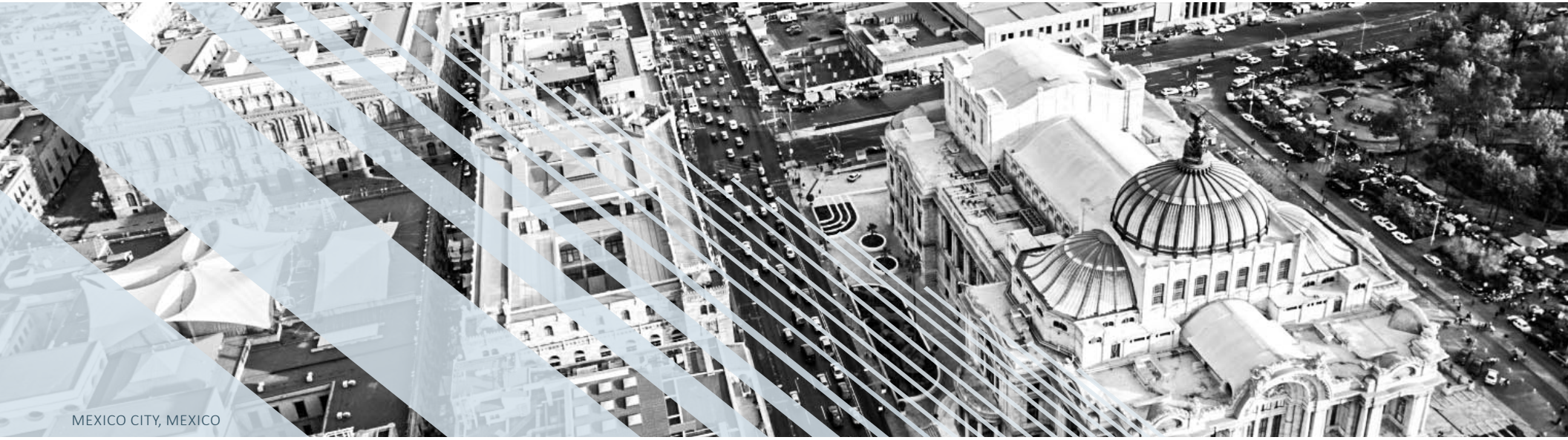
SARONA



MEXICO CITY, MEXICO

GROWTH THAT MATTERS

ANNUAL VALUES REPORT 2015

Sarona Asset Management

Sarona Asset Management ("Sarona") is a private equity firm, investing growth capital in private equity funds and companies in frontier and emerging markets.

Our particular focus is the small to mid-market companies that meet the growing needs of the rising middle class. Our goal is to achieve superior returns by creating world class companies, employing highly progressive business strategies, and operating to the highest standards of business, ethical, social and environmental excellence.

Sarona and its predecessors have developed a wealth of experience and knowledge through 60 years of private investments in frontier markets.

Welcome message from CEO

We knew it would happen. And now it finally has: the United Nations, with all its member states, came together in Addis Ababa in July to acknowledge that private business is not the problem, but rather a critical part of the solution. That was a sea change. They were joined by the World Economic Forum – the Davos business group – which equally acknowledged its responsibility to create positive social and environmental outcomes through its businesses. In an amazing show of foresight, the public sector and private sector moved from their entrenched positions to embrace a future that includes prosperity for all.

From the public sector, we heard phrases such as, ". . . private sector drives investment, innovation and growth. . . is vital for fair and sustainable development. . . must support businesses' need to generate profit. . ." From the private sector, we heard, ". . . shareholder return is no longer the only goal. . . we have impact; let's be certain it's positive. . .we recognise three or four bottom lines. . ." And from both, the concept of Blended Finance – the blending of public and private capital to achieve both financial and social targets – was embraced.

For Sarona these messages were a beautiful music. Not only was Sarona widely acknowledged as a long-time values-oriented investor, but our Sarona Frontier Markets Fund 2 was held up as a prime example of public-private partnerships.

None of this does, nor should, detract from our primary work of making strong investments, so we continue to stand on our three pillars:

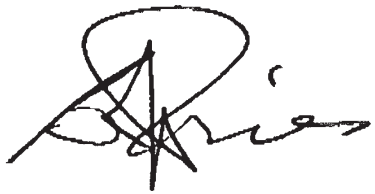
- Growth – we invest in growing private companies in frontier and emerging markets.
- Growth matters – we commit to targeting strong financial returns for our investors.
- Growth that matters – our commitment extends to improving the world by focusing on progressive ethical, social and environmental values in all we do.

For many years we invested without formally tracking the ethical, social and environmental outcomes of our investments. We always knew exactly how much profit we were generating, but our values were supported only by anecdotal evidence. That has changed. In these pages you will see the empirical evidence that our growing investee companies make a positive difference. But we haven't given up on the stories – in this report you'll also be able to take a deep dive into 15 of our almost 200 portfolio companies, and learn about the values perspective of two of the private equity funds in our portfolio.

Because ethical, social and environmental outcomes are rarely a perfect science, we're pretty sure that we'll never get our values imperative perfectly right. But we're equally confident that we are moving in the right direction and that our investments are making this world a better place. As surely as Sarona invests ever more capital into more companies through more local private investment firms, so does our impact. Ultimately, the question we ask ourselves is, "Will our grandchildren someday respect the work we do today?"

The recent UN conference in Ethiopia was an affirmation of the fact that this is a great time in history to be investing in frontier and emerging markets. Sarona and its investors are not only benefiting from the growth in these markets, but also contributing to it. We thank our investors for entrusting us with their investment mandate. May we be true to both imperatives – financial returns and positive values.

Sincerely,



Gerhard Pries, Managing Partner and CEO

[4] KUALA LUMPUR, MALAYSIA

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A history of impact

Sarona is a young company, but enjoying a rich history. We trace our roots back to 1953 when a group of business owners formed, what is today, the Mennonite Economic Development Associates ("MEDA") to invest in the Sarona Dairy Farm in Paraguay.

The Sarona Dairy investment was different from other investments as it was meant to do more than just generate financial returns. The investment was intended to stimulate the development of the struggling local community, enabling them to become self-sufficient. Back when these forward-thinking business leaders realised something that is only now dawning on others: investing growth capital, with the expectation of a financial return, is more sustainable and able to generate a greater positive impact than a simple act of philanthropy. This insight made them early pioneers of what we more than 50 years later started to call "impact investing".

Due to the combination of sound investment principles and social values, the Sarona Dairy investment became very successful, both in financial and social terms. The community flourished and the investment itself ultimately spawned an industry that served 70% of Paraguay's dairy market.

Over time MEDA evolved into a non-profit economic development institution, while retaining its investment mandate alongside a large and sophisticated ability to deliver technical assistance. In 2010, the investment team chose to convert Sarona Asset Management Inc., until then a subsidiary of MEDA, into a privately-owned, independent investment firm. This decision was driven by the desire to build a scalable business that invests in growth markets, for profit, but guided by strong ethical, social and environmental values.

Today, we seek to use our extensive knowledge and experience to identify – and deliver capital to – some of the best private investment managers across Africa, Asia, Emerging Europe and Latin America. Our portfolios are designed to deliver high risk-adjusted returns to our investors, but we are equally driven by a desire to enhance social and environmental outcomes by encouraging the flow of private capital into progressive mid-market companies.

While we are a commercially-driven investment company, we have not forgotten where we come from.

The Sarona story continues to inspire us. It stands as a testament to the fact that there doesn't have to be a trade-off between generating superior financial returns and creating positive environmental and social impact. That is why we chose the name "Sarona" for our company. It is meant to remind us every day that commercial success and positive outcomes can go hand-in-hand. That is, as long as we focus on growth that is guided by our values. As long as we focus on *Growth that Matters.*

GERHARD PRIES AND THE ORIGINAL GATE OF SARONA DAIRY, NOW IN OUR CANADIAN OFFICE

Overview

Growth that Matters

a virtuous circle of profit and impact

- Growth-stage SMEs
- High-growth markets

Good investments, done right

63% of companies actively focus on employment generation

72% of companies promote gender equality

23% of employees trained during a 12-month period

34% of companies have environmental policies

Catalyst for change

$2.5tr financing gap for SMEs in developing markets

~300mm invested, by Sarona, in frontier markets

36mm customers served by our companies

Innovation through collaboration

US and Canadian government agency support, creates a unique risk-return profile

Investors' Council member of the GIIN

First fund to use preliminary GIIRS rating as an investment requirement

*Data as reported by 137 companies (90% response rate) in Sarona's portfolio covering 12 months prior to end of FY14-15

Methodology

Sarona combines two methodologies to gain a better understanding of the breadth and depth of our impact. These include:

1. The Sarona annual impact questionnaire
2. Case studies

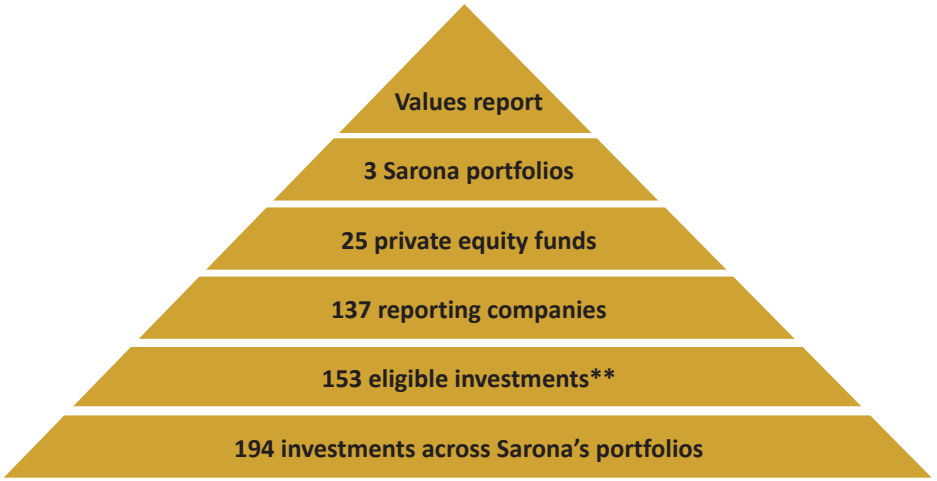
This report was written to share the findings gathered from the Sarona annual impact questionnaire as well as from 13 impact case studies, two Environmental, Social and Governance (ESG) case studies and two Sustainability Innovation Grant (SIG) case studies.

1. The Sarona annual impact questionnaire

The annual questionnaire is a tool we use to gather ESG and other non-financial data from our portfolio fund managers and companies. In 2013, we expanded our tracking of ESG outputs from four to 33 IRIS-compliant metrics (see Appendix), including 16 quantitative and 17 qualitative metrics. At the end of 2014, Sarona had exposure to 25 private equity funds and 153 eligible companies in 42 countries through its three portfolios: two funds of funds (Sarona Frontier Markets Fund 1 & 2) and the MEDA Managed Account. In the case of Sarona Frontier Markets Fund 2, completing the questionnaire is a condition for our investment, while fund managers in our other portfolios do so on a voluntary basis.

This year, Sarona received responses from 137 reporting companies, reflecting a response rate of 90% compared to 79% last year. The data provided through the underlying fund managers covered a 12 month period ending either 31 December 2014 or 31 March 2015. Of the 137 companies, all reported on quantitative metrics and 134 reported on qualitative metrics. The summary data presented on page six reflects the entire universe of respondents. However, the main body of this document reports on the evolution of our companies over time. In order to do so, we based our analysis on the sub-set of respondents who provided data both last year and this year. 91 companies reported quantitative metrics and 93 reported qualitative metrics for both periods. The table below provides a breakdown of the response rate.

	# of eligible investments	Questionnaires completed	% of eligible companies responding
MEDA managed account	20*	20*	100%
Fund of funds programmes	133	117	88%
Total	**153**	**137**	**90%**



**excludes 41 companies in credit funds

Where appropriate, Sarona included additional information about reporting companies sourced from third parties.

2. Case studies

Quantitative measures, such as the 33 IRIS-compliant metrics, are not always the best indication of the overall impact achieved by a company in the community where it operates. To complement our understanding, we also conducted 17 case studies, which allowed us to take a broader and more inclusive perspective.

2.1 Selection criteria

We chose to showcase the participants based on the following criteria:

- Investee funds and general partners that have a relevant ESG and impact story
- Companies held by Sarona, either directly or through one of our funds
- Investments that have been held for at least 12 months
- Companies that offer a broad representation of the Sarona portfolios, relevant sectors, fund managers and countries
- Selections are not based on financial performance

The full list of companies can be found in Appendix.

*Includes four funds reporting on their overall portfolios

Methodology

2.2 Case studies methodology

This year, we gathered all answers from respondents by asking them to add their data directly onto B Lab's online platform. Prior to doing so, we agreed with B Lab to pre-populate the database with answers received in 2014. This allowed us to compare data gathered in 2015 with the equivalent data gathered in the previous year. In addition, Sarona staff reviewed documents and conducted one to three hour telephone interviews with the fund managers and/or management teams of the selected funds and companies. On occasions, members of the Sarona team also participated in on-site visits.

We collected detailed information relating to the following impact themes:

- Access to goods and services
- High-quality jobs
- Governance and management
- Innovation

Quotes from various stakeholders have been added to give an "unfiltered" impression of what each company means to different individuals depending upon their own perspective.

33

IRIS metrics selected by Sarona as relevant across our multi-sector portfolios

16

quantitative metrics

17

qualitative metrics

137

completed questionnaires reporting on quantitative metrics in 2015

134

completed questionnaires reporting on qualitative metrics in 2015

91

companies reported on quantitave metrics in both 2014 and 2015

93

companies reported on qualitative metrics in both 2014 and 2015

Growth that Matters

Sarona seeks to provide investors with strong financial returns while creating positive outcomes for the communities and the environment where we invest. In short, we invest for both profit and impact.

In the world of "impact investing" this may seem strange, because we tend to assume that there has to be a trade-off. Depending on the investment criteria, an investor is considered either "finance-first" or "impact-first". By this reasoning, Sarona would be considered a "finance-first" investor. But we reject this label.

We have found that there are investment opportunities where maximising returns and creating positive social and environmental outcomes go hand-in-hand. In fact, we believe that in certain situations these two factors can positively reinforce one another, creating a virtuous circle. We call this our "sweet spot".

Sarona's sweet spot consists of growth-stage, small to mid-market companies that serve the rising middle class in high-growth markets. We have found that within this segment of emerging economies creating an impact, managing risk and maximising returns complement one another. Sarona believes that it is essential to invest through locally-based fund managers able to enhance both operational performance and impact. Local knowledge combined with international standards and "boots on the ground" is a powerful recipe for successful and profitable growth benefiting multiple stakeholders.

In our experience, partnering with responsible fund managers that apply progressive ethical, social and environmental values, in addition to having a rigorous investment process, enhances the risk-return profile of an investment. It is this rigour and dual focus that help us realise our ambition of creating ***Growth that Matters*** by focusing on three themes:

- Good investments, done right
- Catalyst for change
- Innovation through collaboration

Growth that Matters *a virtuous circle of profit and impact*

Good investments, done right

When we talk about good investments, we mean investments that strive to generate superior risk-adjusted returns. At the same time, we also mean investments that are able to make a measurable positive difference within the local communities.

Risk-adjusted returns

Developmental Financial Institutions ("DFIs") have demonstrated the potential of generating strong risk-adjusted returns by investing in private equity funds with socially and environmentally progressive strategies. The IFC has, for example, generated financial returns of about 20% with this strategy over the last 10-12 years[1]. Most of the funds we invest in are anchored by one or more DFIs. We often invest alongside them, aiming to achieve with private capital what they demonstrated was possible with government money.

Impact

We distinguish between the direct impact of our investments and the more indirect, catalytic effect of our activities. In this section, we focus on the former. Through our investments, we believe we are able to effect positive change in two ways:

- By investing in industries that we believe inherently serve the common good such as healthcare and education
- By investing, through private equity funds, in companies that target, and will achieve, job creation and improved ESG outcomes

A virtuous circle

Investing in growth-stage small to mid-market companies, with a dual focus on profit and impact, can create a virtuous circle where these two objectives positively reinforce one another. Intuitively this makes sense. A management team, which recognizes the importance of treating its employees well, will benefit from a more motivated and loyal workforce. Similarly, by acting in a socially and environmentally responsible way, the company will benefit from having a stronger brand in addition to running less regulatory and compliance risk.

1. Environmental performance

Analysing the 2014-2015 responses of the 93 companies that reported for both current and previous periods, we notice that 80% of reporting companies, 17% more than last year, actively pursue at least one of the environmental objectives we have identified from the available IRIS metrics (see Appendix). While the average number of objectives pursued by the management teams has not changed, we are encouraged by the higher number of companies that are taking positive actions to protect the environment from negative consequences.

80%
of companies actively pursue one or more environmental objectives, 17% more than last year

8%
increase in the number of companies that target at least one social objective

2.8
environmental objectives pursued on average by each company

5
social objectives pursued on average by each company, 20% more than last year

As could be expected, the most frequently pursued environmental objectives are those able to improve the efficiency of the company's operations and reduce cost. Two-thirds of companies indicate that they actively pursued pollution prevention and waste management. This objective is followed by energy and fuel efficiency (47%), sustainable energy (29%) and natural resources conservation (24%).

38% of reporting companies have an official environmental policy documenting the organisation's commitments to improve environmental performance, while 35% also conduct either an internal or external environmental assessment.

The case studies reveal different ways in which companies seek to combine profit generation with a desire to create positive environmental impact. Turkey-based Autoking has optimised its working process, thus saving its clients time and money and reducing the annual quantity of waste by over 1,000 tonnes. It also brought to Turkey the Paintless Dent Repair (PDR) technique, an eco-friendly approach to repairing minor dents.

[1] **Source**: IFC Portfolio as of June 2012 and Cambridge Associates, IFC analysis

Good investments, done right

2. Social performance

We are also pleased to notice an overall improvement in social performance as reported by our portfolio companies. In the case of social objectives as identified by the selected IRIS metrics, the same 93 companies that reported this year as well as last year, reflect a higher number of pursued objectives. While there was only an 8% increase in the number of companies that target at least one social objective, those that do are targeting five such objectives compared to four last year.

By virtue of Sarona's focus on growth-stage companies, it is unsurprising that two-thirds of the reporting companies indicate that they actively pursue employment generation as a key social objective. Other important social objectives include: improving income and productivity (53%) and community development (34%).

The case studies provide some examples of social impact. Tejra, a brick manufacturer and distributor based in Tunisia, has adopted measures such as tailored training and development programmes to ensure greater employee engagement, and the majority of employees are offered full time contracts providing greater job security. The General Partner, AfricInvest Capital Partners, played a major role by improving governance and identifying key performance indicators including environmental and social ones. Another example is the Moroccan logistics company, San Jose Lopez. Management decided to equip its entire truck fleet with GPS units, monitoring over 26 safety driving habits such as speed in turns, quick braking and speed on the highways, thus reducing the number of accidents to zero in the last 18 months. Its warehouses also provide good working conditions with plenty of natural light.

3. Corporate governance and job creation

The relationship between corporate governance, ethics and financial performance is still a hotly debated topic, although the amount of available evidence in favour of a positive causal correlation is increasing. Even if good governance and ethical standards did not improve financial performance (we believe that they do), it is something we value as an investor. It is also something we are convinced improves the overall risk-return profile of our investments by reducing risk and increasing the likelihood of an exit at a premium valuation.

Robust financial controls, transparency and increased contributions to the countries' fiscal regimes by growing SMEs all led to a total of over $120mm in taxes paid by all reporting companies this year. The mobilisation of domestic resources and increased efficiency in tax collection are key drivers in developing economies. Sarona attaches significant importance to proper governance and responsible contribution to domestic fiscal systems.

78%
of companies verify financial statements by a third party

57%
of companies have an official equal opportunity employment policy

89%
of companies have an official code of ethics, 32% more than last year

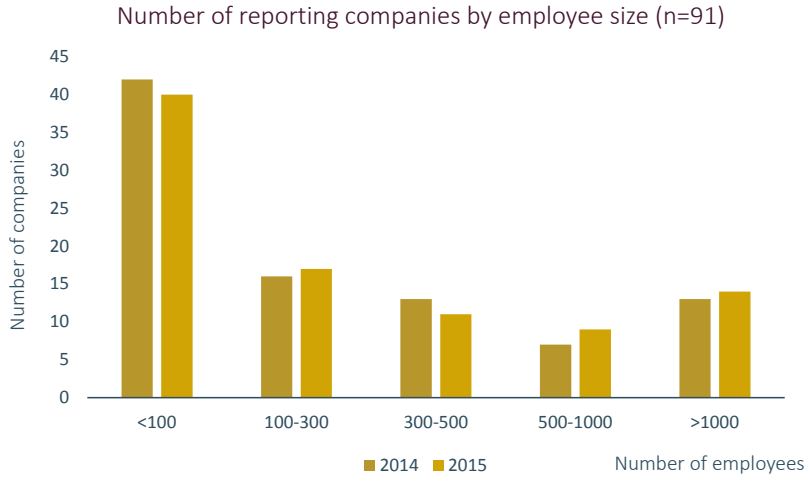
77%
of companies have an official corporate governance policy

Some IRIS metrics reflect a clear business rationale, such as whether financial statements are verified by a third party, while others focus on social issues such as child labour. In some instances, these questions may have little or no relevance to some of the companies. It is, for example, highly unlikely that a professional services company such as AIC, an insurance company in Haiti, would need a child labour policy. However, for a company active in the agribusiness or manufacturing sector, such a policy would be essential. What matters to us is that simply by asking the question we are sending a clear message to our investees that Sarona, as an investor, cares about these issues. We have noticed that this is sometimes sufficient to prompt companies and fund managers to take action when needed.

3.1 Job creation

We believe a growing profitable business, focused on long term performance, creates more jobs and provides better employment benefit, than a business focused on short term results and cost cutting. We also believe that the former outperforms the latter. IFC data confirms this, showing a strong correlation between the number of jobs created

Good investments, done right



Top five environmental objectives pursued by reporting companies (n=93)		Top five social objectives pursued by reporting companies (n=93)	
65%	Pollution prevention and waste management	**66%**	Employment generation
47%	Energy and fuel efficiency	**53%**	Income/productivity growth
29%	Sustainable energy	**34%**	Community development
24%	Natural resources conservation	**28%**	Capacity building
20%	Sustainable land use	**27%**	Access to financial services

*Companies reporting in both 2014 and 2015

and the IRR of a fund[2]. According to this study, good financial performance comes from growing companies- their revenues, earnings and jobs- rather than from financial engineering and job-cutting. The data also shows that the companies with the highest increase in job creation were companies in growth-stage. They are the focus of Sarona's investment strategy.

It is gratifying to see that our objective to grow the number of jobs offered by portfolio companies was achieved last year. The 91 companies in Sarona's portfolio that reported job data for the last two reporting periods employed a total of 39,383 people at the end of 2014, up from 33,596 at the end of 2013. The average number of full-time employees per company also increased from 442 last year to 518 this year. In line with our focus on small to mid-market companies, the majority of the reporting companies have less than 100 employees.

Unsurprisingly, over two-thirds of reporting companies see employment generation as an important social objective. 53% also identify growing the income and productivity of their workforce as one of their social objectives, alongside equality and empowerment (27%) and capacity building (28%).

Our case studies show that investee companies have been strong regional job creators across the board. For example, Mountain Lion Agriculture has enabled nearly 5,000 small scale farmers in Sierra Leone to attain greater profitability by improving their supply chain, providing them a stable market to sell into and minimising post-harvest crop loss. Similarly, Wananchi in Kenya has created over 700 jobs since Sarona's investment while previously it had about 50 employees.

3.2 Job quality

Job creation alone does not automatically translate into positive social outcomes. The quality, sustainability and security of the jobs can be just as important. Sometimes even more so.

As a proxy for job quality, and to keep reporting requirements to an acceptable level for companies, we have identified IRIS metrics related to the provision of secondary benefits, the nature of these benefits and the number of employees who received training during the reporting period. We also looked at whether companies were equal opportunity employers and their health and safety performance.

In line with other reported non-financial performance mentioned above, reported job quality impact was higher this year than last year. Our current data shows that 49% of reporting companies provided secondary benefits compared to 42% previously.

On average, the 93 companies indicate offering at least one secondary benefit and on

[2] **Source**: IFC Assessing Private Sector Contributions to Job Creation: IFC Open Source Study

Good investments, done right

66%

of companies actively pursue job creation, 24% more than last year

49%

of companies provide additional employment benefits, 8% more than last year

85%

of impact case studies revealed employment growth

68%

of companies have an occupational worker safety policy

12,869

employees trained

36%

more training than the previous year

average they offer 2 benefits, similar to last year.

The most common benefits include disability coverage (30%), retirement provisions (22%) and supplemental health insurance (29%). Almost half of the employees of reporting companies received training during the prior 12 months, a 36% increase over last year's results. Last but not least, 68% of the companies have a health and safety policy and less than one injury was reported for every two companies. Imperfect as they may be, we believe these measures do give some indication of the quality of jobs created.

Additional employment benefits provided by reporting companies (n=93)	
30%	Disability coverage
29%	Private supplemental health insurance
22%	Private pension/retirement plans or provident funds
14%	Life insurance

*Companies reporting in both 2014 and 2015

The anecdotal evidence from the case studies gives further reason to be cautiously optimistic. It shows that fund managers often make HR and work condition improvements, such as strengthening the teams throughout the organisation and encouraging the adoption of improved HR policies. The importance fund managers attach to employees' satisfaction is a reflection of their belief that good governance, job quality and company performance are linked. For example, Creador has worked with portfolio companies Bonia, Simba and CTOs to implement a whistle-blower policy to encourage best practices and good corporate governance. At Brookhouse School in Kenya, teachers, administrators and assistants (57% of staff) receive competitive salaries. Ground keepers, cleaners and other ancillary staff (43%) receive in general twice the average GDP per capita for Kenya. There are also additional benefits for all staff members including medical insurance coverage, housing allowances and pension schemes. All expatriat staff are offered home-leave annual travel allowance.

Good investments, done right

Investments that generate high risk-adjusted returns as well as positive impact are Sarona's target, but how can we substantiate this claim and provide comfort that we are making progress? Sarona's dual focus on profit and impact is embedded into our DNA and integrated in the way we interact with our investors and our investees alike. This report is an attempt to summarise the results of one year of activity. We have embarked on a journey, continuously striving to improve our financial and non-financial returns and to report our performance on both as transparently as we can. We are at the early stages, but are encouraged by the progress made so far.

Impact as part of the investment process

Sarona has embedded impact considerations into every step of its investment process, from the way we source deals and conduct due diligence to the way we engage with our fund managers and communicate to our investors. These considerations form a part of our official investment procedures manual.

1. Sourcing

Sarona sources potential deals from a variety of places, which include, but are not limited to, impact networks, such as the GIIN and other development investors, such as DFIs. Initially we sourced between 50-60% of our deals from our DFI network. As we evolve, we find that the Sarona brand name recognition has increased considerably, and that our own ability to map the investable market has also done so. Today we estimate that we source over 70% of investment opportunities directly through our own resources.

Our initial screening process also includes impact considerations. We look for locally-based managers who can demonstrate that they've played an active strategic and operational role in previous investee companies and are able to add value to these companies in terms of both financial and ESG performance. The fund manager should furthermore be able to demonstrate that at least 75% of invested capital is focused on:

- **High impact sectors**, such as agribusiness, consumer goods, education, financial services, health, light manufacturing, logistics and transportation, professional services, technology, water and other sectors primarily serving the needs of the growing lower to middle class
- **Superior ESG performance** of the companies being supported
- **High impact outcomes**, including job creation and increased access to goods and services

2. Due diligence

During the preparation of the deal alert memo, Sarona delves further into the fund manager's marketing material to determine whether impact forms part of the fund's investment strategy and to identify key strengths and risks associated with this strategy. This initial assessment is reviewed during the preparation of the information memo and on-site due diligence.

At this stage, Sarona reviews past performance to determine what operational and impact value the fund manager was able to add to its portfolio companies. Sarona also looks at a fund manager's pipeline to understand future plans to improve impact and reviews the fund's impact policy and procedures manual. Finally, the fund manager is asked to complete Sarona's proprietary Social and Environmental Questionnaire.

At the investment memo stage, Sarona considers all the materials generated through the due diligence process and requires fund managers complete a preliminary GIIRS rating. This information is processed to calculate Sarona's proprietary impact score, which forms part of the overall due diligence score.

Administered by B Labs, the GIIRS rating provides a current and historical analysis of the fund's social and environmental performance. Sarona is the first firm to use the GIIRS preliminary fund manager impact score as part of its due diligence process.

3. Implementation of non-financial reporting requirements

When Sarona invests in a fund, the fund manager signs a side letter. This document includes the Sarona Exclusion List, and, as of 2013, the obligation to report annually on 33 standardised IRIS metrics (see Appendix). Finally, fund managers are challenged to identify stretch targets of their own that are customised to their fund's objectives and what they believe they can achieve.

4. Engagement with fund managers

Sarona actively engages with fund managers to increase their positive impact by exchanging best practices, increasing transparency through reporting and quarterly calls.

5. Communications

Sarona strives to continually improve the form, content and frequency of its communications with investors and investees alike. To generate this report, many days were spent exchanging information with our funds and companies. We then consolidated hundreds of data points in a meaningful format for us and our investors.

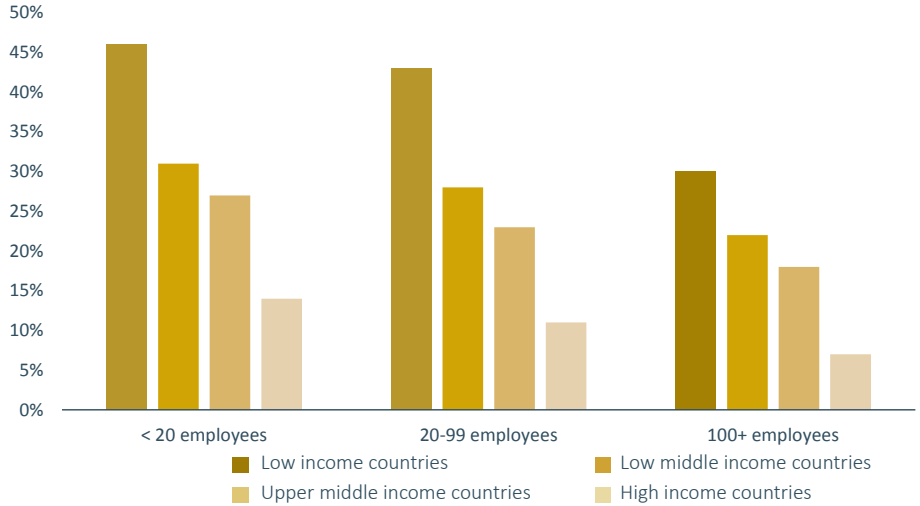
Catalyst for change

Beyond the impact created by our investments, we recognise our role as a catalyst for change in developing markets. We see this role as having two dimensions. Firstly, we see ourselves as a bridge between private capital and entrepreneurs in high-growth markets and, secondly, as a social actor able to indirectly exert positive change through our activities.

The financing gap

The 2014 United Nations Conference on Trade and Development World Report has concluded that there is a US$2.5 trillion annual investment gap between current investments related to Sustainable Development Goals and the identified needs.[1] Worldwide access to finance is considered the second most severe obstacle to improving performance. Small to mid-market companies suffer disproportionately from a lack of access to finance (compared to larger companies), but they also receive a stronger boost in growth if they acquire funding. Sarona is one of the first institutions that has emerged from the private sector with a clear and explicit developmental objective comparable to that of DFIs. Sarona's mission is to promote private sector development in frontier and emerging markets by investing through local private equity funds in small to mid-market companies.

Average percentage of businesses identifying poor access to finance as a major constraint to operations[2]



1tr

$ in "investable" projects affecting the rising lower-middle class

300mm

$ invested, by Sarona, in frontier markets

79mm

$ in corporate tax paid by reporting companies, 21% more than last year

31mm

customers served by reporting companies in our portfolios, 7% more than last year

12,248

suppliers supported by reporting companies, 26% more than last year

52%

of reporting companies screen suppliers for ESG performance

[1] **Source**: UNCTAD 2014. World Investment Report 2014- Investing in SDGs. Geneva
[2] **Source**: Thorsten, B. 2007. Financing Constraints of SMEs in Developing Countries: Evidence, Determinants and Solutions

Catalyst for change

During the first decade of this century, the investment strategies developed by the two largest Development Financial Institutions ("DFIs") have broadly outperformed traditional private equity and listed markets around the world (see comparative performance data).

Both the IFC and EBRD have built diversified private equity portfolios of funds investing across frontier and emerging markets. By deploying billions of dollars of governmental money, these DFIs have achieved significant results supporting local development in terms of both financial performance and impact.

Sarona, a bridge to high growth markets

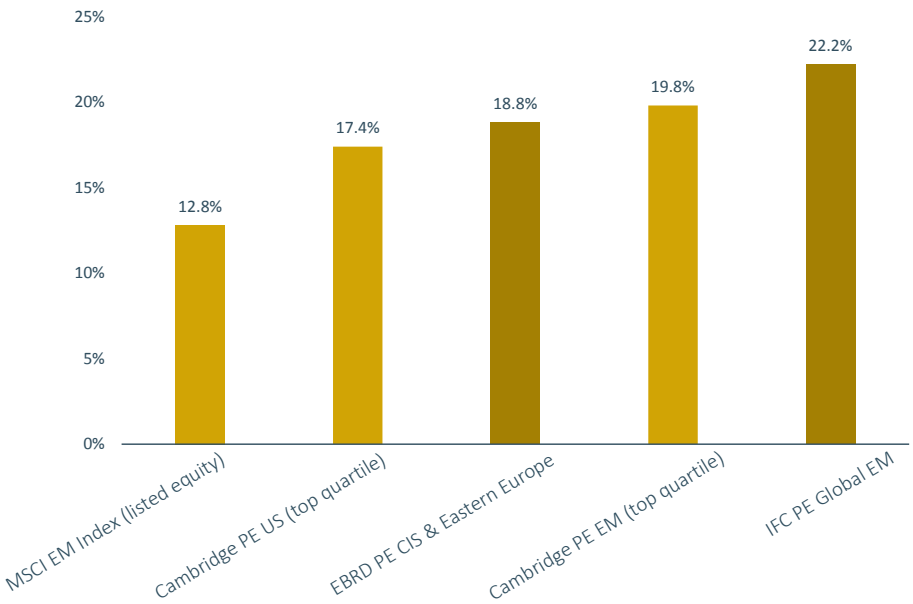
Sarona seeks to do with private capital what DFIs have proven is possible with government money. We build a safe bridge between private capital and deserving entrepreneurs in developing markets.

Since 2010, Sarona has been raising capital and deploying it in locally-based private equity funds alongside national and multi-national DFIs, such as the UK's CDC, the Netherlands' FMO, the French Proparco, the Norwegian Norfund and of course the IFC and ERBD.

While Sarona's assets under management have grown at the encouraging rate of 83% (CAGR) over the last three years, there is still a great need for private capital to support entrepreneurs in these high-growth economies. Our mission, to act as high value-add intermediary between private asset owners and small companies in developing economies, is just starting.

This July, Sarona attended the Third International Conference on Financing for Development in Addis Ababa, Ethiopia. The event gathered high-level political representatives as well as other relevant institutional stakeholders, non-governmental organisations and business sector entities. During the conference, countries reached a historic agreement to generate financing for a new sustainable development agenda and accepted a series of bold measures to overhaul global finance practices and generate investments to address a range of economic, social and environmental challenges. There were agreements for international cooperation to finance sectors where capital requirements are particularly high such as infrastructure for energy, transport, water and sanitation, and other areas to help reach the newly defined Sustainable Development Goals. Countries also stressed the importance of nationally owned sustainable development strategies, supported by integrated national financing frameworks. According to WTO Director-General Roberto Azevêdo the estimated value of unmet demand for trade finance in Africa is between $110 and $120 billion, and in Asia, over $1 trillion. He claimed that by bridging the gaps, a trading potential of many thousands of individuals and small businesses across the continents may be unlocked.

Annualised investment returns: comparative data*



Reported data for IFC (excl. debt, real estate & infrastructure) and EBRD (excl. property). MSCI data matches IFC cash flows and not EBRD cash flows. Cambridge data matches vintage years for IFC PE (Jan 2000 - Jun 2011)

We were very encouraged by the commitment expressed by participants to break down the silo mentality dividing governments, private business sector and civil society. The challenges facing countries across Africa, Asia and Latin America are such, that only by collaborating we can attempt to provide solutions and finance them at scale.

By having deployed a cumulative ~$300mm to small and mid-market companies in these markets, we believe Sarona is having an increasing positive and meaningful impact on the development of the communities where we invest. Our strategy and focus on development finance brought Sarona to Addis Ababa at the invitation of the Canadian government who showcased our collaboration and blended finance project to a room-full of government dignitaries and top level executives of companies such as Citi and MasterCard.

[4] **Source:** J.P. Morgan, 2011 *Insight into the Impact Investment Market*

Catalyst for change

The long-standing views dividing the private sector from the public sector and civil society are beginning to shift and evolve into a more collaborative and complementary dialogue.

Broader impact on society

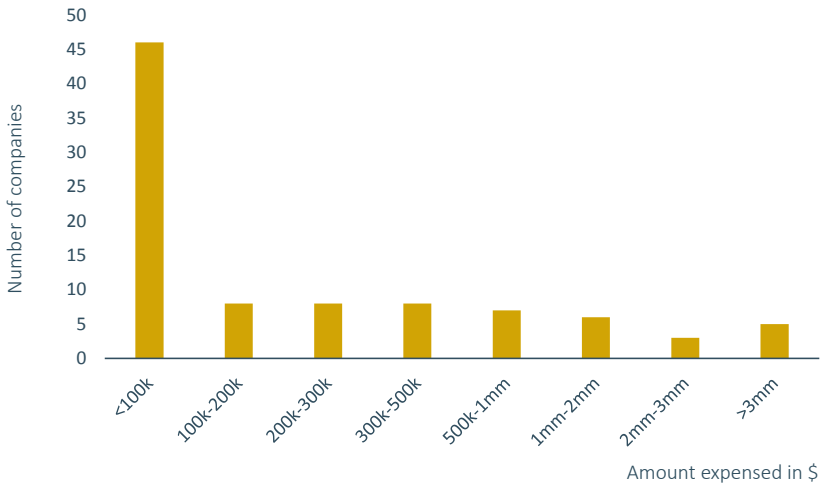
In addition to increasing access to finance, we believe our activities also have an indirect positive impact on society. This indirect impact is much more difficult to measure as well as being significantly tougher to attribute to our activities. Nonetheless, it is important to be aware of, and acknowledge, this potential impact as its net effect can ultimately be significant.

By channelling money to environmentally responsible companies, we impact not only the companies themselves, but also the customers they serve, the suppliers they buy from and society in general through an increase in tax revenue. This year, reporting companies who also provided data last year contributed $79mm in tax revenues, 21% more than last year. In addition, they sourced goods and services from a total of 10,040 individual suppliers, an increase of 28%. Half the reporting companies screen suppliers for responsible social and environmental behaviour. We hope to increase this percentage and extend our influence beyond our portfolio companies and onto their stakeholders.

Sarona seeks fund managers who focus on small to mid-markets companies that serve the rapidly rising low and middle class in high-growth markets. These companies often employ innovative business models that enable them to reach under-served segments of the population. In the case studies, we see how Haltons has increased the number of pharmacies across Nairobi, Kenya, bringing access to pharma and non-pharma products and services to underserved areas of the city. In addition, Haltons now offers blood testing facilities in-store to the increased convenience of its clients. Wananchi Holdings is another example of a company with a broad impact on society: since inception, they have connected tens of thousands of homes to high quality and affordable broadband, voice and local content television programmes.

The companies who reported this year, as well as last year, identified supporting a total of 31mm clients. This number may be problematic as it groups clients treated in a pharmacy with customers served by, for example, a financial institution. Nonetheless, we believe that it provides an indication of the broader impact our investee companies achieve by providing goods and services to a generally under-served segment of society.

Corporate income tax expensed (n=91)
Total $79mm



Innovation through collaboration

Throughout its history, Sarona created innovative products and solutions by working with a variety of stakeholders.

Partner funds

Sarona invests growth capital in small to mid-market companies through locally-based fund managers. We see these fund managers as our local partners and engage with them frequently to identify both opportunities to improve financial performance as well as impact.

Government agencies support and blended finance

Our progressive social and environmental focus helped us secure support from both US and Canadian government agencies. A US government agency is supporting one of our funds with cost-effective leverage while the Canadian government has provided equity capital to act as a first-loss protection for other investors in the same fund. Thanks to such collaboration, Sarona has become one of the leading actors in a new financing tool known as “blended finance”.

Governments have come to realise that there is a large gap between the development challenges faced by emerging economies and their ability to finance the potential solutions. Private investors are increasingly seen as partners, and governments are shifting from grants and direct concessional finance towards providing catalytic capital to and through the private sector. Sarona has successfully delivered a blended finance case study, and we were delighted with the Canadian government invitation to show-case us prominently at the UN Financing for Development conference in Addis Ababa in July 2015.

Development financial institutions

Sarona invests alongside most DFIs around the world. Together we are able to increase the quantity and quality of support we offer to particular funds.

Industry associations

Sarona maintains numerous partnerships to further its commitment to progressive values.

The International Limited Partner Association (ILPA) Private Equity

As a signatory of the ILPA Private Equity Principles, Sarona forms part of a community of investors that actively seeks to promote transparency, good governance and alignment of interest. We strive to adopt best practices that provide consistency, standardisation, benchmarks and structure in order to allow for better returns and a more sustainable private equity industry

United Nations Principles for Responsible Investment (PRI)

We are a signatory to the PRI and voluntarily disclose our Environmental, Social & Governance (ESG) processes through the public Responsible Investing Transparency Report. Backed by the United Nations, the PRI constitutes an approach to investment explicitly acknowledging that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems. It is driven by a growing recognition in the financial community that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the medium and long-term, and that this analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting. Responsible investment requires investors and companies to take a wider view, recognising the full spectrum of risks and opportunities facing them, in order to allocate capital in a manner that is aligned with the short and long-term interest of their clients and beneficiaries

Innovation through collaboration

Global Impact Investing Network (GIIN)
Sarona is a member of the Investors Council of the GIIN, a leadership group of active large-scale impact investors seeking to strengthen the practice of impact investing and accelerate learning about new areas in the field. Within this role we have adopted the use of Impact Reporting and Investment Standards (IRIS) metrics, which you will see in this report. These metrics help us to assess our social and environmental performance in a standardised way

B Lab
B Lab is a non-profit organisation, which introduced the B Corporation certification for for-profit organisations based on an assessment of the firm's social and environmental performance. The "B" stands for beneficial and acknowledges that the certified company meets certain standards of transparency, accountability, sustainability and performance. Sarona has been a certified B Corp since 2011

In 2015, B Lab recognised Sarona for creating the most positive overall social and environmental impact in its fourth annual 'B Corp Best for the World' list. To be part of this list, a corporation has to earn an overall score in the top 10% of more than 1,200 certified B Corporations from over 120 industries on the B Impact Assessment. This is a rigorous and comprehensive assessment of a company's impact on its workers, community and the environment

Global Impact Investing Rating System (GIIRS)
Powered by B Lab, the GIIRS rating provides us with a comprehensive and transparent system to assess the social and environmental impact of funds before we invest. Sarona is the first company to use the preliminary GIIRS rating as part of its due diligence process

Impact Reporting and Investment Standards (IRIS)
Managed by the GIIN and B Lab, IRIS is the catalog of generally-accepted performance metrics that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry

ImpactAssets 50
The ImpactAssets 50 is an annually updated list of top impact investors that seek to add social and environmental value, in addition to financial returns. In 2014, Sarona was nominated for the fourth consecutive year as one of the ImpactAssets 50 Fund Managers

RIO DE JANEIRO, BRAZIL

Case studies

Case studies

We wish for this Values Report to be more than an exercise in data gathering and analysis. The preceding pages have focused on providing an overview of the impact achieved by fund managers and companies in Sarona's portfolios, whether directly or indirectly. We have also wished to establish whether the positive outputs we measure have evolved and increased since last year. While the time sample is still very short, we are pleased with the results we reported.

The next section takes a different approach. Having considered the overall impact of Sarona's investment activities, we now focus on specific examples. We have identified 17 distinct case studies (13 companies, two fund managers and two grant recipients) and have spent time with relevant stakeholders to gather information and opinions. The objective of the following pages is to share impressions of real life companies, the way they work with the local fund managers (General Partners) and how they interact with the community and environment surrounding them. We categorised the case studies as: Impact case studies, ESG (Environmental, Social, Governance) case studies, and SIG (Sustainable Innovation Grant) case studies.

17
distinct case studies

13
impact case studies

2
ESG case studies

2
SIG case studies

Impact case studies

The 13 impact case studies reflect the findings derived from conversations, calls, on-site visits and written exchanges between Sarona and a variety of people linked to the chosen companies. Each case study provides a brief introduction to the company and, where relevant, the General Partner that has provided private equity financing. It then summarises the support provided by the General Partner, the positive impact created by the company and a selection of statements by employees, company management, clients and/or other stakeholders. These points of view provide a touch of "unfiltered colour". For all case studies, the positive impact is broken down into four categories:

- Access to goods and services
- High-quality jobs
- Governance and management
- Innovation

ESG (Environmental, Social, Governance) case studies

At the request of our investors, this edition of the Values Report includes two additional case studies focusing on fund managers rather than on companies. The objective of these case studies is to showcase two managers in two different regions, how they approach ESG issues and the challenges they face. This year we have chosen to present:

- AfricInvest, a long standing (20 years) and experienced private equity team active across North and Sub-Sahara Africa and
- Creador, a firm founded in 2001 and active in Malaysia, Indonesia and India

Their different histories and geographies offer an interesting contrast, although their focus on integrating ESG considerations is a common theme.

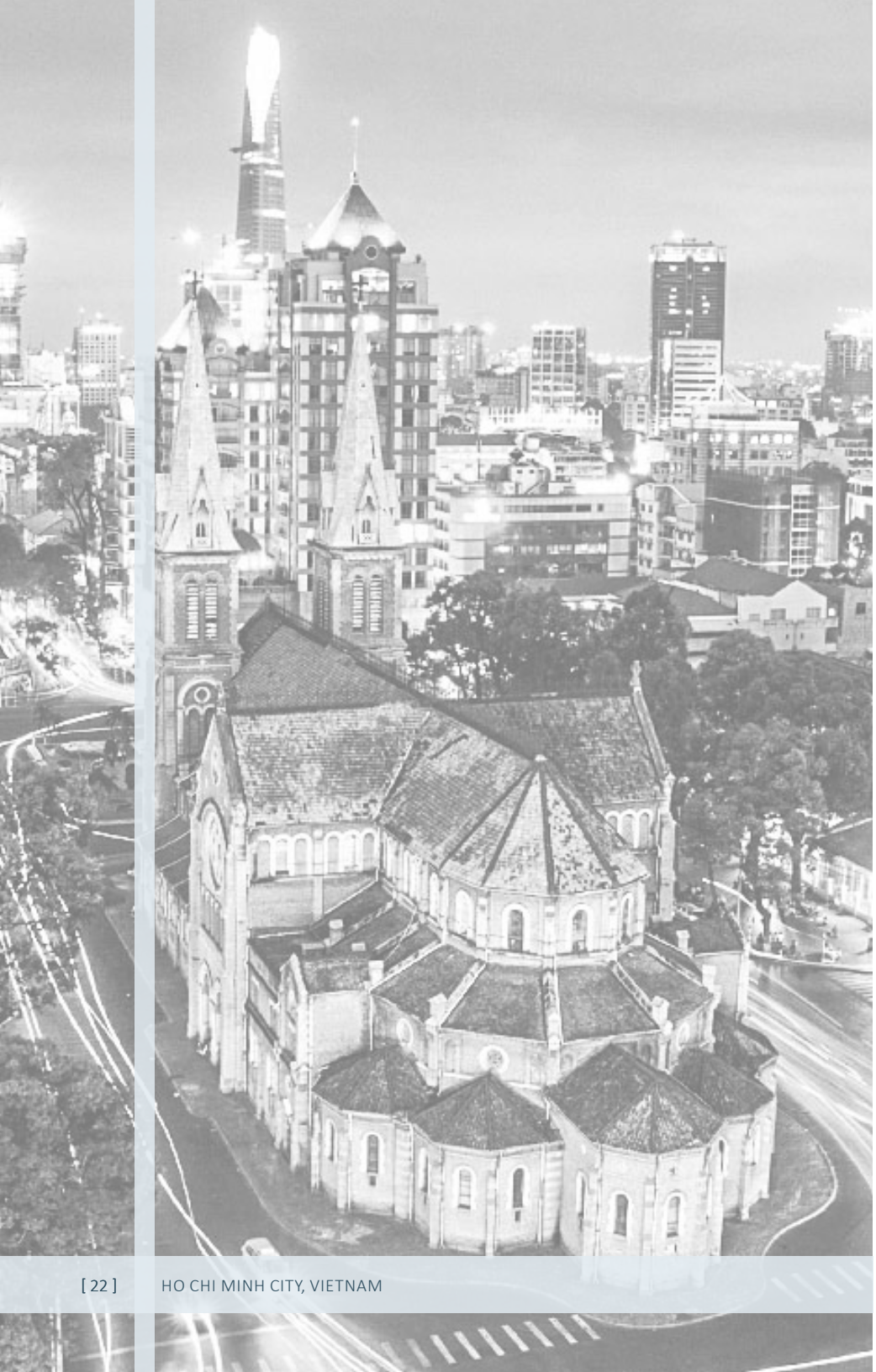
SIG (Sustainability Innovation Grant) case studies

INFRONT Impact Investing in Frontier Markets

As our investors already know, the Canadian government has contributed $15mm catalytic equity capital to the Sarona Frontier Markets Fund 2. In addition, it has funded an innovative programme called InFront (Impact Investing in Frontier Markets), a public-private partnership between MEDA (a non-profit organisation from which Sarona spun-out), Sarona and the MaRS Centre for Impact Investing

One component of the InFront programme consists of approximately CAD $2.5 million matching grant programme: the Sustainability Innovation Grant (SIG). Led, managed and allocated by MEDA, the SIG provides grants to portfolio companies that want to improve the sustainability of their operations with a specific focus on ESG policies and practices. Through a competitive application process, the SIG allows SFMF 2 LP portfolio companies to receive a grant of up to CAD $80,000, subject to companies matching it with at least CAD $160,000 (1:2 ratio). An evaluation committee reviews applications and selects proposals that demonstrate the potential of achieving sustainable returns on investment as well as positive and impactful outcomes for the companies' employees, customers and/or suppliers. This report offers two SIG case studies, providing information gathered from two of the earlier grant recipients:

- Khyati, an Indian organic agro-processing company in which Sarona has invested through and alongside SEAF (Small Enterprise Assistance Fund), and
- Teamwork Arts, an Indian multi-genre live-entertainment company in which Sarona invested through Ambit Pragma Fund II



[22] HO CHI MINH CITY, VIETNAM

Impact case studies

Brookhouse (Kenya)

Name	Brookhouse School Limited
Country	Kenya
Sector	Education
Business focus	K-12 School
Revenue (FY 14)	Not disclosed
EBITDA (FY 14)	Not disclosed
General Partner	AfricInvest Capital Partners
Investment date	Nov-2010
Investment	€3.0mm (~$4.3mm)

Brookhouse School in Nairobi

Impact highlights

- Brookhouse created **53 new jobs** since investment and offered access to education to an **additional 174 students**
- Average salary is **several times the average GDP** per capita in Kenya and **health benefits** for all staff including ancillary staff and their families
- Less than 10% of annual staff turnover including retirement, returning expats and staff that was let go
- Student body comprised of **42 different nationalities** from around the world including 60% students from Kenya and 81% students from Africa
- Over **16% of students** receive some form of **scholarship** or bursary
- **50%** of students are **female**

Founded in 1981, Brookhouse is a privately owned school located in Nairobi, Kenya, a country where access to high quality education is limited. The school is an example of a well-run institution preparing future leaders to tackle ethical, business and governmental challenges.

Brookhouse offers an adapted form of the British National Curriculum at kindergarten, preparatory, secondary and pre-university levels. It is an accredited member of various international associations such as the Council of International Schools, Round Square International and the G20 schools. It subscribes to Round Square's ideals: internationalism, democracy, environment, adventure, leadership and service. The School provides scholarships and bursaries for gifted students based on academic achievement and financial need.

Regarding social impact, Brookhouse's working conditions are defined in the school's policy which also includes considerations on equal opportunity. Currently, it employs 250 staff members, of which 102 are women.

In terms of environmental stewardship, the school is governed by an environmental, health, and safety policy. Brookhouse tests its water according to the National Environmental Management Authority regulations and has an on-site sewage treatment and a recycling facility. It also conducts an annual environmental audit.

Brookhouse (Kenya)

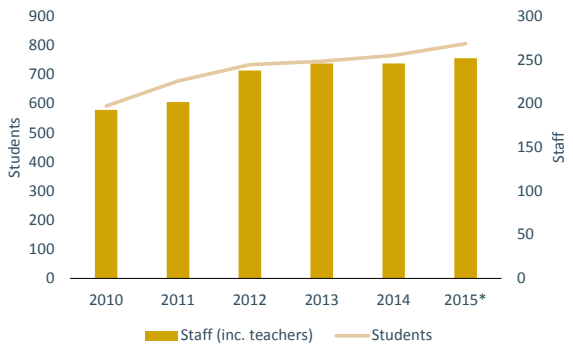
The General Partner contributed to Brookhouse's development through

- Funding the acquisition of additional land and building a new campus to increase student capacity
- Establishment of an independent board for improved governance
- Creation of a finance committee to deal with audit issues and efficient resource utilisation
- Support in establishing a foundation to increase the number of available scholarships
- Expanding private health coverage from employees-only to include their whole family

With AfricInvest's help, Brookhouse was able to create a positive impact in various ways

- **Access to goods and services:** Provided high quality British curriculum to a growing number of students: from 592 in 2010 to 807 in 2015. Last year, 16% of students received academic scholarships and this percentage is to be expanded through the creation of a foundation
- **High quality jobs:** Supported 252 staff members. Teachers, administrators and assistants (57% of staff) receive competitive salaries. Ground keepers, cleaners and other ancillary staff (43% of staff) received twice the average GDP per capita for Kenya. Provided benefits for all staff members including medical insurance coverage, housing allowances and pension scheme. Offered home-leave annual travel allowance for expat staff
- **Governance and management:** Improved governance following the recruitment of an independent Chair and greater oversight and participation in strategic decisions
- **Innovation:** Implemented technology to deliver a better and more consistent educational experience including smart-boards, desktops, projectors, internet and an ERP system developed in-house. In case of need or emergency, courses can be delivered remotely, increasing flexibility and reach

Brookhouse's evolution



Client view

"I feel ready to embrace the challenges of the future because Brookhouse has given me the opportunity to lead, to serve others and to find my inner strength." ***Munene Kamau**, Year 13 Student, Brookhouse*

Employee view

"Brookhouse plays a pivotal role, within Kenya and across Africa, in nurturing servant leaders amongst our students, who realise that with great opportunity comes great responsibility." ***Josephine Kariuki**, Head of History Department, Brookhouse*

Company view

"AfricInvest has brought governance expertise and professionalism through their involvement with Brookhouse and the school has benefited significantly from their wise input." ***John O'Connor**, School Director, Brookhouse*

General Partner view

"Brookhouse is the only G20 school in East Africa, placing it as one of the best international schools in the world. Its graduates are admitted to the leading universities in the world making Brookhouse a breeding ground for future African Leaders." ***George Odo**, Senior Partner & Managing Director, AfricInvest East Africa*

Haltons (Kenya)

Name	Haltons
Country	Kenya
Sector	Consumer goods services
Business focus	Pharmacy
Revenue (FY 14)	46mm KES / $0.5mm
EBITDA (FY 14)	(28mm) KES / ($0.3mm)
General Partner	Fanisi Venture Capital
Investment date	Sep-2013
Investment	$1.6mm

Haltons Pharmacy in Nairobi

Impact highlights

- Haltons has **created 250 jobs** over the past two years
- Sensitive to **gender equality** with ratio of male to female employees nearly **1:1**
- Looks upon job creation within the stores as a form of "**giving back to the local economy**"
- Conducts **free medical camps** at every outlet twice a year

Haltons is a chain of retail pharmacy shops in Kenya. Fanisi invested in the company to meet the growing demand for safe and affordable healthcare products across the country. It has also recognised the expansion potential for a proven and scalable mini-pharmacy, in-store model in a market dominated by informal "mom and pop" pharmacies.

During the past two years, Haltons created 250 jobs and plans to continue to do so as it expands its business over the years to come.

Regarding social impact, Haltons has responded to a need to provide access to pharmaceutical stores in underserved areas. The company has also played an important role in educating the local population in the safe storage, handling and intake of pharmaceutical products.

From an environmental perspective, the pharmacies safely dispose expired pharmaceutical products according to international norms.

Haltons (Kenya)

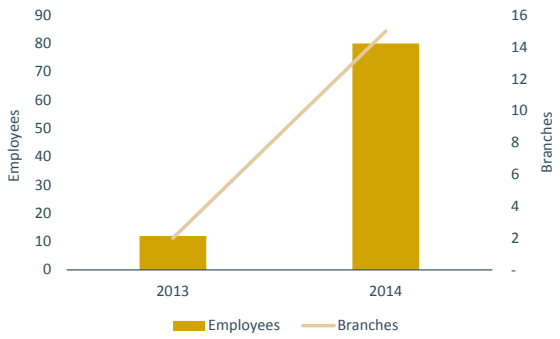
The General Partner participated in the development of Haltons through

- Forming a board of local and international directors with relevant skills and experience
- Focusing on best business practices
- Creation of a finance committee to deal with audit issues and efficient resource utilisation
- Assessing Haltons' strengths and weaknesses and supporting its management consistently
- Expanding private health coverage from employees only to include their whole family
- Establishing a culture of accountability and timely reporting to remain ahead of the competition
- Broadening the network of potential partners and possible in-store locations

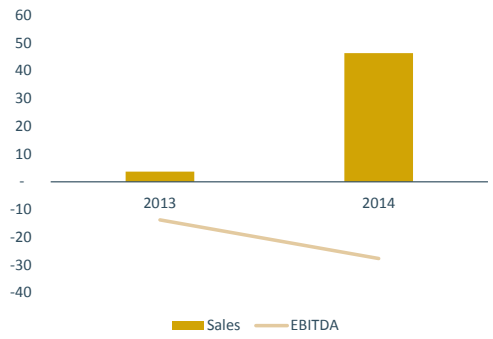
With Fanisi's help, Haltons was able to create a positive impact in various ways

- **Access to goods and services:** High quality pharma and non-pharma products with proper customer-service for low to middle income individuals across Nairobi and expanding into the rest of Kenya. Regular and extended pharmacy opening hours, knowledgeable staff, safe and appropriate pharmaceutical products backed by state-of-the art warehousing and logistics. Lower overall pharmaceutical bills for final buyers thanks to Haltons' savings on larger bulk purchases
- **High quality jobs:** Created over 250 jobs since inception. Promoted gender equality with male to female ratio of nearly 1:1
- **Governance and management:** Implemented an ERP and logistic platform to deliver reliably to a growing network of pharmacies. Offered free medical 'camps' twice a year in every outlet to teach preventative health care
- **Innovation:** Added convenient non-pharmaceutical products alongside pharmaceutical ones to save time and costs to its customers. Offered a "one stop shop" for blood test, either on-site or off-site. Implemented a return policy with suppliers reducing the receipt of damaged and/or expired products

Haltons' evolution



Haltons' financial performance (mm KES)



Employee view

"Firstly, I do appreciate the opportunity to work with Haltons Limited. Having to manage a small team in planning for daily routines, directing on matters pertaining to standard operating procedures, coordinating with other branches in marketing activities and managing resources under my watch, has brought out the best in me. My motivation has been influenced by meeting targets within the specified period with help and support from the management and the team as a whole. We work in synergy and this is a great motivation for me." ***Boniface Machogu****, Branch Manager, Ongata Rongai-Kware Branch, Haltons*

Company view

"With Fanisi's help, we were able to implement a state of the art ERP system, improve our brand position, and increase our foot traffic and customer service. We also enriched our portfolio with non-pharmaceutical products and are expanding across Kenya to become the largest pharmacy network in the country." ***Sam Njuguna****, General Manager of Operations, Haltons*

General Partner view

"By the end of 2015, we expect to double the number of stores in our network to over 50 pharmacies providing safe and reasonably priced pharmaceutical products and associated health services. This is one way we can give back to society." ***George Ndirai****, Finance Manager and Investor Relations Manager, Fanisi Venture Capital*

Mountain Lion Agriculture (Sierra Leone)

Name	Mountain Lion Agriculture
Country	Sierra Leone
Sector	Consumer goods agribusiness
Business focus	Rice milling
Revenue (FY 14)	Not disclosed
EBITDA (FY 14)	Not disclosed
General Partner	MEDA (Sarona Risk Capital Fund)
Investment date	May-2013
Investment	$750,000

Jason Dudek, Mountain Lion CFO, during staff training

Impact highlights

- Mountain Lion currently **supports 2,500 smallholder rice farmers** through training, seed distribution, equipment rental and access to market
- In 2014, Mountain Lion increased its processing capacity four-fold, becoming a **leading, modern rice-mill** in Sierra Leone
- **Established a community centre** and allowed a greater number of children to attend school
- As part of its **CSR programme**, the company delivered 2,550 bags of rice to families quarantined during the Ebola crisis

Mountain Lion is a rice processing business operating in Sierra Leone since 2010. Although the country was once considered the breadbasket of West Africa, as a result of a decade-long civil war in Sierra Leone that decimated the food production system, it now struggles to grow enough for its own consumption and has to import approximately 20-30% of its rice. Working across the entire value chain, the company seeks to improve the life-quality of the community by replacing rice imports with high quality, nutritious and affordable packaged rice sourced from local smallholder farmers.

The company's innovative supplier management system aims to increase small local producers' output by offering training on sustainable agriculture practices, equipment rentals, seeds and other supplies. The overall objective is to reduce subsistence farming, promote environmental conservation practices and increase natural pest management control. Mountain Lion's business model reflects its philosophy linking social and environmental outcomes to the company's profitability.

During the Ebola crisis, the company continues to operate and provide much needed support to the local community through access to market, sharing best working practices and health and safety training and processes.

Mountain Lion Agriculture (Sierra Leone)

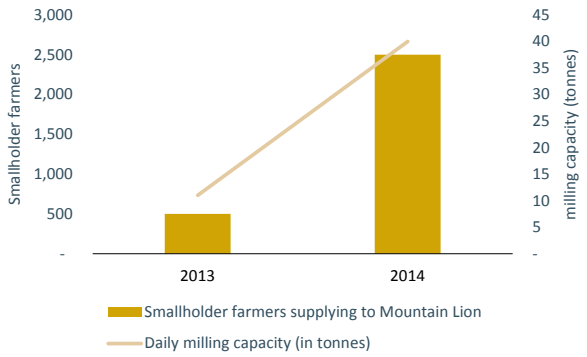
MEDA contributed to Mountain Lion's growth by

- Increasing awareness of new fundraising opportunities such as the crowdfunding platform Kiva
- Allocating time and strategic expertise to the company's board
- Refining the business plan to include scaling of operations, technology transfer and better links to domestic seed suppliers
- Supporting the company in providing farmers with training and improved access to market opportunities
- Collaborating to win the "Moving Money That Matters" Innovator Award at the Social Finance Forum in Toronto in November 2014
- Creating new export opportunities to Canada

With MEDA's help, Mountain Lion was able to create a positive impact in various ways

- **Access to goods and services:** Since inception in 2010, 87,500 local consumers have benefitted from Mountain Lion's rice, a product improved by parboiling, a process that enriches the entire grain with the nutrients of the husk and skin. The final product contains levels of protein, calcium, iron and Vitamin A and C that are significantly higher than the lower quality imported brown or white rice
- **High quality jobs:** Staff earn 1.5 times more than the average local wage and receive benefits such as comprehensive health care and a pension plan with contributions equally split between employer and employee
- **Governance and management:** Strong independent board including Canadian, American and Sierra Leonean business leaders who meet on a monthly basis. Feedback from smallholder farmers has been integrated through an innovative, cloud-based farmer data-tracker and annual meetings
- **Innovation:** Increased mechanisation and loans provided by Mountain Lion allowed smallholder farmers to increase their land use from two to five acres and their revenues have grown on average by 250%

Mountain Lion's evolution



Company view

"MEDA and Sarona understand Mountain Lion's perspective on impact, which has enabled us to scale our operations in a meaningful way. Small farmers in Sierra Leone are trapped in a cycle of subsistence, and Mountain Lion unties their hands and allows them to increase their production, gain market access and improve their incomes and lives." ***Jason Dudek**, CFO, Mountain Lion*

MEDA view

"MEDA is very pleased to be involved with Mountain Lion given the company's great opportunity and talent. We are promoting improved production practices by small farmers, integrating market aggregation techniques and optimising Mountain Lion's supply chain logistics, thereby benefitting both the company and the small farmers." ***Nick Ramsing**, Senior Project Manager, MEDA*

Advisor view

"As an important player in the Canadian impact investing marketplace, MEDA continues to demonstrate its ability to marry sound investments with impact. Its support of Mountain Lion Agriculture is an example of its ongoing leadership in this space and an exciting example of 'moving money that matters'". ***Hadley Nelles**, Independent Consultant to the MaRS Impact Centre*

Wananchi (Kenya)

WANANCHI GROUP EACP East Africa Capital Partners

Name	Wananchi Holdings
Country	Kenya
Sector	Telecommunications
Business focus	Internet, cable and VOIP telephony
Revenue (FY 14)	$75.7mm
EBITDA (FY 14)	Not disclosed
General Partner	East Africa Capital Partners
Investment date	May-2007
Investment	$113mm

Zuku hub in Nairobi

Impact highlights

- Wananchi **employs over 700 people** on full-time contracts
- It delivers voice, broadband and video content at significantly **lower prices** than incumbent providers
- Laid fibre **optic cables for over 1,000 schools** as part of its corporate social responsibility policy
- **Improved customer service** by dedicated senior staff
- Since Sarona's investment, **subscribers increased significantly** from a low start to **330k** and the number of **connected homes increased by 733%** to 250k
- Its retail TV programming brand Zuku **sponsors a local university basketball league**

Wananchi is an East African technology, media communications company. It is a triple play operator owning fibre and satellite transmission technology, content, several business-to-business data companies and WiMax spectrum. Wananchi is recognised for being the only operator in East Africa to offer high-quality services, such as high-speed broadband internet, world-class video content and high quality VoIP telephony at affordable prices. It has a long-term plan to reach an increasing number of lower income urban customers across East Africa and deliver thirteen "Zuku" branded channels, providing an opportunity for local content producers to air their material.

Regarding environmental impact, Wananchi provides access to on-demand digital technology, which eliminates the need for costly and polluting physical transport by road and air.

Wananchi's social impact is reflected in the continuous geographic expansion of its retail platform as it aims to reach the underserved population and offer high-quality, locally-produced connectivity and programming at affordable prices. The group is also responsible for indirect job creation as new, young companies emerge to support Wananchi's growth.

Wananchi (Kenya)

WANANCHI GROUP EACP East Africa Capital Partners

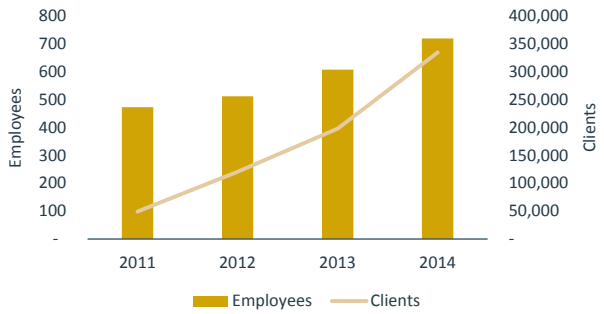
The General Partner assisted Wananchi through

- Leadership and management of the company during its first five years of operation
- Creation of a holding company and a roll-up strategy acquiring a number of key companies including rebranded Zuku (for retail customers) and Simbanet (for business customers)
- Organisation of funding rounds involving reputable strategic and financing partners
- Expansion of Direct to Home (DTH) satellite service into five African countries

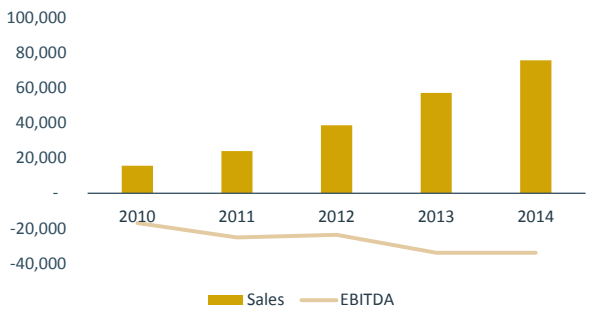
With EACP's help, Wananchi was able to create a positive impact in various ways

- **Access to goods and services:** Improved connectivity in East Africa by introducing a high quality broadband internet network which delivered significant economic growth. Over 330k subscribers can access reliable cable, DTH satellite and internet services across five countries
- **High quality jobs:** Created more than 700 jobs, over 80% of which are technical, well paid and with valuable benefits
- **Governance and management:** Quickly expanded its footprint across East Africa operating at international standards. Active in six different countries with a significantly stronger and deeper management team applying progressive business practices
- **Innovation:** Created local content and supported thriving local production adapted to local needs. Anchor investor in TEAMS, the first submarine cable to connect East Africa to the Northern hemisphere in 2009

Wananchi's evolution



Wananchi's financial performance ('000 USD)



Client view

"As an online student, Zuku Fibre 50mbps ensures that I attend class real time." ***Jane Cheptoo**, Lawyer, Spring Valley Nairobi*

"With my family abroad, Zuku Fibre 50mpbs keeps us close." ***Ijeoma Ekwe**, Expatriate, Runda*

Employee view

"Zuku is committed to customer satisfaction and I am proud to be a part of that." ***Violet Kaloki**, Receptionist/ Front Desk, Zuku*

"Thanks to continuous on-the-job training that Zuku provides, I have achieved tremendous personal and career growth. I learn new things every day from the pioneer on triple play services in Africa." ***Robert Mutisya**, Customer Surveillance Team Member, Zuku*

Company view

"Many people, far smarter than me, have already proven the close correlation between improving internet connectivity and economic growth anywhere in the world. We are increasingly seeing a clear divide between those parts of the world that are developed - they have good, modern, internet connectivity - and those that are seriously lagging behind. East Africa is firmly in the former category and will increasingly benefit from having chosen the path of internet trailblazer in the continent." ***Richard Alden**, CEO, Wananchi Group*

Autoking (Turkey)

Name	Autoking
Country	Turkey
Sector	Consumer services
Business focus	Auto body repair and car care services
Revenue (FY 14)	49mm TRY (~$21mm)
EBITDA (FY 14)	1.1mm TRY (~$0.5mm)
General Partner	Pera Capital Partners
Investment date	Dec-2013
Investment	€5.9mm (~$8.0mm)

Ramazan Özer, Autoking technician

Impact highlights

- Autoking has **optimised its working process**, thus saving its clients time and money, and being significantly faster than its competitors
- **The Paintless Dent Repair (PDR)** technique, an eco-friendly approach to repairing dents caused by hail, was brought to Turkey by Autoking
- The company pays **higher average salaries** than the industry due to a daily bonus for staff who have achieved 100%+ efficiency
- By repairing rather than replacing, Autoking saves insurance companies over $60mm annually and **reduces** the quantity of **waste by 1,000 tonnes**

Founded in 2001, Autoking is a chain of auto repair stations specialised in small to medium sized damages and car care services. It has 1,500 employees and 44 franchises across Turkey and service centres in Greece and Russia. The company has been recognised as innovative and impactful due to its continuous staff training, high quality customer care and its focus on reducing its environmental footprint.

Autoking aims to save its customers time and money by fixing a damaged part instead of replacing it. The company maintains ISO 9001:2000 accreditation and an internal ethical values policy focused on superior customer service. Its main clients are insurance companies. In 2013, two insurance companies left Autoking for a cheaper provider; however, due to its high quality service, Autoking was able to win them back.

In terms of environmental stewardship, Autoking has uniquely positioned itself as a provider of both micro and mobile aluminium and plastic parts repairs. The company mends around 200,000 mobile parts a year, thus saving insurance companies over $60mm and reducing the amount of waste brought to landfills by over 1,000 tonnes. Autoking has also improved the paint-mixing process through innovative techniques that have eliminated almost all unused excess. Last but not least, the company uses infrared lights and small mobile dryer units in all of its locations, leading to 30% electricity savings compared to most other auto body shops.

Regarding social values, the Autoking Academy offers regular practical training to its personnel and the company provides salaries, incentives and benefits that are among the most competitive in the industry.

Autoking (Turkey)

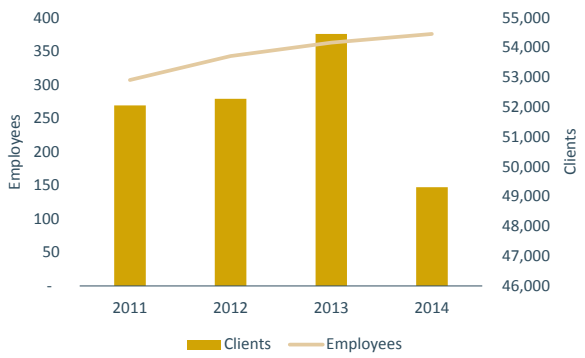
The General Partner has assisted and improved Autoking's efficiency through

- Introduction of a daily bonus plan providing additional incentives for efficient staff
- Hire of a UK consultant leading to a workload efficiency boost from 72% to 95% in just one quarter
- Focus on customer care increased the number of returning customers with some franchisees noting a conversion rate of 60-70%
- Transition to a more professional management as well as a formal governance structure
- Introduction of key performance indicators
- Replacing franchisees with wholly owned body shops leading to higher staff salaries and benefits, greater employee health and safety, and better training opportunities

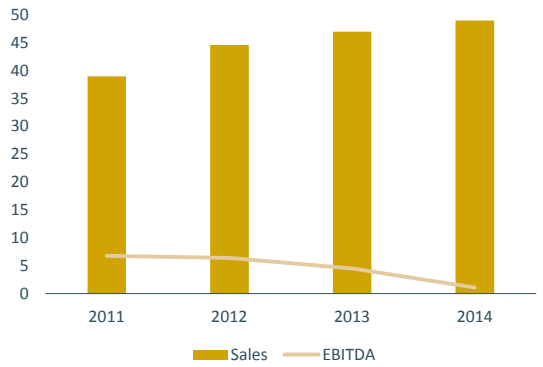
With Pera's help, Autoking was able to create a positive impact in various ways

- **Access to goods and services:** Repaired over 1mm cars since inception. Reduced cost for customers and improved speed of service delivery
- **High quality jobs:** Over 1,500 employees receive industry leading pay and benefit packages resulting in low staff turnover, indicating job satisfaction
- **Governance and management:** Improved governance by hiring a professional management team focused on improving results and staff performance. Scheduled weekly monitoring dashboards allowing management to monitor key deliverables
- **Innovation:** Reduced solid waste and carbon footprint by implementing innovative methods of paint mixing and application, improving processes, repairing instead of replacing and reducing electricity use

Autoking's evolution



Autoking's financial performance (mm TRY)



Employee view

"I like Autoking a lot. They reward those who work hard. As a result of my wages at Autoking, I bought a house and a car for my family. I would not have been able to do that in my previous job. The pay is good and fair." ***Ramazan Özer**, Technician, Autoking*

Company view

"The investment by Pera has had a significant impact on the company. Before, the company was very process oriented and focused on the customer's experience. Now, the company is also results oriented. As a result, Autoking is expanding into new products and new countries." ***Omer Karakaya**, Deputy General Manager, Autoking*

General Partner view

"Autoking is a great example of a company that is using innovation in a very traditional industry to reduce waste, improve efficiency and customer experience. Since Pera's investment, Autoking has professionalised its management team and governance and also brought many industry best practices resulting in better growth prospects." ***Robert Romain**, Managing Partner, Pera*

*FY ends 30 August

San Jose Lopez (Morocco)

Name	San Jose Lopez
Country	Morocco
Sector	Industrial
Business focus	Logistics
Revenue (FY 14)	€124mm (~$140mm)
EBITDA (FY 14)	€14mm (~$16mm)
General Partner	Mediterrania Capital Partners
Investment date	Jun-2013
Investment	€6mm (~$7mm)

Logistics hub in Tangier

Impact highlights

- San Jose Lopez provides **safe, reliable and cost effective logistical services** reducing the cost of doing business in North Africa
- **Staff** in North Africa grew from 39 in 2012 to 355 in Q1 2015 and across the platform from **450 in 2013 to 650 in Q1 2015**
- Purchases **locally assembled trucks** and trailers which stimulates the local economy
- Equipped all trucks with GPS units, **monitoring over 26 safety driving habits** such as speed in turns, quick braking and speed on the highway
- Plans to expand into other parts of Africa so as to provide greater **local value-add**

Founded in 1948, San Jose Lopez provides solutions for logistics and road transportation in the EU, Morocco and Tunisia. It has a fleet of nearly 1,000 trailers and over 500 trucks, completing more than 16,000 trips a year. The company has moved from simple road transport to more complex logistical solutions, maintaining 146,000 square meters of storage space in 10 warehouses in Spain, France, Tunisia and Morocco. It provides full load, groupage, air freight and custom brokerage services to clients in the automotive, electronics, paper and steel, textile and agribusiness sectors.

San Jose Lopez employs over 650 people, 355 are based in North Africa. The company offers above average industry pay, private health care, paid vacations and a 13th month salary. It also contributes to all social and commercial taxes in its operating countries. Staff is encouraged to complete on the job training and to make suggestions on improvements of operations through Kaizen groups. In order to reduce accidents, the company provides significant health and safety training to drivers and warehouse staff. In 2015, San Jose Lopez will also introduce a companywide employee survey aimed at continuous enhancement of employee morale.

Regarding environmental impact, all truck tires are recycled appropriately and waste is disposed correctly. All warehouses have natural light which reduces electricity consumption and improves work environment. The company upgraded all of its trucks to Euro 3 standard. In addition, a number of trucks have Euro 4 and Euro 6 standards which represents the highest efficiency for oil consumption per kilometer in the world. San Jose Lopez equipped all trucks with GPS units in order to monitor closely 26 driving habits. Bonuses and awards for most fuel efficient improvement and most fuel efficient driving are granted annually.

San Jose Lopez (Morocco)

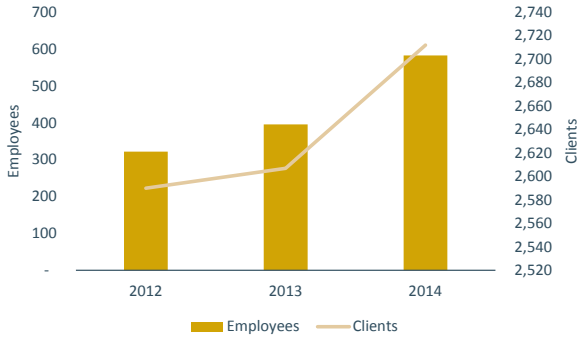
The General Partner supported the development of San Jose Lopez through

- Development of inter-Moroccan logistics business line (previously only focused on EU-Morocco business)
- Improvement of reporting and management systems resulting in cost cutting plans to improve efficiency
- Expansion into Tunisia to support existing Moroccan clients operating across North Africa
- Introducing San Jose Lopez to C.E.C.I., another portfolio company, to explore the supply of locally sourced trailers and trucks to grow the North African fleet
- Launching a refrigerated logistics services to support the growing agribusiness sector in Morocco

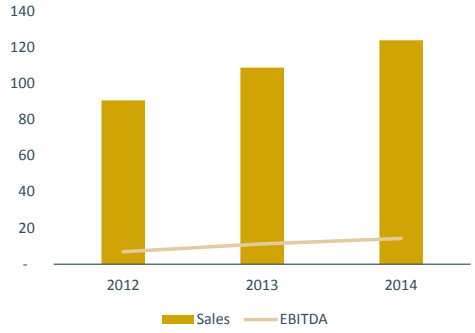
With MCP's help, San Jose Lopez was able to create a positive impact in various ways

- **Access to goods and services:** The company provides high quality, reliable and competitively priced logistics solutions to local and multinational clients. This increases the appeal of Morocco and Tunisia as manufacturing hubs and reduces the cost of doing business in North Africa
- **High quality jobs:** San Jose Lopez supports 650 employees by paying above average industry salary and benefits, thereby attracting and retaining high quality personnel. It applies rigorous health and safety regulations built on carefully designed processes and offers training and incentives for drivers to reduce speed. There were no reported accidents during the past 18 months. All warehouses benefit from ample natural light which reduces the need for artificial lighting and improves the work environment. Staff turnover has been below 3%, very low for this industry
- **Governance and management:** MCP brought greater discipline to the board functions and has significantly improved the management information systems. San Jose Lopez maintains ISO 9001 v 2008 and ISO 14001 v 2004 certifications and delivers a consistent, high quality service to its clients and a safe operating environment to its staff
- **Innovation:** Brought modern logistics hub systems to Morocco and Tunisia improving the efficiency of just-in-time delivery processes. New processes have reduced overall costs and transport delivery time between the EU and Morocco

San Jose Lopez's evolution



San Jose Lopez's financial performance (mm €)



Employee view

"I joined San Jose Lopez to gain experience in stocking, how goods are imported into Morocco and to serve clients better. My previous employer didn't care much about health and safety for its employees. San Jose Lopez trains us well and avoids putting staff in dangerous situations. They value our opinion and allow us to provide ideas that can improve the efficiency of our operations. I've worked here three and a half years and I would recommend San Jose Lopez to anyone looking for a safe and hard-working work environment." ***Azeddine Agzannay**, Warehouse Technician, San Jose Lopez*

Company view

"Mediterrania Capital Partners are key partners of ours. They have meetings each month to give an update on how things are going. They have made a number of client introductions and have helped us through strategic decisions. They make us work hard but are focused on what's important for the company." ***Mohamed Didouch**, CEO, San Jose Lopez*

General Partner view

"We are proud of the significant improvements that San Jose Lopez has made since we became investors. They have diligently implemented board decisions and opened new windows for the business. San Jose Lopez is a vital part of the logistical solution of doing business in North Africa and Mediterrania Capital Partners is proud of its association with the company." ***Hatim Ben Ahmed**, Partner, Mediterrania Capital Partners*

Tejra (Tunisia)

Name	Tejra
Country	Tunisia
Sector	Consumer goods other
Business focus	Building materials
Revenue (FY 14)	€14.7mm
EBITDA (FY 14)	€4.2mm
General Partner	AfricInvest Capital Partners
Investment date	Apr-2012
Investment	€8mm

Tejra Zemradine plant in Tunisia

Impact highlights

- Tejra **employs 671** staff
- In the process of obtaining ISO 9001, ISO 14001 and OHSAS 18001 quality and safety certifications
- Increased plant capacity from 1,500 tonnes per day to 5,000 tonnes per day
- **Over 6,600 homes** in Tunisia were **built with Tejra bricks** last year; the number is expected to rise to **over 20,000 homes** a year **by 2016**

Tejra is an integrated building materials supplier delivering high-quality goods through state of the art processes. The company focuses on customer service, consumer satisfaction and operational excellence. It is committed to innovative products that reduce the cost of construction and renovation, while improving quality and safety.

Initially, Tejra manufactured and distributed a variety of clay products. It later shifted to bricks manufacturing and now aims to have the highest installed capacity in the Maghreb region by the end of 2016, using the most advanced technologies in Africa. The company employs highly experienced workers with extensive expertise in the building materials industry. AfricInvest II has been a long-term partner, having funded Tejra alongside the management team.

Regarding social impact, the company has converted its contract employees to full time payroll providing them access to state benefits and improved job security resulting in high employee satisfaction and low turnover. It offers development programs, customised to fit the needs of employees at different hierarchical level. There are training programs for new employees to gain the requisite technical skills and to build trust and transparency with their managers. Tejra conducts an annual audit of employee performance with top management providing constructive feedback on areas of improvement.

Regarding environmental impact, Tejra uses best-in-class technologies and automated processes to improve safety and minimise negative environmental impact. The company has also introduced co-generation in all of its plants and uses pomace, a by-product of olive oil production, as a bio fuel providing cleaner and cheaper energy.

Tejra (Tunisia)

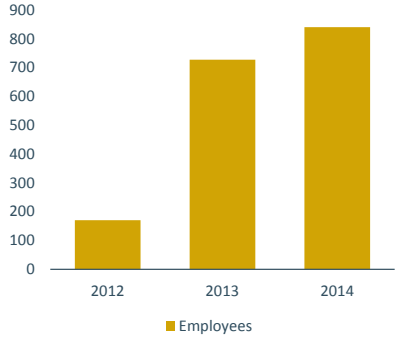
The General Partner contributed to Tejra's responsible development by

- Conducting thorough ESG due diligence with the assistance of IFC prior to investment, which led to significant ESG improvements
- Organising a field-visit by a third party expert to assess performance, followed by the identification and implementation of key actions
- Designing a corporate social responsibility policy

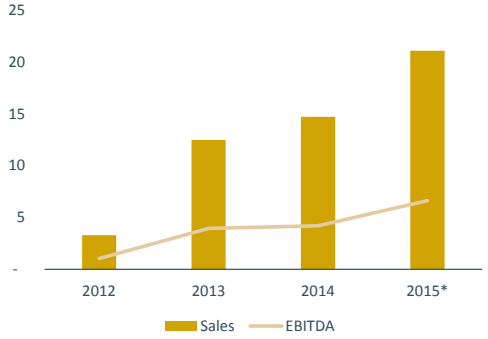
With AfricInvest's help, Tejra was able to create a positive impact in various ways

- **Access to goods and services:** Provides access to quality construction materials produced in a sustainable manner for tens of thousands of Tunisians. Considering the Libyan market to participate in the rebuilding of the country
- **High quality jobs:** Employs 670 in high quality jobs in a difficult economic environment. Acquired two existing brick manufacturing plants, promoted a number of existing employees and created weekly staff meetings to discuss targets and health and safety concerns. Improved safety by introducing explicit guidelines and supplying appropriate equipment and clothing. Average salary is $4,000 per year compared to the legal minimum wage of $2,400 and is higher than competitors'. Provides free transportation to staff and a 13th month salary during Ramadan
- **Governance and management:** Improved governance by identifying key performance indicators and applying rigorous financial reporting and monitoring
- **Innovation:** Brought high quality, innovative products to market that reduced the quantity of cement needed by builders and led to faster construction methods. New product lines include thermal bricks, stackable bricks and half bricks. Is installing co-generation units and using alternative fuels such as olive-pomace oil, which will reduce energy costs by approximately 30%. It is the only brick manufacturer in Tunisia installing these units

Tejra's evolution



Tejra's financial performance (mm EUR)



Employee view

"I've worked for 18 years at the Sousse plant under four different management teams. The Tejra management team is very different from the others. They care about creating a healthy and safe working environment for employees. They have increased salaries and benefits and have invested in safer and automatic handling equipment for brick packing, where most injuries occurred in the past. They really care and we feel there is real change." ***Mohamed Ali Adhri**, Head of Maintenance, Sousse plant*

Company view

"Tejra aims to be a leader in environmental stewardship in Tunisia through the use of co-generation, reduced electricity consumption and commissioning of a world class and efficient manufacturing facility later this year. AfricInvest has been a key partner with Tejra from the very beginning and has been supportive of the environmental and social objectives of the company." ***Lassaad Bettaeib**, Founder and CEO, Tejra*

General Partner view

"Tejra has created and contributed to save a number of jobs since it was established in 2012 as well as saved a lot of jobs as the two plants purchased by Tejra were likely going to close. Tejra is upgrading the standards of the industry for safety and the overall cost of construction. They are also introducing new products to market providing new benefits to Tunisians." ***Khaled Ben Jennet**, AfricInvest manager responsible for Tejra investment*

AIC (Haiti)

Name	Alternative Insurance Company (AIC)
Country	Haiti
Sector	Financial services
Business focus	Insurances
Gross premium (FY 14)	$14.3mm
Operating profit (FY 14)	$1.2mm
General Partner	MEDA (Sarona Risk Capital Fund)
Investment date	Apr-2012
Investment	$1mm

AIC employee helping a customer

Impact highlights

- AIC has developed **innovative insurance products** for the middle class population in Haiti whereas most competitors only serve the top 10% of wage earners
- Ranked as the **23rd highest tax payer** in Haiti
- 6,736 insured women and 9,579 insured rural clients in 2014
- Guarantees **health benefits and continuing education** credits for most employees and international health insurance for senior employees
- Offers **company car and food plans** to employees

Alternative Insurance Company (AIC) converted a family-owned insurance brokerage firm into an underwriting property/casualty, funeral and life insurance company. Unlike many of its competitors, it operates offices across Haiti, a country where less than 1% of the population is insured. AIC is recognised as an advocate for greater regulation of the local insurance industry. It paid 50% of all the taxes paid by insurance companies in 2014 and it was ranked 23rd amongst the top 100 tax-paying companies.

During the 2010 earthquake, AIC was one of the few insurance providers that honoured all insurance claims even though it led to the company depleting all of its equity. However, as a result of its integrity and customer focus, it was able to attract international investors such as MEDA, the Inter-American Development Bank and the Clinton-Bush Haiti Foundation. Regarding social impact, AIC practices financial inclusion by offering access to its policies at different price points. Moreover, it has created products such as funeral insurance, which are uniquely designed to fit the needs of the local population. AIC believes in the value of education. It teaches the public about the value of insurance and how different people can benefit from different types of coverage. In addition, the company provides access to university-level educational opportunities to its own two-year tenured employees and to world-class executive education programs to its management team.

AIC also believes in reinvesting profits back into its business in order to ensure long-term growth prospects. For example, it has worked diligently to upgrade its IT infrastructure so that its staff can work remotely if required.

AIC (Haiti)

MEDA has participated in the development of AIC including

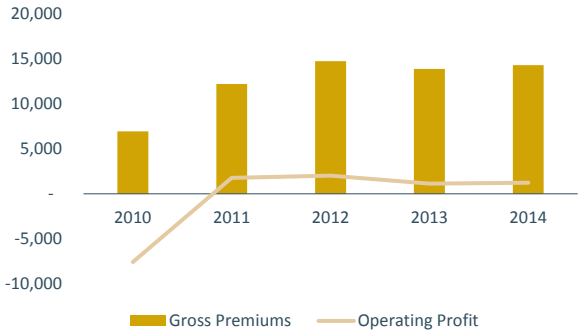
- Active involvement in the risk committee overseeing the investment portfolio, the IT system implementation plan and the business continuity strategy
- Board membership providing guidance on important strategic decisions
- Identification of areas in which other partners, such as commercial funders and government entities, can continue to support AIC's growth

With MEDA's help, AIC was able to create a positive impact in various ways

- **Access to goods and services:** Provides life and non-life insurance products including health insurance, car, home, business and funeral insurance to low and middle income families
- **High quality jobs:** Created over 120 high quality jobs with benefits including private health coverage, subsidized food, car and continuing education plans
- **Governance and management:** Attracted high quality international investors and implemented improved company governance and board independence from management. Strengthened the capital base to withstand the possibility of escalating claims numbers
- **Innovation:** Introduced a number of new products tailored to the needs of the lower income population such as universal life insurance and products linked to education and retirement savings

AIC's evolution

AIC's financial performance ('000 USD)



Employee view

"I appreciate our commitment to humanising the insurance industry in Haiti, which for a long time was only reaching out to a select few. I'm proud to be part of a company with strong values rooted in good governance and transparency. We genuinely care about the people we serve and want to improve their well-being through preparedness." ***Johanne Day**, Marketing and Communications Executive, AIC*

Company view

"Our partnership with MEDA is a very natural fit in light of our company's mission to protect the most vulnerable. We are fortunate to have them on board with us." ***Olivier Barreau**, CEO, AIC*

General Partner view

"Alternative Insurance Company provides financial services to all segments of the population in Haiti. The positive impact that is derived by the company is due, in large part, to the consultative approach to providing businesses, government and families with ways to plan and participate actively in Haiti's development and success. It is a privilege to work with AIC and its clients, together, for the betterment of a beautiful and vibrant country." ***Bryce Bergey**, AIC Board Member and MEDA Representative on the Board*

*FY ends 30 September

CODIPSA (Paraguay)

Name	CODIPSA
Country	Paraguay
Sector	Consumer goods agribusiness
Business focus	Starch production
Revenue (FY 14)	56bn PYG (~$12.5mm)
EBITDA (FY 14)	1.2bn PYG (~$250k)
General Partner	MEDA (Sarona Risk Capital Fund)
Investment date	Oct-1998
Investment	$646,353

CODIPSA plant in Paraguay

Impact highlights

- CODIPSA gives small-scale farmers **access to local and international markets** and guarantees payment of a higher price than the average spot price
- Full employment, benefits and access to credit for their families for **over 110 employees**
- **Rewards for famers** for meeting their crop yield targets and for producing high quality products
- Over **10,000 farmers** have supplied manioc to CODIPSA since its establishment in 1998
- Over **2,100 farmers depend** on the company for improved farm income

Compañía de Desarrollo y de Industrialización de Productos Primarios S.A. (CODIPSA) has provided a sustainable manioc market and agricultural assistance to smallholder farmers in Paraguay since 1998. In 2014, the company's four plants processed almost 100,000 tonnes of manioc, producing 25,000 tonnes of starch. In the same year the company supplied 75% of the starch consumed in Paraguay and exported to 18 countries.

In terms of environmental stewardship, CODIPSA has optimised its industrial plant processes in order to reduce the water usage and installed water purification systems. Furthermore, the company manufactures all of its products in a Kosher-certified and ISO 9001:2008 facility.

Regarding social impact, CODIPSA has supported more than 10,000 small-scale agribusinesses to increase their productivity levels via a unique training module and an incentive bonus system. The training programme teaches best practices for planting, sustainable soil management and partnership-building. In particular, CODIPSA encourages farmers to engage with credit providers and to streamline their working capital usage. The bonus system rewards farmers for meeting their crop yield targets within a certain date and for producing high quality products. These practices have helped farmers raise household income and reduce workload.

CODIPSA (Paraguay)

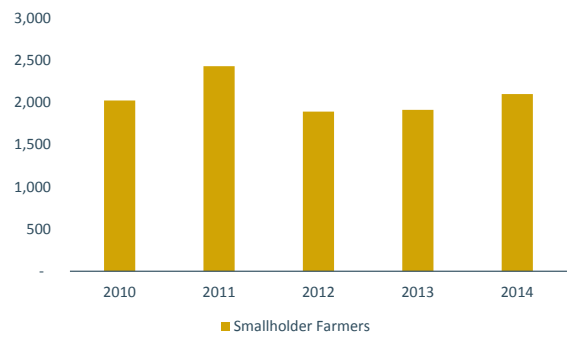
MEDA assisted in expanding CODIPSA's reach and operational efficiency through

- Active board membership by its local representative, Kurt Falk
- Strategic guidance on supply issues
- Introduction to new export markets and products, such as modified starch

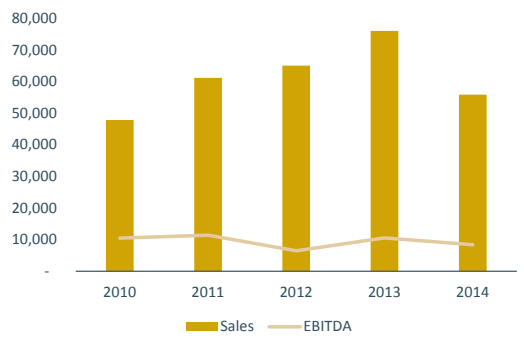
With MEDA's help, CODIPSA was able to create a positive impact in various ways

- **Access to goods and services:** Has worked with over 10,000 smallholder farmers in Paraguay since inception, improving their farming income and supplying high quality starch and modified starch to over 18 countries
- **High quality jobs:** Created 112 jobs in four plants across the country. Sold their starch through more than 330 points of sales in Paraguay, 120 of which were owned by women. Offered loans for home renovation and children's education to employees. Ensured delivery of legal benefits, a rarity amongst formal businesses in the country, to all employees. Maintains a health and safety policy to reduce work-related injuries
- **Governance and management:** Improved governance by creating a professional board
- **Innovation:** Ensured that smallholder farmers would be primary suppliers, in contrast to normal Latin American practices of sourcing from large institutional farms. Introduced modified starch production to Paraguay and established the company as the leading exporter of starch from Latin America

CODIPSA's impact



CODIPSA's financial statements (mm PYG)



*FY ends 30 September

Employee view

"The benefits of working with CODIPSA include guaranteed prices from a trusted buyer, technical assistance and access to a labour network to hire workers for roles such as planting, cleaning, and harvesting." ***Antolin Gonzalez**, CODIPSA farmer for nine years*

Company view

"The CODIPSA board has always focused on maximising the benefit for both small farmers as well as for shareholders. Achieving both has been a challenge and not very easy to meet. It is clear that future productivity must increase dramatically so CODIPSA can grow and maximise its impacts in the community. That will be the focus of CODIPSA in the immediate future." ***Kurt Falk**, Board Member, CODIPSA*

Sarona view

"The last few years have been challenging for CODIPSA, as raw material supply couldn't keep pace with capacity expansion. And the current glut in global starch supplies may bring another year of pain before the situation improves for CODIPSA in 2016. With the global commodity market regularly sweeping weaker firms into extinction, CODIPSA's 15 year run is impressive. We expect its comparative strength to improve over the next few years so it can serve the country's smallholder farmers for many years to come." ***Gerhard Pries**, Managing Partner, Sarona Asset Management*

Rayco (Colombia)

Name	Rayco
Country	Colombia
Sector	Financial services
Business focus	Consumer goods financing
Revenue (FY 14)	$52mm
EBITDA (FY 14)	$4mm
General Partner	Kandeo Investment Advisors
Investment date	Apr-2010
Investment	COP 38mm

Rayco 'Welcome Day'

Impact highlights

- Rayco currently employs **893 people, 61%** of whom are **female**
- Created **70 new jobs** in 2014
- Extended **first-time credit to 5,885 clients** with no previous credit history as part of a new initiative
- Launched an **electric bike programme** to help customers reduce vehicle emissions in March 2015

Rayco is a Colombian retailer, distributor and financer of domestic goods including appliances, housewares, electronics and motorcycles. The company was established in 1976 and serves primarily the low to middle income population under-served by local financial institutions. Such domestic goods are often unaffordable for most Colombians without access to credit. By providing extended payment plans, Rayco makes it possible for its clients to access a higher standard of living than they otherwise could.

The company currently has 103 stores nationwide. It served 117,963 clients in 2014, 51% of whom were female. Rayco offers seven different types of credit lines and has simplified the repayments process for its clients by joining forces with domestic utility companies. Borrowers can repay their debt to Rayco alongside their electricity or gas bills.

Rayco (Colombia)

The General Partner has supported Rayco by

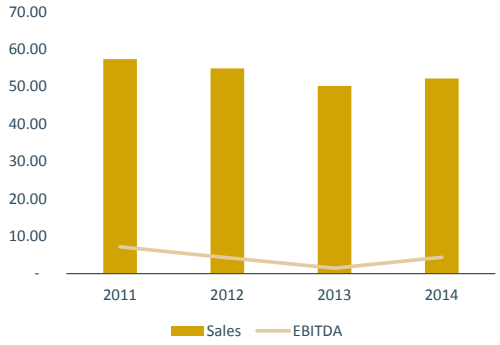
- Introducing an improved credit scoring methodology to help reduce portfolio at risk
- Recruiting an external consultant to advise on risk management
- Assigning external advisors to the Board
- Assisting in the transition to IFRS standards, which lowered the overall cost of capital
- Introducing a large Colombian bank with a view to consider a joint venture
- Increasing available funding from banks at improved credit terms

With Kandeo's help, Rayco was able to create a positive impact in various ways

- **Access to goods and services:** Focus on providing much needed domestic goods to lower income earners. Adding new products such as agricultural tools and electric bicycles, closely in line with the main objective of reaching underserved populations
- **High quality jobs:** Rayco's 893 employees, 61% of whom are female, receive a wide range of training opportunities on topics such as leadership, coaching, communication skills, sales, customer service, debt collections and safety. All employees receive a standard benefits package, educational aid for undergraduate and postgraduate studies and discounts on Rayco's products
- **Governance and management:** Variety of tools to evaluate the level of services provided: monthly store visits, annual survey, bi-annual "mystery shopper". Consistent positive results. Plans to improve the layout of seven branches and the product portfolio in several small to mid-sized towns
- **Innovation:** The Sustainability Innovation Grant provided by the Canadian Government through MEDA, will support the opening of new stores specialised in the sale and financing of modern agricultural tools. Rayco predicts that this new product line will facilitate better wages and working conditions for 1,500 Colombian labourers in the first 18 months of operation

Rayco's evolution

Rayco's financial performance (mm USD)



Company view

"Kandeo has helped us to grow in a more corporate way so that we can increase our profitability and reach more Base of the Pyramid (BOP) customers." ***Rafael Eduardo Ardila Arenas***, *General Manager, Rayco*

General Partner view

"One of the key values Kandeo brings is how well they know their clients in the BOP market across the country. This allows them to increase their competitive advantage, while also enhancing their client reach and the impacts they have on their clients' lives." ***Oscar Porras***, *Colombia Office Manager, Kandeo Investment Advisors*

Siempre Creciendo (Mexico)

Name	Siempre Creciendo
Country	Mexico
Sector	Financial services
Business focus	Microfinance
Revenue (FY 14)	MEX 261mm (~$17mm)
EBITDA (FY 14)	MEX 19mm (~$1mm)
General Partner	Kandeo Investment Advisors
Investment date	Jan-2010
Investment	$16mm

Siempre Creciendo presenting staff awards

Impact highlights

- **521,369 clients** served since Kandeo's investment; 103,459 clients in 2014 alone
- **90% female clients**
- 75% rural clients
- **75% low income clients**

Established in 2005, Siempre Creciendo is a Mexican financial institution that extends credit to some of the most economically challenged segments of the Mexican population. These loans support the creation of profitable activities, thus providing an opportunity to break the poverty cycle.

Since 2010, the company has disbursed 120,070 loans and currently serves 103,459 clients. Siempre Creciendo is one of the few financial institutions in Mexico to offer both microfinance and payroll loans.

In Mexico, like in many other Latin American countries, access to credit can be difficult for low income individuals who often represent the majority of local communities. Siempre Creciendo, with its widespread network of 55 branches and a variety of financial products and services, offers a valuable contribution to the support of micro entrepreneurs and lower-pay employees.

Siempre Creciendo (Mexico)

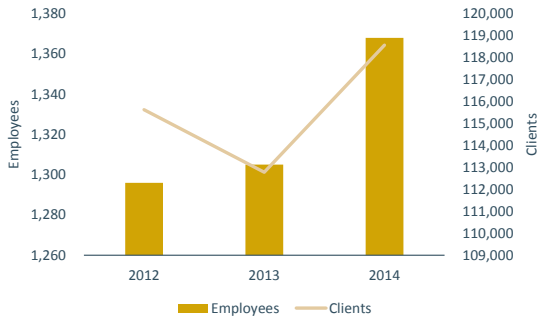
The General Partner played a role in Siempre Creciendo's development in the following ways

- Introduced a new payroll lending programme called "Finomina", now representing 53% of the overall loan portfolio and growing fast
- Focused on better practices to retain qualified staff and reduce turnover, a major issue amongst Mexican microfinance institutions
- Facilitated funding from banks at more favourable credit terms
- Worked with company to reduce the debt write-offs
- Improved the corporate structure
- Strengthened governance by creating committees (audit, finance, operations, HR, etc.) and integrating them into management decisions

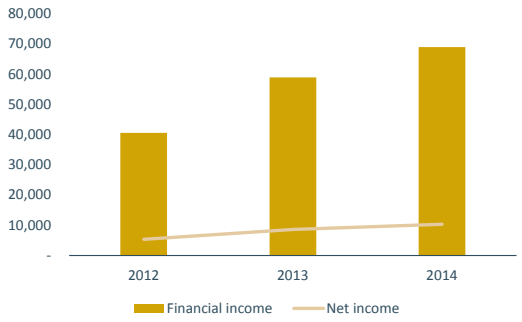
With Kandeo's help, Siempre Creciendo was able to create a positive impact in various ways

- **Access to goods and services:** Siempre Creciendo offers access to a variety of tailored financing products to underserved segments of the population across the country. Importantly, it also provides insurance products linked to the loans. This reduces the stresses caused by the inability to repay due to sickness and accidents
- **High quality jobs:** Employees are offered life insurance in addition to standard benefits and access to personal credit for those who have been with the company for more than six months. Additionally, the company has developed new programs related to base salary increases, increased training opportunities and reduced credit rates for employees
- **Governance and management:** Established management system that recognises its employees as crucial to company success. Supports clear career path, encouraging loyalty to the company. Introduced awards to employees in recognition of excellent work
- **Innovation:** Launched free financial and business education course for its potential and existing clients. Over a three month period, this course covers the basics of personal finance and business operations. It aims to educate its customers on how to better manage their money and run more successful businesses. The programme also benefits Siempre Creciendo by increasing loan repayment rates and lending opportunities

Siempre Creciendo's evolution



Siempre Creciendo's financial performance (mm MEX)



Company view

"Kandeo has been very good in making well thought out decisions and taking a long term approach to the company's growth. One of the best contributions from them has been the open communication with them – they understand we are the ones running the business and that our ideas need to be heard and considered. This has really improved the trust levels in the relationship." ***Andres Icaza**, Operating Director, Siempre Creciendo*

General Partner view

"We believe Siempre Creciendo has a huge impact on the market. Their clients are mainly women from the base of the pyramid – the people you find everywhere in the street. And when you work with those types of clients, you need to think about their financial education to ensure they can afford the loans. That is something that Siempre Creciendo prioritizes, and we can see the positive results of that." ***Oscar Porras**, Colombia Office Manager, Kandeo Investment Advisors*

Swadhaar (India)

Name	Swadhaar
Country	India
Sector	Financial services
Business focus	Microfinance
Gross financial income (FY 14)	INR 384mm (~$6mm)
Net financial income (FY 14)	INR 211mm (~$3mm)
General Partner	MicroVest Capital Management
Investment date	Jun-2010
Investment	$2.1mm

Rasulbee, a tailor in Mumbai and a client of Swadhaar

Impact highlights

- **$32mm in loans** outstanding (as of June 2014), with a repayment rate of 96%
- **40 branches** across four states of India
- **441** total **employees**, **21%** of which are **women**
- **168,856** active **borrowers**, of which **98% women**
- Nearly 8,000 clients enrolled in a financial education programme in 2014, and **31,000 clients enrolled since inception**

Swadhaar FinServe is a non-bank finance company in India that serves urban, low-income working women and micro-entrepreneurs through group and individual lending. In Hindi, the word "Swadhaar" means self-support, which reflects the company's mission to make reliable and efficient financial services available to the economically vulnerable population. The loans enable them to become self-reliant and meet their aspirations for a better and more secure future. Headquartered in Mumbai, and with 30 branches across four states, Swadhaar is among the earliest initiatives offering this type of financial service.

Historically speaking, the company was formed through the establishment of a non-profit entity, Swadhaar FinAccess (SFA), which was incorporated in March 2005. In May 2008, the promoters received their registration for Swadhaar FinServe as a non-bank financial institution.

Besides providing access to finance, Swadhaar offers free financial literacy training to its clients. It teaches them basic financial concepts and helps them plan and budget, thus improving their financial capability.

Swadhaar (India)

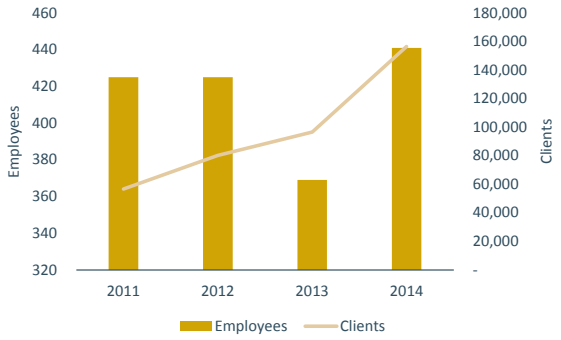
MicroVest Capital Management (MicroVest) contributed to the development of Swadhaar by

- Regular visits of the local branches and introduction of quarterly reporting, since 2010
- Support of Swadhaar's growth and assistance in adapting its business model to the turbulent operating environment in India
- Implementation of a more efficient lending methodology in order to overcome the regulatory challenges, emerged as a result of the Andhra Pradesh microfinance crisis in 2010
- Close collaboration with the company to form a strategic partnership with Ratnakak Bank, one of the fastest growing banks in India, which allows Swadhaar to scale its operations significantly, from 50 to 150 branches by 2017
- Coordination with other investors, such as Accion, to ensure its support to Swadhaar is in line

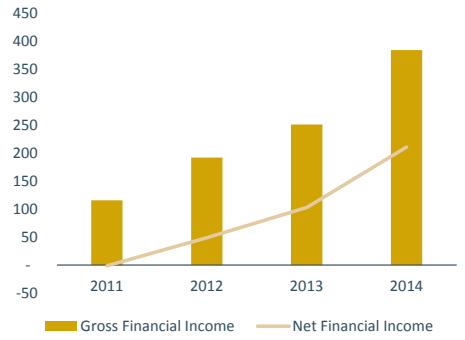
With MicroVest's help, Swadhaar was able to create a positive impact in various ways

- **Access to goods and services:** Provides financial products to economically challenged communities across urban India. 98% of customers are women. Increased clients by 175% since 2011, and served 156,529 customers in 2014
- **High quality jobs:** Offers standard health benefits and flexible working environment by allowing staff to work from home. This accommodates primarily female employees who also have child rearing responsibilities. Prioritizes training opportunities for staff in order to facilitate on-going skill development. Introduced promotions based on achievement of defined objectives
- **Governance and management:** Takes customer protection very seriously. Signatories of The Smart Campaign, which ensures that clients do not borrow more than they can repay or use unnecessary products. Provides clients with transparent channels to share any grievances. Offers six ways for clients to provide feedback, including communicating to the Reserve Bank of India
- **Innovation:** Due to a partnership with Ratnakak bank, Swadhaar is able to leverage its ability to raise capital in order to benefit its large client base

Swadhaar's evolution



Swadhaar's financial performance (mm INR)



Company view

"I have a small tailoring business and have been a client of Swadhaar for eight years. As a results of the loans, I have been able to expand my business, and I no longer rely on my husband for income. I can make money on my own and have used this to pay for my son's education." **Rasulbee**, Tailor, Client of Swadhaar FinServe, Mumbai

Employee view

"I like working at Swadhaar because we are helping women business owners whose family depends on them and allowing them to upgrade their livelihoods." ***Prianka**, Back Office Executor, Swadhaar, Mumbai*

Company view

"MicroVest's investment in Swadhaar in 2010 came at a time when the industry was very volatile as a result of the Andhra Pradesh microfinance crisis in India. Despite the many regulatory changes that resulted from this, they remained supportive of our institution and its objective to reach increased number of poor populations with suitable financial products and services." ***Rajaram Kamath**, Executive Director and CEO, Swadhaar FinServe*

*FY ends 31 March

ODG (Indonesia)

Name	ODG
Country	Indonesia
Sector	Industrial
Business focus	Mechanical, electrical and fire contractor
Revenue (FY 14)	$33mm
EBITDA (FY 14)	$5mm
General Partner	The Abraaj Group
Investment date	Jun-2011
Investment	$1.9mm

Tangguh LNG Project completed under contract by ODG

Impact highlights

- Low **annual staff turnover of ~3%** since 2011 indicating overall job satisfaction
- **Never had a fatality**, won numerous safety awards for millions of hours of zero-accident work
- Supports local communities by **contributing to social causes**
- Assists communities through employee/company-matched **donations in case of emergencies**

ODG is a leading mechanical, electrical and fire contractor with a focus on providing services to the Indonesian mining industry and international manufacturers. With core values of integrity, accountability, excellence and teamwork, ODG is known for its ability to carry out highly technical projects according to international standards. Therefore, multinationals such as Newmont and Nestle, as well as several Indonesian enterprises, are willing to pay a premium for ODG's punctuality and high quality.

Regarding social impact, the company adheres to rigorous health and safety standards, including daily morning trainings and weekly 'safety toolbox' exercises. These are examples of ODG's commitment to ensuring safe working conditions for its employees.

Fatality and injuries are unfortunately common occurrences in this industry. ODG prides itself on providing industry leading health and safety processes and training which have resulted in no fatalities since the company began operations and having won numerous health and safety awards for millions of hours of zero-accident work.

ODG (Indonesia)

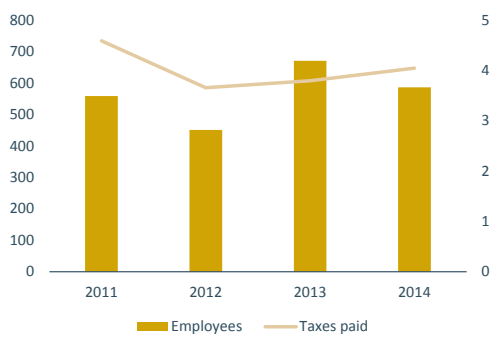
The General Partner has supported ODG's evolution and growth through

- Re-organising the company's structure
- Aligning the company's ESG and business practices to Abraaj's international standards
- Consistent and proactive management and monitoring of progress made
- Encouraging the company to diversify into additional sectors such as infrastructure and construction
- Supporting the company's geographical expansion benefitting from Abraaj's network across global emerging markets

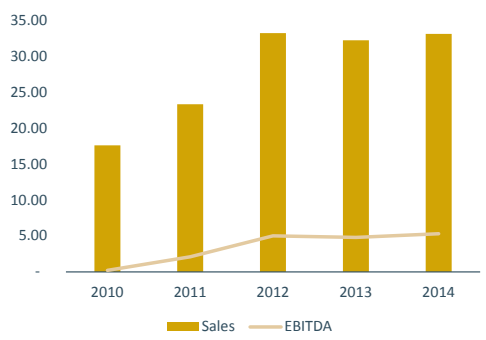
With Abraaj's help, ODG was able to create a positive impact in various ways

- **Access to goods and services:** ODG provides highly valued, specialised services to local and international operators active in Indonesia. By hiring skilled local workers from areas surrounding project sites, the company acts as a high value-add contractor and intermediary
- **High quality jobs:** In 2014, the company employed 577 staff including 300 on a permanent basis and 277 on contract. HR policies allow for a clear career path, include an annual salary assessment and regular increases. A 3% staff turnover since 2011 is considered low
- **Governance and management:** Efficient project management processes enable advance visibility on possible delays. ODG's ability to deliver on time and on budget is highly valued by its clients and staff
- **Innovation:** Due to a lack of formal skills training in Indonesia, ODG has developed its own in-house programme, during which supervisors and senior master craftsmen train junior tradesmen

ODG's evolution



ODG's financial performance (mm USD)



Company view

"Through the re-training of our employees, we have never had a fatality. Every day they are in the field, review the processes, identify risks and mitigation steps. It takes time, and reduces productivity, but it is one of the reasons we have such a strong record in health and safety and why international clients with high standards in these areas choose us. And, I think the employees take pride in it. They compare themselves to other local contractors who don't have the same rigorous processes. I think they see value in it." ***Chris Evans**, CFO, ODG*

General Partner view

"We view a strong focus on ESG as being a significant competitive advantage. In this sense, ODG has always been steadfast in terms of holding onto good ethical practices and being very selective about the clients they work with in order to ensure they are aligned with their values. As such, is it no surprise that ODG is able to attract like-minded clients who choose them because they aren't cutting corners and are willing to pay a premium for this. ODG sees in us an investor that is enlightened and holds ESG in high regard." ***Mark Wong**, Associate Director, The Abraaj Group*

*FY ends 30 September

[49] MANILA, PHILIPPINES

ESG case studies

AfricInvest Capital Partners

Founded in 1994, AfricInvest Capital Partners is a leading African private equity firm with over $1bn in assets under management. It has invested from 14 funds and six offices situated in Tunis, Abidjan, Algiers, Casablanca, Lagos and Nairobi in over 120 companies and achieved over 60 exits in 22 countries. Target sectors include pharmaceutical production and distribution, telecommunications, insurance, commercial banking, education and agribusiness.

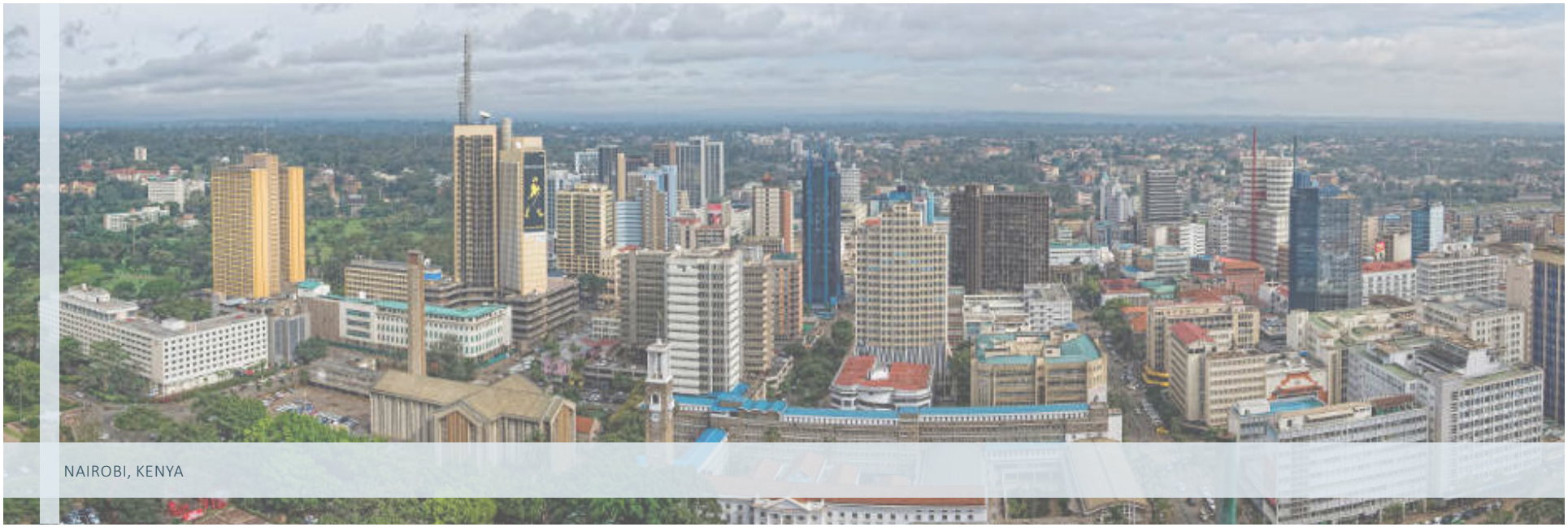
Sarona committed to AfricInvest II in 2010 because of the team's long and strong track record of investing in well-established, small to mid-market enterprises (SMEs) throughout the African continent, first in North Africa and then across the Sub-Saharan region. In addition, AfricInvest's commitment to enhancing portfolio companies by applying progressive values and strict Environmental, Social and Governance (ESG) standards is in strong alignment with Sarona's values.

Fund snapshot

Fund name: AfricInvest Fund II LLC (AfricInvest II)
Region: Sub-Saharan Africa
Sectors: Pharmaceutical production and distribution, telecommunications, insurance, commercial banking, education and agribusiness
Investment style: Minority growth equity in SMEs
Inception date: 2010
Fund size: €142.9mm
Total assets: $1bn

Fund numbers

- Supported 15 companies
- Employed 6,676 people as at 31 December 2014
- Created over 1,300 jobs since inception to 31 December 2014



NAIROBI, KENYA

AfricInvest: Integrating ESG into the investment process and portfolio companies

Since the beginning of its investment activities 20 years ago, AfricInvest has recognised the importance of supporting its portfolio companies by strengthening their management teams and participating actively in their governance structure. Discipline, financial controls and transparency have always been important first steps in improving a company's performance. Over time, experience and increased awareness of the hidden costs of poor social and environmental behaviour have led the management team to institutionalise best practices and apply them more systematically across the portfolios. In 2014, AfricInvest worked with a number of DFIs such as the IFC, the Dutch FMO and the British CDC, to improve and standardise its ESG management processes. This resulted in a Social and Environmental Management System (SEMS) designed to (i) ensure that companies comply with national and international requirements, (ii) encourage companies to be more proactive in taking pre-emptive measures related to ESG risks and (iii) prepare portfolio companies to achieve consistently high ESG standards in order to increase the probability of achieving successful exits. The management system, overseen by a two-person team at AfricInvest, is broken into three distinct phases:

- Screening: AfricInvest has defined an exclusion list and all investment opportunities are screened to ensure they do not belong to any of the unacceptable categories. Those that pass the initial test are then categorised to establish their respective ESG risk level and required due diligence level.
- Pre-investment: An ESG assessment is performed and an independent third-party expert hired to perform in-depth due diligence on ESG matters and produce a report. It is an opportunity for the AfricInvest team to learn about a company and about how much importance its management team has attached to non-financial performance. It is rare for investee companies to score highly at the pre-investment stage and this often provides AfricInvest with the ability to add significant and sustainable value to the overall performance of a company at a later stage. Due diligence results are integrated into a corrective action plan, including accountabilities and expected time of completion. Such plans then become an integral part of legal documentation to ensure enforceability.
- Post-investment: During a company's holding period, the two AfricInvest ESG officers and the assigned Investment Officer monitor progress against the original assessment. This is done through regular and frequent meetings with the companies' staff, informal calls and more formal annual reports. AfricInvest's LPs, many of whom are the DFIs themselves, attach particular importance to formally documented reports on progress achieved by portfolio companies.

The Limited Partner: Sarona's perspective

"After committing to a fund, Sarona remains actively involved with the fund manager and monitors the progress of the portfolio companies on a regular basis. We have been impressed by the feedback received from the companies regarding the importance by AfricInvest in addressing ESG concerns and risks. Sarona has found AfricInvest to have robust ESG due diligence, monitoring and reporting processes in place and is proud to be associated with such a reputable partner that cares about these issues." ***Serge LeVert-Chiasson****, Senior Partner, Sarona*

The General Partner: AfricInvest's perspective

"Investors have come to Africa and see good value in our portfolio companies, but they want ESG data to be better documented. AfricInvest has invested a lot of time and resources in this because we want to be a leader in this area. We are committed to our improved ESG policies, and based on our track record we are convinced that ESG improvements are an important leverage for value creation, business resilience and sustainability. Putting in place best ESG standards, not only provides the portfolio companies with a competitive advantage but it also guarantees business continuity. Investors clearly investigate the ESG aspects when considering an acquisition and are even willing to pay a premium for companies that adopted best standards." ***Abir Attia****, Senior Manager and ESG Coordinator, AfricInvest*

The current SEMS has been deployed only recently; however, AfricInvest is confident that the improved processes will create significant added value to its portfolio companies. This is based on past experience with companies where better relations with employees, suppliers and the community generally led to better financial performance. AfricInvest also remarked that adopting non-discriminatory policies in respect of gender, race, disability, political opinion and providing the workforce with better working conditions proved to reduce turnover and increase motivation.

At first, some companies struggled to see the benefits of adopting high-standard ESG practices but AfricInvest's determination ensures that management teams come to realise the importance and value of acting responsibly and sustainably. It plans to develop a number of case studies to showcase some examples of successful improvements and increased valuations.

Creador

Founded in 2011, Creador is a private equity firm based in Southeast Asia, specialised in long term, growth style investments in India, Malaysia and Indonesia. The founder, a Malaysian gentleman of Indian origins, has had a long and successful career in private equity investing with a large Indian PE firm, beofre deciding to return "home" to Malaysia and build his own firm. Very quickly, he assembled a large and strong team of individuals with complementary experiences, financial and operational, and invested the raised capital across the region. The firm closed its first fund at $130mm in 2011, its second fund at $331mm in 2014 and reached a first close on its third fund at $200mm. The third fund targets a total size of $500mm, which will bring total assets under management to over $1bn. Creador invested in a range of sectors including financial services, consumer goods and services, professional services and food and beverage. In India, Creador is particularly attracted by the increasing urbanisation trend for lower-middle class families who are buying and/or improving their first home. It has made a number of investments linked to the needs of first-time home owners seeking proximity to growing industrial areas.

Fund snapshot

Fund name: Creador II
Region: India, Malaysia, Indonesia
Sectors: Consumer staples and discretionary, banking and finance, affordable housing, manufacturing
Investment style: Minority growth equity in private SMEs and illiquid listed companies
Inception date: 2011
Fund size: $461mm
Total assets (as of July 2015): ~$700mm

Fund numbers

- Created 998 new jobs in 2014 through six companies, representing an increase of 8% from the previous year
- The same six companies served 118,018 additional clients in 2014, representing an increase of 37% from the previous year

JAKARTA, INDONESIA

Creador: Integrating ESG into the investment process and portfolio companies

Creador®

Sarona invested in Creador II in August 2014 based on the strong track record of its first fund, the promising visible pipeline for its second fund and the strong management team. We were also impressed by the willingness of the management team to learn more about DFIs' requirements concerning ESG reporting and to apply improved methodologies to its own portfolio.

The Creador team demonstrated a good understanding of the importance of Environmental, Social and Governance (ESG) due diligence, monitoring and reporting. It takes a proactive approach in identifying and evaluating improvement opportunities and has appointed a two-person team to ensure that its portfolio companies implement the necessary processes to improve its ESG related performance. Given the legal, regulatory and cultural differences across the investment region, the firm trained its employees to ensure that they are sensitive to the variety of potential concerns that may arise from different companies in different areas. In addition, Creador created a list of banned sectors including alcohol, tobacco, commodities and has generally banned companies that employ child-labour. Taking its ESG commitments seriously, the team will provide independent financial and non-financial (as of this year) third party audits of its portfolio companies.

Creador implements a formal ESG evaluation process both pre and post-investment. It has developed a standard evaluation template for Investment Committee (IC) meetings and explicitly discusses important ESG considerations when the IC meets. Considerations include findings from the ESG due diligence trip, the need for corrective action plans, and the required ESG covenants (if any) to be added to the investment agreement.

Regarding reporting, Creador conducts frequent informal checks on, and annual formal reviews of, each of its portfolio companies and provides a summary of the results. Violations are brought to the attention of the respective investment deal teams. In case of a serious violation resulting in potential negative publicity, a report is submitted to the fund's advisory board to determine appropriate action.

Two ESG areas of focus provide examples of improved practices encouraged by Creador: Transparency and employee satisfaction. In the case of transparency, the team has encouraged its companies to adopt a whistle-blower policy, in particular at Bonia, Simba and CTOS. Such a policy improves accountability and a sense of fairness. The investment team also regularly engages with the companies' management to discuss ways of improving employees' welfare in order to reduce turnover and improve staff productivity.

The Limited Partner: Sarona's perspective

"Creador is committed to invest in companies that uphold high standards of ESG compliance. The team's belief that better companies perform better is closely aligned to Sarona's own. Efforts are made to identify areas that can be improved and Creador takes a proactive approach in helping its portfolio companies address any concerns identified during pre-investment due diligence. The whistle-blower policy initiated at Bonia, Simba and CTOS is an example of the importance Creador attaches to transparency and fairness." ***Vivina Berla****, Co-Managing Partner, Sarona*

The General Partner: Creador's perspective

"Creador has adopted an ESG Policy with a belief that good compliance will deliver superior returns. Incorporating best practice, we sign off on ESG compliance at the IC stage which is further validated annually in a review exercise. The rationale for ESG is not only to ensure local compliance but work with our portfolio companies to achieve global standards of excellence." ***Anand Narayan****, Senior Managing Director, Creador*

[54] MUMBAI, INDIA

SIG case studies

South Asia

Khyati (India)

Khyati, based in Bhopal, India, procures, certifies and trains farmers in organic soy and cotton farming. In addition to purchasing the raw material from these farmers, it processes it and distributes the produce domestically and abroad. The company acts as a high value-add intermediary between farmers and customers aiming to ensure prosperity, sustainability, social justice and equality to all stakeholders. On the one hand, it adds value to farmers by assisting them in obtaining organic certification and providing a reliable route to market. On the other hand, it adds value to its customers by processing, warehousing and distributing high quality products in an efficient and reliable manner.

Operating since 2005, Khyati currently collaborates with about 19,800 small farmers (8,800 organically certified and 11,000 in the process of converting to organic certification). They cultivate about 35,000 hectares of farmland spread across five districts of Madhya Pradesh and Maharashtra. By growing organic products, farmers can generate 20-40% higher revenues per hectare. In addition to domestic distribution, Khyati now exports over 10,000 tonnes of soybean and soymeal per annum to Europe and North America.

In 2013, Sarona and SEAF injected additional equity capital that has helped build local warehouses, procurement centres and first-stage processing centres in close proximity to the farmers. This has allowed Khyati to reduce waste and crop contamination as well as increase the efficiency of the procurement process and quality control.

Company snapshot

Company name: Khyati Foods Private Limited**Country:** India
Sectors: Agribusiness
Business focus: Organic food processing and distribution
Current Revenue: 1.3bn INR (~$20mm)
Current EBITDA: 102mm INR (~$1.6mm)
Investment date: Jan-2013
Investment size: SEAF $1.6 million, Sarona co-invested $750,000

Company view

"We had a lot of ideas, but you know what happens – we hadn't moved ahead with anything, and then when SIG came along we decided to go for it. Although there are many challenges working with farmers in the tribal areas, it is a matriarchal community and women have more power and own their land, so there are significant opportunities both for them and for Khyati in partnering with them." ***Gunjan Agrawal**, CFO, Khyati Foods*

General Partner view

"Capital typically goes to the expansion of the business' capacity. This initiative deals with softer aspects, but they are critical to the business' success. Once the initiative began, we saw that it gave us a better result than what they were doing before. Ultimately, Khyati will benefit from a greater variety of products that they can source from a larger small farmer group. Going forward, we plan to encourage Khyati to continue to think about additional issues, such as finance for farmers." ***Hemendra Mathur***, Managing Director, SEAF India Investment Advisors

Khyati (India)

Khyati has identified significant opportunities to increase export volumes to existing markets (USA and Europe) as well as target new higher premium destinations in Canada, Switzerland and Japan. These would allow Khyati to increase its sales and simultaneously enhance existing supply chains and integrate additional small farmers thus increasing their earning power. To capture the opportunities, Khyati needed to improve internal systems to meet strict certification standards and to train internal staff as well as external farmers on how to increase organic crop productivity, reduce pests and diseases, and eliminate contamination from pesticides and GMOs.

In August 2014, MEDA awarded Khyati CAD $50,000 in SIG funding, matched by a $100,000 contribution by the company, to deliver the required improvements. Mid-way through the initiative, Khyati has achieved the following results:

Farmer training: 30 Community Based Organizations (CBOs) have been established in 20 villages. These CBOs of small farmers are led by 10 Lead Farmers trained by external consultants on modern organic farming techniques. By "training the trainers", more than 500 farmers, over 75% of whom are women, have received new useful and pragmatic knowledge about different aspects of organic farming.

Organic certifications: BioSuisse standards have been successfully achieved by 1,500 farmers in the project area. Additionally, 10 organic farm-clusters were inspected and achieved organic certification.

New markets: New European buyers were secured and Khyati began exporting 230 tons of soybean to France (a new destination) and 38 tonnes of safflower to Italy. The company made a major breakthrough in selling 10 tonnes of organic soybean glycerine to the US.

Community mobilisation: The SIG grant also applied to two projects benefiting the community:

- Awareness training on how to prevent and treat Malaria
- A drawing competition amongst schools located in the project area to sensitise the youth on environmental protection (90 boys and 36 girls participated)

Finally, Khyati is making specific efforts to integrate a higher number of female farmers into its traditionally male-dominated supplier base. It has discovered that women are more receptive and willing to adopt organic farming practices which they feel align closely to their daily work routines. For example, female farmers have demonstrated significant innovation and creative spirit by constructively transforming waste into compost and have felt empowered when carrying out activities related to seed conservation, preservation and multiplication.

Farmer view

Shantubai is a 25 year old female farmer from Gopalpura village. Before she switched over to organic practices, Shantubai worried about the high price of chemical fertilizer as she could not afford to buy enough for her small two acre plot. She was convinced about the benefits of organic farming when she attended Khyati's field demonstration programme, which taught her how to prepare and apply organic compost to her corn crop which is now healthy and better than her neighbour's conventional crop. She was also happy to save INR 250 by not applying the chemical fertilizer. ***"I used to get a loan from a money lender to pay for my fertilizer. Now I can make it myself and I have enough for the whole crop. My neighbours see me making it and they are now inspired to try it themselves".***

Ram Singh Dhak is a tribal farmer of Jhabua who owns less than one acre of land. Despite using various chemical pesticides, he constantly had pests in his chickpea crop. He attended the Khyati organic farmer training and learned simple and low cost pest control techniques using a botanical solution made from local leaves. Eight days after spraying the solution on his crop, he was surprised to see that his farm was totally free of pests. He also saved INR 500 and now he is completely convinced about organic farming and tells his neighbours: *"I have not only saved money by not using chemical pesticides, but now I also enjoy seeing my children eat fresh chickpeas directly from my farm".*

Teamwork Arts (India)

Teamwork Arts (Teamwork) is an entertainment company that promotes Indian culture by supporting and showcasing performers, artists and writers. The company's objectives are to:

- Address social issues through arts
- Create democratically accessible platforms for a variety of artists
- Work with socially disenfranchised and economically challenged communities
- Advocate freedom of expression and ultimately bridge the inequity gap

Teamwork has 24 years experience and produces over 20 performing and visual arts and literary festivals in 11 countries, including Australia, Canada, Egypt, Germany, France, Hong Kong, Israel, Scotland, Singapore, South Africa, Spain and USA, every year. Since Ambit Pragma invested in Teamwork in 2013, efforts have been focused on strengthening the commercial team. Ambit believes that by expanding the reach of the company and brand recognition around the world, Teamwork will be better able to fulfil its social mission and increase its impact. With the support of Ambit, the company has hired an experienced Head of Sales and Sponsorship, a digital marketing specialist and has introduced a new US sales team. The company is also working on a better mix of international versus domestic events and a new CFO was hired to evaluate the financial impact of new products. Additionally, the founder is assessing potential acquisitions in adjacent spaces such as artist management, venue management and ticketing.

TEAMWORK ARTS EVENT

Company snapshot

Company name: Teamwork Arts
General Partner: Ambit Pragma
Country: India
Sectors: Consumer services
Business focus: Entertainment and culture
Revenue (FY 15): ~$4.8mm
EBITDA (FY 15): ~$1mm
Investment date: Jun-2013
Investment size: $3.41mm

Company view

"We believe that in places where there is inequality, the only way to decrease it is through knowledge and education. We need to provide networks and access to those who don't have it. It's about opening their minds and allowing them to see there is a future that is possible. The SIG funds helped us to get to the next stage and allowed us to understand that outreach is an important part of our festivals. Going forward we are planning to grow these youth outreach programs more ambitiously." ***Sanjoy Roy**, Managing Director, Teamwork Arts*

General Partner view

"With the help of the Sustainable Innovation Grant, Teamwork was able to expand its outreach programme to cover 50 schools and reach out to more than 15,000 people. The workshops not only created life changing situations for a lot of young participants, but also helped the company create data-bases of young people across the country and connect with numerous NGOs working on gender issues." ***Mangesh Pathak**, Partner, Ambit Pragma*

Teamwork Arts (India)

Teamwork is acutely aware of the lack of access to knowledge and education in India's marginalised communities and the important role that arts play in sensitising young people to issues related to gender and environment. The company's mission is to provide, through its festivals and connected workshops, a platform to raise, discuss and engage on difficult social issues, include disenfranchised communities and attract additional sponsors whose priorities align with the overarching causes.

In August 2014, MEDA awarded Teamwork CAD $50,000 in SIG funding, matched by a $100,000 contribution by the company. The initiative was rolled out through workshops in schools, colleges and educational institutions across five Indian states. It wrapped up in April 2015, exceeding its KPIs. Notable results included:

Gender awareness: Teamwork increased gender awareness among the general public through a number of projects. A street play called "Gender Bender - a Step Towards Gender Justice" questioned gender-based stereotypes, patriarchal mind-set and social conditioning. Another street play titled "Naya Nazariya - Moving Towards a New Perspective on Gender Justice" was performed at the Jaipur Literature Festival to an audience of approximately 1,000 people. As part of the Sounds of Freedom festival, Teamwork worked closely with UN Women, an organisation dedicated to gender equality. As a result of this partnership, UN Women asked Teamwork to develop similar projects in neighbouring countries such as Nepal and Bangladesh.

Youth engagement: A total of 15,000 young people from different socioeconomic backgrounds participated in a variety of activities, such as play acting and workshops, alongside Teamwork's main events, the objective was to bridge the gap between students from privileged schools in Jaipur and those from rural Rajasthan by providing the opportunity to work and play together. Students were encouraged to write their stories and messages about social issues (gender, environment, human rights) through blogs, social media and newsletters.

Revenue generation: The activities funded by the SIG initiative helped Teamwork attract more than 5mm INR (CAD $100,000) in sponsorship funds. Such catalytic effect demonstrates how a company dedicated to social justice and freedom of expression can also be attractive to commercial sponsors.

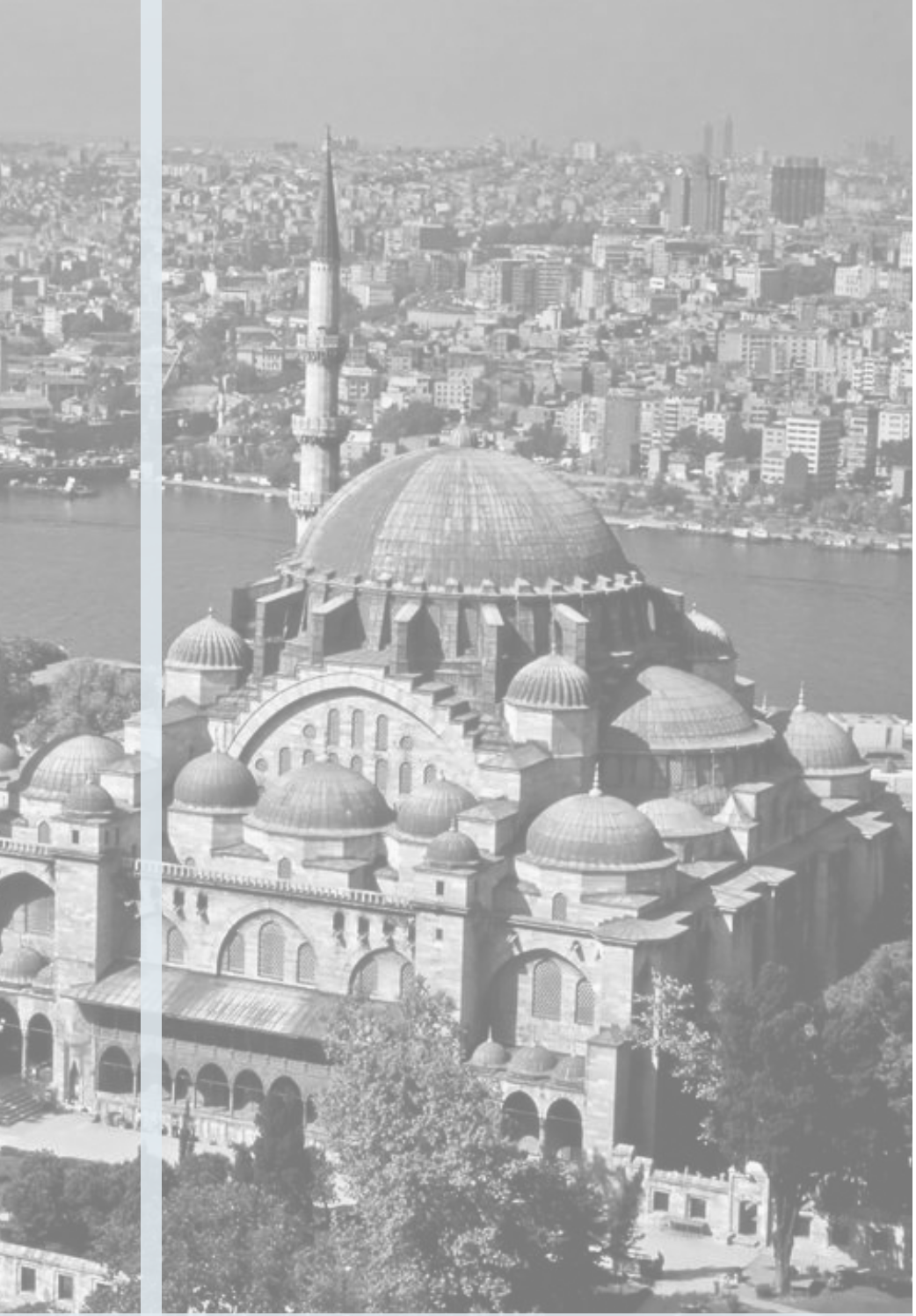
Participant view

"I am 15 years old and married. My parents are pressuring me to live with my husband, but I refuse because I want to go to school and he won't let me. Before, I used to laugh when people talked about homosexuals. We didn't understand what it meant to be gay. Now we know."

"In my village, if a boy talks to a girl she will hit him with her slipper. When I came to Jaipur, it was my first time talking to a girl and learning about these things on sexuality. When I go back to my village I want to talk to the elders to bring about change in the way we treat people."

"It is my first time to Jaipur. I used to make fun of homosexuals and transgendered people. I used to think they should not be given respect, but now we know that isn't right."

TEAMWORK ARTS EVENT



[59] ISTANBUL, TURKEY

Appendix

Glossary and list of abbreviations

Base of the pyramid (BoP): The largest, but also poorest, socio-economic group operating at the base of the socio-economic pyramid. Through its underlying companies, Sarona often supports the production of goods and services targeting this segment of the population.

Development Financial Institution (DFI): Funded predominantly by governments in developed economies, DFIs, either multi-lateral or bilateral, provide finance to the private sector in emerging markets for investments that promote development.

Eligible companies: Eligible companies include all portfolio companies held either directly or indirectly through underlying funds by Sarona Frontier Markets Fund 1 LP, Sarona Frontier Markets Fund 2 LP, and MEDA Managed account, as of 31 December 2014.

Environmental, social and governance (ESG): Three focus issues that have increased in importance when assessing a company's ability to act sustainably and responsibly for the long term.

European Bank for Reconstruction and Development (EBRD): A multilateral development bank, using investments as a tool to help build market economies. Initially focused on the countries of the former Eastern Bloc it expanded to support development in 30 democratic countries from Central Europe to Central Asia.

Global Impact Investing Network (GIIN): A non-profit organisation dedicated to increasing the scale and effectiveness of impact investing.

Global Impact Investing Rating System (GIIRS): A comprehensive and transparent system for assessing the social and environmental impact of companies and funds with a rating and analytical approach analogous to Morningstar. It is promoted by the independent non-profit B Lab organisation.

International Finance Corporation (IFC): A multi-lateral DFI that offers investment, advisory and asset management services to encourage the growth of the private sector in developing countries. The IFC was established in 1956 as an arm of the World Bank Group to advance economic development by investing in strictly for-profit and commercial projects that purport to reduce poverty and promote development.

Impact: Impact is defined as going beyond simple *outputs* and focusing on *outcomes* generated by an activity. For example, the number of jobs created by a company is an output. Impact, or outcome, consists not of numbers, but of how these jobs affected the lives of individuals and their local communities.

Impact investing: Impact investments are investments made into companies, organisations and funds with the intention to generate a measurable, beneficial social and environmental impact alongside a financial return.

Impact Reporting and Investment Standards (IRIS): Developed by the independent non-profit organisation B Lab, IRIS is a taxonomy of impact measures. It consists of over 2,000 individual metrics tailored to specific economic activities. Sarona selected 33 IRIS metrics for the annual impact questionnaire it sends to its underlying managers and companies.

Reporting companies: The 137 (out of 153 eligible companies) that completed Sarona's impact questionnaire.

Sarona Impact Questionnaire: An annual questionnaire sent to investees, measuring social and environmental performance by using 33 IRIS metrics. The questionnaire is completed on a voluntary basis by the majority of investees. However, since 2013, it has been made compulsory for all new investees.

Small to mid-market companies: Sarona has a broad definition of small to mid-market companies. It includes all companies with an enterprise value (equity and debt) of less than $150mm at time of entry.

United Nations backed Principles for Responsible Investing (PRI): An international network of investors working together to put the six PRIs into practice. Its goal is to understand the implications of sustainability for investors and support signatories as they incorporate the Principles into their investment decisions and ownership practices. By implementing the Principles, signatories contribute to a more sustainable global financial system.

Sarona exclusion list

Sarona and its underlying funds are not allowed to make the following types of investments:

1. Investments that involve conversion or degradation of Critical Forest Areas or forest-related Critical Natural Habitats.
2. Investments that involve leasing or financing of logging equipment, unless an environmental and social impact assessment indicates that:
   a. All timber harvesting operations involved will be conducted in an environmentally sound manner which minimizes forest destruction and
   b. The timber harvesting operations will produce positive economic benefits and sustainable forest management systems
3. Investments involving the construction of dams that significantly and irreversibly:
   a. Disrupt natural ecosystems upstream or downstream of the dam
   b. Alter natural hydrology
   c. Inundate large land areas
   d. Impact biodiversity
   e. Displace large numbers of inhabitants (5,000 persons or more) or
   f. Impact local inhabitants' ability to earn a livelihood
4. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phase-outs or bans such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls and other hazardous substances, wildlife or wildlife products regulated under the Convention on International Trade and Endangered Species of Wild Fauna and Flora and trans-boundary trade in waste or waste products .
5. Investments that require resettlement of 5,000 or more persons.
6. Investments in or impacting natural World Heritage Sites unless it can be demonstrated through an environmental assessment that the investment:
   a. Will not result in the degradation of the protected area and
   b. Will produce positive environmental and social benefits
7. Investments in or impacting areas on the United Nations List of National Parks and Protected Areas unless it can be demonstrated through an environmental assessment that the investment:
   a. Will not result in the degradation of the protected area and
   b. Will produce positive environmental and social benefits
8. Extraction or infrastructure Investments in or impacting: protected area Categories I, II, III and IV (Strict Nature Reserve/Wilderness Areas and National Parks, Natural Monuments and Habitat/Species Management Areas), as defined by the International Union for the Conservation of Nature (IUCN). Investments in IUCN Categories V (Protected Landscape/Seascape) and VI (Managed Resource Protected Area) must be consistent with IUCN management objectives unless it can be demonstrated through an environmental assessment that the investment:
   a. Will not result in the degradation of the protected area and
   b. Will produce positive environmental and social benefits
9. Production of or trade in radioactive materials, including nuclear reactors and components thereof.
10. Production of, trade in or use of un-bonded asbestos fibers.
11. Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to biodiversity and habitats.
12. Investments involving the use of forced labor or harmful child labor.
13. Investments where the primary business activities are in the following prohibited sectors: gambling; media communications of an adult or political nature; military production or sales; alcoholic beverages (if contrary to local religious or cultural norms); or tobacco and related products.
14. Investments that result in replacement of US production or are likely to cause a significant reduction in the number of employees in the US. Such Investments include "runaway plants" and outsourcing the provision of goods and services (e.g., BPO) from the US.

Selected IRIS metrics

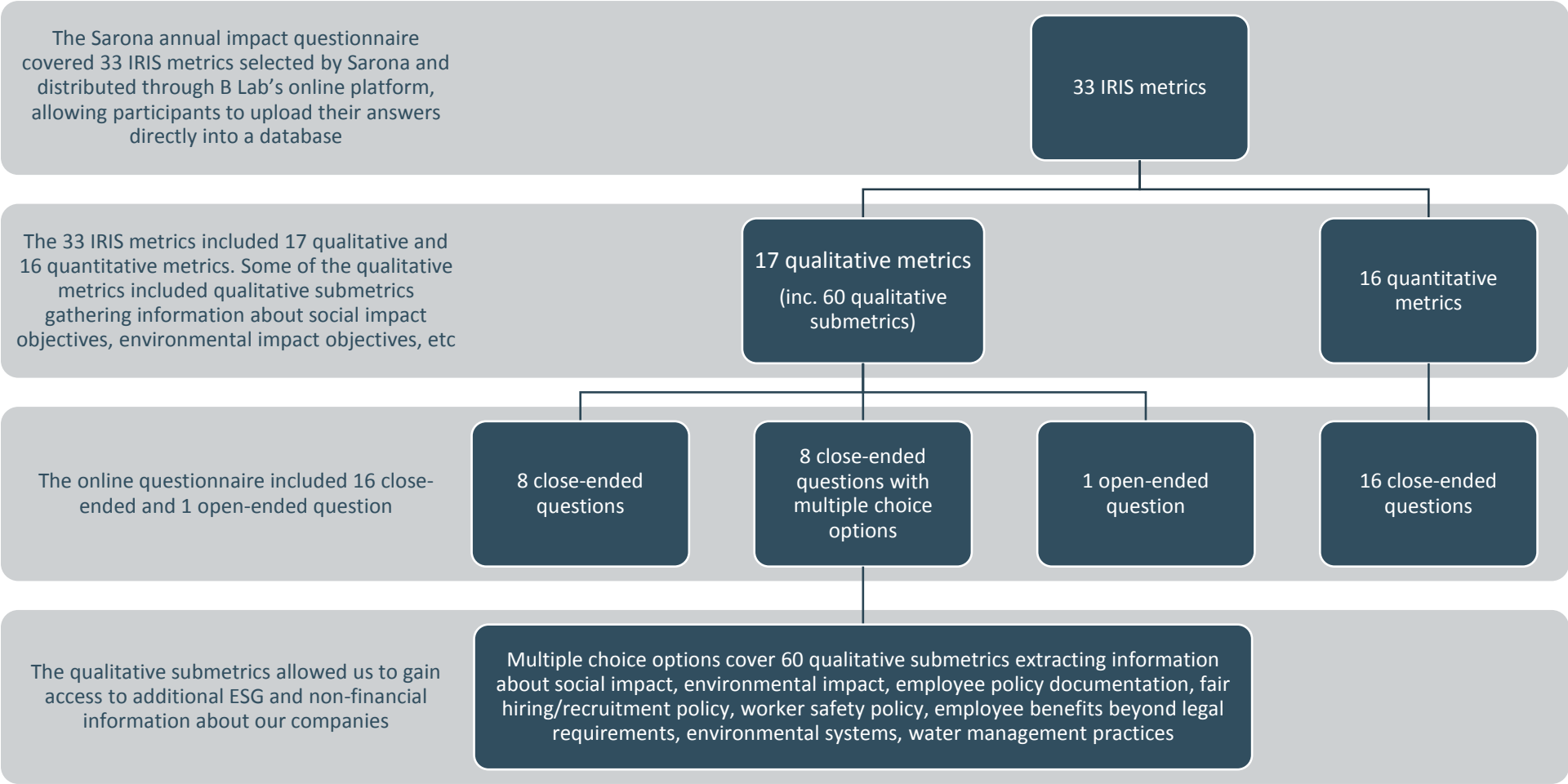
OI2840	Female ownership	What is the percentage of the company that is female-owned, as of the end of the reporting period?
OI1075	Board of Directors: Total	What is the number of members of the organization's Board of Directors or other governing body, as of the end of the reporting period?
OI8118	Board of Directors: Female	What is the number of female members of the organization's Board of Directors or other governing body, as of the end of the reporting period?
OI2330	Governance Policies	Indicate whether the organization has written corporate governance policies that have been communicated to stakeholders.
OD6247	Social Impact Objectives	Select all of the social objectives that apply to the Company: access to clean water, access to education, access to energy, access to financial services, access to information, affordable housing, agricultural productivity, capacity-building, community development, conflict resolution, disease-specific prevention and mitigation, employment generation, equality and empowerment, food security, generate funds for charitable giving, health improvement, human rights protection or expansion, income/productivity growth.
OD4108	Environmental Impact Objectives	Select all environmental objectives that apply to the Company: biodiversity conservation, energy and fuel efficiency, natural resources conservation, pollution prevention & waste management, sustainable energy, sustainable land use, water resources management.
OI5102	Employee Policy Documentation	Indicate which employee policy documentation is provided by the organization to its employees. Select all that apply: employee handbook, discrimination/harassment policy, code of ethics
OI9379	Local Compliance	Indicate whether the organization has been found to be out of compliance with any local labor, tax or environmental regulations during the reporting period.
OI5164	Financial Statement Review	Indicate whether it is the organization's policy to produce financial statements that are verified annually by a certified accountant.
OI4324	Community Service	Indicate whether the organization has a written community service policy (a code that encourages and allows employees to volunteer or engage in charitable giving). For example, organizations might offer employees a certain number of hours/year of paid time off to volunteer, or organize company-wide service days, service sabbaticals, or leaves of absence, etc. Included in the definition is serving on an organization's board or governing body.
OI4753	Client Protection Policy	Indicate whether the organization has a written policy for client protection with mechanisms to ensure compliance.
OI4432	Child Labor Policy	Indicate whether the organization has a written child labor policy in line with International Labour Organization (ILO) standards.
OI4432	Child Labor Policy	Are you aware of any child labor (children below the age of 18 years of age) employed by the company?
OI1150	Fair Hiring/Recruiting Practices	Indicate whether the organization has a written employment policy to recruit employees fairly and equally.
OI8001	Worker Safety	Indicate whether the organization has systems and policies in place to monitor, evaluate and ensure worker safety.
OI1120	Operational Certifications	Indicate whether the organization has third-party certifications held by the organization that are related to its business processes and practices and that are valid as of the end of the reporting period (i.e. ISO).
OI2742	Employment Benefits	Benefits to full-time employees.

Selected IRIS metrics

OI4739	Supplier Evaluation	Indicate whether the organization considers social and environmental performance when evaluating suppliers.
OI1254	Environmental Management System	Components of the organization's environmental management system.
OI7365	Water Management	Indicate whether the organization employs management practices for water quality protection.
OI3160	Full-time Employees: Total	Please enter number of full-time employees at the end of the reporting period.
OI6213	Full-time Employees: Female	Please enter number of full-time female employees at the end of the reporting period.
OI8251	Full-time Employees: Managers	Please enter number of full-time management employees at the end of the reporting period.
OI1571	Full-time Employees: Female Managers	Please enter number of full-time female management employees at the end of the reporting period.
OI8864	Part-time Employees: Total	Please enter number of part-time employees at the end of the reporting period.
OI8838	Part-time Employees: Female	Please enter number of part-time female employees at the end of the reporting period.
OI3757	Occupational Injuries	Indicate the number of occupational injuries which affected any full-time, part-time or temporary employee of the organization during the reporting period.
OI4229	Employees Trained: Total	Number of employees (full-time, part-time or temporary) that were trained through programs provided by the organization (both internally and externally) during the reporting period.
PI4060	Client Individuals: Total	Number of organizations or individuals who were clients during the reporting period. For microfinance clients, this refers to active clients. For healthcare providers, this refers to patients.
PI8330	Client Individuals: Female	Number of women who were clients during the reporting period.
PI9566	Supplier Organizations: Total	Number of companies that sold to the organization during the reporting period.
PI5350	Supplier Individuals: Total	Number of individuals who sold to the organization during the reporting period (Supplier Individuals, if applicable).
PD2756	Product/Service Certifications	Indicate whether the organization has third-party certifications for products/services that are valid as of the end of the reporting period.
FP5261	Taxes	Value of all transfers to the government made by the organization, during the reporting period.

	Qualitative metric
	Quantitative metric

Summary description IRIS questionnaire



Overview of selected impact case studies

Company name	Sector	Country	Region	Fund	Sarona mandate
Brookhouse	Education	Kenya	Africa	AfricInvest Capital Partners	Fund of funds programme
Haltons	Consumer goods services	Kenya	Africa	Fanisi Venture Capital	Fund of funds programme
Mountain Lion Agriculture	Consumer goods agribusiness	Sierra Leone	Africa	MEDA (Sarona Risk Capital Fund)	MEDA
Wananchi Holdings	Telecommunications	Kenya	Africa	East Africa Capital Partners	Fund of funds programme
Autoking	Consumer services	Turkey	Eastern Europe and Central Asia	Pera Capital Partners	Fund of funds programme
San Jose Lopez	Logistics	Morocco	Middle East and North Africa	Mediterrania Capital Partners	Fund of funds programme
Tejra	Consumer goods other	Tunisia	Middle East and North Africa	AfricInvest Capital Partners	Fund of funds programme
AIC	Financial services	Haiti	North America	MEDA (Sarona Risk Capital Fund)	MEDA
CODIPSA	Consumer goods agribusiness	Paraguay	Latin America	MEDA (Sarona Risk Capital Fund	MEDA
Rayco	Financial services	Colombia	Latin America	Kandeo Investment Advisors	Fund of funds programme
Siempre Creciendo	Financial services	Mexico	Latin America	Kandeo Investment Advisors	Fund of funds programme
Swadhaar	Financial services	India	South Asia	MicroVest Capital Management	Fund of funds programme
ODG	Industrial	Indonesia	South East Asia	The Abraaj Group	Fund of funds programme

Overview of selected ESG and SIG case studies

ESG case studies			
Fund manager	**Sector**	**Region**	**Investment style**
AfricInvest	Pharmaceutical production and distribution, telecommunications, insurance, commercial banking, education and agribusiness	Sub-Saharan Africa	Minority growth equity in SMEs
Creador	Consumer staples, discretionary, banking and finance	South Asia and South East Asia	Minority growth equity in SMEs and illiquid listed companies

SIG case studies			
Company name	**Sector**	**Region**	**Investment style**
Khyati	Agribusiness	South Asia	Organic food processing and marketing
Teamwork Arts	Consumer services	South Asia	Entertainment

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