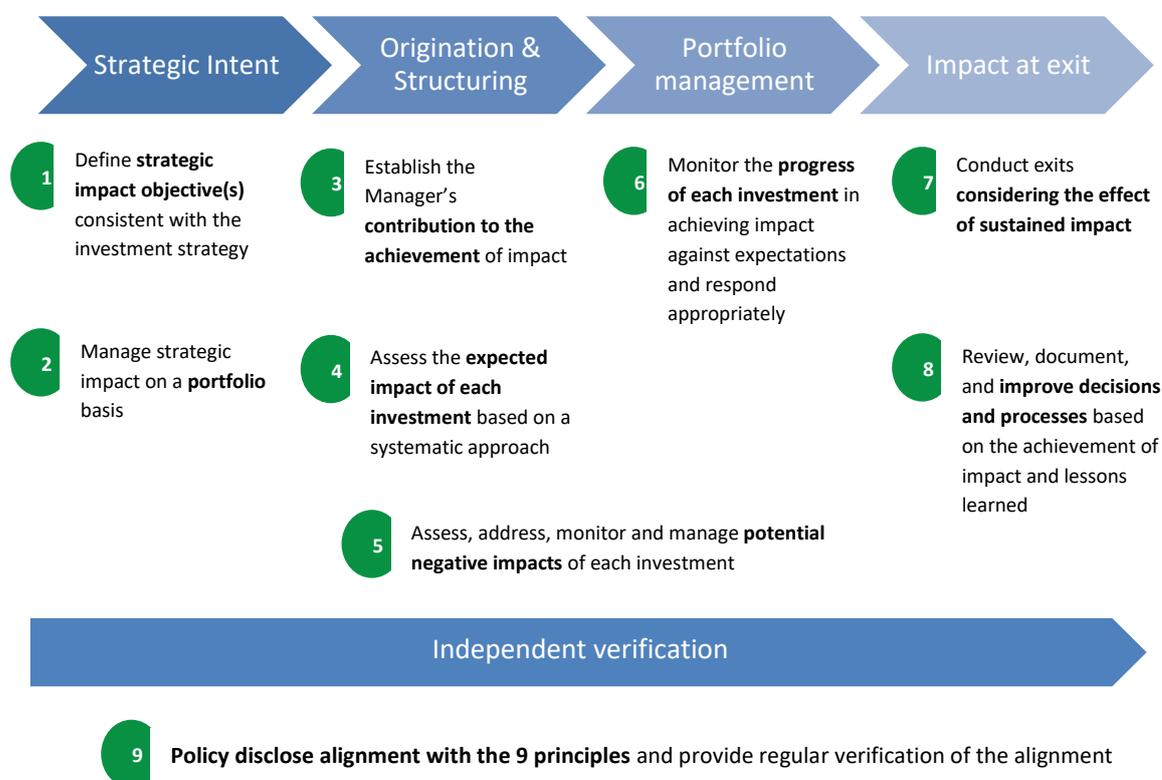


Figure 1: Overview of the 9 OPIM principles

The aim of the present document (hereafter: the “Policy”) is to define a clear framework for Mikro Kapital regarding impact management that is aligned with the 9 OPIM principles. The Policy sets up a process to manage impact achievement for the whole portfolio, as required by the second principle. It defines the rules, procedures and governance to be followed throughout Mikro Kapital’s investment decision-making process (from initial screening to exit) for all investments made via the SPVs. Once they are invested by an SPV, each portfolio company will have to be aware of the requirements laid out in this Policy. This is relevant because portfolio companies indirectly fall under the Policy’s scope, as Mikro Kapital must receive the necessary documents and information from portfolio companies to be able to monitor and

report on their impact. They shall take the necessary measures to meet minimum requirements in order for the investment to be compatible and aligned with the Policy.

The philosophy behind this Policy is thus to define Mikro Kapital's approach towards impact investment and management, as well as the consideration of environmental, social and governance (ESG) issues. The policy is founded on an objective of generating value and making a difference through integration of sustainability in the investment process and by driving positive change. Mikro Kapital firmly believes that defining such rules enhances positive impact while generating long-term returns.

**c. Scope of the Policy**

The Policy applies to Mikro Kapital, SPVs, Portfolio Companies and more specifically to each Mikro Kapital employee and function involved along one or more stages of the investment decision-making and monitoring process. It is for internal use only and shall not be shared outside of Mikro Kapital without prior consent of Management Board of Mikro Kapital. A public document that reflects the key principles of the Policy, will be derived annually from this document (or any potential updated versions), and made available on the website of the OPIM in form of a "Disclosure statement" on Mikro Kapital's impact management practices.

It should be specified that through this Policy, Mikro Kapital defines impact management measures and processes on a voluntary basis, but in alignment with the OPIM principles. It is not required by any law or regulation.

**d. Policy governance and monitoring**

The owner of this Policy is Mikro Kapital's Head of ESG Department. The general oversight of the Policy is performed by the ESG Committee (by the CEO until the Committee is formed). There shall be no exceptions to the application of this Policy.

The Policy was approved by the Management Board of Mikro Kapital and any amendments to it must be approved by the same governance body. The Policy and its execution shall be formally evaluated by the Management Board at least annually in order to perform updates or address gaps where required or appropriate.

The various employees and functions directly impacted by this Policy shall develop their own templates and standard documents to ensure an efficient and effective implementation of the Policy on a daily basis. Moreover, all processes defined in the Policy must be duly documented by Mikro Kapital, as this documentation will be reviewed by an independent verifier on a regular basis, in alignment with Principle 9 of the OPIM.

**e. Assessment and revision of the Policy**

Mikro Kapital performs regular assessment on the effectiveness and efficiency of its investment process with regards to responsible impact, as defined in this Policy. Following such assessments, Mikro Kapital's top management determines improvements to be implemented within the investment decision-making and monitoring processes. When validated, such improvements result in the revision of this Policy. To ensure constant coherency between this Policy and the actual processes in place, Mikro Kapital also performs regular ad-hoc controls of this Policy, which is reviewed and updated at least annually.

### 3. IMPACT OBJECTIVES OF MIKRO FUND AND ALTERNATIVE

Consistent with the SPVs' investment strategies, Mikro Kapital has defined strategic impact objectives that are aligned with the IRIS+ framework developed by the GIIN (Global Impact Investing Network) and the Sustainable Development Goals (UN SDGs) defined by the United Nations. This meets the requirements of the first OPIM principle.

For the microfinance investments of the SPVs, the targeted IRIS+ Impact Objectives for all lending and leasing activities are one or more of the following:

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- Improving access to and use of responsible financial services for historically underserved populations;
- Improving earnings and wealth through employment and entrepreneurship (particularly for disadvantaged and excluded groups);
- Improving rural economies through financial inclusion;
- Increasing farm profitability;
- Increasing financial health of farmers;
- Increasing gender equality through financial inclusion;
- Supporting decent jobs and fostering economic development.

Mikro Kapital has translated these IRIS+ Impact Objectives into SDGs 5 (Gender Equality), 8 (Decent work and economic growth), 9 (Industry, innovation and infrastructure) and 10 (Reduced inequalities).



For the investments into car sharing companies, the IRIS+ Impact Objective targeted is:

- Mitigating Climate Change through Clean Mobility.

Mikro Kapital has identified that its car sharing activities contribute to SDGs 5 (Gender Equality), 8 (Decent work and economic growth), 10 (Reduced inequalities), 11 (Sustainable cities and communities) and 17 (Partnerships for the Goals).



For other investments, the targeted IRIS+ Impact Objectives are:

- Improving access to and use of responsible financial services for historically underserved populations;
- Improving earnings and wealth through employment and entrepreneurship (particularly for disadvantaged and excluded groups);
- Supporting decent jobs and fostering economic development.

Mikro Kapital has translated these IRIS+ Impact Objectives into SDGs 8 (Decent work and economic growth), 9 (Industry, innovation and infrastructure) and 10 (Reduced inequalities).



#### 4. RESPONSIBLE INVESTMENT AND IMPACT MANAGEMENT THROUGHOUT THE INVESTMENT PROCESS

A key aspect of the strategy of Mikro Kapital is to detain a controlling ownership of portfolio companies, allowing Mikro Kapital to invest into its own network of MFIs and car sharing entities, while still performing inorganic growth through acquisitions. Mikro Kapital strongly believes that this long-term oriented investment strategy favours and enhances the achievement of positive impact.

Typically, an investment lifecycle consists of five key phases: Pre-screening, Due Diligence, Monitoring and Engagement, Reporting, and Exit. Mikro Kapital’s Responsible Investment Policy establishes responsible

investment and impact management procedures to be followed by relevant Mikro Kapital employees for all five stages of the process.

It should be noted that while impact has always been a part of Mikro Kapital's purpose, no formal impact framework was defined or applied to the investment pre-selection and due diligence stages by Mikro Kapital before the first version of the present Policy was adopted in late 2021. This infers that no prior investment made by the SPV has addressed all of the requirements set out in sub-sections *a. Pre-screening* and *b. ESG and impact due diligence* of this policy.

#### a. Pre-screening

During an initial pre-screening phase, Mikro Kapital's investment team assesses the activities of a potential target portfolio company against the SPV's Impact Objectives. This step shall allow Mikro Kapital to establish a credible basis for achieving the respective SPV's impact objectives through an investment into the target.

If Mikro Kapital identifies that the potential target does not align with any of the SPV's impact objectives, Mikro Kapital checks whether it potentially contributes to other impact objectives not selected by the SPVs but in line with the investment strategy. If such is the case, Mikro Kapital's Management Board can consider adapting the impact objectives of the SPV.

As a next step, the deal team shall assess the alignment of the target's activities against Mikro Kapital's Environmental and Social Exclusion List (Appendix №1 - MK ESEL). This list is composed of industries and business activities, the nature of which has been assessed as environment-damaging or ethically questionable. As stated in the Sustainability Risk Policy, the exclusion list helps Mikro Kapital mitigate risks and lessen the negative effects of sustainability threats.

If target activities contradict with MK ESEL, Mikro Kapital shall oblige the target to align with MK ESEL upon investment into the company; otherwise the target will be abandoned.

The pre-screening phase culminates with a high-level sustainability risks assessment of potential targets against international standards (SASB and MSCI materiality maps), as laid out in Mikro Kapital's Sustainability Risk Policy section 7.a. *Pre-screening*.

The above non-financial pre-screening is performed in parallel to the financial pre-screening compliant with Mikro Kapital's financial assessment and risk appetite procedures. Details about the financial assessment are not covered by the Responsible Investment Policy.

#### b. ESG and impact due diligence

##### i. Assessment of the target's ESG risks and performance

Mikro Kapital performs a qualitative assessment of material ESG (Environmental, Social and Governance) risks faced by the target firm in alignment with its Sustainability Risk Policy.

Furthermore, Mikro Kapital requests to review the target firm's internal policies and practices, including for instance labour and human rights policies, environmental or ESG policy, responsible credit policy, etc. These policies and practices are assessed against best market practices and compliance with international norms such as the UN Global Compact, UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the Paris Agreement under UNFCCC etc. Mikro Kapital's deal team is required to document potential gaps identified and determine required actions and feasibility to close these gaps. If relevant gaps cannot be closed, Mikro Kapital must consider excluding the target.

In parallel, Mikro Kapital evaluates the target's own ESG performance by collecting from the target information on all ESG initiatives taken. Examples of such initiatives are the improvement of building envelope's energy efficiency, low energy office lighting, employee trainings, protecting customer data privacy and security, etc. Each initiative shall be assessed on a scale from 1-5 regarding the level of ambition (or expected positive impact) and the effectiveness of its implementation.

##### ii. Assessment of the target's ESG (for MFI targets only)

For each MFI target, Mikro Kapital assesses the level of maturity of the retained target's Environmental and Social Management System (ESMS)<sup>1</sup>. This step is crucial as the SPVs either invest into portfolio companies with a strong ESMS or into less ESMS-advanced portfolio companies, supporting the latter in building such capacities. Figure 2 represents the 5 key aspects that Mikro Kapital shall take into consideration when evaluating the maturity of a target's ESMS.

<sup>1</sup> An ESMS is “a set of policies, procedures, tools and internal capacity to identify and manage a financial institution's exposure to the environmental and social risks of its clients/investees”, as defined by FIRST for Sustainability, an innovation of the International Finance Corporation (IFC).

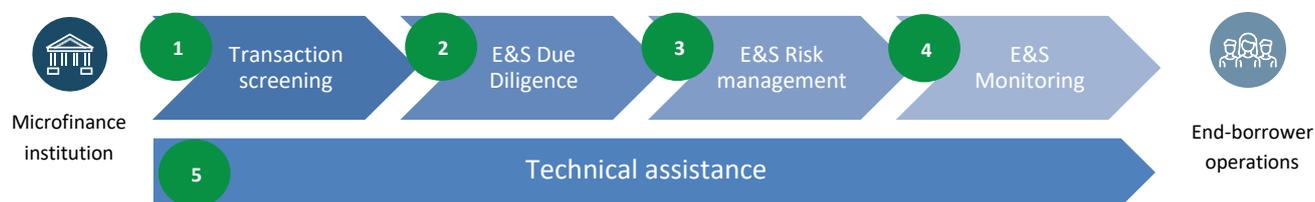


Figure 2: Key components of an ESMS. Source: FIRST for Sustainability

1. **Transaction screening:** Mikro Kapital assesses the strictness of the MFI’s currently applied exclusion list (pre-investment) and the extent to which it is respected.
2. **E&S Due Diligence:** Mikro Kapital analyses which qualitative and quantitative ESG information the MFI collects at the beginning of the borrowing process in order to assess its own positive and negative impacts on ESG factors once it has granted the loan or lease to the end-borrower. It also checks whether, and if so how, ESG factors are taken into account within the loan or lease application process. The E&S Due Diligence step also includes a review of the MFI’s lending and/or leasing portfolio so as to identify the business activities of the end-borrowers and for what concrete investment the loan or lease is made.
3. **E&S Risk:** Mikro Kapital reviews how the MFI assesses borrowers’ exposure to E&S risks and how such risks could affect the end-borrower’s ability to repay the MFI.
4. **E&S Monitoring:** Mikro Kapital checks which environmental and social data points the MFI collects from borrowers after the loan has been granted, and through which means.
5. **Technical assistance:** Mikro Kapital evaluates the MFIs initiatives to educate end-borrowers on the adverse sustainability impacts of their activities, environmental and social risks and how to manage and mitigate them.

Based on the five ESMS aspects assessed, Mikro Kapital shall identify and document good practices and potential ways for improvement of the ESMS. It shall also evaluate whether the target’s current ESMS meets the Policy’s minimum requirements as defined in the following sub-section *c. Monitoring, engagement and remedial action* and if not, whether Mikro Kapital will have the legitimacy to influence the target’s practices.

### iii. Assessment of the target’s current impact management activities

Mikro Kapital shall identify whether and if so, to what extent, the target currently manages impact. If it has an impact management approach, Mikro Kapital reviews this process thoroughly to identify similarities and differences between the present Policy. Based on whether Mikro Kapital considers becoming a minority or majority shareholder of the target company, it must evaluate whether the existing impact management framework meets the minimum requirements defined by the Responsible Investment Policy and whether its impact management practices could be adapted to meet Mikro Kapital’s standards.

For Mikro Kapital, the framework to be used by portfolio companies to monitor impact shall be IRIS+.

### iv. Assessment of the expected impact by investing into the target

Before investing into a target, Mikro Kapital needs to assess the expected impact created by the investment. This is in line with the fourth OPIM principle.

After the assessment of the target’s current impact management activities has been performed and Mikro Kapital has gained a good view on the differences in approach and maturity of impact management between the target and the other portfolio companies belonging to the SPV, Mikro Kapital shall identify concrete capacity building opportunities for one or both parties.

Subsequently, Mikro Kapital assesses and quantifies the concrete and realistic positive impact potential of the investment, searching for evidence where possible, and applying the Impact Management Project (IMP) framework:

- **What:** positive/negative impact and its importance to stakeholders;
- **Who:** stakeholders and how underserved are they;
- **How much:** how many stakeholders, degree of change, how long is change happening, how significant is the impact;
- **Contribution:** better/worse outcome;
- **Risk:** risk factors, likelihood of risks to occur and their effect on the initial impact expectations.

It is crucial for Mikro Kapital to, while performing this assessment, account for the relative size of the challenge addressed and take account of the geographical context of the expected impact. It shall also evaluate the likelihood of achieving the investment's expected impact.

Mikro Kapital then defines impact metrics (in line with those proposed by the IRIS+ framework) and ambitious but nevertheless realistic quantitative impact objectives to be achieved through the investment in the short, medium and long term. Moreover, Mikro Kapital shall consider and document new opportunities to increase the positive impact of the investment.

In parallel to the focus on the deal's positive impact, Mikro Kapital considers expected direct, indirect and systemic negative impact linked to the target firm and the investment (i.e. adverse impacts). Based on this, it should identify negative impacts' relevance (low, medium, high). For all issues classified as medium or high (i.e. "relevant"), the firm shall identify concrete plans for their mitigation. Metrics as well as ambitious but achievable short-, medium- and long-term quantitative and/or qualitative objectives to mitigate adverse impacts shall be formally defined for all relevant issues.

#### c. Monitoring, engagement and remedial action

As impact investor, Mikro Kapital continuously monitors portfolio companies' ESG risk management, performance of ESG initiatives, impact objectives as well as the effectiveness of their positive and negative impact management. A diligent monitoring does not only ensure that Mikro Kapital is aware of the portfolio company's performance and potential ESG or impact related risks, but also to identify concrete areas for improvement.

Mikro Kapital aims to influence all of its portfolio companies' practices to support them in becoming even more responsible. Where Mikro Kapital is a controlling shareholder of a portfolio company, Mikro Kapital finds itself in a premium position to engage with portfolio companies, to influence their practices and, by consequence, to amplify positive impact and mitigate risk as well as negative impact.

#### i. ESG risk and performance monitoring

Mikro Kapital monitors ESG risks as defined by its Sustainability Risk Policy. The latter defines the detailed procedures to be followed by Mikro Kapital's investment team in order to identify, avoid and where avoidance is not possible, mitigate and manage ESG risks as well as unexpected ESG risk events.

Furthermore, Mikro Kapital shall perform an annual assessment of the performance of each portfolio company's own ESG initiatives, considering their level of ambition and effectiveness of their implementation. Mikro Kapital shall emit forms on an annual basis to request portfolio companies to provide the necessary information regarding ESG initiatives taken, initially fixed objectives, achieved objectives, and where available share relevant metrics.

Mikro Kapital leverages on the insights gained from the monitoring process of various portfolio companies, in order to identify best practices, areas for improvement and the potential for new ESG initiatives. Further, it shall leverage on and engage with portfolio companies to discuss necessary action points to close identified ESG performance gaps. Where relevant, Mikro Kapital creates a bilateral or multilateral learning and exchange environment between portfolio companies to facilitate the mutual sharing of practices and experiences.

#### ii. ESMS monitoring (for MFI portfolio companies only)

Where an MFI within Mikro Kapital's portfolio did not yet have an ESMS in place prior to Mikro Kapital's investment, Mikro Kapital requires the MFI to build such an approach. During this process, and depending on the legitimacy that Mikro Kapital has to influence the MFI (i.e. proportion of ownership detained), Mikro Kapital shall actively engage with the MFI to ensure that the approach being built addresses the above listed five key components of an ESMS in an ambitious yet feasible way.

Where the MFI's ESMS is formalized and applied, Mikro Kapital requests to review all documentation that testifies of its diligent implementation. Where gaps are identified between the ESMS and its carrying out, Mikro Kapital communicates them to the portfolio company and, if necessary, accompanies the MFI to identify feasible actions to close the gaps and achieve minimum standards in line with the Responsible Investment and Sustainability Risk Policies.

iii. **Monitoring of strategic impact objectives**

In the pre-screening phase, Mikro Kapital has identified specific impact objectives for each portfolio company. Where Mikro Kapital already made an investment into a portfolio company before the application of this Policy the firm shall, together with the portfolio company, select the strategic impact objectives from section 3. *Impact Objectives of Mikro Fund and Alternative* that are aligned with the portfolio company's activities.

The accuracy of the selected objectives is reassessed for each investment (i.e. portfolio company) at the beginning of the financial year to ensure consistency between defined objectives and performed activities, in alignment with the steps defined in section 3 mentioned above. Moreover, at the beginning of each financial year, Mikro Kapital shall define, for each impact objective, ambitious yet realistically achievable quantitative targets to reach on a portfolio basis, using relevant key performance indicators as defined by IRIS+ to measure impact achievement of the portfolio at the end of the period.

iv. **Annual expected impact assessment**

At the beginning of each financial year, Mikro Kapital engages with portfolio companies to determine and, where possible, quantify the expected positive impact deriving from the investment into the portfolio company. In this respect, Mikro Kapital performs the same steps as defined in section 4.b.iv. *Assessment of the expected impact by investing into the target*, in line with the fourth OPIM principle. Specific attention should be given to monitoring that newly developed impact targets for upcoming periods are aligned with the short, medium and long term objectives initially defined in the section referred to above. For existing portfolio investments, the definition of impact targets should start from the financial year following the year of initial impact metrics collection.

v. **Positive impact monitoring**

The crucial step for impact management is the monitoring of the extent to which the positive impact expectations defined at the beginning of each financial year are actually met.

Thanks to Mikro Kapital's strategy of investing principally into its own network of companies (i.e. having a controlling ownership of most portfolio companies), the firm legitimately requests portfolio companies to monitor their own impact performance at least two times per financial year, using the IRIS+ frameworks aligned with the selected strategic impact objectives.

In alignment with the sixth OPIM principle, Mikro Kapital's ESG Department collects and reviews the necessary documentation on impact progress made by portfolio companies. The advantage of this approach is that data collection is directly performed by the portfolio company, which by having access to first hand data enhances data validity and reliability. Through this process, it becomes Mikro Kapital's role to critically review the portfolio company's self-assessment regarding impact achievement. Mikro Kapital performs a first mid-term assessment at the end of the first half of the period to identify potential impact performance gaps, red flags and areas for improvement, with the aim to meet the quantitative objectives defined by the second half of the period. A final backward-looking evaluation is made at the end of the period.

Where impact expectations were not reached during the period, Mikro Kapital shall engage with portfolio companies to understand the reasons why the objectives could not be met, identify and document potential action points to increase impact in future periods. Only where Mikro Kapital concludes that the expected impact was unrealistically high can the quantitative measures be decreased in the following period. Lastly, even if impact objectives were reached by the portfolio company, Mikro Kapital shall, as part of the monitoring process, systematically identify opportunities to increase positive impact, through active bi- or multilateral discussions with portfolio companies.

vi. **Negative impact monitoring**

Impact management does not only consist in measuring positive impacts of an investment, but also needs to consider potential negative ("adverse") impacts of activities. Mikro Kapital requires portfolio companies to engage with internal and external stakeholders to flag relevant negative impacts of its

activities. Mikro Kapital pays specific attention to reviewing investments' negative impact on identified material sustainability factors as listed in the Sustainability Risk Policy. Direct, indirect and systemic negative impacts shall be considered.

Mikro Kapital shall engage with portfolio companies to identify concrete action points to mitigate the most relevant adverse impacts created.

Moving forward, Mikro Kapital is considering to further strengthen its negative impact management practices by establishing a dedicated principal adverse impact policy in 2022.

#### vii. Escalation process in case of portfolio company non-compliance

Where any Mikro Kapital stakeholder observes any breach of the present Policy performed by a portfolio company, the breach shall be reported to the Management Board. In such case, Mikro Kapital reserves the right to formulate concrete actions to establish the portfolio company's compliance, or to divest its ownership of the company.

#### d. Reporting

As a responsible impact investor, Mikro Kapital is committed to reporting transparently on the impact performance of its investments. It is a priority for Mikro Kapital to clearly explain for each investment how the firm contributes to the creation of impact (as required by OPIM principle 3), to share case studies for illustrative purposes, and to report on non-financial key performance indicators to provide evidence of Mikro Kapital's and portfolio companies' contribution.

To maintain the best level of transparency, relevant policies and current reporting on Mikro Kapital's sustainable impact are publicly available. This includes, among others, Mikro Kapital's PRI report and annual impact report. In 2022, Mikro Kapital also expects to make its OPIM disclosure statement and SFDR disclosures publicly available. In particular, as required by the SFDR, the non-financial performance of each investment made by MIKRO FUND and ALTERNATIVE is to be disclosed through annual reports to investors. SPVs specific reports and documents are also available upon demand. Lastly, the alignment of Mikro Kapital's responsible investment process with the 9 OPIM principles is independently verified regularly.

#### e. Responsible Exit

Should an exit from a Portfolio Company result necessary, Mikro Kapital has developed an impact exit strategy that follows a strict three-fold process to ensure the exit is responsible and that, eventually, the Portfolio Company will continue to have a positive impact even after Mikro Kapital has exited.

Firstly, Mikro Kapital performs a comprehensive assessment on the global impacts achieved by the Portfolio Company (accomplishments, lessons drawn, useful tips, etc.) as well as the ongoing situation of the Portfolio Company in view of the exit. Wherever possible, Mikro Kapital will engage with the Portfolio Company and any other current relevant shareholder, to present the accomplishments and examine how to pursue successes and efforts. The assessment also includes a projective high-level assessment of the impact of the exit both on Mikro Kapital's SPVs and the to-be-exited Portfolio Company. Ultimately, depending on the outcome of the analysis, the timing, structure and processes of the exit are to be adapted, to ensure sustainability impacts of the Portfolio Company is not negatively affected.

Once the pre-assessment is done, and after ensuring the impact objectives of the Portfolio Company are clearly stated to potential buyers, Mikro Kapital screens them based on a suitability checklist that takes into account non-financial characteristics, along with financial ones:

- Buyer's global corporate mission, culture and reputation and its compatibility with the Portfolio Company
- Buyer's global social performance
- Buyer's intentions and commitment to the mission of the Portfolio Company
- Buyer's envisaged role in the Portfolio Company
- Buyer's local and regional knowledge and integration
- Buyer's financial stability, performance and funding availability
- Buyer's management stability and development

Finally, a consistent operational process is put in place to ensure all stakeholders are informed and formalities duly performed:

- Information to relevant stakeholders of intention to exit
- Sale of holdings to willing buyer compliant with Mikro Kapital's internal policies
- Information and necessary document sharing to the buyer

## 5. APPLICATION OF THE POLICY TO ORGANICALLY GROWN PROJECTS

To achieve its ultimate goal of creating positive and mitigating negative impact, Mikro Kapital may be likely to create a company from scratch to be integrated in as a Portfolio Company. In such case, the incorporation of sustainability considerations into all stages of the company-creation process remains applicable. Thereby, any new company created from scratch by Mikro Kapital will align with this Policy. In particular, the principles guiding the assessment process described in section 4 of this Policy will uphold. This means the founding elements of the newly-created company should be in line with Mikro Kapital's policies, including the Sustainability Risks and Responsible Investment policies.

**Mikro Kapital does not finance the following projects:**

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides / herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions.
- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco.
- Gambling, casinos and equivalent enterprises.
- Production or trade in radioactive materials (this does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source is considered to be trivial and / or adequately shielded).
- Production or trade in unbonded asbestos fibers (this does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%).
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage.
- Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements.
- Trade in goods without required export or import licenses or other evidence of authorization of transit from the relevant countries of export, import and, if applicable, transit.

A reasonableness test will be applied when the activities of the project company would have a significant development impact but circumstances of the country require adjustment to the MKESEL.

When investing in microfinance activities, financial institutions (including microfinance, leasing, factoring companies etc.) will apply the following items in addition to the MKELES:

- Production or activities involving harmful or exploitative forms of forced labor/ harmful child labor. Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty. Harmful/ child labour means the employment of child ren that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.