CDC
Investment works

Investment Policy

for the period from 12 October 2017 to 31 December 2021

Contents

Part A – Introduction

A1. CDC Group plc

A1.1 CDC is a bilateral development finance institution which is wholly owned by Her Britannic Majesty's Secretary of State for International Development acting through the Department for International Development ("**DFID**") and by the Treasury Solicitor.

A1.2 Private sector-led growth is essential for overcoming poverty and for allowing human potential to flourish. No country can prosper or move beyond reliance on aid without it. For economic growth to have lasting, resilient impact, it must transform economies, create jobs and private sector investment, and spread benefits across society. Successful businesses are vital to drive a country's growth which provides a sustainable route to poverty reduction. Businesses provide jobs and tax receipts which enable a country to fund its own public services, thereby reducing dependence upon aid.

A1.3 CDC, the UK's development finance institution, is DFID's principal mechanism for investing in business and for leveraging private sector investment.

A2. CDC's Mission and Objectives

A2.1 CDC's mission is to support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places.

A2.2 CDC's objectives are to:

(i) contribute to sustainable development and economic growth that directly or indirectly benefits poor people by investing in businesses and activities, especially when private investors are reluctant to do so;

(ii) create lasting employment opportunities and supports economic transformation and market development by investing in sectors with a high propensity to create jobs or have high growth potential, and activities that address economy-wide barriers to growth;

(iii) demonstrate to private commercial investors that profitable, commercially sustainable and responsible investments can be made and/or developed over time in these environments and, where possible, mobilise both direct and indirect private investment in CDC's target countries, states or territories; and

(iv) realise, and operate in accordance with, the visions, ambitions and directions for CDC set out in this Investment Policy and in accordance with the corresponding CDC Strategy 2017-2021, as approved by DFID on 21 April 2017 and available on the CDC website.

A3. DFID and CDC Collaboration

A3.1 DFID and CDC share a common understanding that both organisations benefit from close collaboration where this is relevant for increasing effectiveness of the respective organisations or to advance shared development objectives. CDC and DFID will continue to build mutual understanding and share information between both organisations.

A4. Purpose of this Investment Policy

A4.1 This Investment Policy sets out the parameters and guidelines within which CDC will conduct its investment business. It also sets out the means by which its achievement of the development and financial performance hurdles set for it will be assessed by the Government.

A4.2 As required by the provisions of the Articles, this Investment Policy was adopted by CDC on 12 October 2017 with the prior approval of the shareholders of CDC and it is one of the principal tools by which DFID seeks to ensure that CDC is achieving the objectives set for it (which are set out in paragraph A2 above).

A4.3 This Investment Policy relates to the period from 12 October 2017 to 31 December 2021. This Investment Policy is an extension of the Investment Policy agreed on 26 May 2017 with the prior approval of the shareholders of CDC in order to add the ability for CDC to make Investments under the Higher Risk Portfolio to generate development impact that would not be possible under the Commercial Risk Portfolio by accepting greater risks. Towards the end of the period of this Investment Policy, DFID, in consultation with CDC, will review the extent to which this Investment Policy has achieved the objectives set in order to inform the next Investment Policy.

A5. Application of this Investment Policy

A5.1 Subject to paragraph A5.2 below, New Commitments will be invested in accordance with the provisions of this Investment Policy and in accordance with the provisions of the Code of Responsible Investing set out in Appendix 3 (the "**Investment Code**").

A5.2 Commitments entered into by CDC prior to the Commencement Date will be invested in accordance with the provisions of the Historic Investment Policy or the Prior Investment Policy (as applicable) and in accordance with the provisions of the Prior Investment Code and, to the extent relevant, shall be taken into account for the purposes of measuring and monitoring CDC's compliance with Performance Hurdle 1 and 2 (as set out in paragraph C1) but shall be scored on the Grid in accordance with the provisions of the Prior Investment Policy. Nevertheless, CDC shall use its reasonable endeavours to ensure that any such Commitments shall be invested in a manner which does not conflict with the provisions of the Investment Code.

A5.3 CDC will ensure that its Investment Holding Subsidiaries will, at all times, conduct their new investment business in accordance with the provisions of this Investment Policy as if they were expressly named throughout this Investment Policy in place of CDC.

A6. Definitions and Interpretation

A6.1 Words and expressions used in this Investment Policy will have the meaning, and will be subject to the interpretation, set out in Appendix 1.

A6.2 For the purposes of this Investment Policy, capital invested by CDC in New Commitments shall be deemed to be "invested in, and for the immediate or prospective benefit of", an Eligible Country (and similar expressions), if, at the date of the Investment, the relevant Investment:

(i) is in a company or other entity which has its principal business or headquarters located or organised in an Eligible Country; or

(ii) in the reasonable judgement of CDC, the investment (either solely or in combination with projected future CDC investments) is expected to result in employment or other significant developmental impact in an Eligible Country.

A6.3 In determining for the purposes of paragraph A6.2 above whether a company or other entity (currently, or as a result of the investment): (i) has (or will have) its principal business headquartered, located or organized, or (ii) generates (or will generate) employment or significant developmental impact in an Eligible Country, all reasonable relevant factors shall be considered including (without limitation): (i) the location of the premises, employees and senior management of each of its businesses; (ii) the source of revenue of each of its businesses; and (iii) backward and forward linkages (including the source of raw materials), and such factors shall be weighted as appropriate in all the circumstances.

A6.4 An investment is "invested in" a particular Economic Sector or Sectors, if, at the date of the Investment, in the reasonable judgment of CDC, the investment would principally be employed in that sector or sectors. In making that determination, all reasonable relevant factors shall be considered including (without limitation): (i) the specific nature of the activities; (ii) the source(s) of revenue of each of the related entity's businesses; and (iii) backward and forward linkages (including the source of raw materials) and such factors shall be weighted as appropriate in all the circumstances.

Part B – Investment Criteria

B1. Direct investment and intermediated investment

B1.1 From the Commencement Date, CDC will:

(i) commit its capital directly (that is to say otherwise than through the medium of investment funds or facilities managed by third party managers) ("**Direct Investment**"); and

(ii) commit its capital to a wide range of investment funds or facilities managed by third party managers ("**Intermediated Investment**").

B1.2 In committing its capital to any Direct or Intermediated Investment, CDC may invest through one or more investment vehicles (which may be domiciled in a country which is not an Eligible Country) if CDC considers that it is appropriate to do so for fiscal, legal, regulatory, development or other bona fide reasons and it is consistent with CDC's policy on Tax and Offshore Financial Centres as agreed with DFID from time to time.

B2. Available instruments

B2.1 In its pursuit of development impact, it is intended that CDC should offer private sector businesses in Eligible Countries access to financial instruments which may not be provided by the market at all or which may not be provided by the market on reasonable terms, on an adequate scale or at a reasonable cost, consistent with paragraph C2.9. As such, and given the wide range of business needs across the spectrum of Eligible Countries, CDC should have a range of financial instruments at its disposal. The instruments in which CDC may directly or indirectly participate will include the following:

(i) equity and quasi-equity instruments (including partnership interests, ordinary shares, preference shares, debentures, income notes, redeemable preference shares, listed or unlisted securities, underwriting of share issues by public or privately owned enterprises, subordinated loan notes and financing the transfer of shares in existing enterprises);

(ii) debt instruments (including senior, subordinated, mezzanine, secured, unsecured, convertible, bonds and debentures);

(iii) guarantees (ranging from all-risk guarantees to partial risk-specific contingent guarantees);

(iv) grants;

(v) project preparation companies, funds or facilities;

(vi) technical assistance or advice to companies, funds or facilities; and

(vii) such other instruments as enable CDC to achieve its objectives as set out in this Investment Policy.

B2.2 The terms and conditions of any Investment will be subject to CDC's assessment of the risks, the prospective returns associated with, and the financial and ownership structure of, the relevant Investment and will be discussed and agreed with the relevant counterparty. It is acknowledged, however, that when CDC commits its capital to Intermediated Investments the terms and conditions of investments in Investee Businesses will be subject to assessment, discussion and agreement by third party fund managers or other financial intermediaries rather than directly by CDC.

B2.3 Without prejudice to such liquidity policy as shall be in force from time to time, CDC will not be restricted as to the proportion of its assets which may be retained in cash, cash equivalents or in other short term financial instruments in circumstances where CDC considers this to be in the best interests of CDC and DFID.

B3. Eligible Countries

B3.1 Subject as provided below, capital invested by CDC in New Commitments will only be invested in, and for the immediate or prospective benefit of, any of the countries, states or territories in Africa or South Asia listed in Appendix 2 (the "**Eligible Countries**").

B3.2 A country, state or territory either inside or outside Africa or South Asia may be added to or removed from Appendix 2 with the agreement of both CDC and DFID.

B3.3 For the avoidance of doubt, this Investment Policy will not prevent CDC from investing its capital in, and for the immediate or prospective benefit of, a country which is not an Eligible Country to the extent that such investment is: (i) made in accordance with the provisions of a legally binding commitment entered into by or on behalf of CDC prior to the Commencement Date and consistent with the provisions of relevant Investment Policy covering the date of the commitment (either the Historic Investment Policy or the Prior Investment Policy, as the case may be); or (ii) is necessary, in the view of CDC's Investment Committee, to protect an existing economic interest. In the latter case, CDC will make DFID aware of such a decision and the reasons for the decision.

B4. Eligible Sectors

B4.1 Other than as otherwise provided in this paragraph B4, all sectors of the economy of each Eligible Country are eligible for the investment of CDC's capital.

B4.2 None of CDC's capital will be invested, directly or via intermediaries, in any of the following, activities:

(i) production of, or trade in, any product or activity deemed illegal under applicable local or national laws or regulations or subject to internationally agreed phase-outs or bans as defined in global conventions and agreements such as certain:

- hazardous chemicals, pharmaceuticals, pesticides and wastes[1];
- ozone depleting substances[2];
- endangered or protected wildlife or wildlife products[3]; and

[1] As specified in the 2004 Stockholm Convention on Persistent Organic Pollutants ("POPs"), see www.pops.int; the 2004 Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, see www.pic.int; and the 1992 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, see www.basel.int; as may be amended from time to time.

[2] As specified in the 1999 Montreal Protocol on Substances that Deplete the Ozone Layer, see www.ozone.unep.org, as may be amended from time to time.

[3] As specified in the 1975 Convention on International Trade in Endangered Species or Wild Flora and Fauna ("CITES"), see www.cites.org, as may be amended from time to time.

- unsustainable fishing methods such as blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 kilometres in length;

(ii) production of, or trade in, arms (i.e. weapons, munitions or nuclear products, primarily designated for military purposes);

(iii) production of, use of, or trade in, unbonded asbestos fibres;

(iv) production of, or trade in, radioactive materials[4]; or

(v) prostitution.

B4.3 None of CDC's capital will be invested in any entity if any of the following activities represents a substantial[5] portion of its business:

(i) gambling, gaming casinos and equivalent enterprises;

(ii) tobacco or tobacco related products[6]; or

(iii) pornography.

B5. Additionality

B5.1 In making decisions on potential Investments, CDC will consider, in each Investment decision, its additionality. This will include considering the benefit of CDC's capital, but also the benefit of CDC's value added, which could encompass environmental, social and governance, business integrity or any input particular to that Investment which brings value to the investee company. CDC will also consider the mobilisation of additional funding, where it is a lead or important capital provider and therefore in a position to mobilise funds. Both additionality and mobilisation are important issues which are to be considered by CDC together with other investment considerations.

B6. Anti-Corruption, Modern Slavery and Compliance with Law

B6.1 In conducting its activities, CDC will at all times ensure that it complies with all applicable law, relevant sanctions and relevant regulation including, without limitation, the Bribery Act 2010 and the Modern Slavery Act 2015.

B6.2 CDC will take reasonable endeavours to prevent corruption, including bribery and fraud, in its operations and those of its fund managers and portfolio companies. CDC will at all times have an anti-corruption policy which is available on its website; and will ensure that it records, and retains, a consolidated register (in addition to portfolio management systems) of all incidents, or allegations of incidents, of (a) fraud or corruption against CDC or (b) fraud or corruption by CDC, an investee company or fund manager. CDC will appraise DFID of the number of new such incidents or allegations, the number closed and the number remaining open at quarterly shareholder meetings.

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[4] This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment in which the radioactive source could reasonably be considered to be trivial or adequately shielded.
[5] "Substantial portion" is defined as (i) for companies, more than 10% of its consolidated balance sheet or earnings and (ii) for financial institutions, more than 10% of its portfolio volumes.
[6] Except, in the case of tobacco production only, with an appropriate timeframe for phase out.

B7. Approach to Portfolio Management and Exits from Investments

B7.1 In managing its portfolio CDC will ensure that its portfolio remains appropriately diversified against risk (including by monitoring the Portfolio Limits and maintaining a balance of financial instruments used) and will drive the management of environmental and social risks, corporate governance and integrity in its Investments.

B7.2 CDC will at all times manage its portfolio of Investments with integrity and, in so doing, will seek to ensure that its participation adds value and avoids reputational damage.

B7.3 In any exit from, or disposal of any Investment, CDC shall seek, where it has discretion to do so, to ensure that such an exit or disposal is consistent with the achievement of its mission and objectives (both financial and developmental) and within the spirit of the Investment Code.

Part C – The Performance Framework

C1. The Profitability Hurdle

C1.1 CDC will aim to exceed the following profitability hurdle as to the financial return on its Total Portfolio:

- its Average Net Profit shall be positive (following the methodology for determination summarised in paragraphs C1.2 and C1.3 below (the "**Profitability Hurdle**")).

C1.2 The **Profitability Hurdle** is calculated for any financial year by reference to: (i) in respect of any financial year up to the end of 2021, the Average Net Profit during the period commencing January 1, 2012 to date.; and (ii) in respect of any financial year after the end of 2021, the Average Net Profit during the ten-year period ending with such financial year. For these purposes, the following definitions shall apply:

"**Average Net Profit**" shall mean the aggregate Net Profit for each of the financial years in the relevant period divided by the number of financial years in such period; and

"**Net Profit**" shall mean the profit of CDC after operating expenses and all other charges (including, without limitation, taxes, interest and depreciation) have been deducted from total revenue PROVIDED THAT the 2017 Net Profit shall also be reduced by an amount equal to the difference between the aggregate original cost of the investment assets transferred to CDC during the course of such year (related to the Impact Facility and the Impact Accelerator Facility) and the aggregate fair value of such assets as on the relevant date of transfer.

C1.3 In determining Profitability Hurdle, CDC shall employ the same accounting policies and procedures as shall be applied in the preparation of its annual report and accounts.

C2. The Performance Hurdles (the "Performance Hurdles")

C2.1 The Performance Hurdles only apply to the Commercial Risk Portfolio.

C2.2 CDC will aim to exceed the following performance hurdle as to the extent to which Investments in its Commercial Risk Portfolio (the "**Commercial Risk Portfolio**") have targeted the Eligible Countries and sectors with the greatest potential development impact:

- the minimum aggregate Development Score for all Investments made during the course of the immediately preceding period of three years weighted by size of investment shall be 2.40 (following the methodology for determination summarised in paragraph C3 below) (**Performance Hurdle 1**).

C2.3 CDC will aim to exceed the following performance hurdle as to the financial return on its Commercial Risk Portfolio:

- the minimum trailing annualised financial return on CDC's portfolio shall be 3.5% (following the methodology for determination summarised in paragraph C4 below (**Performance Hurdle 2**).

C3. Determination of Performance Hurdle 1

C3.1 CDC will seek to focus its Investments in the countries and sectors where there is the most potential for development impact, consistent with its mission statement, objectives and aims as set out in paragraph A2.

C3.2 CDC Investments advance development in many different ways. CDC will track its development impact at investment and sector level as outlined in paragraph C6.3. Performance Hurdle 1 focuses on jobs and difficulty of geography. CDC and DFID have agreed a framework (the "Development Grid"), summarised below and set out in detail on the CDC website, for assessing Investments for development impact potential. This framework has been developed with external consultants and academics to provide an objective method for classifying both Direct Investments and Intermediated Investments.

C3.3 Development impact potential of a potential Investment will be assessed on the basis of the following two dimensions:

(i) the investment difficulty of the country, state or territory where such Investment would be made; and

(ii) the propensity of the potential investee's business sector to generate employment.

C3.4 Investment Difficulty:

(i) the investment difficulty of each country is assessed with regard to market size, income level, ability to access finance, ease of doing business and fragility, as follows:

Investment difficulty = Rank (GDP) + Rank (GDP per capita) + Rank (Domestic Credit to Private Sector as % of GDP) + Rank (World Bank Group Doing Business ranking) + Rank (DFID Fragility Index) (all equally weighted)

(ii) in the case of India, investment difficulty is assessed state by state (excluding the DFID Fragility Index which is not available state by state but will be taken on a country-wide basis).

(iii) each country within CDC's geography is ranked according to this assessment into four categories (A, B, C and D with A as the most difficult and D as the least difficult).

C3.5 Propensity to Generate Employment:

(i) the propensity of each business sector (each an "**Economic Sector**") to generate employment was assessed with regard to:

(a) the potential to create employment directly, measured by the employment (both skilled and unskilled) to capital ratio;

(b) the potential to create employment indirectly through backward linkages in the supply chain, measured by the local procurement to capital ratio; and

(c) the potential for investment into essential infrastructure (physical and financial) to remove business constraints and induce job creation economy-wide; and

(ii) each sector has been ranked according to this assessment into three categories (Low, Medium and High).

C3.6 The Development Grid plots “Investment Difficulty” on the “x” axis and “Propensity to Generate Employment” on the “y” axis. Each cell on the Development Grid is assigned a score from 1 to 4 as illustrated. CDC will assess each Investment using the Development Grid and will assign it a score based on where it sits in one or several cells.

C3.7 The determination of the appropriate score on the Development Grid for an Investment shall be made by the CDC Development Impact Team: (i) in the case of Direct Investments, at the time such Direct Investment is approved; and (ii) in the case of Intermediated Investments, at the time of (or shortly following) any disbursement of funds by CDC to enable the fund or facility to make an investment.

C3.8 All scores will be independently assured annually to ensure accuracy.

C4. Determination of Performance Hurdle 2

C4.1 **Performance Hurdle 2** is calculated for any year by reference to Cumulative Investment Return for such year.

C4.2 In determining Performance Hurdle 2, CDC shall employ the same accounting policies and procedures as shall be applied in the preparation of its annual report and accounts.

C5. Monitoring the Performance Hurdles and Profitability Hurdle

C5.1 Achievement of the Performance Hurdles and Profitability Hurdle will be measured (over appropriate agreed periods) by CDC as at the end of each financial year (the accounting reference date for CDC is 31 December in each year).

C5.2 By no later than 30 April in each year, the Board will confirm and deliver to DFID,

(i) written confirmation (a “**Confirmation**”):

(a) whether or not the Performance Hurdles and Profitability Hurdle applicable to the immediately preceding financial year have been achieved; and

(b) in circumstances where the Performance Hurdles or Profitability Hurdle applicable to the immediately preceding financial year have not been achieved, the Confirmation will set out in reasonable detail: (1) the extent of CDC’s under-achievement; (2) the reasons for CDC’s under-achievement; and (3) an action plan to meet the relevant Performance Hurdle or Profitability Hurdle in future; and

(ii) written assurances (the “**Assurances**”) from CDC’s external evaluators and auditors (as applicable) that they agree with the Confirmation with regard to whether each of the Performance Hurdles and Profitability Hurdle applicable to the immediately preceding financial year have been achieved.

C5.3 For the purposes of this Performance Framework, a Performance Hurdle or Profitability Hurdle will be deemed to be achieved by CDC in respect of any financial year or as at the end of the Policy Period (as the case may be) in circumstances where:

(i) the Confirmation is issued by CDC in the form, and within the period, prescribed above;

(ii) the Confirmation confirms the achievement of the relevant Performance Hurdle;

(iii) the Assurances are issued in the form, and within the period, prescribed above; and

(iv) the Assurances confirm that they do not disagree materially with the Confirmation with regard to each Performance Hurdle applicable to the immediately preceding financial year.

C5.4 Once the Confirmation and Assurances are issued, they will promptly be disclosed to the public by CDC.

C6 The Higher Risk Portfolio

C6.1 The goal of the Higher Risk Portfolio is to enable CDC to pursue strategies that will unlock specific markets which, over time, can have significant development impact that would not otherwise be possible under the Commercial Risk Portfolio. To pursue such policies, CDC may accept greater risks than it would accept in its Commercial Risk Portfolio. Investments made under the Higher Risk Portfolio must be made, held and disposed of, in accordance with all elements of this Investment Policy with the exception of the Performance Hurdles.

C6.2 Investments made under the Higher Risk Portfolio shall be made pursuant to (and consistent with) a Qualifying Strategy. In order to justify the use of capital under the Higher Risk Portfolio, each "Qualifying Strategy" shall be approved by the CDC Board which will satisfy itself that the relevant Qualifying Strategy is consistent with the Higher Risk Portfolio Schedule in Appendix 5.

C7 Measurement and Evaluation of Development Impact

C7.1 Measuring and communicating development impact is integral to CDC's mission and achieving value with taxpayers' money. CDC will track the impact of its Investments through measures of jobs and taxes paid by its portfolio companies. In addition, CDC will develop methods to measure, where appropriate, sectoral impact.

C7.2 CDC will also articulate the development thesis of each Investment at the time of making the Investment. Where appropriate, CDC will monitor progress against the development thesis and introduce and track customised measures of development impact for specific Investments.

C7.3 CDC will regularly engage reviewers to undertake independent evaluations of important development impact themes in the portfolio, to answer strategic questions about CDC's impact and to guide further investment strategies.

C7.4 CDC will make the written product of all such independent reviews available to DFID and, to the greatest extent possible, will make them available to the public by posting links to them on CDC's website.

Part D – Portfolio Limits and Capital Allocation

D1. Limits

D1.1 CDC will maintain a diversified portfolio with the intention to normally and over the long term remain below the following limits (as further described in paragraph D1.4).

D1.2 A "financial risk limit" is determined by CDC's Risk Committee and, if breached, action will be determined by this Committee, but always promptly informing DFID in writing. If the Risk Committee decides to change any of these numerical limits, this Investment Policy will follow suit, again always informing DFID. The financial risk limits are:

(a) 15% of the Current Commercial Risk Portfolio Value consists of Investments made, directly or indirectly, in any Risk Group 1 Eligible Country[7];
(b) 10% of the Current Commercial Risk Portfolio Value consists of Investments made, directly or indirectly, in any Risk Group 2 Eligible Country[8];
(c) 5% of the Current Commercial Risk Portfolio Value consists of Investments made, directly or indirectly, in any Risk Group 3 Eligible Country[9]; and
(d) such single obligor limits as determined from time to time by CDC's Risk Committee

D1.3 A "policy limit[10]" is established by DFID which may be lower than the "financial risk limit" set by CDC's Risk Committee. The policy limit for India is: 38%, determined as a fraction, (i) the numerator of which is (a) all commitments made, directly or indirectly, in India since January 1, 2012 minus (b) all realisations on investments made pursuant to such commitments; and (ii) the denominator of which is (a) all commitments made since January 1, 2012 minus (b) all realisations on investments made pursuant to such commitments. Commitments shall be valued consistently with CDC's policies for the preparation of its financial statements. Realisations shall be valued on a "cost" basis.

D1.4 In applying the limits, it is recognised that CDC has a dynamic portfolio and weightings, from time to time, are beyond management's control as valuations may rise or fall or realisations or drawdowns be made by fund managers. CDC's pipeline of potential investments takes time to develop and declining to make investments at a late stage for portfolio diversification reasons will result in reputational damage. As such, if a financial risk limit is breached then sufficient time will be given, which may be a year or more, for CDC to execute its current pipeline and thereafter bring the weighting back below the limit. If the policy limit is breached, CDC will inform DFID of the reasons for such breach and may ask for the breach to be waived.

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[7] **"Risk Group 1 Eligible Country"** means, from the date of adoption of this Investment Policy any of: Egypt, Ethiopia, Pakistan, Myanmar, Nigeria, Algeria, Bangladesh and South Africa. However, this list of countries is subject to annual review and may be revised as agreed by CDC and DFID from time to time

[8] **"Risk Group 2 Eligible Country"** means, from the date of adoption of this Investment Policy, any of: Mozambique, Cameroon, Cote d'Ivoire, Senegal, Swaziland, Sri Lanka, Botswana, Kenya, Uganda, Mauritius, Afghanistan, Zambia, DRC, Ghana, Tanzania, Namibia, Madagascar, Sierra Leone, Morocco, Burkina Faso, Angola, Rwanda and Mauritania. However, this list of countries is subject to annual review and may be revised as agreed by CDC and DFID from time to time;

[9] **"Risk Group 3 Eligible Country"** means, from the date of adoption of this Investment Policy, any of: Bhutan, Gabon, Togo, Congo (Brazzaville), Burundi, Sudan, Benin, Niger, Nepal, Eritrea, Equatorial Guinea, Lesotho, Liberia, Cape Verde, Guinea, Somalia, Djibouti, The Gambia, Mali, Tunisia, Central African Republic, Guinea Bissau, Chad, Zimbabwe, Comoros, Libya, Sao Tome and Principe, South Sudan, Seychelles, Maldives, Vietnam, Lao PDR, and Cambodia. However, this list of countries is subject to annual review and may be revised as agreed by CDC and DFID from time to time.

[10] DFID retains the flexibility to increase the limit.

D2. Portfolio Limits Reporting

D2.1 Subject as provided in paragraph D2.2, CDC shall provide a written report to DFID quarterly in respect of the Portfolio Limits.

D2.2 CDC shall promptly after becoming aware of exceeding any of the limits in D.1, provide a written report to DFID. Such written report shall confirm the extent to which the limit has been exceeded and the cause of the limit being exceeded. Subsequently, CDC will discuss the matter with DFID and then confirm to DFID such action (if any) as the Board proposes to take in response (bearing in mind paragraph D1.3).

D3. Capital Allocation between the Commercial Risk and Higher Risk Portfolio

D3.1 Capital allocation across the five year period to 2021 has been agreed by DFID and CDC in the Strategic Framework 2017-2021. This Strategic Framework foresees average New Commitments entered into under the Commercial Risk Portfolio of £1.2 billion per financial year, and total New Commitments under the Higher Risk Portfolio during the five year period of £0.8-1.6 billion. These allocations are not targets but rather set out DFID's and CDC's aspirations for the Total Portfolio.

D3.2 Management of these allocations and adjustments in light of market conditions, performance or other factors as necessary to remain in compliance with all elements of this this Investment Policy are the responsibility of CDC.

Part E – Compliance Reporting

E1. Annual reporting

E1.1 CDC will report to DFID (in a form reasonably satisfactory to DFID) promptly following the end of each financial year of CDC, in respect of the immediately preceding financial year, on:

(i) its financial performance (including a portfolio breakdown between post-2012 Commitments and total Commitments and between its Commercial Risk Portfolio and its Higher Risk Portfolio and its operating costs against the annual budget and investing against the annual projections (or ranges)[11]);

(ii) its compliance with the Investment Policy;

(iii) its compliance with the Investment Code;

(iv) its compliance with all other CDC operating policies and procedures;

(v) additionality of new Investments (with a breakdown by type of additionality);

(vi) its performance against the Performance Hurdle 1 and Performance Hurdle 2;

(vii) its performance against the Profitability Hurdle;

(viii) any refinement of the Development Grid under paragraph C2;

(ix) an assurance on compliance with the Remuneration Framework of CDC; and

(x) a financial and non-financial risk assessment/mitigation report.

E1.2 CDC will provide DFID, before the commencement of each year, an annual budget and annual investing projections (or ranges) agreed with the Board for such year.

E1.3 If the Board believes an audit of its implementation processes in relation to the Investment Code to be necessary, CDC will make a copy of the audit available to DFID promptly following its completion.

E2. Quarterly reporting

E2.1 CDC will report to DFID (in a form reasonably satisfactory to DFID) promptly following the end of each period of 3 months (each such period being a "**Quarter**"), in respect of the immediately preceding Quarter, on:

(i) its financial performance (including a portfolio breakdown between post-2012 Commitments and total Commitments and between its Commercial Risk Portfolio and its Higher Risk Portfolio);

(ii) any issues or concerns of CDC arising from the implementation of, or compliance with, the Investment Policy;

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[11] For the avoidance of doubt, CDC does not have annual investment volume targets.

(iii) any issues or concerns of CDC arising from the implementation of, or compliance with, the Investment Code;

(iv) its progress towards the Performance Hurdle 1 and 2;

(v) its progress towards the Profitability Hurdle;

(vi) its approval of Qualifying Strategies;

(vii) status of the Portfolio Limits;

(viii) its operating costs against budget;

(ix) its cash position (including a report on any drawdown of any committed borrowing facility and any draw down of any promissory notes made by CDC) and compliance with its liquidity policy;

(x) relevant risks and mitigating actions; and

(xi) status updates relating to the fraud and corruption register as detailed in paragraph B6.2.

E3. CDC Annual Report and Accounts

CDC will publish annually (in a form reasonably satisfactory to DFID) an Annual Report and Accounts that will give an overview of CDC's financial and developmental performance.

E4. Official Development Assistance

CDC shall take such actions as shall be required in order to remain qualified as an Official Development Assistance (ODA)-eligible entity, as defined by the OECD Development Assistance Committee (DAC).

E5. Reporting Framework

CDC will at all times report in compliance with the Reporting Framework. The Reporting Framework shall detail such reports and information (including, without limitation, in respect of the extent of CDC's operations, its achievement of its objectives and aims, and its developmental impact) as may be agreed by DFID and CDC from time to time in addition to those reports and information set out in this section E.

E6. Transparency

CDC is committed to openness and transparency and has published its approach on its website[12]. Such transparency is important for accountability and to enhance the demonstration effect of its Investments, by making information available to potential investors in its markets. Therefore, it will publish information relating to its Investments and operations, to the extent useful and relevant to interested third parties and as permitted by applicable law and the requirements of commercial confidentiality.

CDC will also work to ensure such information is fully and easily accessible to all third parties.

E7. Other Matters

[12] http://www.cdcgroup.com/Documents/Transparency%20statement.pdf

DFID may, from time to time, request that CDC contributes to reviews, evaluations or audits of DFID or of DFID-commissioned studies or evaluations related to CDC. DFID shall give CDC as much notice as possible of any such exercise and where possible an opportunity to agree the scope of such exercise as it affects CDC. CDC shall make all reasonable efforts to contribute to such exercises.

Part F - Amendment, Modification or Replacement of this Investment Policy and Prior Policies and Other Matters

F1.1 Except as otherwise provided herein, this Investment Policy will not be altered, modified or replaced without first:

(i) CDC's ordinary shareholders (being DFID and the Treasury Solicitor) approving the alteration, modification or replacement by passing an ordinary resolution; and

(ii) CDC's special shareholder (being DFID) giving its written consent to the alteration, modification or replacement.

Words and expressions used in this paragraph F1.1 will have the meaning given to them in the Articles.

F1.2 Save to the extent expressly provided to the contrary in this Investment Policy, this Investment Policy will supersede and replace all prior investment policies of CDC (including, without limitation, the Prior Investment Policy) with effect from the Commencement Date.

F1.3 This Investment Policy will only relate to capital invested by CDC on behalf of DFID to achieve the objectives set out in this Investment Policy. In the event that CDC manages third party capital (whether made available by DFID to achieve other specific objectives or by another third party) it will, for the avoidance of doubt, manage such capital in accordance with such arrangements as shall be agreed by CDC and which shall be consistent with the Investment Code.

Appendix 1: Definitions and interpretation

1. *Definitions*

“Act” means the UK’s Commonwealth Development Corporation Act 1999.

“Annual Investment Return” for each year means the aggregate amount of profits (realised and unrealised) derived from the investment portfolio in such a year divided by the value of the investment portfolio as of December 31 in the prior year. CDC’s investment portfolio shall exclude assets held for persons other than CDC, investments made for Treasury purposes, cash and cash equivalents. Aggregate profits will be gross (before any deduction of taxes paid by CDC on capital gains, interest or dividends received within its investment portfolio).

“Articles” means the articles of association of CDC, as amended from time to time.

“Audited Accounts” means the audited report and accounts of CDC for any financial year.

“Board” means the board of directors of CDC.

“CDC” means CDC Group plc.

“Commencement Date” means 12 October 2017.

“Commercial Risk Portfolio” means all Investments except for those made under Part C6 of this Investment Policy (the Higher Risk Portfolio).

“Commitment” means a legally binding commitment to make a Direct Investment or an Intermediated Investment.

“Cumulative Investment Return” means, for the Commercial Risk Portfolio, for any year (a) up to 2021, the sum of the Annual Investment Returns for each year from and including 2012 divided by the number of such years and (b) for any year after 2021, the sum of the Annual Investment Returns for each of the last ten years divided by ten.

“Cumulative Net Return” means for any year (a) up to 2021, the sum of the Annual Net Returns for each year from and including 2012 divided by the number of such years and (b) for any year after 2021, the sum of the Annual Net Returns for each of the last ten years divided by ten.

“Current Commercial Risk Portfolio Value” means, as of any indicated date, the current value of CDC’s Current Portfolio. CDC’s investment portfolio shall exclude assets held for persons other than CDC, investments made for Treasury purposes, cash and cash equivalents and undrawn commitments.

“Development Grid” has the meaning given to it in paragraph C3.2.

“DFI” means a development finance institution owned in whole, or in part, by the public sector.

“DFID” has the meaning given to it in paragraph A1.1.

“Direct Investment” has the meaning given to it in paragraph B1.1.

“Economic Sector” has the meaning given to it in paragraph C3.5(i).

“Eligible Country” has the meaning given to it in paragraph B3.1.

“Government” means Her Britannic Majesty’s Government.

“Higher Risk Portfolio” means Investments made under Part C6 of this Investment Policy (including, without limitation, all investments made by CDC prior to 1 October 2017 under the Impact Fund and Impact Accelerator Memorandum of Understanding with DFID, which assets were transferred to CDC by DFID on 1 October 2017).

“Historic Investment Policy” means the Investment Policy adopted by CDC on 17 December 2008 and which took effect from 1 January 2009 to 31 December 2012.

“International Accounting Standards” means standards for the preparation and presentation of financial statements created by the International Accounting Standards Committee (IASC).

“Intermediated Investment” has the meaning given to it in paragraph B1.1.

“Investee Business” means any underlying business in which CDC has an interest by way of a Direct Investment or an Intermediated Investment.

“Investment” means any Direct Investment or an Intermediated Investment.

“Investment Holding Subsidiary” means any CDC subsidiary that is consolidated with CDC under International Accounting Standards in CDC’s consolidated financial statements.

“Investment Code” has the meaning given to it in paragraph A5.1.

“Investment Policy” means this document as from time to time amended, modified and/or replaced in accordance with the provisions of this Investment Policy and of the Articles.

“New Commitment” means any Commitment entered into by or on behalf of CDC after the Commencement Date (for the avoidance of doubt, a follow-on investment entered into by CDC in respect of any New Commitment shall also be considered to be a New Commitment for the purposes of this Investment Policy).

“Old Universe Countries” means those countries constituting the “CDC Universe” as defined in Appendix 1 of the Historic Investment Policy and those countries in which CDC is permitted to invest in accordance with the Prior Investment Policy.

“Performance Hurdles” has the meaning given to it in paragraph C1.

“Policy Period” means the period beginning on the “Commencement Date” and expiring on 31 December 2021.

“Portfolio Limits” means those limits described in paragraph D1.1.

“Prior Investment Code” means the investment code set out at Appendix 2 of the Prior Investment Policy.

“Prior Investment Policy” means the investment policy adopted by CDC on 26 September 2013 and deemed to have effect in respect of the period from 1 January 2012 to 31 December 2016.

“Subsidiary” has the meaning given to it in the UK’s Companies Act 2006.

“Treasury Solicitor” is the Solicitor for the Affairs of Her Majesty’s Treasury.

“Qualifying Strategy” means any strategy approved by the CDC Board from time to time in accordance with the provisions of Appendix 5 relating to the making of Investments under the Higher Risk Portfolio.

“Total Portfolio” means all Investments held by CDC. The Total Portfolio comprises both the “Commercial Risk Portfolio” and the “Higher Risk Portfolio” but shall exclude assets held for persons other than CDC, investments made for Treasury purposes, cash and cash equivalents and undrawn commitments.

Appendix 2: Eligible Countries, States and Territories

Country	Region
Afghanistan	South Asia
Algeria	Africa
Angola	Africa
Bangladesh	South Asia
Benin	Africa
Bhutan	South Asia
Botswana[13]	Africa
Burkina Faso	Africa
Burundi	Africa
Cameroon	Africa
Cambodia[14]	South Asia
Cape Verde	Africa
Central African Republic	Africa
Chad	Africa
Comoros	Africa
Congo (Democratic Republic of)	Africa
Congo (Republic of)	Africa
Côte d'Ivoire	Africa
Djibouti	Africa
Egypt, Arab Rep.	Africa
Equatorial Guinea	Africa
Eritrea	Africa
Ethiopia	Africa
Gabon	Africa
Gambia, The	Africa
Ghana	Africa
Guinea	Africa
Guinea-Bissau	Africa
India	South Asia
Kenya	Africa
Lesotho	Africa
Lao PDR[14]	South Asia
Liberia	Africa
Libya	Africa
Madagascar	Africa
Malawi	Africa
Maldives	South Asia
Mali	Africa
Mauritania	Africa
Mauritius[15]	Africa
Morocco[16]	Africa

[13] CDC will make no Direct Investments into Botswana except for the immediate or prospective benefit of countries classified in categories C, B, or A on the Development Grid.
[14] CDC will make no Direct Investments into Cambodia, Lao PDR or Vietnam.
[15] CDC will make no Direct Investments into Mauritius except for the immediate or prospective benefit of countries classified in categories C, B, or A on the Development Grid.
[16] CDC will make no Direct Investments into South Africa, Morocco, Tunisia, except where the sector is classified as High on the Development Grid, or where the investment will result in significant immediate or prospective benefit of deprived areas or sections of the population in the relevant country or of countries classified in categories C, B, or A on the Development Grid.

Mozambique	Africa
Myanmar	South Asia
Namibia	Africa
Nepal	South Asia
Niger	Africa
Nigeria	Africa
Pakistan	South Asia
Rwanda	Africa
Sao Tome and Principe	Africa
Senegal	Africa
Seychelles	Africa
Sierra Leone	Africa
Somalia	Africa
South Africa[16]	Africa
South Sudan	Africa
Sri Lanka	South Asia
Sudan	Africa
Swaziland	Africa
Tanzania	Africa
Togo	Africa
Tunisia[16]	Africa
Uganda	Africa
Vietnam[14]	South Asia
Zambia	Africa
Zimbabwe	Africa

Appendix 3: Code of Responsible Investing

1.1 Rationale for the Code

CDC believes it should invest in a responsible fashion, considering environmental and social ("E&S") and governance (including business integrity) ("ESG") matters. Effective management of these matters reduces risks to workers, the environment, local communities and other stakeholders, and implementation of good ESG practices is increasingly associated with a wide range of business benefits including access to markets, reduced staff turnover, cost efficiencies in production and enhanced stakeholder relations.

The Code of Responsible Investing (this or the "Code") sets out CDC's requirements in relation to all the investments it makes through its direct and intermediated business lines. It reflects international standards and practices including the International Finance Corporation's ("IFC") Performance Standards, and the UN Guiding Principles on Business and Human Rights. It also reflects CDC's requirements in relation to climate change.

CDC recognises that not every business in which it invests will be in compliance with this Code at the date of investment. In such cases, CDC (or its Fund Managers and Financial Institutions) will work with the business to develop an Action Plan that seeks to achieve compliance over a reasonable time frame, taking into consideration the risks and opportunities specific to that business and its size and resources. CDC will only finance investment activities that are expected to meet the requirements of this Code within a reasonable period of time. Persistent delays in meeting these requirements may trigger options for CDC to cease funding, exit an investment and/or take remedial action.

1.2 Structure of the Code

The Code is presented in six schedules that apply variously to CDC and its investments.

Schedule 1 describes CDC's role and responsibilities in helping Fund Managers, Financial Institutions and Portfolio Companies implement the Code, as well as commitments to monitor implementation of the Code across its portfolio of direct investments, to review and update the Code as necessary, to report on its implementation and to provide a grievance mechanism for stakeholders to report alleged breaches of the Code;

- **Schedule 2** describes the components and structure of ESG management systems applicable to Fund Managers and certain Financial Institutions in which CDC invests;
- **Schedule 3** describes ESG requirements applicable to all Fund Managers, Financial Institutions and Portfolio Companies, separated into E&S and business integrity sections and covering areas such as working conditions, labour rights, access to remedy and sanctions;
- **Schedule 4** identifies additional E&S requirements which apply in certain circumstances where higher E&S risks or opportunities may be apparent;
- **Schedule 5** identifies international and other good ESG practices which CDC encourages its Portfolio Companies to achieve beyond the requirements of the Code;
- **Schedule 6** describes the Excluded Activities for which CDC's capital cannot be used;
- **The Glossary** defines certain terms used in the Code.

1.3 Policy Sponsor and Maintenance

CDC's Chief Operating Officer is the sponsor of this policy and oversight of its implementation is provided by CDC's Development Committee. The Environmental and Social Responsibility and Business Integrity Teams within CDC are responsible for the implementation of the Code. As this is an area of developing policy externally, it is anticipated that this Code will continue to develop over time.

2 The Code of Responsible Investing

CDC shall assure itself that investments it makes are consistent with the obligations of the Code. CDC may use a range of commercial tools to effect this, depending on the nature and context of the investment, including due diligence, contractual representations, non-contractual undertakings, covenants and exit rights.

1. CDC's capital shall not be invested, either directly or indirectly, in an Excluded Activity.

2. CDC shall maintain a responsible investment management system, as outlined in Schedule 1.

3. Every Portfolio Company shall comply with the Requirements.

4. Every Fund Manager shall:
   a. maintain management systems that satisfy Schedule 2; and
   b. comply with the Requirements.

5. Every Financial Institution shall:
   a. maintain management systems that satisfy Schedule 2 with respect to the management of E&S issues if it uses CDC capital in relation to a portfolio that CDC concludes contains a substantial exposure to businesses or projects with potential for significant adverse social or environmental impacts;
   b. comply with the Requirements; and
   c. ensure that each business that such Financial Institution invests in complies with Applicable Laws.

6. However, if a Portfolio Company, Fund Manager or Financial Institution is not in compliance with any of the requirements in Sections 3, 4 and 5 above at the time of the investment, it shall be deemed to be in compliance with the applicable requirement provided it agrees to and implements an Action Plan.

7. So long as CDC is invested in a Portfolio Company, CDC (if the investment is direct) or the Fund Manager or Financial Institution (if the investment is indirect) shall ensure that:
   a. any Action Plan is implemented; and
   b. the Portfolio Company otherwise remains in compliance with the relevant provisions of this Code.

8. CDC, Fund Managers and Financial Institutions shall promote, and where practicable support, any Portfolio Company that seeks to implement the recommended practices promoted by CDC in Schedule 5.

9. If CDC co-invests (including with other development finance institutions), CDC may elect to apply requirements differing from, but substantially similar to, those set out in Schedules 3, 4 and 5 in this Code in order to harmonise the requirements of all co-investors.

Schedule 1: Responsible Investment Management Systems for CDC

CDC shall:

- assist its Fund Managers and Financial Institutions to establish and maintain ESG management systems, including through the provision of training and guidance materials;
- assist its direct investments to establish and maintain ESG management systems substantially similar to those described in Schedule 2;[17]
- assist its direct investments to implement relevant requirements of the Climate Change Policy;
- actively review the implementation of the Code, including timely progress against agreed Action Plans, through engagement and correspondence with Portfolio Companies, Fund Managers and Financial Institutions, using technical experts where necessary;
- provide a grievance mechanism through which stakeholders can report alleged breaches of the Code;
- if it considers there has been a material breach of this Code by a Fund Manager, Financial Institution or a Portfolio Company, investigate the matter and seek to resolve any breach. If discussions with the Fund Manager, Financial Institution or Portfolio Company do not adequately resolve the issue, it will consider a variety of options including third party investigations, negotiated settlements, contractual remedies and its future relationship(s) with the breaching parties;
- report quarterly to senior management, its Board and its shareholder on E&S performance across the portfolio;
- publicly report on its implementation of the Code; and
- review and update the Code as necessary to reflect changes in CDC's mandate, applicable regulatory requirements[18] and evolving ESG practices or standards.

[17] In the case of co-investments, CDC will ensure that one of the co-investment partners or CDC manages the Portfolio Company in line with Schedules 1 to 6 of this Code.
[18] Including the Modern Slavery Act 2015.

Schedule 2: ESG Management Systems for Fund Managers and Certain Financial Institutions

Note: Schedule 2 applies to all Fund Managers. It also applies, but with respect to E&S issues only, to any Financial Institutions that use CDC capital for a portfolio that contains a substantial exposure to businesses or projects with potential for significant adverse social or environmental impacts. Such a Financial Institution will need to establish an E&S management system which will assess the compliance of its Portfolio Companies against the E&S requirements (but not the Business Integrity requirements) of Schedule 3.

Acceptable ESG management systems allow Fund Managers and Financial Institutions to assess and manage ESG issues across their pipelines and portfolio investments. The management systems should be commensurate with the scale and significance of these issues, and be dynamic tools that can reflect changes in the ESG issues that may be evident over time. Key elements that would normally be present in acceptable ESG management systems include:

Policy and Processes.

- developing and maintaining policies and processes demonstrating how the Fund Manager's or Financial Institution's own operations comply with the Requirements; demonstrating how ESG risks of all new investments are assessed, managed and monitored; assessing ongoing compliance of all investments with the Requirements and developing an Action Plan to address any areas of non-compliance; and establishing a public grievance process through which concerns over the ESG impact of investments can be addressed.

Roles and Responsibilities.

- assigning ESG responsibilities to ensure (i) effective oversight of the ESG management systems by senior management/governing bodies; and (ii) implementation by suitably qualified staff or consultants.

Performance Management and Monitoring.

- working with Portfolio Companies continually to improve their performance on E&S matters and, in addition, in the case of a Fund Manager's management system, corporate governance and business integrity matters;

- monitoring the performance and continued compliance of Portfolio Companies with this Code including progress against agreed Action Plans, periodic meetings and/or site visits (as warranted by the risks of such business) and using technical experts where necessary;

- identifying and recording any serious incidents involving Portfolio Companies that result in loss of life, severe permanent injury or permanent damage to health, a material adverse environmental or social impact, or material breach of law relating to E&S matters and, in addition, in the case of a Fund Manager's management system, business integrity matters, including financial irregularities; and, in all cases, the promotion of appropriate corrective actions; and

- assisting Portfolio Companies in the integration of ESG management systems into their business to create the best opportunities for continued ESG management after any exit from the investment.

Reporting.

- ensuring regular (not less than annual) reporting of ESG performance and immediate reporting of any serious incidents, such as fatalities or breaches of law to governing bodies and investors.

Further guidance on ESG management systems is provided in CDC's "Toolkit on ESG for Fund Managers"

Schedule 3: General Requirements

Every Portfolio Company, Fund Manager and Financial Institution will:

A. Environmental & Social Requirements

- E&S Management System
  - implement a management system, commensurate with the scale and significance of the E&S issues, that ensures a systematic approach to E&S risk assessment (including climate risks) and management. The management system should define policies and procedures which will apply to the business, and organisational arrangements to ensure effective implementation, as well as monitoring and reporting;

- Working Conditions and Labour Rights
  - not employ or make use of forced labour;
  - not employ or make use of child labour;
  - pay wages which meet or exceed industry or legal national minima;
  - not discriminate in terms of recruitment, progression, terms and conditions of work and representation, on the basis of personal characteristics unrelated to inherent job requirements, including gender, race, colour, caste, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, marital status, membership of workers' organisations, legal migrants, or HIV status;
  - adopt an open attitude towards workers' organisations and respect the right of all workers to join or form workers' organisations of their own choosing, to bargain collectively and to carry out their representative functions in the workplace;
  - provide reasonable working conditions including a safe and healthy work environment, working hours that are not excessive and clearly documented terms of employment; and in situations where workers are employed in remote locations for extended periods of time to ensure that such workers have access to adequate housing and basic services;

- Access to Remedy
  - provide an appropriate grievance mechanism that is available to all workers and where appropriate other stakeholders;

B. Business Integrity Requirements

- BI Management System
  - adopt and implement policies and procedures to prevent extortion, bribery, fraud, corruption and financial crime in accordance with local law requirements and relevant internationally recognised practices;

- Financial Management
  - properly record, report and review financial and tax information as required by relevant accounting standards;

- Sanctions
  - operate in compliance with sanctions imposed by Her Majesty's Treasury as well as applicable international sanctions, including those of the United Nations;

- Whistleblowing
  - implement a procedure for the reporting of wrongdoing and misconduct in the workplace that includes protection for the reporter and appropriate disciplinary action for anyone found to harass the reporter.

Schedule 4: Additional E&S Requirements for Specific Circumstances

If, in the judgement of CDC, the activities of a Portfolio Company at the time of CDC's investment involve or could be reasonably expected to involve:

- significant risks to the health and safety of workers;
- significant air emissions (including of greenhouse gases), use of water or generation of liquid effluents, generation of hazardous or other solid wastes; or resource use inefficiencies;
- adverse community health and safety impacts (including risks to health, welfare and economic opportunity);
- the acquisition and/or use of land that could affect the livelihoods and well-being of local communities (including as a result of increased food insecurity, or loss of access to natural resources (especially water) or traditional rights and practices) and/or results in economic displacement or involuntary resettlement;
- activities in conflict and post-conflict areas where the company's presence and / or activities could exacerbate an already sensitive local circumstances which might lead to further or renewed conflict;
- negative impacts on biodiversity, habitats or ecosystem services;
- impacts on indigenous peoples (or other marginalised and vulnerable groups);
- restricted opportunities for women and girls or otherwise increased gender inequality;
- impacts on cultural heritage;
- business activities in fragile or conflict affected areas;
- significant cumulative impacts or impacts that would be represented via supply chains; or
- other significant negative environmental or social impacts,

then (i) the requirements of relevant IFC PSs and EHS Guidelines should be met; (ii) an appropriate stakeholder engagement plan should be developed (including, as appropriate, the application of Free Prior Informed Consent as part of the investment process) and (iii) an effective and appropriate E&S assessment should be undertaken (depending on circumstances, this may include an E&S impact assessment, audit or other process) and/or issue-specific action plan (e.g. a resettlement action plan) should be developed for such activities.

Additionally, if, in the judgement of CDC, the activities of a Portfolio Company at the time of CDC's investment could reasonably be expected to involve:

- microfinance activities, endorse and apply the SMART Campaign Client Protection Principles;
- coal-fired thermal power, ensure the Portfolio Company complies with CDC's Coal Policy;
- significant emissions of greenhouse gases, ensure that the Portfolio Company complies with CDC's Climate Change Policy; and

- *human rights risks which are not addressed elsewhere in Schedules 3 or 4,* ensure that the Portfolio Company assesses and manages such risks in accordance with the UN Guiding Principles on Business and Human Rights.

Schedule 5: Recommended Practices Promoted by CDC

There is strong evidence that businesses that actively manage ESG matters can generate financial or other commercial benefits. CDC therefore encourages all Portfolio Companies to consider the potential for positive environmental, social and governance impacts from their activities. Depending on circumstances, businesses are therefore encouraged to adopt, develop, offer or market:

- products, services, skills or employment opportunities that could benefit community stakeholders;
- a working environment and terms of employment that reflect decent work;
- employment practices that promote gender equality and women's economic empowerment; and
- resource efficient, greenhouse gas reducing or low carbon technologies or working practices.

CDC also promotes the following international standards and good practices, and encourages the businesses for which they are appropriate to make progress over time and work towards achieving and maintaining them:

- OECD Guidelines for Multinational Enterprises: recommendations for responsible business conduct in a global context;
- UN Sustainable Development Goals;
- the range of internationally certifiable environmental, social and quality standards issued by the International Organization for Standardization ("ISO"), including the ISO 14000 series, notably including standards for environmental management systems (ISO 14001), and greenhouse gas emission accounting and verification (ISO 14064-65), the ISO 26000 series on social responsibility and the ISO 9000 series on quality management;
- voluntary standards on the acquisition of land including Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forestry in the Context of National Food Security;
- internationally recognised standards on animal welfare, including EU animal welfare standards where possible or other Good International Industry Practice as appropriate to the local context, such as following the IFC Good Practice Note on Improving Animal Welfare in Livestock operations or the World Organisation for Animal Health General principles for the welfare of animals in livestock production systems.
- internationally recognised standards on health and safety including the ILO guidelines for occupational safety and health, the international occupational health and safety management system specification OHSAS 18001, HSG65 and industry specific international good practice standards related to the safety of product use, for example the international Good Manufacturing Practice standards for food and pharmaceutical products promoted by the World Health Organization; and
- international standards of good corporate governance.

Schedule 6: Excluded Activities

Any of the following activities:

- Production of, or trade in, any product or activity deemed illegal under applicable local or national laws or regulations or subject to internationally agreed phase-outs or bans as defined in global conventions and agreements such as certain:
  - hazardous chemicals, pharmaceuticals, pesticides and wastes;
  - ozone depleting substances;
  - endangered or protected wildlife or wildlife products; and
  - unsustainable fishing methods such as blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 kilometers in length;

- Production of, or trade in, arms (i.e. weapons, munitions or nuclear products, primarily designated for military purposes);

- Production of, use of, or trade in, unbonded asbestos fibres;

- Production of, or trade in, radioactive materials[19]; or

- Prostitution.

Any businesses, if any of the following activities represents a substantial portion of such business[20]:

- gambling, gaming casinos and equivalent enterprises;

- tobacco or tobacco related products[21]; or

- pornography.

[19] This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment in which the radioactive source could reasonably be considered to be trivial or adequately shielded.
[20] For companies, "substantial" means more than 10 % of their consolidated balance sheets or earnings. For financial institutions, "substantial" means more than 10% of their underlying portfolio volumes.
[21] Except, in the case of tobacco production only, with an appropriate timeframe for phase out.

Glossary

Action Plan: A plan that seeks to achieve compliance with the requirements of this Code on a specified schedule which CDC, the Financial Institution or the Fund Manager (as applicable) reasonably believes that the business is willing and able to implement.

Applicable Laws: Applicable local and national laws.

Climate Change Policy: CDC's Climate Change Policy.

Decent work: Opportunities for work that are productive and deliver a fair income, security in the workplace, good prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.

EHS Guidelines: World Bank Group Environmental Health and Safety Guidelines.

Excluded Activity: Any business or activity listed in Schedule 6.

Financial Institution: A commercial or mortgage bank, an insurance company, financial leasing company or similar institution in which CDC invests directly.

Free Prior Informed Consent: Agreement, reached with affected communities of indigenous peoples established through good faith, which documents: (i) the mutually accepted process between the client and the affected communities of indigenous peoples, and (ii) evidence of agreement between the parties as the outcome of the negotiations. FPIC does not necessarily require unanimity and may be achieved even when individuals or groups within the community explicitly disagree.

Fund Manager: Any investment fund manager managing capital on behalf of CDC.

IFC PS: IFC Performance Standards.

Portfolio Company: Any of the following (i) a company that has received capital directly from CDC; (ii) a company that has received capital from CDC indirectly through a Fund Manager; or (iii) a company in the portfolio of a Financial Institution, provided that CDC's capital is being used in the portfolio and the Financial Institution is required by this Code to maintain management systems that satisfy Schedule 2 with respect to the management of E&S issues.

Requirements: As to any business, the requirement to comply with Applicable Laws, the requirements set out on Schedule 3 and those requirements set out on Schedule 4 that apply to the business.

The Code: This Code of Responsible Investing.

Appendix 4: Development Impact Grid

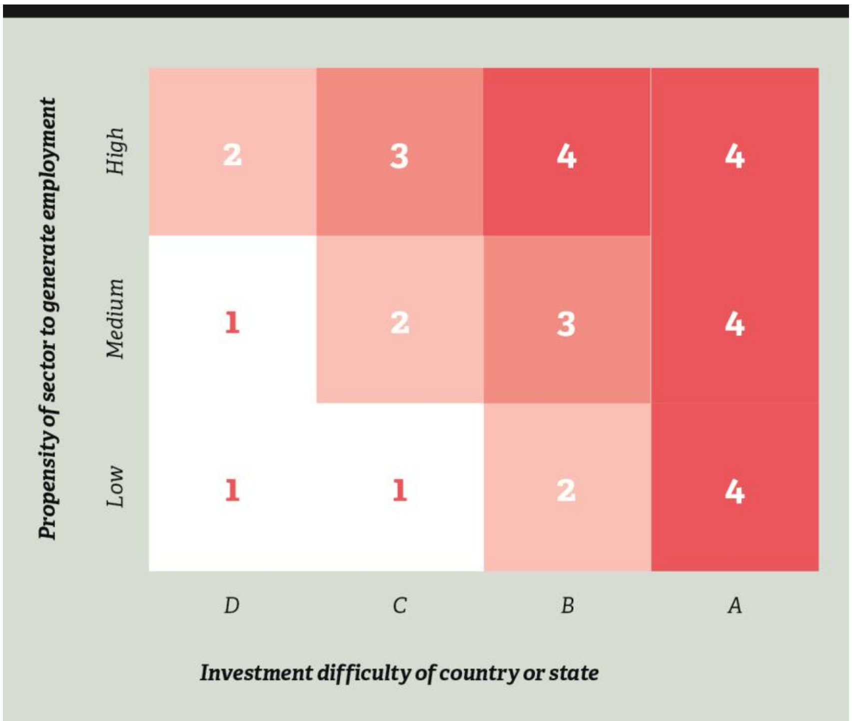
Development Impact Grid - Explanation

CDC's Development Impact Grid scores an investment based on two factors: the difficulty of investing in the country where the investment is to be made and the propensity of investments in the relevant business sector to generate employment.

Investment Difficulty (x-axis): an equally weighted index combining: (i) market size (GDP PPP); (ii) income level (GDP/capita PPP); (iii) credit to the private sector (as % of GDP); (iv) *Doing Business rankings* and (v) a composite measure of fragility designed by DFID.

Sector Propensity to Generate Employment (y-axis): an equally weighted index combining: (i) the skilled employment to capital ratio; (ii) the unskilled employment to capital ratio; (iii) the local procurement to capital ratio, measuring supply chain employment and; (iv) economy-wide employment effects of essential infrastructure to remove business constraints, calculated from amalgamated national input-output tables.

Scoring: Countries have been divided into four categories, where A is the most difficult and D the least difficult (based on cumulative market size). Sectors have been divided into three categories – High through Low. An investment is scored by its location in the appropriate cell(s) on the grid, which are scored from 1 to 4, as below. In the case of multi-country and/or cross-sectoral investments, a blended score is calculated, weighted by where the job creation is expected to take place.



Country and Indian State Difficulty Index Categories

D	C	B	A
Mauritius[$] Morocco[$] South Africa Tunisia[$] Vietnam[$]	Algeria[$] Bangladesh[$] Bhutan[$] Botswana Cambodia[$] Cape Verde[$] Egypt, Arab Rep.[$] Gabon[$] Ghana[$] Kenya Lesotho[$] Namibia Maldives Rwanda[$] Seychelles Senegal[$] Sri Lanka Zambia[$]	Angola[$] Côte d'Ivoire[$] Equatorial Guinea[$] Lao PDR[$✆] Libya[$] Mozambique[$] Nepal[$*] Nigeria Pakistan[$] Swaziland[$] Tanzania[$]	Afghanistan[$] Benin[$] Burkina Faso[$] Burundi[$✆] Cameroon[$] Central African Republic[$✆] Chad[$✆] Comoros[$✆] Congo, DR.[$✆] Congo, Rep.[$] Djibouti[$✆] Eritrea[$✆] Ethiopia[$✆] Gambia, The[$] Guinea[$] Guinea-Bissau[$] Liberia[$] Madagascar[$✆] Malawi[$✆] Mali[$] Mauritania[$] Myanmar[$] Niger[$✆] Sao Tome e Principe[$] Sierra Leone[$] Somalia[$✆] South Sudan[$✆] Sudan[$] Togo[$] Uganda[$✆] Zimbabwe[$]
Andaman & Nicobar Islands Chandigarh Delhi Goa Gujarat Haryana Himachal Pradesh Kerala Maharashtra Puducherry Sikkim Tamil Nadu Uttarakhand	Karnataka[$] Nagaland[$] Punjab[$] Tripura[$]	Andhra Pradesh[$] Telangana[$]	Arunachal Pradesh[$] Assam[$] Bihar[$] Chhattisgarh[$] Jammu & Kashmir[$] Jharkhand[$] Madhya Pradesh[$] Manipur[$] Meghalaya[$] Mizoram[$] Odisha[$] Rajasthan[$] Uttar Pradesh[$] West Bengal[$]

Note: The index is based on 2015 data accessed in November 2016. The index will be re-calculated at five-yearly intervals for the duration of CDC's Investment Policy. *: Although Nepal would have been a C country, CDC has refrained from making such a change in this five-year cycle because of the economic effects of the 2015 earthquake that are not fully reflected in the 2015 data.

Sector Categories

Low	Medium	High
Business Services Communications Services* Financial Services* Mineral Extraction	Agriculture Trade*	Construction* Food Processing (including Agribusiness) Infrastructure (incl. Power) * Manufacturing Health & Education

Note: *see adjustments below

Sector Categories are Subject to the Following Exceptions

Sector	Category	Exceptions
Construction	High	Only applies to the construction phase of real estate projects. Operational phase scored as relevant sector category (e.g. business services).
Financial Services	Low	Countries (& Indian states) marked with $ due to poor access to finance (% of adults with formal accounts &/or firms citing finance as a major constraint), where category is promoted to High.
Communications Services related to Mobile Telecommunications	Low	Countries marked with ✆ due to low mobile phone penetration, where category is promoted to High.
Trade	Medium	Categorized as High if >60% of procurement is local (domestic or from other country of higher or equal DI score); categorized as Low if <20% of procurement is local.

Note: If an investment consists of secondary or replacement capital where no additional capital is made available for a business, it is deemed to be Low irrespective of sector, unless CDC takes an active role that better aligns the business with CDC's developmental mission.

Appendix 5: Higher Risk Portfolio Schedule

1. The goal of the Higher Risk Portfolio is to enable CDC to pursue strategies that will unlock specific markets which, over time, can have significant development impact. To pursue such policies, CDC may accept greater risks than it would accept in its Commercial Risk Portfolio. This schedule set out the requirements for the Higher Risk Portfolio.

2. **Higher Risk Appetite.** Consistent with its commitment to developmental impact, CDC will use commercial rigor in all of the investments it makes.
   a. CDC will use a commercial approach towards investing under the Higher Risk Portfolio, using the same rigour in investment choice, design and management as under the Commercial Risk Portfolio. As in the Commercial Risk Portfolio, CDC will focus on underlying businesses that are or can become financially sustainable. However, CDC will tolerate higher risks, lower returns and/or a longer holding period than in the Commercial Risk Portfolio, in order to achieve high development impact. For those reasons, the Higher Risk Portfolio may under certain circumstances entail losses which could be up to half of their invested capital.
   b. CDC and DFID will review the return on capital requirement in light of the strategies developed and investments made in the Higher Risk Portfolio to determine whether the risk appetite set out in Section 2(a) remains appropriate. This will form part of the review of the set out in section A4.3 of the Investment Policy.

3. **Qualifying Strategies.** Investments made under the Higher Risk Portfolio shall be made pursuant to (and consistent with) a Qualifying Strategy. In order to justify the use of capital under the Higher Risk Portfolio, each "Qualifying Strategy" shall be approved by the CDC Board in consultation with DFID, which will satisfy itself that the Qualifying Strategy will, in accordance with Section 4: (i) create Enhanced Development Impact, (ii) be additional, (iii) be well targeted to address a clearly defined market failure , (iv) have time bound use of capital, (v) project a portfolio level of financial returns or losses over time and (vi) suggest reasonable development impact metrics against which the strategy will be monitored and evaluated.

4. **Eligibility Requirements for Qualifying Strategies:**

   (i) Enhanced Development Impact. Each Qualifying Strategy made under the Higher Risk Portfolio shall aim to generate enhanced development impact, defined as

   Either:
   a. Transformational Impact:
      i. **Systemic Change.** The strategy must aim at investment that can be reasonably expected to make (or support making) a significant impact by (i) removing a barrier to development of an economy (e.g. access to finance, power and infrastructure projects) or development of a market or value chain; (ii) creating or significantly enhancing a potentially important industry (especially those aimed at exports), market (including markets for capital) or business model (e.g. payments systems); or (iii) expanding access to goods or services to underserved populations; and,
      ii. **Scale.** The strategy must aspire to substantial (rather than incremental) impact. Such scale of impact may occur through either (i) the expected scale of the impact of the investment in comparison to the affected market as a whole or (ii) the demonstration effect of making an investment (even if modest) in a particularly difficult market which can be expected (if successful) to lead to (a) other investment (including by other DFIs or IFIs) or (b) follow-on activities by other businesses which will contribute to a larger scale impact over the longer term.

   Or:

b. **Other Enhanced Impact.** Pursuing widely recognised development priorities as agreed by both CDC and DFID.

(ii) Additionality. Each Strategy must justify the use of capital provided under the Higher Risk Portfolio in the opinion of CDC by demonstrating as clearly as possible that the risk/return of the expected portfolio is not or would not be acceptable to commercial investors or DFI investors investing from their main balance sheet (i.e. not using concessional funds). The agreed Strategy will define the standards of additionality expected from each individual investment but usually this will require Financial Additionality.

(iii) Well Targeted to Address a Defined Market Failure

a. Each Strategy must describe (i) the market or institutional failure and (ii) how the strategy as a whole or individual investments (as appropriate) address such failure. Although not exclusive, strategies or investments may address failures in the following manner:
   i. To improve economic opportunities for vulnerable groups not served by the market, such as through the provision of goods or services at an affordable price;
   ii. To address a gap between private and social returns, resulting from externalities and other market failures. Market failures may relate for example to environmental impacts (e.g. carbon emissions, air pollution), research and innovation (e.g. the deployment of new products and processes), information imperfections (e.g. about resource efficiency opportunities), capital market imperfections (e.g. financial exclusion), network externalities (e.g. water and energy systems) and non-market goods and services (e.g. ecosystem services);
   iii. To effect a structural change in a market, in behaviours (e.g. the adoption of new technologies) or in regulation (for example, an appropriate system for pricing an externality). This includes investing early in a nascent market (or in first-movers, such as firms introducing new technologies and business practices, sustainable agriculture practices) where these activities would not be undertaken because of their relative novelty, high perceived risk, high initial cost of an undemonstrated market behaviour, currently adverse or as yet still untested regulatory framework, or untested technology.

b. Each Strategy shall describe (at the strategic or market level) why capital under the Higher Risk Portfolio (rather than the Commercial Risk Portfolio) is required.

(iv) Time-Bound Use of Capital. Each Strategy must describe a credible path to a functioning market or institution that no longer requires the use of capital provided under the Higher Risk Portfolio. Consistent with that approach, each potential investment must have a path to commercial sustainability. To be commercially sustainable, an enterprise must be expected to be either self-financing or to raise financing on commercial terms. Such potential sustainability should be assessed after giving effect to the expected removal of barriers and other interventions contemplated by the strategy, which may result from CDC investments or those of other partners (including DFID) or other investors and which may take substantial time.

(v) Financial Return. There is no specified financial return for the Higher Risk Portfolio of investments beyond that sufficient to maintain the Profitability Hurdle and consistent with the risk appetite (section 2).

(vi) Strategy Metrics. Each Strategy shall (i) set out the expected range of financial returns for the portfolio of investments to be made thereunder and (ii) outline the level of development impact with as much specificity as is possible at the time and metrics against which the actual development impact of investments made under the Strategy may be monitored and evaluated.

5. Geography. In making investment under the Higher Risk Portfolio, CDC will seek to invest in harder geographies where appropriate. CDC will consider the geographical reach of investments (including, where appropriate, to harder geographies) in the Qualifying Strategies, however it is recognised that

some of the Qualifying Strategies, due to their challenging and risky nature, will not necessarily be executed exclusively in the poorest places.

6. Blending. CDC may make investments under the Higher Risk Portfolio into companies which CDC has or intends to invest in under the Commercial Risk Portfolio. Because such investments may create real or perceived conflicts of interest (e.g. by enhancing the financial returns under the Present CDC Investment Policy), the CDC Board shall ensure that policies are in place to ensure that each portion satisfies the requirements of the Commercial Risk and Higher Risk Portfolios (as applicable), that any conflict of interest is properly addressed and that any other relevant blending considerations are covered.

Investment works

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