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Investment Policy and Procedures

Table of Contents

1.	INTRODUCTION	3
1.1	About AgDevCo	3
1.2	AgDevCo’s Mission and Vision	3
1.3	Application of this Investment Policy	3
2.	INVESTMENT CRITERIA	4
2.1	Geographic focus	4
2.2	Sector focus	4
2.3	Exclusion criteria	4
2.4	Type of business	5
2.5	Available instruments	5
2.6	Financial Sustainability and Refinancing	6
2.7	Anti-Bribery and Corruption (ABC) and Anti-Money Laundering (AML)	6
2.8	Harmful Tax Policies	6
2.9	Exit of investments	7
3.	RESPONSIBLE INVESTMENT AND THE MANAGEMENT OF ESG PERFORMANCE	7
3.1	Working with Other Lenders and Investors	8
3.2	Carbon and climate change	8
4.	INVESTMENT PERFORMANCE FRAMEWORK	8
4.1	Financial Performance	8
4.2	Impact Performance	9
5.	PORTFOLIO LIMITS AND CAPITAL ALLOCATION	9
5.1	Allocation Limits	9
5.2	Financial Instrument	9
5.3	The Growth and Ventures Portfolios	10
5.4	Conflicting interests of investee businesses	10
6.	REPORTING	10
6.1	Annual reporting to AgDevCo Holdings Limited	10
6.2	Transparency	11
7.	INVESTMENT PROCEDURES	11
7.1	Stage 1: Origination (Screening Note)	12
7.2	Stage 2: CIP	12
7.3	Stage 3: Final Due Diligence and Approval	12
7.4	Stage 4: Execution and disbursement	12
7.5	Stage 5: Portfolio management	12
7.6	Stage 6: Exit	13
ANNEX A	IMPACT FRAMEWORK	14
ANNEX B	DEFINITIONS	16

1. Introduction

1.1 About AgDevCo

AgDevCo is a specialist agribusiness impact investor and project developer. We operate exclusively in the agriculture sector in sub-Saharan Africa. We invest in socially-responsible agribusinesses, operating across the supply chain, which have the potential to make a major positive economic and social impact. In addition to direct investment, we provide on-the-ground technical support and specialist agricultural, ESG and business development advice to management teams.

We have a long-term outlook, recognising that early-stage agribusinesses can take ten years or more to reach maturity.

1.2 AgDevCo's Mission and Vision

AgDevCo's mission is to build successful and sustainable African agribusinesses through long-term investment and technical assistance to deliver positive impact at scale. Our vision is a thriving and productive commercial African agriculture sector that benefits people, economies and the environment.

AgDevCo's ultimate aim is to achieve high development impact, relieving poverty directly and indirectly by increasing agricultural productivity, directly raising incomes of poor smallholder farmers, creating employment and contributing to wider economic growth and development.

AgDevCo's objectives are to:

- ▶ create commercially sustainable agricultural and agribusiness enterprises that deliver a positive social impact directly through providing a variety of employment opportunities and attracting private-sector capital;
- ▶ create direct and indirect economic benefits through more efficient markets and increased economic and investment activity in the agriculture sector; and
- ▶ support emergent commercial farmers and smallholders with the aim of increasing productivity and incomes, diversifying livelihood opportunities and moderating risks.

1.3 Application of this Investment Policy

This Investment Policy relates to the activities of AgDevCo Limited and its investment holding subsidiaries (referred to herein collectively as “**AgDevCo**”). From the date of implementation of this revised Investment Policy¹ (as updated from time to time), all AgDevCo funds will be invested in accordance with the provisions of this Investment Policy and in accordance with the provisions of the Governance Procedures and the Responsible Investment Policy and Procedures.

¹ September 2019

2. Investment Criteria

2.1 Geographic focus

AgDevCo may make investments and undertake development activities in any country in sub-Saharan Africa apart from the following countries with upper-middle income levels: Botswana, Equatorial Guinea, Gabon, Mauritius, Namibia and South Africa.

In committing its capital to any investment, AgDevCo may invest through one or more investment vehicles if AgDevCo considers that it is appropriate to do so for fiscal, legal, regulatory, development or other bona fide reasons so long as it is consistent with AgDevCo's policy on investments in Alternative Jurisdictions set out in 2.8 below. Investment vehicles may be domiciled in a country which is not in sub-Saharan Africa, or may be domiciled in one of the upper-middle income countries listed above.

Any proposal to make an investment in a new jurisdiction for AgDevCo must be approved by AgDevCo's Board at Clearance in Principle stage.

2.2 Sector focus

AgDevCo may make investments and undertake development activities at any point of the agribusiness value chain. This comprises a wide range of agribusiness related activities, including, but not limited to:

- ▶ agricultural primary production and processing (for example horticulture, aquaculture, arable, oil seed, poultry and livestock);
- ▶ on- and off-farm agricultural infrastructure (for example irrigation, storage, electricity generation and distribution to the farm-gate and feeder roads);
- ▶ agricultural inputs;
- ▶ agri-financial services;
- ▶ logistical facilities and services;
- ▶ forestry;
- ▶ fast moving consumer goods (FMCG) food and beverages industry; and
- ▶ marketing and commercial support services for agribusinesses.

Any proposal to make an investment in a new sector for AgDevCo must be approved by AgDevCo's Board at Clearance in Principle stage.

2.3 Exclusion criteria

AgDevCo's exclusion criteria are broadly aligned with the Harmonized EDFI Exclusion List but reflect the focus of its investment strategy in agricultural value chains.

AgDevCo will not finance or otherwise support any activity, production, use, distribution, business or trade involving the following:

- ▶ forced or child labour²;
- ▶ activities deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans (see also AgDevCo's Crop Protection Policy), and wildlife of products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES);
- ▶ destruction of High Conservation Value areas; and
- ▶ businesses where tobacco and potable ethanol³ form a substantial part of a project or businesses primary financed activities⁴.

2.4 Type of business

AgDevCo may make investments and undertake development activities in a wide range of projects including, but not limited to, existing small and medium-size enterprises, start-ups or greenfield developments, partly developed/abandoned projects and large-scale investments with commercial partners, privatised or to-be-privatised projects or companies, and partnerships with smallholder farmer organisations.

We shall select investments which are consistent with our mission and Responsible Investment Policy and Procedures, with the requirement that partners are committed to operate in such a manner both during and following the life of AgDevCo's investment.

2.5 Available instruments

AgDevCo may make investments using a range of instruments, including:

- ▶ equity and quasi-equity instruments (including ordinary shares, preference shares and listed or unlisted securities);
- ▶ debt instruments (including senior, subordinated, mezzanine, secured, unsecured and convertible debt);
- ▶ grants;
- ▶ technical assistance or advice to companies in line with the Technical Assistance Principles set out in AgDevCo's Technical Assistance OPPs; and
- ▶ such other instruments as to enable AgDevCo to achieve its objectives.

The preferred transaction structure and type of investment instrument should be appropriate to the circumstances and take account of, *inter alia*:

- ▶ the desire to achieve a return on capital and either take a yield on its capital invested or recover it so that it can be reinvested in new ventures;

² In some smallholder supply chains associated with AgDevCo investments family labour may occur and may be acceptable but should be explicitly considered in the pre-investment ESG review process

³ Excludes the provision of agricultural raw materials (e.g. maize grits) to customers using them to make beer and wine

⁴ 10% or more of consolidated balance sheet or earnings, not investment

- ▶ the confidence that AgDevCo has regarding the ability of the partner(s) in the venture to deliver the business plan without major ongoing inputs from AgDevCo staff;
- ▶ the extent and mechanisms by which AgDevCo wishes to exercise control;
- ▶ the trade-off between ensuring that a sponsor retains sufficient incentive to commit fully to the venture and capturing an element of upside for AgDevCo; and
- ▶ the necessity for blending of capital from AgDevCo and / or other more concessional sources.

2.6 Financial Sustainability and Refinancing

An AgDevCo investment shall ideally not be used to refinance existing debt and / or equity. Exceptions will be permitted where the Board is satisfied that the investment will result in incremental development impact (i.e. additional capacity, jobs and output) and is needed to support the achievement of the financial performance targets referred to in Section 4.1. If the refinancing component of the investment is more than 50% of the overall proposed exposure to the relevant investee company (or group where AgDevCo is invested at topco), the development impact case should be very strong.⁵ AgDevCo will in general not refinance equity with debt.

2.7 Anti-Bribery and Corruption (ABC) and Anti-Money Laundering (AML)

AgDevCo has zero tolerance for corruption, including bribery and fraud, in its operations and those of its portfolio companies. AgDevCo's Business Integrity Policy is available on its website.

AgDevCo requires all its investee businesses to have an appropriate business integrity policy in place, and includes contractual provisions in its investment documentation requiring all serious incidents in breach of such policy to be reported to AgDevCo immediately.

2.8 Harmful Tax Policies

AgDevCo will not use tax havens or make use of tax structures involving harmful preferential tax regimes for the purpose of avoiding the payment of tax, particularly in poor developing countries, diminishing tax transparency or committing tax fraud. AgDevCo will comply with all tax legislation in all of its jurisdictions of operation.

Where AgDevCo is proposing to invest in or through a holding structure in an Alternative Jurisdiction, the deal team must set out the justification for doing so in all relevant investment papers. Such justification must take the following points into consideration:

- ▶ there should be a bona fide commercial reason for the structure, which is unrelated to optimal tax treatment;

⁵ More details about the considerations to be taken into account are set out in the IPP Detailed Guidance note.

- ▶ AgDevCo should be satisfied with the transparency/ regulatory regime of the jurisdiction (it must, as a minimum, be a member of the Global Forum, have adopted the Global Forum standards and met international norms for tax transparency⁶); and
- ▶ the application of AgDevCo's funds should be clearly recorded to ensure that the funds are being utilised in the jurisdiction of the operating company (and there is no leakage to the Alternative Jurisdiction, for example to pay salaries of management in that Alternative Jurisdiction).

2.9 Exit of investments

When exiting or disposing of investments, AgDevCo will seek to ensure, wherever possible, that following AgDevCo exit the business continues to operate in a responsible manner, consistent with good industry practice.

3. Responsible investment and the management of ESG performance

AgDevCo is committed to responsible investment in alignment with good international industry practice. The Responsible Investment Policy and Procedures sets out our approach to responsible investment and the management of ESG performance within the businesses in which we invest.

Key elements to our approach are as follows:

- ▶ AgDevCo ensures that its development activities and investments are undertaken in a manner that is socially responsible and reflective of sound environmental management practices. Negative impacts on project-affected ecosystems and communities are avoided where possible. If these impacts are unavoidable, they are reduced, mitigated and/or compensated for appropriately. AgDevCo seeks opportunities to achieve positive environment, climate change and social impacts from its program;
- ▶ AgDevCo's development activities and investments must be in compliance with local laws, adherence to appropriate statutory environmental, health, social and safety and other relevant standards and recognise and address appropriately customary community rights;
- ▶ AgDevCo works towards alignment with the relevant aspects of the International Finance Corporation's Performance Standards on Social and Environmental Sustainability (2012) and the World Bank Group's General Environmental, Health and Safety Guidelines with appropriate targets and timetable for improvements via an ESG action plan; and
- ▶ AgDevCo engages constructively with affected communities through disclosure of information, consultation and informed participation in a manner commensurate with the risks to and impacts on the affected communities.

All of AgDevCo's investee businesses are subject to ESG due diligence and risk screening and all investees are required to adopt AgDevCo's Responsible Business Principles. Typically an ESG

⁶ A jurisdiction assessed as "compliant" or "largely compliant" by a report publicly published by the Peer Review Process of the Global Forum will be deemed to have met international norms for tax transparency. An Alternative Jurisdiction assessed as "partially compliant" or "non-compliant" by such Peer Review Process will be deemed not to have met international norms for tax transparency.

action plan will be put in place as a condition of each new transaction in order to support businesses in meeting AgDevCo's responsible investment requirements.

3.1 Working with Other Lenders and Investors

Where AgDevCo invests alongside DFIs (with similar processes and requirements) we will make every effort to align ourselves with these partners where feasible. Likewise, many private equity funds have DFI backing and therefore have least partially aligned processes. In such cases AgDevCo will also seek to align its investment process subject to ensuring that our standards are maintained in all cases.

- ▶ Where there is an incumbent investor with aligned systems and processes including for ESG, we will review responsible investment / ESG systems in place but generally anticipate that they take the lead on ESG unless there is a material reason requiring more AgDevCo involvement. This approach will allow us to prioritise our ESG resources for investments where such oversight and support has not already been provided; and
- ▶ We generally seek to recover our ESG costs, including annual site monitoring visits. However, where there is an aligned incumbent lender(s), we will typically fall in line with their existing approach on cost recovery of ESG time.

3.2 Carbon and climate change

AgDevCo is committed to evaluating and managing carbon and climate change issues both at an individual investment and portfolio level. In line with our Responsible Investment Policy and Procedures, on individual investments we will work towards alignment with the relevant aspects of the IFC Performance Standards and perform any required carbon and emissions monitoring and mitigation. AgDevCo's investment activity plays an important role in helping the development of climate smart, efficient production systems and conserving higher value habitats. Through our monitoring and evaluation work we will endeavour to understand the holistic carbon and climate effects of our investments, and collect data on relevant key performance indicators.

Investments will be made and managed in line with the relevant aspects of AgDevCo's Climate Change Adaptation and Resilience Strategy. This outlines our approach to climate change overall including carbon accounting and reporting and how we support adaptation and resilience e.g. via regenerative agriculture practices. Our strategy is broadly aligned with the Taskforce for Climate Related Financial Disclosures requirements and outlines our commitments with respect to moving towards net zero carbon at a corporate and portfolio level.

4. Investment Performance Framework

4.1 Financial Performance

AgDevCo's objective is to: (i) maximise its direct and indirect development impact through investments that protect the real value of its endowment capital ; and (ii) generate a financial return that is at least sufficient to meet the expectations of its external capital providers. Within this objective AgDevCo aims to:

(A) build a profitable investment portfolio with a defined mix of Ventures and Growth investments as agreed by its Board from time to time; and

(B) seek opportunities to increase the number of high-impact, earlier-stage and pioneering investments in a way that insulates the main portfolio from additional risk and allows AgDevCo to operate as a single business.

4.2 Impact Performance

AgDevCo develops an impact business case for each proposed investment it makes. These impact business cases capture the firm level, market, and livelihood changes that are expected as a result of the investment. Our impact framework (as set out in Annex A) maps these different elements of the impact business case. Different investments achieve different types of impact. Together the AgDevCo portfolio contributes to each dimension of AgDevCo's impact framework. Because of this portfolio-wide approach, AgDevCo does not set impact targets for each individual investment, but as a minimum: (i) each investment must create or sustain positive change (on a net basis) for at least one of AgDevCo's endline beneficiary groups referred to in AgDevCo's impact framework (i.e. employees from low income households, smallholder farmers, entrepreneurs or customers); and (ii) AgDevCo's ESG and safeguarding 'do no harm' criteria must be met for each investment.

Ultimately, we will measure our success through the long-term transformational impact our investments make. By driving the development of new agro-industries and creating investable opportunities for the private sector, we will help accelerate the transformation of rural Africa to a thriving, commercial agriculture sector.

5. Portfolio Limits and Capital Allocation

5.1 Allocation Limits

In managing its portfolio of investments, the AgDevCo Board will from time to time agree exposure limits to ensure appropriate diversification.

In applying these limits, it is recognised that AgDevCo has a dynamic portfolio and weightings will rise and fall from time to time as the portfolio develops and valuations change. Reporting to the Board, Management will review the exposures against the guideline limits, including maintaining oversight of the investment pipeline and the impact on allocation delivery of that pipeline would result in. Management will assess the risk of over-exposure in any area, and if deemed necessary by the Board, will make adjustments to the investment pipeline in order to bring the forecast exposure back below the limit. The CIO may propose adjustments to the portfolio construction limits (whether in response to changes in sectoral conditions, the applicable macroeconomic environment, or political risk levels) for approval by the Board. The CIO will report to the Board on portfolio construction on a quarterly basis.

5.2 Financial Instrument

AgDevCo invests for the long-term sustainability of the business, balancing the need for regular cashflow and with potential for upside gain in its investments. The mix of debt and equity

consistent with this objective will vary over time; but the presumption is that more than 50% of investments will be in debt instruments of some kind.

5.3 The Growth and Ventures Portfolios

AgDevCo characterises its investments into one of two broad portfolios.

- ▶ The Growth Portfolio: Investments which are EBITDA positive and have gross assets greater than \$10m. They will largely have significant corporate capability with a proven business plan. They will typically be looking for capital to finance expansion of an existing business model, or expansion into a new geography or value chain segment. These investments are expected to be lower risk and have the potential to generate regular cashflows or provide promising equity returns.
- ▶ The Ventures Portfolio: These investments are smaller ticket sizes (typically \$2-5m) and into earlier stage (and therefore higher risk) businesses. Investments are classified as Ventures when they are EBITDA negative and have gross assets of less than \$10m. They are therefore expected to demonstrate lower risk-adjusted returns than Growth investments. AgDevCo invests a share of its capital in higher-risk Ventures investments where it is judged that the investments are highly additional, achieve high development impact and are expected to be financially viable in the short to medium term and also have the potential to grow over time without additional investment from AgDevCo.

The allocation of capital between Growth and Ventures investments is determined by the Board through portfolio construction analysis in order to preserve the value of capital invested and achieve AgDevCo's mission of building and growing sustainable agribusinesses and creating positive development impact at scale.

5.4 Conflicting interests of investee businesses

In the course of originating deals, AgDevCo may identify investment opportunities in businesses which may provide direct or indirect competition to AgDevCo's existing investee businesses operating in the same sector. In this case, AgDevCo will consider the appropriateness of investing, and will structure investments, in a way to minimise any conflict of interest – e.g. using debt rather than equity. In all cases, investment into competing businesses will require approval by AgDevCo's board and full disclosure to relevant parties, in line with AgDevCo's Conflicts of Interest Policy.

6. Reporting

6.1 Annual reporting to AgDevCo Holdings Limited

AgDevCo is 100% owned by AgDevCo Holdings Limited, a company limited by guarantee which exists to entrench the mission of AgDevCo. The members of AgDevCo Holdings Limited include FCDO and a majority of independent members.

AgDevCo will report annually to the members of AgDevCo Holdings Limited on compliance with this Investment Policy, and on performance of the portfolio against the investment performance framework as outlined in section 4.

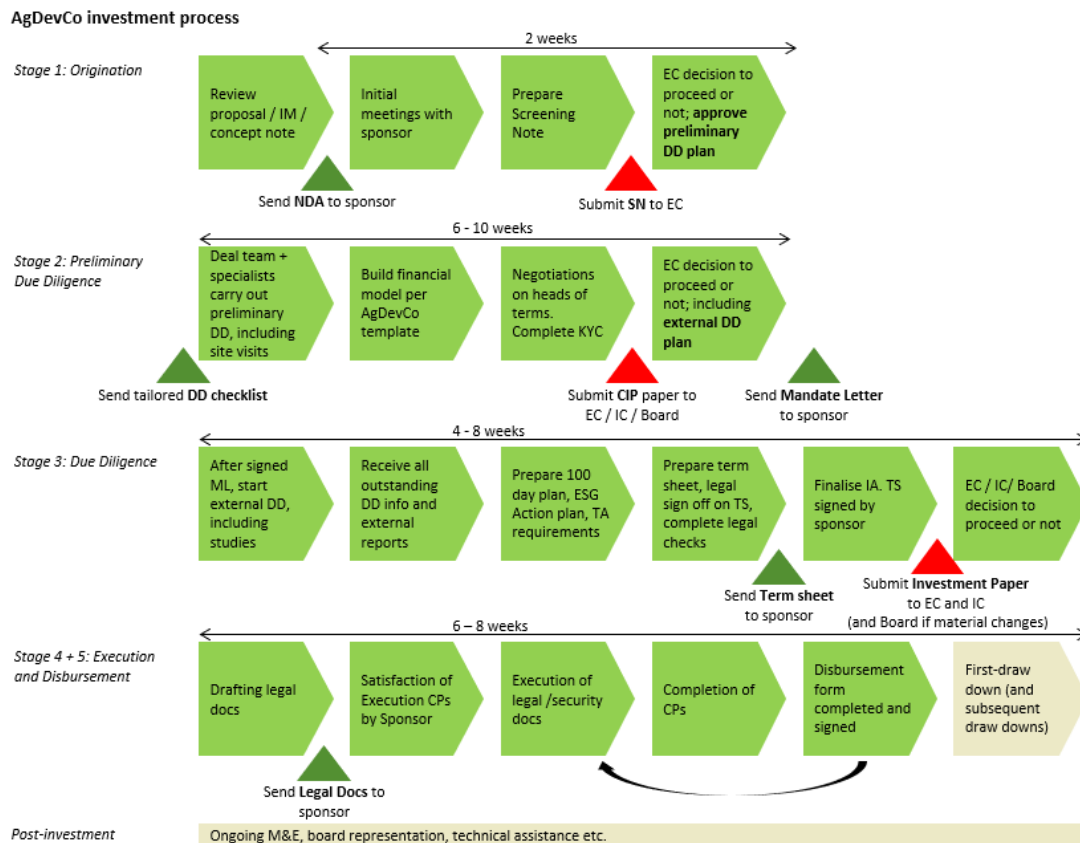
6.2 Transparency

AgDevCo is committed to accountability and transparency, and publishes data to the International Aid Transparency Initiative. AgDevCo also displays information on its website about its investments and operations to the extent relevant to interested third parties, respecting all aspects of applicable law and commercial confidentiality.

7. Investment procedures

Figure 1 below summarises the typical AgDevCo investment process comprising four main stages (before exit). Figure 1 is provided for illustrative purposes only. Key procedural and governance points to note for each stage are set out below. This section should be read together with AgDevCo’s Governance Procedures and the Responsible Investment Policy and Procedures.

Figure 1: AgDevCo Investment Process (pre-exit)



7.1 Stage 1: Origination (Screening Note)

Origination culminates in an investment team receiving approval from the EC to proceed to preliminary due diligence on a specific investment opportunity. The information required to be included as part of this process is prescribed in an AgDevCo Screening Note template document, but as a minimum includes: details of the investee business; the investment thesis and structure; the impact that will be achieved; key risks; a preliminary due diligence plan and budget and details of the AgDevCo investment team.

7.2 Stage 2: CIP

Following approval by the EC of the Screening Note, the preliminary due diligence will be carried out by the investment team (supported by the various specialist teams). Once the preliminary due diligence has been gathered, Clearance in Principle (CIP) will be sought from the IC. The CIP paper will analyse the business and investment theses in more depth than in the initial screening note, and will summarise the results of the Ag and ESG DD, focussed legal DD performed to date, results of KYC checks and initial impact assessment. A financial model will be produced ahead of CIP stage and a plan for any further DD will be included in the CIP paper. The information required to be included in the CIP paper is prescribed in an AgDevCo template document. Board approval will be required on policy issues if the investment threshold exceeds the IC delegated authorities under AgDevCo's Governance Procedures, or if the nature of the investment requires Board approval under the Governance Procedures.

7.3 Stage 3: Final Due Diligence and Approval

Following the final due diligence carried out by AgDevCo staff and consultants, the investment team will submit the proposal for final investment approval. The information required to be included as part of this process is prescribed in an AgDevCo template document.

All investment proposals are expected to be reviewed and agreed by the EC before being submitted to IC. All investment decisions taken either by the EC or the IC will be reported not less than quarterly to the IC and / or Board respectively. Board approval will only be required at this stage if there are material changes to the investment since CIP or new policy issues that require Board approval.

7.4 Stage 4: Execution and disbursement

During the execution phase legal documents will be drafted, agreed and executed. Disbursements will then be made in accordance with the investment agreements and with AgDevCo Financial Policies and Procedures. Material changes in the commercial deal that arise during execution phase would be expected to be approved by EC / IC or Board – depending on the level of delegated authority.

7.5 Stage 5: Portfolio management

AgDevCo will actively monitor and evaluate the performance of the enterprises that it invests in during the life of its investments. The level of engagement will depend on the performance and corporate capability of the business, but will be sufficient as a minimum to meet the

requirements of AgDevCo's quarterly Portfolio Review Committee processes. (See Governance Procedures.)

AgDevCo will seek to add value through its involvement in strategic decision making in the businesses (through board membership and observer seats); provision of technical advice; and support in establishing suitable partnerships. Engagement by AgDevCo's specialist teams will be on a risk-based approach, with priority given to Controlled Entities. When assessing the level of engagement, the specialist teams will also consider whether AgDevCo has a nominee director on the board of the investee.

7.6 Stage 6: Exit

Any intention to sell down or exit an investment (other than through scheduled capital repayments) requires agreement of the EC / IC or Board (subject to delegated authorities). After exit AgDevCo will carry out a review of the financial and impact performance of an investment over its lifetime.

Annex A Impact Framework

A.1 Impact and Gender Equality Performance

AgDevCo develops an impact business case for each proposed investment it makes. These impact business cases include an impact thesis (the logic and assumptions behind how our investment will create impact at a firm, market and livelihood level), projections for key indicators, and the additionality and transformational change scores. Different investment strategies have different impact strengths, but all together the AgDevCo portfolio contributes to each dimension of AgDevCo's impact.

Transformational change – we measure how transformational our investments are by tracking changes in new products/ markets; removing bottlenecks in value chains; community transformation; and demonstrating commercial feasibility. All investments are scored on a framework of 1 (least transformational) to 4 (most transformational) using AgDevCo's scoring criteria.

Additionality – for AgDevCo, additionality means taking the risk of investing where existing commercial financial markets will not. At the deal stage, all investments are scored on a framework 1 (least additional) to 4 (most additional) using AgDevCo's scoring criteria.

Farmers Reach – We measure the number of smallholder men and women that have benefited from engagement with our investees on an annual basis. 'Engagement' is defined as having either bought or sold goods and services to investees, including receiving extension services. We measure the farmer reach using verified company records and independent impact assessments.

Farmers income – we measure the depth of the engagement farmers have with investees by collecting data on the income uplift farmers experience on an annual basis. We calculate this income change using verified company records and independent impact assessments.

In addition to the four primary impact areas, AgDevCo also tracks the following indicators for all our investments. All the indicators and targets are included in AgDevCo's FCDO global log frame.

Indicator	Methodology
Jobs created/sustained (m/f)	We measure full time equivalent (FTE) jobs using verified HR records
Income uplift from employment (\$)	We measure the annual additional revenue men and women receive from employment created by verifying salary records
Annual capital leveraged (\$m)	We measure the additional capital that AgDevCo investments attract into our investees using verified financial records
Value of goods exported (\$m)	We measure the contribution of our investments to regional and inter-continental trade using verified sales records

Sometimes a potential investment impact thesis includes changes not covered by AgDevCo's global log-frame indicators, for example, increases in nutritional food or cost savings for agribusinesses. In these cases, projections are still included in the IA and progress is monitored as part of the annual impact monitoring cycle.

Gender equality is not the primary purpose of its investments, but AgDevCo believes that gender equality and women’s empowerment are significant factors in the commercial success of its investments, and in delivering development impact. AgDevCo’s intention is to make investments which as a minimum do no harm and safeguard both women and men, and, where the opportunity exists, create beneficial outcomes for both women and men.

Gender equality is mainstreamed throughout the investment and operational cycle. The full details are provided in AgDevCo’s Gender Equality Strategy.

Annex B Definitions

“**Alternative Jurisdiction**” means a jurisdiction other than the jurisdiction of the ultimate operating company.

“**CIP**” means clearance in principle.

“**Controlled Entities**” means those portfolio companies in relation to which AgDevCo holds a majority of the voting rights.

“**EC**” means AgDevCo Limited’s Executive Committee.

“**ESG**” means environmental, social and governance.

“**FCDO**” means the Foreign, Commonwealth and Development Office of the United Kingdom.

“**Global Forum**” means the Global Forum on Transparency and Exchange of Information for Tax Purposes of the OECD.

“**Harmonized EDFI Exclusion List**” means the European Development Finance Institutions’ (EDFI) harmonised exclusion list for co-financed projects, found at:
list found at <https://www.edfi.eu/wp/wp-content/uploads/2017/10/EDFI-Exclusion-List.pdf>.

“**High Conservation Value**” means natural habitats with biological, ecological, social or cultural values of outstanding significance or critical importance.

“**IFC Performance Standards**” means the 2012 International Finance Corporation’s Performance Standards on Social & Environmental Sustainability available at <http://www.ifc.org/> (as supplemented or amended from time to time).

“**IC**” means AgDevCo Limited’s investment committee.

“**Peer Review Process**” means the peer review process of the Global Forum evaluating jurisdictions’ compliance with the international standard of transparency and exchange of information on request.

“**Responsible Business Principles**” means AgDevCo’s Responsible Business Principles, available on its website:
<https://www.agdevco.com/uploads/policies/AgDevCo%20Responsible%20Business%20Principles%202019.pdf>