

Website Disclosure

E3 Low Carbon Economy Fund I SCS SICAV-RAIF (the “Fund”)

[December 2022]

**(A) SUMMARY**

The E3 Low Carbon Economy Fund I SCS SICAV-RAIF (the “Fund”) is an Alternative Investment (venture capital) fund that was launched to spur additional GHG reductions by encouraging corporate and industrial entities, local financial institutions, and other businesses (“Partner Institutions” or “PIs”) which are developing and/or investing in eligible Energy Efficiency (“EE”), Renewable Energy (“RE”) and Low Carbon Digital Infrastructure (DI) projects by providing equity and mezzanine financing, and other financial instruments aimed at maximizing learning-by-doing opportunities, facilitating deals and encouraging the long-term sustainability of the EE/RE/DI market in Africa.

This Fund promotes environmental or social characteristics, and while it does not have as its objective a sustainable investment, it will have a minimum of 10% of sustainable investments with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy.

As part of its initial ESG due diligence checks, the Fund reviews all potential investments against its sustainability exclusion list which covers some of the Principal Adverse Indicators (PAIs) and in so doing, considers the principal adverse impacts of its investments on sustainability factors. In addition, when conducting the full ESG due diligence, the Fund also collects the data on each of the 14 primary PAIs and at least 1 indicator from table 2 (additional climate and other environment-related indicators) and table 3 (additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters) of Annex 1 of the SFDR Delegated Regulation 2022/1288. This data will be tracked periodically on an annual basis to measure the progression of these indicators. The Fund also considers the level of significance of these adverse impacts in its assessment of compliance with the “Do No Significant Harm” Principal. Lastly, the IFC Performance Standards and other safeguards defined in the Fund’s ESMS ensure that all potential impacts of project activities on indigenous peoples, vulnerable groups, gender inequality, cultural heritage preservation, community consultation and engagement, as well as potential transboundary and regional impacts are evaluated, monitored and managed.

The Fund promotes environmental characteristics, including, but not limited to, promoting energy access, improving energy efficiency, and promoting GHG emissions reduction by investing in renewable energy, energy efficiency and new models of connectivity driven by digital innovation.

While the Fund's target investments may promote GHG emissions reduction, no EU Climate Transition Benchmark or EU Paris-aligned Benchmark has been designated for the purpose of attaining the sustainable investment objective. However, the Fund will track the absolute GHG emissions and emissions reductions of its investees ex-post on an annual basis and will apply guidelines such as those provided by the Global Off-Grid Lighting Association or the World Bank which are based on standardised methodologies. The Fund will ensure its methodologies are applied across its portfolio on a standardised basis, and will ensure data accuracy is observed in accordance with global standards.

The Fund is targeting to have at least 80% of its total assets in investments which promote environmental and social characteristics – including at least 10% in Sustainable Investments that are not aligned with the Taxonomy Regulation. The remaining 20% will be held in cash or cash equivalents for liquidity, derivatives for hedging purposes, and investments which are neither aligned with the environmental or social characteristics of the Fund, nor qualify as sustainable investments.

The Fund has an ESG Policy and ESMS in place that ensure that ESG risks and opportunities are appropriately flagged, assessed and managed throughout the life of an investment. In addition, the Fund's ESG performance is comprehensively reviewed by the Fund Manager on an annual basis, through collection of up-to-date qualitative and quantitative information that is reported in the annual ESG performance report to its investors.

Monitoring is predominantly desk-based, and most data is provided by the investees who populate - on an annual basis - a pre-agreed ESG reporting template, usually included in the transaction agreements. Some limitations to the data include data gaps, incorrect data submitted and limited verification channels available to the Fund. However, to ensure data quality, the Fund periodically subjects the investees to independent evaluations which must include greenhouse gas accounting, up to and including tertiary climate impacts from the investment if they invest in high energy-intensive sectors. The Fund also relies on verifiable data from audited non-Financial Impact information on other activities such as access to finance, gender, from staff numbers, customer base composition, and geographic distribution, among others.

## **(B) NO SUSTAINABLE INVESTMENT OBJECTIVE**

This Fund promotes environmental or social characteristics, and while it does not have as its objective a sustainable investment, it will have a minimum of 10% of sustainable investments with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy.

As part of its initial ESG due diligence checks, the Fund reviews all potential investments against its sustainability exclusion list which covers some of the Principal Adverse Indicators (PAIs) and in so doing, considers the principal adverse impacts of its investments on sustainability factors. In addition, when conducting the full ESG due diligence, the Fund also collects the data on each of the 14 primary PAIs and at least 1 indicator from table 2 (additional climate and other environment-related indicators) and table 3 (additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters) of Annex 1 of the SFDR Delegated Regulation 2022/1288. This data will be tracked periodically on an annual basis to measure the progression of these indicators. The Fund also considers the level of significance of these adverse impacts in its assessment of compliance with the “Do No Significant Harm” Principal. Lastly, the IFC Performance Standards and other safeguards defined in the Fund’s ESMS ensure that all potential impacts of project activities on indigenous peoples, vulnerable groups, gender inequality, cultural heritage preservation, community consultation and engagement, as well as potential transboundary and regional impacts are evaluated, monitored and managed.

### **(C) ENVIRONMENTAL AND SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT**

The Fund promotes environmental characteristics, including, but not limited to, promoting energy access, improving energy efficiency, and promoting GHG emissions reduction by investing in renewable energy, energy efficiency and new models of connectivity driven by digital innovation.

While the Fund’s target investments may promote GHG emissions reduction, no EU Climate Transition Benchmark or EU Paris-aligned Benchmark has been designated for the purpose of attaining the sustainable investment objective. However, the Fund will track the absolute GHG emissions and emissions reductions of its investees ex-post on an annual basis and will apply guidelines such as those provided by the Global Off-Grid Lighting Association or the World Bank which are based on standardised methodologies.

The Fund will ensure its methodologies are applied across its portfolio on a standardised basis, and will ensure data accuracy is observed in accordance with global standards.

### **(D) INVESTMENT STRATEGY**

## Overview of the Fund's Investment Strategy

The Fund encourages developing and/or investing in eligible Energy Efficiency (“EE”), Renewable Energy (“RE”) and Low Carbon Digital Infrastructure (DI). The “Objective” of the Fund is to spur early-stage innovation across companies in the decentralised and smart services space. This will be achieved by investing into early-stage companies that are providing these essential services across Africa through equity and quasi-equity structures

To achieve this principal objective, the Fund will seek to invest in business that are primarily low-carbon in nature and that promote climate resilience and adaptation (defined as the ability to adjust to actual or expected climate and its effect, to moderate harm or exploit beneficial opportunities, whilst resilience is the ability to maintain essential functions in the face of risk).

The Fund plans to accomplish its objective by providing financing to the following types of Partner Institutions (“PIs”):

- Capital Expenditure (CapEx) intensive businesses: while not large-scale infrastructure, these ‘smart’ and decentralised businesses do require significant investment in CapEx to scale and offer new essential services in African countries.
- CapEx light businesses ‘enablers’: these are more traditional VC type businesses that scale more quickly and act as ‘enablers’ for the low-carbon and climate resiliency ecosystem.

The Fund’s investment objectives are expected to contribute to the following goals:

- Fostering development of sustainable decentralised and smart services companies that pioneer low-carbon solutions or provide access to essential services in commercial ways.
- Catalysing other investment into these companies, be it debt, mezzanine, or equity, to drive growth in the sector. We see ourselves as filling a gap in terms of pipeline for later-stage investors and Development Finance Institutions (“DFIs”).

The Fund’s sustainable investment activities are expected to contribute to the long-term global warming objectives of the Paris Agreement.

To manage the ESG risks of investments, the Fund has an ESG policy that is implemented across its investment cycle. At the origination phase, the Fund screens each opportunity against its ESG requirements and the exclusion list, in addition to conducting a preliminary risk assessment to identify material ESG risk factors and assign a preliminary ESG risk categorisation. These factors are taken into

consideration by the Funds Investment Committee prior to issuing a no-objection to the Fund to proceed to conducting full due diligence on the investment opportunity and structuring the investment opportunity.

Following the due diligence, the Fund will draft likely risk mitigation measures, if needed, and document the ESG risk categorisation rationale. If ESG issues require significant mitigation, the Fund will re-evaluate the investment proposal with revised economics, taking into consideration the financial implication of the mitigation measures.

Following the final approval to proceed with the investment, the Fund ensures ESG clauses are inserted into its investment agreement, including E&S Action Plans and climate action plans (to allow for appropriate alignment to EU Taxonomy and SFDR) commensurate to the level of ESG risk identified. On an ongoing basis, the Fund monitors its portfolio companies on its ESG requirements including an annual evaluation of the PAIs, positive contribution to its impact objectives, and a review of compliance with its general ESG requirements.

**Summary of binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by the Fund**

The Fund's investments consider the following binding elements:

- Explicit exclusion of all investments with a high ESG risk profile (Category A/FI 1 investments as per the IFC ESG risk categorisation framework);
- Compliance with the Fund's ESG Policy including the LCEF ESG Requirements and the LCEF Exclusion List;
- Alignment with the required environmental consents according to national law, and all other applicable local E&S laws and regulations, including appropriate licensing; and
- Alignment with the IFC Performance Standards 1-8 as applicable.

**Summary of the Fund's policies to assess good governance practices of its investee companies**

The application of the Fund's ESG policy ensures that investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance by complying with local and international regulations and standards touching on the aforementioned governance aspects (e.g. local labour laws, tax laws, among others). Additionally, good governance practices are ensured through investing in projects that can demonstrate compliance with

international ESG standards such as the IFC Performance Standards, World Bank ESS, ILO International Labour Standards and Fundamental Labour Conventions, OECD Principles of Corporate Governance, and Anti-Bribery and corruption laws.

#### **(E) PROPORTION OF INVESTMENTS (ASSET ALLOCATION) FOR FINANCIAL PRODUCTS THAT PROMOTE ENVIRONMENTAL OR SOCIAL CHARACTERISTICS**

The Fund aims to invest in early-stage innovative businesses that are primarily low-carbon in nature and that promote climate resilience and adaptation. Some of these investments are expected to contribute to the following sustainable investment objectives: promoting energy access; improving energy efficiency; and promoting GHG emissions reduction. All investments of the Fund must be aligned with the Fund's intended environmental and/or social characteristics and must demonstrate a verifiable pathway to a substantial contribution to its Environmental and Social Characteristics. All of the Fund's investments will have direct exposure to the investee.

The Fund is targeting to have at least 80% of its total assets in investments which promote environmental and social characteristics (#1 Aligned with E/S Characteristics) by the end of its target investment period. Additionally, the Fund expects to invest 10% of the investments under #1 in Sustainable Investments - #1A. While the Fund will invest in sustainable investments as defined in the SFDR, it anticipates limitations in acquiring sufficient data to demonstrate alignment with the requirements of the Taxonomy Regulation, given the regional context of companies that the Fund invests in. The Fund will therefore target 0% alignment with the EU Taxonomy.

Lastly, the Fund targets to invest up to 20% of its total assets in cash or cash equivalents for liquidity, derivatives for hedging purposes, and investments which are neither aligned with the environmental or social characteristics of the Fund, nor qualify as sustainable investments (#2 Other).

#### **(F) MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS**

ESG risk assessment and management is core to the Fund's investment approach and embedded within the Fund's investment due diligence and execution processes. The Fund's ESG Policy and ESMS ensure that ESG risks and opportunities are appropriately flagged, assessed and managed throughout the life of an investment.

The Fund Manager commits to The Fund Manager commits to:

- Monitoring all active investments for ESG performance, including using its expertise and insights from previous experiences to identify opportunities for proactive risk mitigation and achievement of positive impacts beyond those already planned.

- Board representation in investee companies, where applicable, in the case of equity ownership, where ESG matters will be addressed.
- Site visits, where relevant, to confirm implementation of ESMS and ESAP; for necessary, such site visit will be carried out by third party experts
- The LCEF ESG Officer and the Investment Management team will work with the investee to collect data on their ESG status on a periodic basis and will inform LCEF senior management and the LPAC of all investments' ESG statuses in line with the reporting timetable agreed in the LPA.
- Information to be included in the ESG status report shall include the ESG performance, compliance to ESG Requirements, received grievances and incidents and ESG Action Plans (aligned to EU Taxonomy Climate Action Plan requirements) of the Investments in a frequency adequate to the risk classification.
- During each round of equity fund raising to revisit the existing categorisation of the investee, with the required update to ESAPs required to address new risks identified and needing to be managed, prior to disbursement of any additional funds.

In the event that the ESG Policy is found to have not been upheld by the investee, an investigation team consisting of the LCEF ESG Manager and senior LCEF management will be informed. The team will then determine appropriate measures in proportion to the severity of the transgression and the degree of premeditation on the part of the investee, ranging from mandated remedial action to divestment in the case of severe breaches.

The Fund uses different indicators to measure its performance on the promotion of E&S characteristics. Tailored indicators are developed for each of the Fund's focus sectors with a view of assessing, measuring, monitoring, and reporting on the Fund's Key E&S characteristics as follows:

- a) promoting energy access:
  - # electricity connections
  - #individual/household beneficiaries
  - new digital infrastructure for connectivity
- b) improving energy efficiency:
  - project efficiency: status quo vs future consumption
  - replacement of fossil fuels

- c) promoting GHG emissions reduction:
  - GHG savings/emissions reduction TCO<sub>2</sub>e

## **(G) METHODOLOGIES**

The Fund's ESG performance is comprehensively reviewed by the Fund Manager on an annual basis, through collection of up-to-date qualitative and quantitative information that is reported in the annual ESG performance report to its investors. Monitoring is predominantly desk-based, and most data is provided by the investees. For specific investments that are deemed to be of greater ESG risk, or in the event that a credible grievance has been observed, the Fund Manager may consider a more comprehensive monitoring process (e.g. appointment of ESG specialists to review action plan implementation or conduct a site visit).

E&S Performance Reports to investors include information on: (i) Portfolio breakdown by sector, high-risk transactions and E&S due diligence process (e.g. E&S Risk categories); (ii) Cases of non-compliance and significant E&S incidents related to a transaction; (iii) Information on the implementation of and changes to the investee's ESMS; and (iv) Information on E&S indicators for the E&S characteristics promoted by the Fund as agreed with the investee (sector-specific).

Where the outcomes on indicators outlined in section F above are positive, the environmental and social characteristics promoted by the Fund will be considered as attained. In addition, there should be no occurrences of any of the binding elements listed in section D above.

## **(H) DATA SOURCES AND PROCESSING FOR ENVIRONMENTAL OR SOCIAL CHARACTERISTICS**

Data is obtained directly from investees who populate - on an annual basis - a pre-agreed ESG reporting template, usually included in the transaction agreements. The investee commits to providing the information on an annual basis as one of the conditions subsequent following the Fund's investment.

The Fund has a dedicated impact management team that reviews all data received and checks it for consistency, accuracy against historical trends and industry benchmark data (where available), and completeness. Following this preliminary review, the impact management team then populates the data in the Fund's in-house impact monitoring database for analysis.

To ensure data quality, the Fund periodically subjects the investees to independent evaluations which must include greenhouse gas accounting, up to and including tertiary climate impacts from the investment if they invest in high energy-intensive sectors. Evaluations



must be independently produced, and the costs to produce these evaluations must be borne by the investee; however, the Fund Manager may provide funding for evaluations in certain cases.

The Fund also relies on verifiable data from audited non-Financial Impact information on other activities such as access to finance, gender, from loan applications, staff numbers, customer base composition, and geographic distribution.

Most data included in the Fund's reports are actual data and estimates are rarely used, except in instances where an attribution calculation is required, such as apportioning climate impact to the Fund's investment.

#### **(I) LIMITATIONS TO METHODOLOGIES AND DATA**

For the accuracy of the methodologies used by the Fund to measure how the investment activities have promoted the Fund's target E&S characteristics, there needs to be a significant portion of the data on all outstanding investees received. However, in some instances, the Fund's information rights are limited as regulations on corporate disclosures in Africa are weak or non-existent in some markets, and, as the Fund's investee companies will be primarily early-stage ventures with limited E&S capacity, the Fund's investees can fail to submit all the information required to complete the assessment or submit information with significant gaps.

In addition, given that the data is self-reported, the Fund relies on the investees to provide accurate and representative data. However, in some instances, there is a lack of common understanding of the metrics used, resulting in the submission of wrong data. In such cases, the Fund will review the data against the investee company's historical data and/or trends observed in other peer companies and exclude incorrect data from its analysis.

#### **(J) DUE DILIGENCE**

As part of due diligence, the Fund carries out an ESG review of the prospective investment to get an overview of the institution's commitment and capacity to manage ESG risks and to screen out institutions that indicate a heightened risk of ESG non-compliance. This will include categorisation according to ESG risk level (i.e., Category A/ Category B+/ Category B/Category C based on EDFI's ESG risk categorization framework, a contextual risk assessment, review against the IFC Performance Standards 1-8, and gender considerations which are applied as relevant.

The ESG review shall ensure investees' compliance with the ESGMS and includes the following guiding topics:

- Proactive and communicative management regarding social and environmental issues – Communication of social and environmental guidelines, policies, and procedures within the organisation, including licensing requirements acquired through an Environmental Social Impact Assessment (ESIA) process on Category B+ investments, management systems certified or not, or agreed to principles to be adhered to as signatory to sector or regional organisations such as the UNPRI.
- Environmental and Social Activities and Conflicts – The entity’s past and current activities relating to ESG issues and any impacts/effects on the organisation’s reputation are analysed and monitored on an ongoing basis.
- Human rights risks – Review the entity’s activities to identify human rights risks and impacts, guided by the IFC Performance Standards and the United Nations Guiding Principles for Business and Human Rights (UNGPs)
- Portfolio Analysis – Analysis of the investee’s operations to detect ESG risks as an outcome of its operations.

The specific screening methodology and techniques applied by the due diligence team and during monitoring of outstanding Fund investments should be appropriate to the nature of the institution and its businesses. Before the Fund invests in any proposed Investment (including in respect of a new investment or a follow-up investment in an existing Investment) a proper ESG due diligence will be performed, starting with information available in the public domain.

#### **(K) ENGAGEMENT POLICIES**

The Fund practices active ownership and engagement throughout our portfolio, through the following measures:

- Board representation in investee companies, where applicable, in the case of equity ownership, where ESG matters will be addressed;
- Monitoring investee compliance with ESG requirements and ensuring implementation of identified action/management items;
- Monitoring investees’ ESG performance including assessing compliance with the IFC Performance Standards and National labour legislation and reviewing ESG performance metrics on an annual basis;
- Cooperation with other shareholders of our investee companies; and
- Communication with relevant stakeholders.

#### **(L) DESIGNATED REFERENCE BENCHMARK**

Not applicable; there is no external reference benchmark designated for the purpose of attaining the environmental and social characteristics promoted by the Fund, however, internal proprietary assessments that can serve as benchmark are in place. In addition, while the Fund’s target investments may promote GHG emissions reduction, no EU Climate Transition Benchmark or EU Paris-aligned

Benchmark has been designated for the purpose of establishing promotion of environmental characteristics promoted by the Fund. However, the Fund will track the absolute GHG emissions and emissions reductions of its investees ex-post on an annual basis and will apply guidelines such as those provided by the [Global Off-Grid Lighting Association](#) or the [World Bank](#) which are based on standardised methodologies.