INVESTMENT FUND FOR DEVELOPING COUNTRIES

SUSTAINABLE INVESTMENT POLICY

Approved by: IFU Board of Directors

Owner: Sustainability & Impact

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1. Introduction

The Investment Fund for Developing Countries (IFU) is Denmark's development finance institution. IFU is established by an Act of the Danish Parliament[1], is financially supported by the Danish State, and acts as an integrated part of Denmark's development and global climate policy.[2]

IFU provides capital in the form of share capital, loans and guarantees to private sector companies in developing countries and emerging markets. IFU can make investments in countries that are eligible to receive development assistance according to the OECD's Development Assistance Committee (DAC) criteria. In addition, IFU provides loans and guarantees to secure access to financing for major public infrastructure projects in developing countries that cannot be financed on market terms.

IFU focuses on making investments that demonstrate a positive correlation between impact creation and financial and commercial performance. By working together with investees, IFU drives capacity utilisation improvements that are aligned with high impact performance, thereby ensuring that the investment delivers a substantial contribution towards one or both of IFU's impact priorities while at the same time meets benchmark return requirements. IFU's ambition is to make investments that deliver high development and climate impact, as well as both financial and developmental additionality, while also ensuring high environmental, social and governance (ESG) standards, including respect for human rights. IFU makes investments which private investors would not make under normal market conditions due to elevated commercial and policy risks.

Based on its conviction that there is no trade-off between responsible business conduct, impact creation and financial returns, IFU invests in accordance with its risk tolerance by requiring the implementation of best-practice ESG standards, thereby derisking the investments and strengthening the foundation for creating value and impact.

IFU's investment strategy ensures that all IFU's investments support green and/or just and inclusive societies. As such, IFU's key performance indicators include mobilising private capital for investment in climate finance, Africa, and poor and fragile states.[3]

2. Purpose and scope

This policy describes how IFU aligns its investment activities with best practice international environmental, social and governance (ESG) and impact standards, as well as applicable European Union and Danish law. The list of standards, guidelines and voluntary initiatives that IFU has committed to comply with is found in Annex 1, Best Practice Standards.

IFU also has eight thematic sustainability policies that supplement the Sustainable Investment Policy with additional, detailed requirements. These include:

- Anti-corruption Policy
- Animal Welfare Policy
- Climate Policy
- Corporate Governance Policy
- Gender Equality Policy
- Human Rights Policy
- Tax Policy
- Whistleblower Policy

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1. LOV nr 555 af 18/06/2012
2. The following list reflects the management hierarchy for IFU's work:
    1. Act on International Development Cooperation
    2. Denmark's development policy strategy 2021-2025 Common for the World and the political agreement behind the strategy
    3. IFU's ownership document
    4. IFU's articles of association (vedtægter)
    5. IFU's own strategies and policies
3. The definition of poor & fragile states is based on countries with a GNI of 50 per cent or less of the World Bank's definition of lower middle-income countries or are listed as fragile or conflict states by the World Bank

This policy applies to IFU's investment process, IFU's core capital, facilities and capital under management, including:

- IFU-managed funds with participation from private investors,
- IFU's direct investments from its own account in the form of equity, loans and guarantees to companies,
- IFU's indirect investments into private equity funds, financial institutions and other financial intermediaries, and
- IFU-managed facilities on behalf of public donor partners such as the European Union and the Danish Ministry of Foreign Affairs.

IFU's range of investment facilities have varying profiles of sustainability impacts, risks and opportunities, and IFU's leverage to influence companies also varies according to a range of factors. Accordingly, IFU may develop specific approaches when applying the Sustainable Investment Policy to certain facilities, such as Danida Sustainable Infrastructure Finance (DSIF) and the Danish Guarantee Facility. As and when these approaches are developed, IFU will add an overview of the approach to this policy in an annex.

All new investments entering the investment process following this policy's entry into force must comply with this policy. Using a risk-based approach, IFU will prioritise and assess new sustainability requirements that should apply to "legacy investees", those investments made or entered into the investment process before the entry into force of this policy.

3. Definitions

The field of sustainable development continues to evolve, leading to frequent changes in meaning of key terms. On occasion, different regulatory requirements assign different meanings to the same terms. Therefore, to ensure clarity and alignment this policy defines key terms as follows:

- **Additionality** as a concept describes the unique value that development finance institutions (DFIs) offer to private companies in developing countries and includes both financial and non-financial opportunities.
    - *Financial additionality* in cases where private sector partners are unable to obtain financing from capital markets (local or international) for a specific activity at the necessary terms and/or scale, or where it mobilises finance from the private sector that would otherwise not have been invested.
    - *Development additionality* if it is intended to deliver development impact that would not have occurred without the partnership between the official and the private sector.
    - *Value additionality* in cases where the official sector provides (or mobilises) non-financial value to its private sector partners that the capital markets would not offer. It is often pursued through investment conditionality, active ownerships (e.g. board participation), capacity building activities, advisory services and other technical assistance and other ways.[4]

  To qualify as "additional," the DFI's contribution must not crowd out the private sector.
- **Business integrity** includes the topics of anti-bribery, fraud and corruption, anti-money laundering and counterterrorism finance, fair competition, responsible tax practices, sanctions and trade controls, and whistleblowing and investigations.
- **Corporate governance** involves a set of relationships between a company's management, board, shareholders and stakeholders. Corporate governance also provides the structure and systems through which the company is directed, and its objectives are set, and the means of attaining those objectives and monitoring performance are determined.
- **Due diligence framework** has the meaning in the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, meaning the six-step framework for conducting due diligence on potential and actual risks and adverse impacts.
- **Environmental and social** in the term ESG comprise the protection of people's lives and health, the economic basis of their livelihood and their ecological, social and cultural environment, as well as the

4. Private sector instruments: additionality, reporting requirements and data disclosure, and monitoring, safeguards and disciplines, DCD/DAC/STAT(2023)20/REV1

sustainable use of natural resources, pollution prevention and protection of biodiversity. Human rights are also included in this term.

- **Governance** in the term ESG includes the topics of business integrity and corporate governance.
- **Impact** in the context of the IFU sustainability framework and "substantial contribution to a sustainable objective" refers to the investment's positive contribution to the SDGs in developing countries, and is thus not limited to traditional development effects, like job creation, economic growth and tax remittances. Otherwise, the definition provided in the IFC Performance Standards should be used, which is "environmental and social impacts refer to any change, potential or actual, to (i) the physical, natural, or cultural environment, and (ii) impacts on surrounding community and workers, resulting from the business activity to be supported."
- **Impact creation plan** is defined by IFU to frame how to support the investee to create positive impact during the investment period and includes defining and agreeing on a results framework to monitor impact performance.
- **Investees** is the collective term IFU uses to describe the private sector enterprises (and other beneficiaries) in which it invests. IFU makes investments in equity shareholdings and provides loans and guarantees to private sector enterprises active in a range of sectors, including financial institutions. IFU also financially supports public sector infrastructure projects through loans and grants. Regardless of whether IFU or the investee is from a technical perspective the beneficiary of the financial instrument, IFU describes the beneficiary as "investee" for communication purposes, consistent with its development mandate.
- **Investment partners** include different public and private partners who co-invest with IFU.
- **Legacy investees** are all investments made or that entered into the investment process before the entry into force of this policy.
- **Mobilisation** refers to attracting and effectively utilising private capital to catalyse investments and impact across IFU's strategic priorities.
- **Results framework** is a set of key performance indicators that are agreed for each investment, between IFU and the investee, with defined baseline and target metrics and against which the investee reports impact performance.
- **Sustainability** includes environmental, social and governance (ESG) risks and the impact of IFU's investments.
- **Sustainability action plans** refer to Environmental Social Action Plan (ESAP), Business Integrity Action Plan (BIAP) and Corporate Governance Action Plan (CGAP).
- **Sustainability framework** is defined by IFU and consists of three elements comprising of substantial contribution, do no significant harm and minimum safeguards. This is aligned with the EU sustainable finance legislation.

Other terms are defined in the eight thematic sustainability policies.

4. Policy commitments

IFU makes the following commitments in its investment practice:
4.1 To be a best-in-class impact investor
4.2 To establish robust sustainability requirements for its investees
4.3 To implement best-in-class thematic sustainability policies across its portfolio
4.4 To apply its sustainability requirements to business segments and industries using risk and opportunity-based methodologies

4.1 Commitment: To be a best-in class impact investor

IFU is committed to being a best-in-class impact investor. In its investment process and portfolio management IFU applies the IFU Sustainability Framework, which consists of the three elements in EU's defining framework for sustainable activities (EU Taxonomy) and sustainable investments (Sustainable Finance Disclosure Regulation):

1. **Substantial contribution to a sustainable objective**: IFU screens all new investments against predefined thresholds and metrics to ensure sufficient impact is created by the economic activities financed.

IFU's has two impact priorities:

- **Building green societies**: These are investments that substantially contribute to at least one of the six environmental objectives of the EU Taxonomy:
    1. Climate change mitigation,
    2. Climate change adaptation,
    3. Sustainable use and protection of water and marine resources
    4. Transition to circular economy
    5. Pollution prevention and control, and
    6. Protection and restoration of biodiversity and ecosystems
- **Building just and inclusive societies**: These are investments that are positioned to substantially contribute in relation to poor & fragile states, incomes for the bottom 40 per cent segment, underserved populations and gender lens investing. Just and inclusive societies are a necessity to reduce inequalities and poverty by addressing the billions of people lacking access to essential goods, services and basic human rights. Gender is an important dimension of inequality.

2. **Do no significant harm**: IFU's approach to sustainability risk management is aligned with the IFC Environmental and Social Performance Standards (2012), which are based on international social and environmental conventions, declarations and guidelines, and ensure that an economic activity that contributes substantially to a sustainability objective does not significantly harm any other sustainability objectives (e.g. other environmental objectives of the Taxonomy).

3. **Minimum safeguards and good governance:** IFU's safeguard procedures are aligned with the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct and the UN Guiding Principles on Business and Human Rights (UNGPs), including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation (ILO) on Fundamental Principles and Rights at Work and the International Bill of Human Rights. The minimum safeguards are implemented primarily through due diligence and monitoring processes, enabling IFU to identify, prevent and mitigate actual and potential adverse impacts.

The above approach to both do no significant harm and minimum safeguards includes the consideration of sustainability risks related to the principal adverse impact (PAI) indicators, as considered during due diligence and annual reporting to IFU.

4.2 Commitment: To establish robust sustainability requirements of its investees

IFU requires that its investees share their commitment to sustainability by making the following sustainability commitments. These commitments apply to all IFU investees and funds. Some of these commitments are tailored for funds and financial service providers in Annex 2 and 3.

4.2.1 Investees must work towards achieving satisfactory long-term sustainability results

- Anchor in their business plans an objective for substantial contribution towards building green societies and/or building just and inclusive societies, including implementing the impact creation plan, which includes the results framework.
- Commit to doing no significant harm (section 4.1 of this policy) and undertake risk-based due diligence to identify, prevent and manage the actual and potential adverse sustainability impacts of business activities and relationships, including human rights, as set out in the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights.

4.2.2 Investees must comply with applicable regulation and international sustainability standards

- Operate in compliance with all applicable regulations.
- Comply with international standards for sustainability identified as relevant by IFU during appraisal and due diligence and, as agreed in sustainability action plans, work towards implementing such international standards over time.
- In countries where domestic laws and regulations conflict with the principles and standards in IFU's minimum standards (based on OECD Guidelines and the UN Guiding Principles on Business and

Human Rights), investees should seek ways to honour these principles and standards to the fullest extent which does not place them in violation of domestic law.

4.2.3 Investees must adopt relevant sustainability policies

- Adopt a sustainability policy and any other thematic sustainability policies identified as material during due diligence, adhering to relevant international ESG standards, which must be approved at the board of directors or similar governance body, made publicly available and communicated internally and externally.

4.2.4 Investees must assign responsibility to manage sustainability and provide adequate resources and personnel for implementation

- Assign responsibility for oversight of sustainability to a designated representative of the board of directors or similar governance body and management of the sustainability policy to a designated representative of senior management, including the management of resources and delegation of tasks.
- Provide adequate resources for implementing the sustainability policy, including appointing fully dedicated and suitably qualified E&S professional(s) with the day-to day responsibility for implementation of the sustainability policy and related activities.

4.2.5 Investees must establish management systems to manage ESG and other risks and drive continuous improvement

- Establish and maintain effective corporate governance that complies with applicable laws and regulation for corporate entities of the investee's type, size, and risk profile, and have a workable internal governance framework for its board and management, internal controls, transparency and shareholder rights.
- Applying a risk-based approach, continuously identify, prevent, and/or mitigate potential and actual adverse ESG impacts that the company may cause or contribute to, or to which it is directly linked through a business relationship.
- Establish an adequate and proportionate environmental and social management system (ESMS) to ensure continuous identification, assessment and management of environmental and social risks and impacts, including human rights impacts. This includes implementing corrective action plans to address gaps in compliance with relevant international standards.
- Engage and communicate transparently with potentially affected stakeholders and their representatives about the investee's business and sustainability performance to help them understand the potential risks, impacts and opportunities.

4.2.6 Investees must manage sustainability topics in relations with suppliers and business partners

- Establish a sustainability code of conduct or policy that is applicable to suppliers and business partners.
- Apply relevant sustainability criteria in selection of suppliers and business partners.
- Include the code of conduct and relevant clauses in agreements with suppliers and business partners.
- Establish a value chain management system in which actual and potential adverse impacts, including on human rights in the value chain, are identified and managed.

4.2.7 Investees must establish a grievance mechanism and investigate and remediate adverse ESG impacts and incidents

- Establish and manage a grievance mechanism to receive, assess and investigate complaints by individuals and communities who may be adversely affected by the investee's activities. The grievance mechanism must comply with UNGP and OECD criteria on grievance effectiveness and IFU policies and provide protection to whistleblowers.
- Investigate complaints and ensure access to remedy for the affected persons.

4.2.8 Investees must report to IFU about material ESG incidents and sustainability performance

- Immediately report to IFU any ESG incidents which have or could have material impacts on the company's operations, the welfare of employees, contractors or communities, or the environment.

- Prepare and submit to IFU an annual sustainability report (ASR) that provides a status on sustainability issues, including implementation of the action plans and any suspected or known adverse ESG impacts. The report must be approved by the company's board of directors or a similar governance body.
- Prepare and submit to IFU an annual progress report against the targets defined in the impact results framework. The report must be approved by the company's board of directors or a similar governance body.
- In relation to SFDR article 9 sub-funds established by IFU, progress reports are to be submitted to IFU and aligned with the principle adverse impact indicator reporting templates under the SFDR.

4.3 Commitment: To implement best-in-class thematic sustainability commitments across the IFU portfolio

IFU's seven thematic sustainability policies establish additional and more detailed requirements for IFU's investment process and investees. These policies can be accessed on IFU's website at www.ifu.dk.

- **Climate policy**: IFU supports the Paris Agreement on Climate Change and its goal of holding the increase in global average temperature to 1.5 degrees Celsius. IFU is committed to achieving net zero emissions of its portfolio by 2040 and assisting developing countries in increasing their resilience, improving local livelihoods, while reducing climate related migration. For details, see IFU's Climate Policy on IFU's homepage.
- **Human rights policy:** As a state-owned institution IFU has a special responsibility to respect internationally recognized human rights and take measures to avoid supporting activities that may cause, contribute or be directly linked to human rights abuses, in line with IFU's commitment to the UNGPs. This means that all internationally recognized human rights are considered potentially relevant to IFU's activities. For details, see IFU's Human Rights Policy on IFU's homepage.
- **Gender equality policy:** IFU promotes gender equality throughout its investments. IFU is e.g. committed to expanding opportunities for women entrepreneurs and business owners by providing access to finance, support women's career advancement and development, drive increased diversity of employees and improve access to quality work opportunities in the value chain, as well as provide women access to products and services that enhance their well-being and/or drive gender equity. For details, see IFU's Gender Equality Policy on IFU's homepage.
- **Corporate governance policy**: IFU implements best practice corporate governance standards in its operations, including applying best practice ESG and impact standards. IFU is also committed to building an internal corporate governance practice to support portfolio management and active ownership and to improve its investees' corporate governance. This enables investees to achieve their strategic objectives, deliver impact and mobilise additional capital to grow their businesses. For details, see IFU's Corporate Governance Policy on IFU's homepage.
- **Anti-corruption policy**: IFU is committed to applying best practise business integrity standards in its operations and ensuring compliance with the Minimum Safeguards, particularly the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. This policy describes IFU's commitment and approach to implementing risk-based measures to prevent, detect and respond to business integrity risks in its operations, financial services and products, equity investments and its managed funds. For details, see IFU's Anti-corruption Policy on IFU's homepage.
- **Animal welfare policy**: IFU is committed to setting high animal welfare standards and using Danish rules and regulations as a comparative benchmark for (but not limited to) good management practice, physical environment, veterinary practice and the use of medicine, transport and slaughtering. For details, see IFU's Animal Welfare Policy on IFU's homepage.
- **Tax policy**: IFU does not use holding companies in third countries to evade taxes or conceal such. If holding companies in third countries are necessary for other reasons, IFU will not incorporate them in third countries that are either on the EU list of non-cooperative jurisdictions for tax purposes or do not comply with OECD's Global Forum. For details, see IFU's Tax Policy on IFU's homepage.
- **Whistleblower policy**: The purpose of the Whistleblower policy is to ensure that potential breaches of IFU policy or legislation, related to IFU and IFU's investments, can be reported, investigated and sanctioned through a confidential and anonymous process. The policy provides for the possibility of

multiple channels for reporting concerns or grievances in scope of this policy, to ensure availability, accessibility, confidentiality and, if desired, anonymity to all stakeholders who wish to contact IFU with a concern or report. IFU's whistleblower mechanism functions as both its grievance mechanism and its platform for achieving compliance with the Danish Whistleblower Act. For details, see IFU's Whistleblower Policy on IFU's homepage.

IFU intends to publish a biodiversity policy in 2025 with the aim of making it publicly available in 2026. This policy will state that IFU will not invest in 1) Deforestation activities, 2) Activities located in UNESCO Natural and Mixed World Heritage Sites and 3) Activities located in sites that fit the designation criteria of the Alliance for Zero Extinction (AZE) sites. In addition, the policy will ensure that IFU substantially contributes to protection and restoration of biodiversity and ecosystems.

4.4 Commitment: To apply its sustainability requirements to business segments and industries using risk- and opportunity-based methodologies

The IFC Performance Standards and best practice standards for business integrity apply a risk-based and proportionate approach for assessing and managing risk, as well as impact and opportunities. IFU follows this approach by maintaining industry-specific versions of its sustainability requirements, and instrument-specific applications where relevant. Specific versions for fund managers and financial service providers are found in Annexes 2-3, which supplement the requirements in section 4.2 and 4.3.

Annex 2 lists additional sustainability requirements for fund investments.
Annex 3 lists additional sustainability requirements for financial service providers.

5. Operationalising the Sustainable Investment Policy in the investment process

IFU's investment process covers six phases, beginning when a new potential investment is identified and ending when IFU exits the investment. Sustainability topics are assessed and managed throughout the phases in accordance with international standards such as the Operating Principles for Impact Management. Each phase ends with assessment and approval according to defined rules of approval and authorisation.

The six phases and decision gates in the investment process are:

1. **Sourcing**: At first contact, IFU applies criteria to identify the investment opportunities that have a high likelihood of meeting IFU's impact priorities, and screens them against IFU's exclusion list (see IFU's homepage). Companies whose business activities are fundamentally unsustainable, as defined in the IFU exclusion list, are immediately excluded from scope.
2. **Screening**: The intention of IFU's investment strategy is to focus investment into impact priority areas. IFU thus screens investment opportunities against the strategy's impact priorities and IFU's policy commitments, to identify high impact and strategic alignment, including consideration of additionality. Investment opportunities must have a clear impact purpose, commitment and intentionality, and must be additional. Investment opportunities are categorised and scoped to strengthen the focus in due diligence.
3. **Due diligence**: IFU carries out ESG due diligence, which is a comprehensive assessment of potential and actual investment-related ESG risks, impacts and opportunities, applying the risk mitigation hierarchy[5]. The due diligence also accounts for contextual, sector- and industry-specific ESG risks and impacts. In case of non-compliance with IFU's Sustainable Investment Policy and thematic policy requirements, IFU and the investee agree on sustainability action plans which are proportionate to the size and maturity of the company, to enable the investee to transition towards more sustainable practices. These action plans support the investees' compliance with the minimum safeguards and do no harm requirements of IFU's Sustainability Framework. They describe ESG measures to be implemented by the investee within an agreed timeframe and are a condition for investment where relevant. They both enable the investment

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and comprise an element of IFU's additionality and value creation. In some cases, IFU may provide technical assistance to the investees to support the implementation of the action plans.

A crucial part of the due diligence is identifying how the investment will create positive development impact. Once this is identified, IFU and the investee agree on an impact creation plan which includes a results framework that establishes KPIs, baselines and targets to measure and track impact performance during the investment period.

4. **Reaching agreement**: IFU negotiates the transaction agreement, the impact results framework, any relevant sustainability action plans with the investee. The sustainability action plans and impact results framework are obligatory and are attached to the agreement.
5. **Portfolio management and active ownership**: Due to IFU's diverse portfolio, which comprises equity shareholdings, loans, guarantees and support to public sector infrastructure projects, IFU does not apply a one-size-fits-all approach to portfolio management and monitoring. IFU's potential to influence investees during the investment period varies widely and strongly affects its approach to monitoring individual investments.

ESG incident monitoring

In all investments, IFU requires investees to report material adverse ESG incidents to IFU. IFU maintains an ESG incident reporting process and register to support the monitoring of ESG incidents and, where relevant, ensuring remedy to affected parties.

Grievance mechanism and access to remedy

All investees and third parties affected by IFU investments are entitled to access IFU's grievance mechanism, which is aligned with the United Nations Guiding Principles on Business and Human Rights and is available on IFU's homepage. IFU's grievance mechanism enables internal and external stakeholders, including investee and affected third parties, to report a grievance or other concern if they identify or experience irregularities with IFU's commitments, policies and procedures, or any breaches of applicable law, including misconduct on the part of investees. Reports may be made confidentially or anonymously, directly to IFU or through a third-party online platform that is managed by a law firm on behalf of IFU. IFU will, whenever justified, seek and ensure access to remedy for affected individuals and communities and/or notify the appropriate authorities.

Performance monitoring and reporting

IFU monitors all investees' performance and requires them to submit an annual sustainability report and a progress report on the targets defined in the impact results framework. Even where IFU has less potential to influence investee performance during the investment period – i.e. where IFU acts as lender or issuer of guarantees, or as part of a syndicate of lenders – IFU actively monitors the investee to the greatest extent possible.

Where IFU has a greater potential to positively influence investee performance during the reporting period – such as in equity investments and other arrangements that include rights to appoint nominees to corporate governance structures - IFU contributes to the investee's value and impact creation through its participation in corporate governance. A particular focus is to ensure that the impact results framework and sustainability action plans are implemented to IFU's satisfaction. IFU has established an active ownership process to review key performance metrics, including ESG and impact indicators.

During the investment period, IFU requires investees to report material ESG incidents to IFU. ESG incidents are registered and monitored, and on a case-by-case basis, IFU engages with the investee to ensure appropriate response. In some cases, incidents are escalated to IFU's Investigations Oversight Committee. Any material non-compliance with IFU's sustainability policy requirements will trigger the possibility of an event of default.

Legacy investees

When IFU establishes new sustainable investment requirements, they are not per se applied retroactively to legacy investees because IFU does not have a contractual right to introduce new requirements into its transaction agreements and may not have the leverage to do so. Nonetheless, IFU may regard some sustainability standards as essential for the management of ESG risks. IFU will apply a risk-based approach to prioritise the standards that it will strive to apply retroactively to particular legacy investees and engage in dialogue with them to implement these standards. Where legacy investees are unable or unwilling to comply with IFU's request to comply with new sustainability standards, IFU may evaluate if an exit is the right response.

6. **Responsible exit**: From early in the investment process, IFU establishes an exit hypothesis and maintains a focus on supporting investees to create value, deliver impact and best-practice ESG performance, to deliver the best possible exit from the investment. This focus goes hand in hand with a commitment to making responsible exits in which investees' ESG and impact achievements will be sustained or enhanced following IFU's exit. IFU's options and leverage in an exit process depend on the nature and structure of the investment, as well as co-investors. When considering an exit, IFU considers timing to ensure that the investee will have the resources it requires to maintain and optimally scale its commercial success. IFU assesses the development impact to date, the investee's ESG performance and the implementation status of sustainability action plans. IFU strives to structure the exit in a way that enables the resolution of any such outstanding ESG actions and prevents or mitigates adverse impacts related to the exit, including, where possible, consulting with stakeholders in a timely manner. In the case of equity investments, IFU seeks well-reputed and aligned buyers, who have a focus on impact, track record, sector experience, and commitment to ESG and impact.

6. Disclosure and transparency

IFU is committed to providing transparency, disclosing accurate information about IFU's sustainability activities and performance, and continuously endeavors to improve the quality of this information. Information is shared on IFU's website, through published reports and stakeholder meetings.

IFU's annual report complies with the requirements of the EU Corporate Sustainability Reporting Directive (CSRD), the underlying EU Sustainability Reporting Standards (ESRS) and Danish legislation. The annual report's disclosures are shaped around the results of a double-materiality assessment of financial implications on IFU from sustainability-related risks and opportunities and actual or potential positive or negative impacts, caused by, contributed to or directly linked to IFU's activities on people or the environment.

IFU must also apply the requirements of Article 9 of the EU Sustainable Finance Disclosure Regulation (SFDR) to its disclosures on the Sustainable Development Goals Investment Fund II. Although the SFDR does not apply to IFU's full portfolio, IFU applies the reporting framework to its full portfolio, unless specifically otherwise disclosed in the annual report.

In addition, IFU makes annual disclosures to the Association of Bilateral European Development Finance Institutions (EDFI), the UN Global Compact (UNGC), the UN Principles for Responsible Investment (UNPRI) and the Operating Principles for Impact Management (OPIM).

7. Policy implementation responsibility

Implementing the IFU Sustainable Investment Policy is a shared responsibility and is led by the Board and IFU's Executive Management.

- The IFU Board of Directors approves IFU's strategic direction and the Sustainable Investment Policy
- The Chief Executive Officer reports on compliance with the Sustainable Investment Policy to the IFU Board of Directors
- The Executive Management Group assigns responsibility and resources to implement the policy, and provides guidance and oversight of cross-cutting sustainability issues

While this policy addresses both risks and impacts, it is also a key control in IFU's risk management at organisational and portfolio level.

The Sustainability & Impact (S&I) team is the policy owner. The S&I team identifies emerging sustainability risks and opportunities relating to IFU and its work by monitoring developments and participating in industry associations, monitoring the media, and consulting with IFU's Sustainability Advisory Board and other stakeholders. The S&I team proposes and develops new standards, tools and procedures, designs training programmes for the organisation, and monitors policy implementation.

Policy and oversight responsibilities for thematic sustainability topics is assigned by the Executive Management Group.

8. Approval and revisions

The Sustainable Investment Policy was approved by IFU's Board of Directors on 16 December 2024 and will be reviewed regularly at its statutory annual policy review.

This policy is publicly accessible and communicated to all relevant parties internally and externally.

Annex 1 IFU public commitments and best practice standards

The list of legislation, guidelines and international instruments below guide IFU in its vision of best-in-class sustainable investment practices.

<u>Applicable legislation and regulation</u>
Danish Financial Statements Act (as related to the CSRD)
Danish Law on International Development Cooperation
Sustainable Finance Disclosure Regulation (IFU is not in scope of the legislation, but strives to comply with its requirements as regards selected funds)

<u>Obligatory commitments for members in organisations to which IFU is a signatory</u>
Corporate Governance Development Framework (2011)
EDFI Principles for Responsible Financing (2009)
EDFI Environmental and Social Standards for Fund Investments
Financial Service Providers (3rd version, 2022)
Operating Principles for Impact Management (2019)
The 2X Challenge on Gender (2024)
UN Global Compact
UN Principles for Responsible Investment (2005)

<u>International instruments and industry guidelines and national legislation</u>
Cerise + SPTF Client Protection Pathway (8 Client Protection Standards) for Financial Service Providers (2021)
Cerise + SPTF Universal Standards for Social and Environmental Performance Management Declaration of the International Labour Organisation (ILO) on Fundamental Principles and Rights at Work
Harmonized Indicators for Private Sector Operations
ICGN Global Governance Principles
IFC Performance Standards (2012)
IFC Fund Governance Progression Matrix for Funds (Integrating Environmental, Social, and Governance Issues)
International Bill of Human Rights

- UN Declaration on Human Rights (1946)
- UN International Covenant on Economic, Social and Cultural Rights (1966)
- UN International Covenant on Civil and Political Rights (1966)

International Standards on Combating Money Laundering, the Financing of Terrorism and Proliferation (FATF Recommendations)
OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (2023)
OECD Due Diligence Guidance for Responsible Business Conduct (2018)
OECD Principles of Corporate Governance (2015)
OECD Responsible Business Conduct for Institutional Investors (2017)
OECD-UNDP Impact Standards for Financing Sustainable Development (2021)
UK Bribery Act (2010)
UN Declaration on the Rights of Indigenous Peoples (2007)
UN Food and Agriculture Organization's Principles for Responsible Investment in Agriculture and Food Systems (2014)
UN Guiding Principles on Business and Human Rights (2011)
US Foreign Corrupt Practices Act, 1976, and Resource Guide to the U.S. Foreign Corrupt Practices Act. Second Edition
Wolfsberg Group Anti-Bribery and Corruption (ABC) Compliance Programme Guidance
World Bank Group General and Sector-specific Environmental Health and Safety Guidelines (2007)
World Bank Environmental and Social Framework, including the 10 Environmental and Social Standards (ESSs) (2017)

Annex 2: Additional requirements for fund investments

Fund investments must comply with all the requirements in section 4 of this policy, as well as the following additional requirements and the detailed requirements for fund investments in IFU's thematic policies.

Funds must:

1. Establish and maintain corporate governance that is adequate to manage risks and support the fund manager's strategy ambition and portfolio (e.g. SFDR Art. 9). In all cases, the fund manager must have or establish:
    1.1. A documented risk management framework that scopes in both the fund manager and risks to the fund manager from sustainability incidents in its portfolio.
    1.2. A documented code of conduct that is applicable to employees at all levels.
    1.3. An audit policy or procedure, or monitoring and improvement procedure, that scopes in all processes in the organisation, including the investment process.
    1.4. Assign a member of the investment committee to be accountable for sustainability.
    1.5. Responsibility for the fund manager's compliance with applicable laws, regulations and organisational policies and other controls is assigned to a senior manager.
2. Establish and maintain an appropriate environmental and social management system (ESMS) to ensure continuous identification, assessment and management of environmental and social risks and impacts of their operations and investments, including human rights.
3. Develop a sustainable investment policy, which is approved at the highest level, that applies the same principles as IFU's Sustainable Investment Policy, which includes:
    3.1. Minimum sustainability requirements of its investees, which should be "Pass through" E&S requirements from IFU's Sustainable Investment Policy.
    3.2. Prohibition of all forms of financial crime, including bribery, fraud, corruption, money laundering, counterterrorism financing and anti-competitive behaviour.
4. Integrate the assessment of ESG aspects into the investment appraisal procedure. This includes:
    4.1. Applying the IFU exclusion list in selecting portfolio companies.
    4.2. Implementing risk-based know your customer procedures on investees, customers and investment partners
    4.3. Performing ESG risk and impact assessment and identifying gaps in compliance with the fund's minimum ESG standards for its investees.
    4.4. Agreeing on corrective action plans with potential investees to address any identified gaps in compliance with the fund's minimum ESG standards for its investees.
    4.5. Entering into agreements that contractually bind portfolio companies to comply with the fund investment policy and sustainability policies.
    4.6. Monitoring sustainability performance of portfolio companies, including their progress towards action plans and targets for continuous improvements, as well as monitoring serious ESG incidents.
5. Open their grievance mechanism to investees and third parties potentially affected by investee operations.
6. Include in the scope of the annual sustainability report reporting on the effectiveness of the fund's management system and the sustainability performance of its portfolio companies, including implementation of action plans and any actions taken to address adverse impacts. The report must be approved by the investment committee.

Annex 3: Additional requirements for financial service providers

Financial service providers (FSPs) must comply with all the requirements in section 4 of this policy, as well as the following additional requirements and the detailed requirements for FSPs in IFU's thematic policies.

IFU applies EDFI's Harmonised Environmental and Social Standards for financial institutions for all FSP investments if they do not conflict with IFU policies, and the approach is based on a risk categorisation according to FSP's portfolio risk and considers the type, size and sector exposure of the FSP's entire portfolio. FSPs must:

- Include client protection risks related to the vulnerability of the FSP clients such as over-indebtedness, lack of transparency, unfair treatment and inacceptable (high) pricing e.g. in the microfinance sector. IFU requires the FSP to:
    - apply the Universal Standards for Social Environmental Performance Management by doing an SPI5 assessment and follow up on gaps.
    - sign up to the Client Protection Pathway and receive certification no longer than one year after contracting with IFU.
- Establish a policy approved at the highest level that describes the FSP's approach to sustainability in its client portfolio. This may be a standalone policy or integrated into a responsible credit policy, but includes at a minimum:
    - Commitments regarding environmental & social issues, including respecting human rights.
    - Prohibition of all forms of financial crime, including bribery, fraud, corruption, money laundering, counterterrorism financing and anti-competitive behaviour.
- Commit to fair treatment, non-discrimination and equal opportunity of own employees, to maintain or improve employee-management relationships, and comply with all relevant local environmental, health & safety and labour laws, and the requirements of the IFC Performance Standard 2.
- Establish and maintain effective corporate governance that complies with best practice and is adequate to manage the risk profile of the FSP's strategy and portfolio of clients. In all cases the FSP must have or establish:
    - A documented risk management framework that scopes in both the FSP and risks to the clients from sustainability incidents.
    - A documented code of conduct that is applicable to employees at all levels.
    - An audit policy or procedure, or monitoring and improvement procedure, that scopes in all processes in the organisation.
    - Responsibility for the FSP's compliance with applicable laws, regulations and organisational policies, and other controls is assigned to a senior manager.
- Establish and maintain an appropriate environmental and social management system (ESMS) to ensure continuous identification, assessment and management, including provision of remedial actions, of environmental and social, including human rights, risks, and impacts. This includes:
    - Applying the IFU exclusion list in selecting clients.
    - Assessing the environmental and social aspects of all new clients as an integral part of the credit appraisal procedure.
    - Entering into agreements that contractually bind clients to comply with the FSP's sustainability policies.
    - Agreeing with the clients on corrective action plans to address any identified shortcomings in relation to sustainability issues.
    - Monitoring sustainability performance of clients, including their progress towards action plans and targets for continuous improvements as well as any serious incidents.