XSML

FRONTIER INVESTORS

DISCLOSURE STATEMENT

Operating Principles for Impact Management

1 NOVEMBER 2023

XSML CAPITAL

Introduction XSML Capital

XSML Capital are partners in growth for entrepreneurs in frontier markets in Africa. We provide expertise, network, and bespoke financing, geared to nurture local talent, and bring durable and fair prosperity in underserved markets.

Our vision is to build a pan-African investment firm that is the capital provider of choice for growing small and medium-sized companies (SMEs).

Filling the credit gap

SMEs are the lifeblood of economies across the world. African economies are no different. But African entrepreneurs struggle to get affordable growth capital. This withholds them from scaling their business and unleashing the full potential of their education, skills, and creativity, and impedes the continent's economic development.

Local teams in Angola, DRC, and Uganda

For more than a decade, XSML (eXtra, Small, Medium, Large) has been investing in SMEs in challenging markets. Our teams in Kinshasa, Kampala and Luanda help to scale small businesses across different sectors towards medium and large enterprises by providing tailored financing and expertise.

Unique market position

We provide private debt, equity and mezzanine finance allowing us to customize our financing. In our markets, we are the only investor who focuses on companies across sectors needing investments ranging from US$ 300k to US$ 10m. We keep strict ESG (Environmental, Social and Governance) standards – we give investees support to improve their ESG management and performance – and focus on gender equality.

12-year track record

Since 2010, we have invested in more than 70 enterprises. With our feet firmly on the ground we build extensive market knowledge, scout out the best opportunities and stay close to our investments. This generates attractive returns for our investors, who are several leading development banks and dedicated impact investors. We are currently fundraising for our fourth fund and getting ready to expand into new markets.

Confirmatory statement

XSML Capital (the “Signatory”) hereby affirms its status as a Signatory to the Impact Principles. This Disclosure Statement applies to the following assets (the “Covered Assets”):

• African Rivers Fund (ARF)

• African Rivers Fund III (ARF III)

The total Covered Assets in alignment with the Impact Principles is US$ 140m as of September 2023. We expect assets under management to surpass US$ 200m by the first quarter of 2024.

The information contained in this Disclosure Statement has not been verified or endorsed by the GIIN (Global Impact Investing Network (or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of the GIIN. The GIIN shall not be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees, or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, “Affiliate” shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

Barthout van Slingelandt

Managing Partner XSML Capital

October 2023

Principle 1

Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

Background

Accelerating company growth and job creation at SMEs has always been at the heart of XSML's investment strategy. As such, when we make our investment decision and conduct our due diligence, we look at both the potential financial and social performance, which we monitor over time.

We believe that entrepreneurs and companies who focus on ESG standards in their operations and company culture create stronger businesses and can outperform their peers. For example, our investee NRJ, a SME haulage company in the DRC, managed to win important contracts from well-known companies, because of its adherence to international standards and its focus on quality. At the same time, applying ESG practices improves the risk/return profile of an investee.

We support our portfolio companies to improve their business operations so they can scale up. An important aspect of that is implementing and/or strengthening ESG standards. An ESG GAP analysis has always been part of our investment process and informs us about the work that needs to be done to raise ESG standards and impact at our portfolio companies.

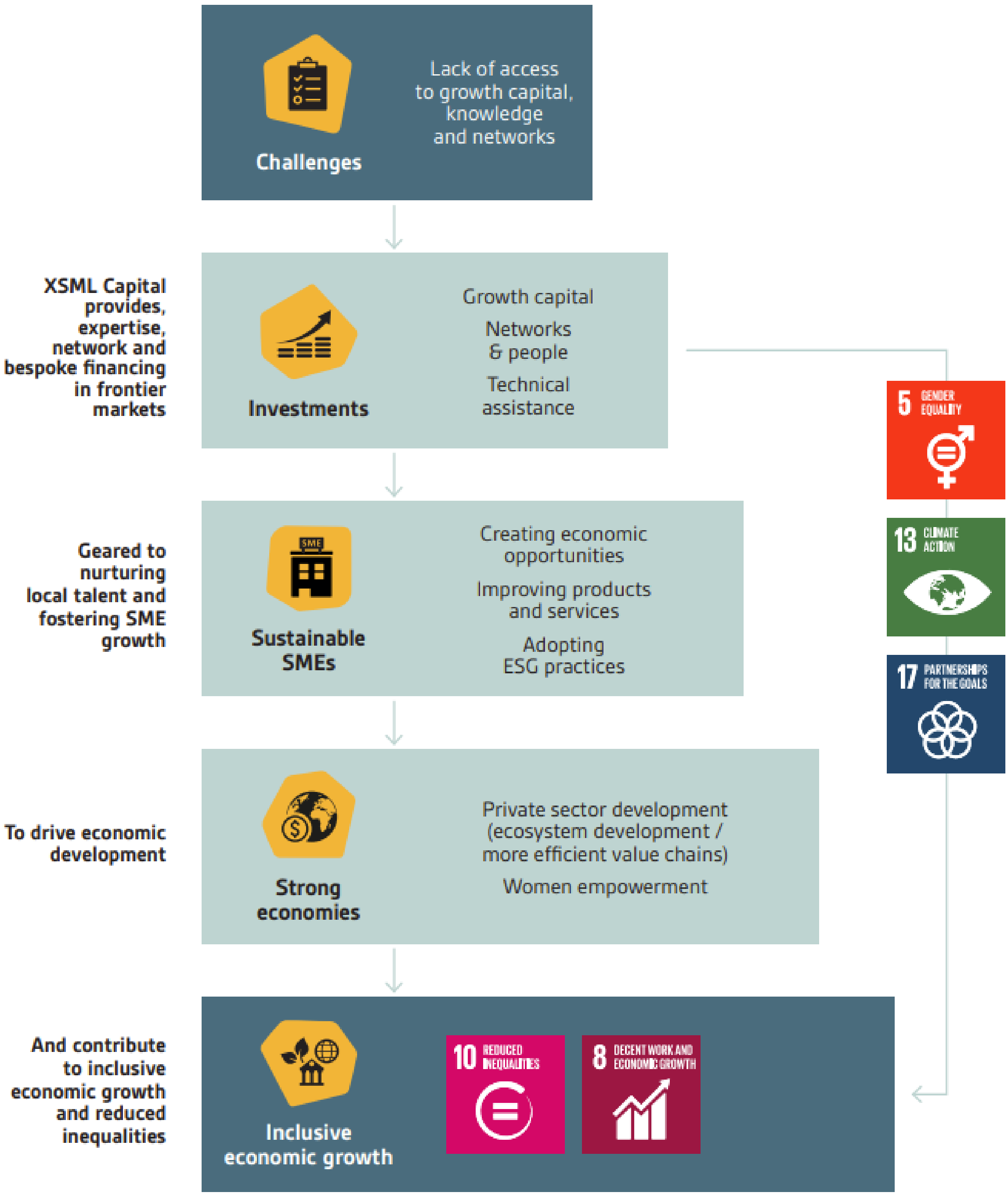
As a fund manager we are entering a new growth phase, raising a new fund which will increase our assets under management towards US$ 250-300 million. This means that we are taking new steps in professionalizing our impact management framework:

1) In 2022, we worked with an impact measurement specialist to develop our overarching Theory of Change (ToC) informed by input from our stakeholders.
2) Based on our ToC, we developed an Impact Measurement and Monitoring Framework with well-defined and measurable indicators based on best practices and industry standards (see Principle 2).
3) In 2023, we hired a dedicated ESG Manager and a communications manager who is also responsible for impact reporting.
4) We reviewed 12 years of impact data (2010-2022) and published the report *Scaling SMEs to Create Lasting Impact – Impact Review 2010-2012* in October 2023. It is available on our website.
5) Team members across offices participated in gender lens investing training provided by [Value for Women] as part of technical assistance from some of our investors. This resulted in a Gender Lens Action Plan which is being implemented.

Our strategic impact objectives

We translated our Theory of Change into an easy-to-understand pathway, illustrating how our investments create impact and align with the Sustainable Development Goals. Our impact pathway reflects the logic between our investment strategy and impact objectives.

XSML Impact Pathway



Impact Measurement and Management Framework

XSML is committed to implementing a solid and transparent Impact Measurement & Monitoring Framework (IMMF) in line with our strategy and overarching Theory of Change (ToC).

Our Impact Measurement and Management Framework is aligned with:

- IFC Performance Standards on Environmental and Social Sustainability and Operating Principles for Impact Management

- GIIN IRIS+ & HIPSO
- UN Sustainable Development Goals
- 2x Challenge
- Joint Impact Model

IFC E&S Performance Standards and third-party verification

Our ESG policy is in line with the IFC Performance Standards on Environmental and Social Sustainability. We are currently selecting a third party to conduct the first independent verification of the alignment of our impact management systems and processes with the Impact Principles.

GIIN+ & HIPSO

We measure key social metrics as defined by the Impact Reporting and Investment Standards (IRIS). They are aligned with the Harmonized Indicators for Private Sector Operations (HIPSO).

UN Sustainable Development Goals (SDGs)

To support harmonization across the sector, our Impact Management Strategy is closely aligned with standardized indicators and measures to highlight our contribution to the Agenda 2030 and the Sustainable Development Goals (SDGs). Our impact contributes to achieving SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequality). Across our investment process we take various initiatives targeting SDG 5 (gender equality). Climate Action (SDG 13) and Building partnerships (SDG 17) between portfolio companies and other companies in the supply chain to help the development of local ecosystems.

We are committed to reducing carbon emissions and reducing the impact of climate change. We are in the process of establishing how we can translate this commitment into measurable targets. As per 2023, we are investing time including through JIM to help us to gauge our indirect energy consumption and carbon emissions at portfolio level.

2X Challenge

Next to mapping our own gender balance and define a strategy towards promoting women in leadership positions, the 2X criteria help identify the gender balance in our portfolio companies and in different sectors.

XSML is meeting the 2X criteria at both fund manager level (30% women in senior positions and 45% of staff are women). Most of our portfolio companies meet one of the 2X criteria. Over one third of all staff employees is female, while 46% of leadership positions across the portfolio is held by women in 2022. In some sectors, such as manufacturing and transport, the workforce consists mostly of men, while in hospitals women are overrepresented. Our portfolio assessment showed that thus far we have few women-owned businesses among our clients, indicating an area of potential improvement.

Joint Impact Model

We will use the Joint Impact Model (JIM), which is applied by many Development Finance Institutions, to estimate and report the wider and indirect impacts of our investments across the value chain and on the communities we serve. We are currently testing the model and validating its results.

Limitations

We can capture our short-term, direct results in quantitative indicators based on company data including some end-customers' data, portfolio data, and national and sectoral data. We cannot measure definitively to what extent our investments attributed to a company's achievements. Our more indirect results (medium term) are based on outcomes of the JIM and qualitative data.

Target setting

Based on our review of 12 years of impact data and our outcomes in the JIM we will look at how we might set goals for our future impact. This will potentially include targets on gender as part of the implementation of our Gender Lens Action Plan to apply a gender lens across the investment process.

Principle 2

Manage strategic impact on a portfolio basis

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

XSML/ARF/ARF III measures and manages impact directly at the level of each investee and at fund portfolio level. The key impact performance measures tracked for each fund relate to employment (number of jobs), a disaggregation of employment (in terms of gender, age, and skill level), revenue growth, income, and other sector-related impact (e.g. healthcare) as may be applicable.

All impact data relevant to the Funds' objectives are captured at time of investment (baseline data), and during the contracting period. We collect the data annually through an Annual Impact Survey. The impact data are aggregated and reported at sector and fund level.

In 2023, we published this report on our impact between 2010 and 2022. Going forward, we expect to add questions to monitor customer satisfaction (NPS) and some qualitative questions.

Key impact indicators at portfolio level

We contribute to vibrant economies and financial inclusion through supporting private business activity, investment and innovation. We measure the impact of our contributions through:

- # decent jobs supported
- # decent jobs created
- US$ in generated tax revenue
- # indirect jobs sustained (through JIM)

Under Principle 3 we list examples of more indicators we use at investee level to track and monitor how each investment is advancing (or not) on key impact metrics.

Since we have invested in several hospitals, pharmacies, and related companies in the medical supply chain, we have also defined a set of indicators to track our impact in this area:

- # supported SMEs providing healthcare services
- # patients served by supported SME healthcare providers
- # hospital beds sustained by supported SME healthcare providers
- # procedures facilitated by supported SME healthcare providers

Alignment

XSML has not aligned staff incentives with any impact goals, but we will consider doing this as best practices emerge. We are still in the process of assessing what goals we could realistically set.

Oversight

At portfolio level, XSML has an ESG Committee that consists of E&S specialists from several investors. The ESG Committee's role is to provide guidance on E&S matters. It meets on average three times per year to discuss E&S risks and categorization, E&S management and performance of the Fund's investments and pipeline and any ad hoc E&S topics.

Principle 3

Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

Everyone within XSML Capital is responsible for the impact that we seek to create throughout the entire investment process (from screening and due diligence to monitoring and in some cases an exit).

Adding value

At investee level, we focus on job creation and value add, customised per investee company, to improve the overall management and performance of the business, which will also contribute to more satisfied employees and staff retention. Next to providing growth capital, we offer business support through technical assistance which focuses on key business aspects, such as improving financial management and transparency by implementing Enterprise Resource Planning software and providing training and improving quality standards by for example providing support to obtain ISO certification(s).

To identify the opportunities to create impact, we use various tools and practices:

- Negative screening to exclude businesses with significant negative impacts or where we think we have insufficient power to change ineffective practices or practices that may be detrimental from an environmental and/or social perspective.
- ESG GAP Analysis and gender lens screening using 2X criteria
- Compliance with IFC E&S Performance Standards and Operating Principles for Impact Management
- Compliance with host countries' applicable environmental & social laws
- Meeting XSML's standards as laid out in our Social and Environment Due Diligence (SEDD) process and investment process manual
- Reporting impact performance annually and feeding the results and analysis into our processes and decision making
- Transparency at all levels

Following the ESG GAP analysis and gender lens screening and due diligence, we agree with the investee on technical assistance to formulate and implement an ESG action plan and management system with the support of an external consultant. We encourage them to form an internal ESG team to manage and monitor ESG processes. Improving accounting and reporting systems is often a priority; they are key in monitoring ESG-related risks.

Around one quarter of our Technical Assistance projects focus on strengthening ESG implementation and a similar percentage on improving accounting and financial reporting. We work with local consultants to support our portfolio companies.

XSML maintains close long-term relationships with its portfolio companies. Our investment associates are in contact with our investees on a weekly basis and visit them regularly to catch up, discuss areas to improve the business, monitor progress and talk about potential new business opportunities. In these trusted relationships, our investees share openly their challenges or shortcomings.

For example, Geek, an engineering company in the DRC, installs optical fibre cables. Its engineers, however, were not yet certified. With support from our Technical Assistance Facility, Geek engineers attended a four-day optical fibre training. By certifying their engineers, Geek invests in continuously improving their service, allowing them to attract new customers and diversifying their client base.

Most of our local investment partners collaborate with us to improve their ESG, gender and impact policies and processes in line with our initial expectations. When we screen entrepreneurs and their teams, we look for openness, adaptability, and the willingness to constantly improve.

Principle 4

Assess the expected impact of each investment, based on a systematic approach

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact.

In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

Impact assessments

The assessment of ESG and impact is a core element of our investment process. We have a dedicated Social and Environmental Policy and Management System and an Impact Measurement and Monitoring Strategy.

At the pre-investment stage our impact assessment includes the following key elements:

- zero measurement for jobs
- forecast on number of jobs created with our investment
- 2X gender assessment
- other positive or negative impacts arising from the business operations based on key SDGs

Impact Measurement and Monitoring

Impact data and information related to Environmental, Social and Governance (ESG) performance is captured directly at the level of investees (both at pre-investment and post-investment stage) by our local investment teams. Bi-annual updates are obtained on ESG factors, and updates on impact metrics collected annually.

Our Impact Measurement and Monitoring Framework is based on some 33 IRIS-compliant metrics to align with the impact outcomes of 1) creating decent jobs (SDG 8) and 2) reducing inequalities (SDG 10), e.g. empowering women. It supports us to generate robust qualitative and qualitative data to monitor and highlight our impact (including unplanned impact) and highlight key insights for our portfolio companies. Our data collection and review aim to feed into our decision-making to remain adaptive.

Broader socio-economic impact, such as indirect jobs created, will be measured based on the Joint Impact Model, which we are currently testing. As part of testing the JIM, we are also looking at the attribution of our impact as our impact metrics reflect quantitative data relating to companies in their entirety, not pro-rata relating to our investment. The JIM can indicate our attribution, which we are currently exploring.

Opportunities to increase impact

Under Principle 3 we describe the tools and practices we use to identify opportunities to create impact pre and post investment.

Principle 5

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

> For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

As described under Principle 4, we screen potential investments using various tools and practices, including screening for (potential) negative ESG risks. The first step of our ESG screening during our investment process, is an initial assessment against our exclusion list. Next, we perform an Environmental & Social Due Diligence for each investment which forms part of our approval documents that go to the investment committee.

An ESG gap analysis helps us to assess existing and potential ESG risks, the existence and quality of an Environmental and Social Management System and existing and potential risks.

Based on this analysis, we agree with the investee on an E&S action plan including the implementation and/or strengthening of the Environmental & Social Management System to improve ESG standards across the business and introduce ongoing ESG monitoring and where possible avoid ESG risks. If that is not possible, companies need to show how they mitigate material risks.

We also include in our agreements if and when portfolio companies need to inform us on ESG-related incidents.

Principle 6

Monitor the progress of each investment in achieving impact against expectations and respond appropriately

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

Each year, in November we review our Impact Data Survey to re-align our survey based on our data analysis, requests from our investors and ongoing improvements in industry standards and practices. We are committed to collect standardised outcome metrics to contribute to harmonisation across the sector. For example, we check the latest GIIN IRIS+ Scorecards to ensure we continue to include any changes needed.

We see that sometimes the data lacks in quality, so we need to look at how we ask questions and how we can make it easier for portfolio companies to complete the survey correctly. The survey also includes some qualitative questions. In most cases, our investment associates sit down with the portfolio company to fill in the survey or review the completed form.

This year (2023) we will conduct an extensive review to also include our learnings from testing the JIM model, implementing the gender lens action plan and using the 2X criteria. We would also like to include a standardised NPS scoring.

We are also looking at whether we can test a participatory consultation tool with a small number of SMEs to empower our supported SMEs to raise their voices and share their experiences with us and each other, monitor unplanned impacts and collect case studies. In their regular meetings and company visits, our investment associates capture a lot of these qualitative data, but we should log this data better.

At the end of each calendar year, we send out our Impact Data Survey to all our investees. They are contractually obliged to complete the survey collecting the impact data of the previous calendar year.

Each investment associate checks the data of their clients, while our business controller further cleans the data and aggregates them to be able to analyse them at portfolio level.

Impact report

Next to our impact reports for each of our investors which are based on their templates and requirements, we publish our own impact report. In 2023, we published a publicly available impact survey based on all of our impact data from our first investments in 2010 until 2022. We intend to publish an annual impact report from 2024 onwards, illustrating our impact across countries, sectors, impact themes and SDGs, and indirect impact using the JIM. We also will include some case studies.

Principle 7

Conduct exits considering the effect on sustained impact

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

As most of our investments are self-liquidating (debt) only 10-15% of our invested capital is in equity. We are committed to exit both our debt and equity investments responsibly and are looking at drafting a policy to state our exit principles.

Our exits tend to consist of selling back our share to the majority owner. Going forward with some larger investments, an industry sale may be possible. An existing co-owner buying our share generally seeks to continue the existing growth strategy and business operations. From our side, we ensure we exit in a way that also benefits the company, its staff and wider stakeholders, such as suppliers.

Given the fact that we have local investment teams who are close to the entrepreneurs, our staff will stay abreast of major developments at the exited companies.

Principle 8

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

We consider managing ESG and impact across our portfolio as an ongoing learning process. As such, we are committed to regularly review our investment process, realign with industry standards and practices, finetune how we measure and monitor ESG and impact to continuously improve our processes and outcomes. We share sharing lessons learned with our portfolio companies and across our industry. We contribute to industry and investor surveys and joining specific training programmes on 'new' investment themes that we deem important, such as climate action.

We promote peer-to-peer learning among our investees to contribute to strengthening the local ecosystem or within a sector across countries. When we see strong examples of best practices within our portfolio, we encourage that the experience is shared with similar businesses within our portfolio.

For example, in an ESG workshop with representatives of ten of our portfolio companies, the promoter of one of them shared with the other companies, how the implementation of a Social and Environmental Management System in his company helped creating structure and assigned responsibilities, leading to improved incident management and improvements in the workplace. This implementation was the result of our Technical Assistance program including the help of an ESG consultant to help the company set up this system. This showed other portfolio companies in the workshop the advantages and led to a better buy-in and execution of ESG and environmental management systems with other portfolio companies.

As part of our gender strategy, we are currently setting up a pilot to work with four companies – two in Uganda and two in the DRC – who score well on some of the 2x criteria to identify their best practices, but also how they can take their gender policies further.

Principle 9

Publicly disclose alignment with the Impact Principles and provide regular independent verification13 of the alignment

> The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

This Disclosure Note re-affirms the alignment of XSML's policies and processes with the Impact Principles and will be updated annually.

We confirm an initial independent verification will be conducted in 2024 to assess our alignment of our impact management systems and processes with the Impact Principles

XSML will provide an independent verification of the alignment of its impact management systems and processes with the Impact Principles once every five years.