Environmental, Social, and Governance (ESG) Policy Statement

Developing World Markets

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I. Introduction

Founded in 1994, Developing World Markets (DWM) invests in solutions that sustainably address the social, environmental, and economic needs of the developing world. DWM began making impact investments in 1999 and shifted exclusively to impact investing in 2007. The principal activity of the firm is management of private markets impact investments in both debt and equity via several institutional and retail fund vehicles. The majority of DWM's assets are allocated across the financial inclusion sector, primarily in microfinance and other inclusive finance institutions (SME lenders, leasing, factoring, and low-income mortgage finance companies, among others). DWM may also invest in companies providing products or services in renewable energy, sustainable agriculture, water & sanitation, housing, education, and healthcare.

As an impact investor and signatory to the Operating Principles for Impact Management (OPIM), DWM maintains and continues to evolve robust systems for targeting, measuring, and managing positive social and environmental outcomes from its investments (see DWM's OPIM Disclosures and Annual Impact Reports for more detail on impact management). DWM recognizes that identifying and addressing risks stemming from environmental, social, and governance (ESG) issues is an important function for any investor, including impact investors. ESG management provides a foundation for, and complement to, the management of positive impact, which helps to avoid or mitigate any possible unintended negative impacts and material risks to the investments and the firm.

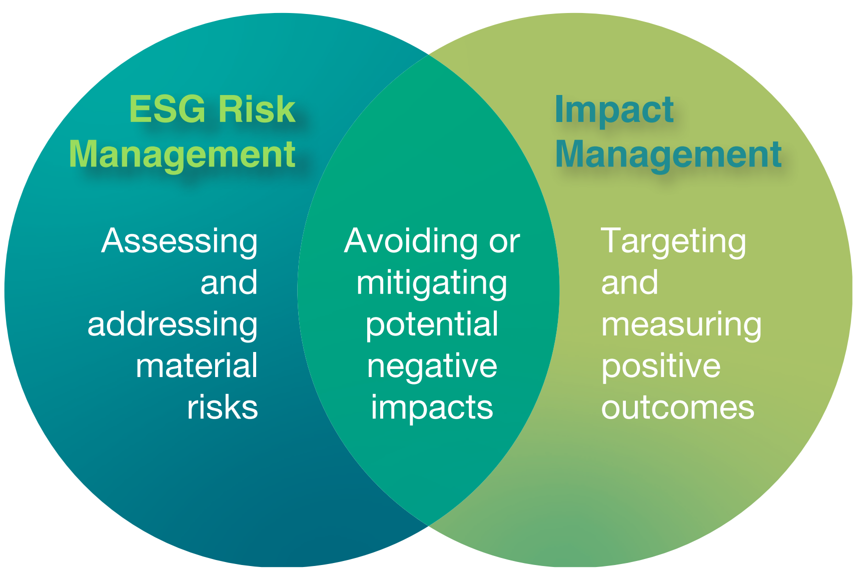

Figure 1. Overlap between ESG and Impact Management

The purpose of this policy is to describe how DWM integrates ESG risk management in its decision-making processes. This document does not cover the targeting and management of positive impact, which is described in our Annual Impact Reports and OPIM Disclosures. DWM is committed to assessing and managing ESG risk throughout its investment portfolio and internally within its own operations.

II. Portfolio ESG Policy

ESG risks can arise from macroeconomic factors at the country or sector level as well as from company-specific issues. After applying its impact frameworks to identify organizations creating positive impact, DWM follows a four-step process throughout the lifecycle of each investment to ensure major ESG risks are identified and addressed:

DWM Impact Frameworks are used to source investments that create positive social and/or environmental impact in one of our core impact themes (aligned with the Sustainable Development Goals). The ESG process is then applied to these impact-generating investment opportunities.

STEP 1. Screen against DWM Exclusion List

STEP 2. Assess company management of key ESG issues

STEP 3. Engage investees on areas for improvement

STEP 4. Report regularly

Step 1: Screen against DWM's Exclusion List

Certain sectors and economic activities are incompatible with DWM's commitment to creating positive social impact and may also present outsize ESG risks. DWM excludes investments in these areas through an exclusion list aligned with the International Finance Corporation (IFC) exclusion list. Specifically, we exclude investments in and require our portfolios to exclude exposure to the following activities:

- Production or activities involving forced labor or harmful child labor.
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
- Production or trade in: (i) weapons and munitions; (ii) tobacco; or (iii) hard liquor.
- Gambling, casinos or equivalent enterprises.
- Any business relating to pornography or prostitution.

- Trade in wildlife or wildlife products regulated under CITES.
- Production or use of or trade in or storage of hazardous materials such as radioactive materials, unbounded asbestos fibers and products containing PCBs.
- Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations.
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
- Production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances and other hazardous substances subject to international phase-outs or bans.
- Significant conversion or degradation of Critical Habitat.
- Significant alteration, damage, or removal of any critical cultural heritage.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without fully documented consent of such peoples.

Step 2: Assess Key ESG Issues

Once DWM has confirmed that an investment should not be excluded pursuant to the above list, the next step is to assess the company's management of material and significant ESG issues. DWM uses a proprietary questionnaire to gather data on ESG and impact during due diligence and annual monitoring. Responses are reviewed and validated during the due diligence process to identify any areas of concern, which are evaluated by DWM's Impact, Debt or Equity, and Risk teams. These indicators also feed into a score that is reviewed as part of the due diligence and investment approval processes. At this stage, investments that pose severe ESG risks may be disqualified.

Step 3: Engage on Areas for Improvement

In some approved investments, the DWM Debt and Impact teams identify ESG areas that need improvement to reach best practice standards. In these cases, the DWM team monitors the relevant aspects and engages with investee company management to discuss suggested improvements. For debt investments, DWM may also include specific affirmative, negative, and/or financial covenants in transaction documentation to address ESG issues. For equity investments, DWM uses its ownership position to help investees identify any strategic and operational changes required to address ESG issues.

Step 4: Report Regularly

DWM regularly reports to its investors and partners on ESG and impact topics and creates a publicly available Annual Impact Report that contains summary information on key themes. As a signatory to the Operating Principles for Impact Management, DWM publicly discloses its impact and ESG management practices annually and is subject to periodic independent review of our stated processes.

III. Relevant ESG Issues for DWM's Portfolio

DWM's impact objectives and focus on inclusive financial institutions and other businesses generating positive social and/or environmental impact narrows the scope of ESG risk for its portfolio. In general, the most salient ESG issues tend to center on consumer financial protection and sound business practices to manage environmental and social risk. DWM's ESG framework covers a range of topics that may be material depending on the context and investee.

Social Issues

Clients: Inclusive finance institutions in DWM's portfolio serve poor and low-income populations who often have relatively low levels of formal education and financial literacy, making them vulnerable to predatory or irresponsible practices. Client protection standards are therefore of utmost importance to DWM in managing social risks. Per the Social Performance Task Force (SPTF) Client Protection Principles, key areas of attention include: appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, protection of privacy of client data, and mechanisms for complaint resolution. DWM also encourages gender-inclusive practices relating to clients wherever feasible, including through product design and servicing practices that are tailored to women clients.

Employees: Businesses in the financial sector rely on high-performing teams to succeed, making human capital management an issue of critical importance for DWM's portfolio. At a minimum, DWM's investees must have in place policies that explicitly prohibit child labor and sexual harassment in the workforce and discrimination in hiring. They should also implement best practices relating to diversity, equity, and inclusion throughout recruitment, hiring, remuneration, and career advancement. DWM pays particular attention to gender equity in staff composition, management roles, and pay.

Environmental Issues

Climate risk is a nearly universally material issue across sectors and companies. For DWM's portfolio, this includes both mitigating further atmospheric warming by reducing or avoiding greenhouse gas emissions, and building resilience to the ongoing effects of a changing climate on the vulnerable populations our investees serve. In particular, economic activities of end clients may be affected by changing weather patterns, increased incidence of natural disasters, flooding, and drought. People living in countries with deficient physical infrastructure and limited social safety nets are particularly vulnerable to these changes. Localized environmental risks can also arise from the activities financed by DWM's portfolio companies, depending on the geography and the nature of the activity. DWM gathers information on the sector exposure of our portfolio companies to analyze these risks. DWM has also committed to the Net Zero Asset Managers Initiative, a group of investors who target carbon-neutral portfolios by 2050 or sooner.

Governance Issues

Basic governance issues for all companies include board composition, structure and functioning; legal, accounting and internal controls; regulatory and tax compliance; business ethics; and executive pay. DWM also views board-level independence, diversity, equity, inclusion and stakeholder representation as important topics for all companies. During due diligence, DWM assesses each investee's governance framework and ability of its board of directors to carry out the following critical functions while remaining independent and avoiding conflicts of interest:

- Selecting, retaining, and incentivizing competent management;
- Establishing, with management, the financial institutions short- and long-term objectives and adopting policies to achieve these objectives;
- Monitoring operations to ensure that they are controlled and in compliance with laws and policies;
- Defining risk appetite by setting policies that limit the financial institutions exposures commensurate to its equity; and
- Establishing a set of key performance indicators to assess management's ability to execute the Board-level business plan performance.

IV. DWM's Operations

DWM has a staff of 35 people with headquarters in the United States and team members based in Costa Rica, Ecuador, France, Germany, India, Nicaragua, Peru, the Republic of Georgia, and South Africa. Oversight for our debt investment process is provided by the Credit Committee, which consists of two internal and two independent members. The Credit Committee is also gender-balanced, with two male and two female members.

DWM upholds the highest standards of internal ESG management and views the application of ESG best practices as critical to the success of our business. The most relevant internal ESG issues for DWM are identified below:

Environment	Social	Governance
• Energy usage (scope 2 emissions) • Portfolio climate and environmental impact (scope 3) • Business travel (scope 3)	• Diversity, equity, and inclusion in recruitment, retention, management, and pay • Ethical conduct	• Decision-making and oversight • Regulatory Compliance • Accounting controls • Transparency and disclosures

V. External Standards Alignment

DWM aligns with relevant external ESG-related industry standards and initiatives, working to meet and raise the bar for rigorous ESG management:

- Net Zero Asset Managers Initiative
- UN Principles for Responsible Investment

As an impact investor, we also align with and participate in several impact investing standard-setting bodies and initiatives:

- Global Impact Investing Network
- Operating Principles for Impact Management
- Client Protection Pathway (SPTF and Cerise)

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