



MEDITERRANIA  
CAPITAL PARTNERS

# ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE POLICY



SEPTEMBER 2022

## Introduction

Since Mediterrania Capital Partners began operations, responsible investing has been a fundamental element of our strategy with environmental, social and governance (ESG) criteria fully integrated into our investment processes, from due diligence to portfolio management and exit.

As investors, we seek to create value in our portfolio companies and help them advance to the next stage of their development, and we do so with specific methodologies geared towards ESG factors.

Strong corporate governance, ethical business conduct, systematic risk management, employment equality, etc. are core elements of our day-to-day operations. We consider ESG factors a fundamental part of our value creation process, which enables portfolio companies to build the right foundations for long-term growth

When sourcing for new investments, we target market leaders with growth potential operating in sectors that are critical for Africa's path to grow. Pursuing only the most attractive deals in terms of value creation and financial returns, we will favor those investment opportunities that have a clear and direct impact on the communities and economies in Africa.

This document describes our approach on ESG investing to provide guidelines for the team, as part of the risk appraisal process, to make reasonable investment decisions by identifying and managing the level of environmental, social and governance risks to which it is exposed to through its portfolio companies.

This policy will apply to all investments and will be interpreted in accordance with local laws and regulations.

Mediterrania Capital Partners' investment professionals are responsible for ensuring that the consideration of ESG issues is integrated into investment decisions. Where additional expertise is required, the team will engage external resources as relevant and necessary.

We will seek to update the policy continually, as appropriate.

### I. What is ESG?

Environmental, social and governance (ESG) criteria are a set of standards for a company's operations that we use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal control, and shareholder rights.

ESG criteria are material investment issues, thus requiring to be carefully addressed along the investment process.

The criteria listed below have been selected based on their relevance for Mediterrania Capital Partners and its stakeholders.

### Environmental criteria

---

Climate change and its potential impacts on investments. These may include exposure to carbon pricing and regulation to reduce carbon emissions, exposure to the physical impacts of climate change such as potential sea-level rises and increased frequency and intensity of severe weather events

---

The availability or over supply of water, and competition for the use of water

---

Pollution and disposal of waste products

---

The impact that a company and its operations have on the local environment

---

Future liability risk, such as may arise from disposal or spillage of toxic substances, or from contamination of areas or populations

---

### Social criteria

---

The effectiveness of a company in maintaining its 'license to operate' – in other words how well a company manages its relationship with the community and civil society

---

A company's effectiveness in constructively managing labor relations with its workforce

---

The extent to which a company effectively manages and provides transparency on the safety of its workforce

---

Adherence to local and international conventions of Human Rights, including not to employ or make use of forced labor and child labor

---

Effective management of supply chains, particularly for companies with significant offshore sourcing; and

---

Workforce diversity, including gender diversity at senior levels within companies and on boards

---

### Governance criteria

---

The structure and composition of the board of directors, including an adequate number of directors who are independent from management, their qualification and suitability

---

The structure and quantum of remuneration for directors and executives

---

The provision of adequate transparency about the company's operations, and a governance structure that demonstrates appropriate accountabilities and high standards of business integrity; and

---

The attitude and actions taken to ensure that its officers are not involved in extortion bribery, corruption, fraud, and financial crime practices

---

Hold senior management accountable for the oversight and effective management of environmental (including climate-related), social, and governance matters

---

## II. Our goals and commitments

Mediterrania Capital Partners seeks and commits to undertake the following:

- 1) Promote adoption of “International ESG Standards” (as defined by the Reference Framework below). It includes a commitment to apply the IFC Performance Standards for all High and Medium Risk investments, and encouraging low-risk portfolio companies to comply with the IFC Performance Standards on a best-efforts basis
- 2) Do not finance any type of project from the Exclusion List
- 3) Grow and develop portfolio companies for long-term sustainability and to benefit various stakeholders
- 4) Implement governance structures that provide appropriate levels of oversight in the areas of audit, risk management, and conflict of interests, and to implement compensation and other policies that align the interests of owners and management
- 5) Commit to provide a safe and healthy workplace that maintains workers' physical and emotional health and wellbeing, including violence and sexual harassment in the workplace, exposure to HIV and AIDS, and other occupational safety issues
- 6) Encourage strict policies that prohibit bribery and other improper payments to public officials consistent with the OECD Anti-Bribery Convention and similar laws in other countries
- 7) Respect human rights of those affected by Mediterrania Capital Partners' investment activities and seek to confirm that it does not invest in companies that use child or forced labor or maintain discriminatory policies
- 8) Incorporate appropriate ESG representations, warranties, and covenants into legal agreements for all investments, including ESG monitoring and reporting requirements
- 9) Establish and maintain a clear and accessible mechanism for external grievances to be raised related to Mediterrania Capital Partners or any portfolio company
- 10) Encourage and ensure alignment of portfolio companies to advance these same principles in a way that is consistent with their fiduciary duties

## III. Reference framework

Where applicable, and subject to the scope as defined above, where local laws and regulations are deemed insufficient, Mediterrania Capital Partners will apply its judgment and expertise in assessing risks and opportunities related to material ESG issues.

Mediterrania Capital Partners will consider the following:

- IFC Performance Standards
- World Bank Group EHS Guidelines
- The Equator Principles
- The ILO conventions covering core labour standards and the basic terms and conditions of employment
- United Nations Guiding Principles on Business and Human Rights
- Applicable international treaties and protocols
- Applicable local, national, and international environmental and social (including health & safety) laws and regulations of the country in which the portfolio company is located

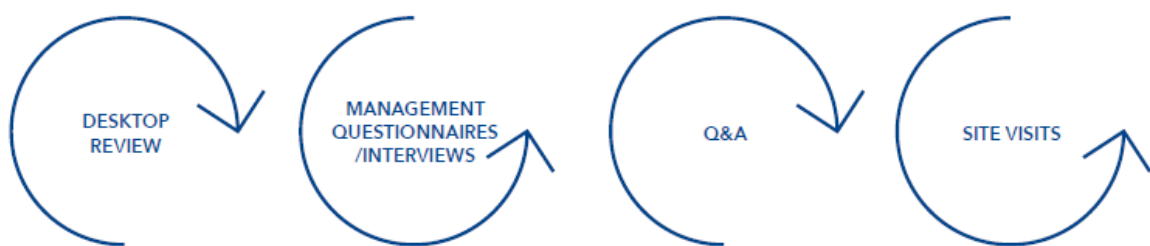
#### IV. The approach to ESG integration in the investment cycle

Mediterrania Capital Partners will seek to integrate the consideration and thoughtful management of ESG issues throughout the entire investment cycle.

##### a) From the very start of the investment process

During the screening phase, only investments that are not involved in businesses on the Joint Exclusion List will be considered. The team will assign the ESG risk category to the project to identify risks and opportunities.

Once the investment gets the approval of the Investment Committee, the due diligence process begins. Due diligence is implemented with the help of an external consultant and involves several steps of collection of ESG information along with a report detailing how ESG risks in the investee company will be addressed and how opportunities for value creation will be exploited.



Then, an action plan is drawn up including costs and timings and agreed with the investee company. It mainly consists of a set of specific actions towards the following objectives:

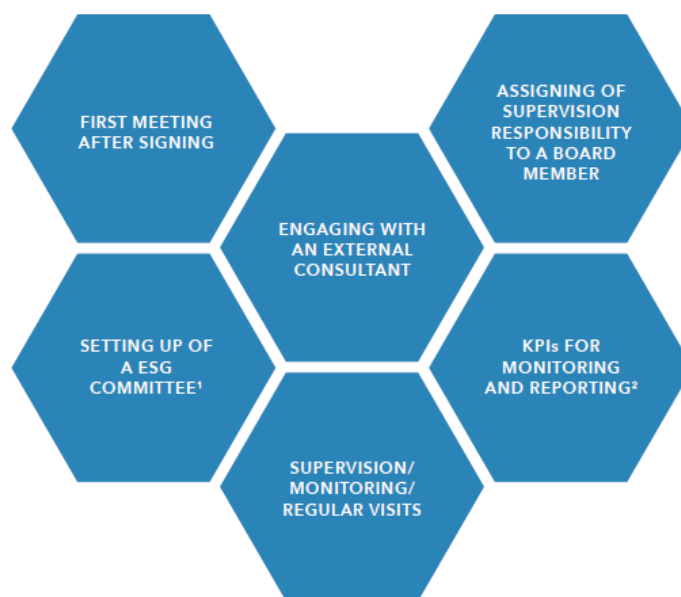
- Protection of the environment and efficient use of natural resources
- Provision of safe and healthy working conditions for the employees
- Fair treatment of the employees allowing them to form consultative associations
- Upholding of high standards of business integrity
- Consideration of the impact of operations on local communities

- Implementation of robust social and environmental management systems

Finally, if all the evaluations are positive, the shareholder agreement is signed. This agreement includes the undertaking by the investee company that the business will be performed in line with Mediterrania Capital Partners' policies and ethical standards.

#### b) During the holding period

After completion of the closing, we start working towards improving the environmental, social, and governance aspects on the new portfolio company.



We use our experience to advise and guide portfolio companies on how to build more successful and resilient companies, but also sustainable businesses. We help them to reach the next level of growth building the right foundations for long-term development.

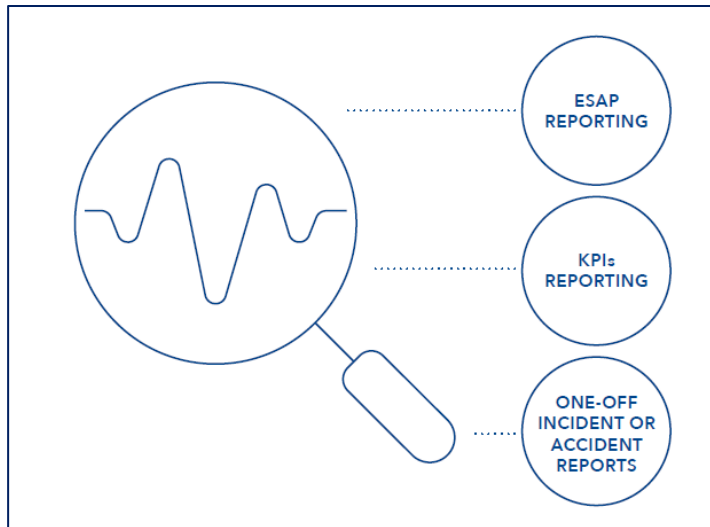
In parallel, both parties will agree on a reporting methodology through which the portfolio company reports all actions (both planned and executed) its results and progress against the set objectives. Setting the right KPIs allows to focus on material business issues and help build commitment as well as track performance. The progress and follow-up steps are presented to the portfolio company's Board and Mediterrania Capital Partners team.

The frequency of the reporting is adjusted to the level of risks.

---

<sup>1</sup> As a sub-committee to the Board of Directors if ESG is defined of high risk.

<sup>2</sup> Including unplanned events (serious incidents, adverse media, departure of key E&S resources, government inspection, and any other significant stakeholder related issues).



A proper reporting process allows portfolio companies to:

- Notify Mediterrania Capital Partners and the company's board of any serious incidents including those that result in loss of life, serious injury, material adverse impacts on communities and/or the environment, material breach of law or legal agreement requirements.
- Respond appropriately and swiftly to serious accidents, incidents or events, or other changes.

#### **V. Contribution to leading responsible investment practices**

We are a proud signatory of the Principles for Responsible Investment (PRI) since 2016 and thus our responsible investing approach incorporates the six PRI Principles. This includes, but is not limited to, being active managers and promoting best-in-class ESG standards and practices, ensuring mandatory annual disclosures to the PRI, promoting acceptance and implementation of the PRI principles within the investment industry, and driving continued improvement and effectiveness towards achievement of the objectives set out by the principles.

We are also proud to further our commitment to global best practice in managing investments that generate impact by becoming a signatory of the Operating Principles for Impact Management (the Impact Principles), since 2021. The Impact Principles provide a framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle and aim to bring greater rigour and transparency to the impact investing market. As a signatory, we will be required to produce annual disclosure statements describing how each Principle is incorporated into our investment process and to carry out independent verification of our impact management and measurement system.