CORPORATE POLICY #0106PO

SIFEM INVESTMENT GUIDELINES

Version	V3.0	Applies to	Entire organisation
Owner / body of approval	SIFEM Board	Date of approval by owner	16.11.2020
Revision cycle	4 years	Next revision due	16.11.2024
Responsible for implementation	CIO	Implementation team(s)	Investment team

Links to other corporate policies	#0108po SIFEM Approach to Responsible Investment

Version Control, Checks, Approvals			
When	Version	Who	Description
17.08.2011	V1.0	SIFEM Board	Approved
22.03.2013	V2.0	SIFEM Board	Approved updated list of priority countries
01.09.2014	V2.1	SIFEM Board	Approved updated text and list of priority countries
12.12.2017	V2.2	SIFEM Board	Approved updated list of priority countries
16.11.2020	V3.0	SIFEM Board	Approved updated text and list of priority countries

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1. OBJECTIVES

SIFEM shall seek to contribute to long-term economic growth in developing and transition countries by:

- investing primarily in funds managed by financial intermediaries and in other financial institutions (e.g. banks, leasing companies, investment funds, guarantee funds, securitisation notes) providing access to capital and know-how to local, growth-oriented businesses;
- investing directly in sustainable private businesses; and
- seeking to mobilize private sector resources (finance and know-how), and to channel these resources to the private sector in its target countries.

SIFEM is a key pillar of the Swiss Confederation's efforts to promote sustainable private sector-led growth in developing countries and transition economies with a view to reduce poverty and fight climate change.

SIFEM shall invest in a commercial way, subsidiary to the market, in those companies that are most likely to be commercially viable and hence sustainable. Furthermore, SIFEM's investments shall be development-oriented and therefore aim at achieving a broad set of objectives beyond the financial rate of return. This shall require careful monitoring and evaluation of the development impact of its investments.

SIFEM's specific task will be to optimize the management and the efficiency of the investment activity, reinvest the reflows from investments (capital, interest, profits), and improve the transparency and visibility of the investment activity within Switzerland's development cooperation.

SIFEM shall be committed to co-ordinate its investment activities closely with SECO's and SDC's activities, wherever meaningful. The impact of SIFEM's activities shall be enhanced by SECO's activities in areas, such as improving the general investment environment, technical assistance to SMEs, financial sector support, trade promotion etc.

SIFEM's resources shall be fully untied and its investment guidelines do not allow for any preferential treatment of Swiss companies as regard the allocation of funds and other resources.

2. NORMATIVE FRAMEWORK

SIFEM shall invest in accordance with the Swiss development policy as laid out in the following documents:

- Federal Act of 19.3.1976 on international development co-operation and humanitarian aid (Art. 15), SR 974.0, version as of 28.1.1998.
- Ordinance on international development co-operation and humanitarian aid of 12.12.1977 (i.d.F. of 1.4.2010), particularly paragraph 8a: Company to support the Confederation in economic co-operation in development and transition countries, SR 974.01.
- Federal Act of 24.3.2006 on co-operation with Eastern European countries (Art. 14), SR 974.1.
- Ordinance on co-operation with Eastern European countries of 6.05.1992, SR 974.11 (version as of 1.4.2010).

SIFEM shall, in an active dialogue with its partners and stakeholders, constantly encourage high standards of corporate governance, social responsibility, occupational health and safety as well as respect for human rights and the external environment. The partners and stakeholders include the communities in which the portfolio companies are located, in addition to management, staff, investors, co-financiers and business partners.

SIFEM's Approach to Responsible Investment is designed to apply to all of SIFEM's investments. SIFEM's Approach to Responsible Investment stipulates SIFEM's ESG-related investment requirements. It has been based on international accepted, best practice standards which include

- the UN Guiding Principles for Business and Human Rights
- ILO Core Labor Standards
- International Finance Corporation's (IFC's) Standards on Social and Environmental Sustainability (2012) and the associated Environmental, Health and Safety (EHS) Guidelines
- the Corporate Governance Development Framework

- the Client Protection Principles
- the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions

SIFEM's Approach to Responsible Investment is aligned with, or materially similar to the policies used by other European Development Finance Institutions (EDFIs). As such, SIFEM will encourage compliance by its partners and stakeholders with SIFEM's Approach to Responsible Investment; however SIFEM may decline to invest if it considers that measures essential to achieving a necessary degree of compliance are not being taken.

3. SCOPE OF ACTIVITIES

SIFEM shall have two main investment objectives for developing countries and countries in transition: first, investments in financial institutions and in funds, mainly private equity funds, managed by financial intermediaries, and second direct investments in sustainable private businesses.
In accordance with the investment principles and guidelines set out below for funds and direct investments, SIFEM can inter alia:

- Invest in equity and quasi equity instruments. Equity investments in private companies shall generally be of lower priority.
- Advance loans and provide other debt instruments. Loans may be secured or unsecured, subordinated, convertible or equity linked.
- In specific cases, furnish guarantees to assist borrowers in gaining access to financing in return for a fee.

When preparing investment proposals, SIFEM shall carefully explore the feasibility, workability and enforceability of the financial instruments applied.

4. GENERAL INVESTMENT PRINCIPLES

The investment policy of SIFEM is based on the following broad guiding principles:

- **Sustainability**: In its investment activity, SIFEM will observe the basic principles of financial, economic, social and environmental sustainability.
- **Financial Additionality**: SIFEM will provide finance that cannot be obtained from the private capital markets (local or international) with reasonable terms or quantities and for similar developmental purposes without official support.
- **Value Additionality**: SIFEM offers to recipient entities or mobilizes, alongside its investment, non-financial value which is supplementary to the private sector and which will lead to better development outcomes, e.g. by providing or catalyzing knowledge and expertise, promoting social or environmental standards or fostering good corporate governance or skills development. To this end, SIFEM will be an active investor by participating whenever possible in the governing bodies of its investments, to be able to contribute expertise, address challenges and opportunities on sustainability issues, and ensure compliance with core elements of Swiss development assistance policy.
- **Leverage/Mobilisation**: SIFEM will directly mobilize additional capital from private and institutional investors for co-investing along SIFEM at the same terms, thereby contributing additional resources for sustainable development. These co-investment resources complement the investment capital of the Swiss Confederation.

5. GENERAL INVESTMENT GUIDELINES

SIFEM shall make investments in accordance with the following guidelines:

- Investment through funds or directly in growth oriented SMEs and fast growing companies, financial institutions (mainly in microfinance institutions and SME banks), infrastructure projects, and in funds managed by financial intermediaries and serving the needs of SMEs and fast growing companies, in the target countries. Investments in larger companies through funds or directly from time to time are not excluded provided they are likely to contribute to reducing the overall risk in the portfolio and are meaningful from a developmental point of view.
- Investment in economically viable businesses, reflected by a reasonable prospect of earning a positive return on the investment.

- Investment in sustainable businesses, financial institutions or funds managed by financial intermediaries perceived to possess strong management with a good reputation. They should also be prepared to work with SIFEM so that it might advise on improvements, thereby achieving its additionality objective.
- In all its investments, SIFEM shall be securing proper minority protection rights and subscription agreements with full monitoring rights and board positions as appropriate.
- SIFEM's primary role is to participate, directly and indirectly, in the establishment and development of sustainable enterprises, and it shall divest at the most propitious time after its objectives have been achieved

6. SPECIFIC REQUIREMENTS AND TERMS FOR INVESTMENTS IN FUNDS AND IN FINANCIAL INSTITUTIONS

In the target countries, SIFEM shall normally make investments in funds and financial institutions that provide medium and long-term capital with know-how transfer, to local small and medium sized entreprises as well as fast growing companies.

For all investments in funds, SIFEM shall be looking for managers with deep markets knowledge, a credible, strong and actionable pipeline aligned with the investment strategy, a robust track record in private equity or at least the required skill set and a high likelihood to develop a successful track record, sound investment processes and back office support, good governance principles and controls, and a compelling and well articulated investment thesis with credible exit opportunities.

Funds and financial institutions must be adequately regulated. In cases where the local regulatory regime is unsatisfactory, SIFEM shall, on the basis of a thorough analysis of potential risks, demonstrate that such risks can be managed and are therefore acceptable.

The total exposure in a single fund or financial institution shall not exceed 4% of SIFEM's total capital commitments at the time of investment.

7. SPECIFIC REQUIREMENTS AND TERMS FOR DIRECT INVESTMENTS

SIFEM will make investments in businesses, normally alongside co-investors of good financial standing and with sound track records, including national and international development finance institutions, regional development banks and private investors (foreign direct investors or local investors).

For equity investments, SIFEM shall require that the funding structure of the investee is well-balanced and will normally take significant minority stakes in the portfolio company. The strategic partners in the project must be willing to enter a long-term commitment with a relevant risk exposure.

Active local participation is desirable so that the enterprise is fully integrated into the local economy. The local partner shall have a sound knowledge of local conditions, experience of the business involved, and a material financial interest in the enterprise.

SIFEM's investments will primarily be used to finance specific projects or investment programs aiming at modernizing and expanding the portfolio companies, or for their permanent working capital requirements.

For the selection of investment projects, key business factors considered shall include the expertise and reputation of the management team and the sponsor, the prospect for the industry in which the portfolio company is active, the competitive advantages (including barriers to entry) and profitability of the product range, the company's growth potential, strong governance and financial controls as well as a clear alignment with the sponsor/owners regarding SIFEM's exit.

The maximum exposure in a single company shall not exceed 3% of SIFEM's total capital commitments at the time of investment.

For its equity and quasi-equity investments, SIFEM will seek a market return. For loans, SIFEM will make best efforts to demonstrate that the interest rates charged and the terms offered do not result in a crowding out of the private sector and are adequate, provided the risk taken. Lower returns may be accepted in projects with a particular and relevant development impact. In order to mitigate foreign exchange risks in case of local currency transactions, SIFEM may seek to use hedging solutions in the market.

8. PRIORITY COUNTRIES

The investment universe of SIFEM shall encompass all transition and developing countries appearing on the OECD-DAC list, and having a GNI per capita below the IBRD graduation threshold defined annually by the World Bank. Any (e.g. regional) investment that includes countries that do not fulfil those criteria (e.g. Costa Rica) shall be considered as sensitive and referred to the Board for decision. In its decision, the Board will take into account the recommendation of the representative of the Confederation regarding a potential waiver on the country eligibility criterion.

Certain countries shall be considered priority countries for SIFEM investments. These priority countries comprise the priority countries of SECO's economic development co-operation, as well as the priority countries of the Swiss Agency for Development and Cooperation (SDC). For the period 2021-24, the following countries shall be considered as priority countries:

- **North Africa:** Egypt, Morocco, Tunisia, Occupied Palestinian Territory.
- **Sub-Saharan Africa:** Benin, Burkina Faso, Burundi, Chad, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mali, Mozambique, Niger, Rwanda, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.
- **Asia:** Afghanistan, Bangladesh, Cambodia, Kazakhstan[1], Kyrgyzstan, Indonesia, Lao PDR, Mongolia, Myanmar, Nepal, Tajikistan, Uzbekistan, Vietnam.
- **Latin America:** Bolivia, Colombia, Cuba, Haiti, Honduras, Nicaragua, Peru.
- **South-Eastern Europe:** Albania, Armenia, Azerbaijan, Bosnia & Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Serbia, Ukraine.

The Confederation shall have the right to revise and update this list at any time. When making investments SIFEM shall allocate at least 60% of its investment volume to the priority countries (as they are defined at the time of making the investments), while 40% can be invested in other countries in SIFEM's investment universe. In cases of regional or global funds, SIFEM shall consider the project as a priority country investment if, on the basis of credible evidence (due diligence, pipeline), it can reasonably be assumed that at least 50% of the commitments will be made in priority countries (in Sub-Saharan Africa, this percentage is reduced to 20%).

SIFEM shall immediately stop new investments in a country if this country is not eligible anymore for receiving public development funds of the Swiss Government. The reasons for such a situation can be (but are not limited to) an armed conflict with another country, a state of war, a serious breach of human rights. It should be noted that existing investments in countries falling into political disfavour, cannot be withdrawn immediately. SIFEM shall however endeavour to wind these investments down as soon as possible.

9. FURTHER INVESTMENT RESTRICTIONS

Except with a specific written approval of SIFEM's Board, SIFEM shall restrict its investments as follows:

- With the exception of the financial sector (investments in funds and financial institutions) investments in any single industry shall not exceed twenty percent (20%) of SIFEM's total capital commitments.
- Investments in any country shall not exceed twenty percent (20%) of SIFEM's total capital commitments.
- SIFEM shall not be involved in hostile take-over bids.
- SIFEM shall not invest in any company, fund or other financial institution that is more than 50% (post-investment) directly or indirectly owned or controlled by one state, including its political subdivisions and agencies.
- SIFEM shall not invest in portfolio companies engaged in speculative real estate development.
- SIFEM shall not engage in speculative investment activities such as commodities, commodity contracts, forward currency contracts, except for currency contracts entered into in connection with investments in portfolio companies or the

[1] Kazakhstan is not listed as a priority country in the message to Parliament, but had been added to the SIFEM list at SECO's request by virtue of its belonging to the Swiss-led constituency at the World Bank.

purchase of real estate to be used for the implementation of an investment project. SIFEM can only investment in derivatives, options or warrants in association with long term financing structures.

- SIFEM shall not invest in portfolio companies that are related parties of the company managing SIFEM's portfolio, of its employees, of SIFEM's Board, or its Investment Committee unless it has been fully disclosed and approved by the Board. Further details are regulated in the SIFEM Conflict of Interest Policy.
- SIFEM shall not invest in companies that violate its Approach to Responsible Investment.

10. SOCIAL, ENVIRONMENTAL AND GOVERNANCE GUIDELINES

SIFEM's Approach to Responsible Investment which is in accordance with European and International best practice, determines the Social and Environmental Risk Management System,that is applied to every investment. . Specifically, SIFEM's Approach to Responsible Investment also contains the Exclusion List that is aligned with the Exclusion List of the association of European Development Finance Institutions (EDFI).