

OPERATING PRINCIPLES FOR IMPACT MANAGEMENT | ANNUAL DISCLOSURE STATEMENT

31 March 2020

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. This is 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\$ 329.83 million of assets under management, attributable to impact, as of 31 March 2020.

AAF 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.
- **Farming and Engineering Services** – an industry-leading equipment and integrated contracting services provider to the agricultural sector in Malawi. It has delivered 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.
- **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. 8,000 registered outgrower farmers. The mill processes the FFB into crude palm oil (CPO) and palm kernel oil (PKO).
- **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.
- **AAF SME Fund** – was established as a subsidiary fund of the AAF and is independently managed by Databank Agrifund Managers Limited (vintage year: 2012). The fund was established to focus on food production and processing at the small and medium enterprise (SME) level throughout the African continent. With eight investments, these SME businesses (formal and informal) represent the real economy and remain critical to the economic development of the continent.

Exits:

- **Meridian** – its 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 agricultural 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.

Pan African Housing Fund investment portfolio:

- **Westpoint Heights** – is 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 a 298 serviced plot 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 affordable student accommodation.

Phatisa Food Fund 2 investment portfolio:

PFF 2, a follow-on to AAF, achieved a first close of US\$ 121.5 million in October 2018, with further fundraising ongoing. PFF 2 has completed its first investment, 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 products, solutions and services for both the South African and international markets. 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.

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

- 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 (SDG); 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 continue to invest through our new fund, PFF 2.

Principle 2: Manage strategic impact on a portfolio basis

- 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

- 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 during 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

- 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 which assesses 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 assist in gathering qualitative narratives which support the quantitative data.
- Risk factors which could prevent the intended impacts from being achieved are defined and monitored. Where necessary, course corrections are performed to ensure an investment stays on track in terms of achieving anticipated impacts.

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

- 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.
- 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.

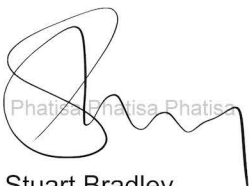
- The verification was conducted in accordance with the International Standard on Assurance Engagements 3000 (revised). This standard deals with assurance engagements, other than audits or reviews of historical financial information, issued by the International Auditing and Assurance Standards Board.
- The assurance conclusion is as follows: 'We believe that the information provided by Phatisa and the work performed by IBIS is 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
First floor, Acacia Building
The Avenue Office Park
45 Homestead Road, Rivonia
Johannesburg, 2191
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

Next planned review: March 2022



Stuart Bradley
Managing Partner

Date: 30 March 2020

For additional information, contact Pravisha Rampal, *Head of Investor Relations* on telephone + 27 (0) 11 463 192 or at investorrelations@phatisa.com