

UFF African Agri Investments Environmental and Social (ES) Policy

1. Introduction

1.1. Introduction to UFF African Agri Investments Fund Mandate

UFF African Agri Investments (hereafter referred to as “UFF”) actively invests in food and agriculture (farmland) and extends and enhances the value of these investments throughout its Funds’ investment periods. Incorporated into this mandate is a requirement to manage these investments in accordance with good environmental and social practices, and to invest into social and environmental initiatives at each project. The social initiatives include a focus on the provision of education, health care and economic empowerment. This focus directly benefits the families and communities in the rural areas where projects are located and helps facilitate rural development and economic empowerment in the food and agricultural sector more generally.

1.2. Why is ES Important to UFF?

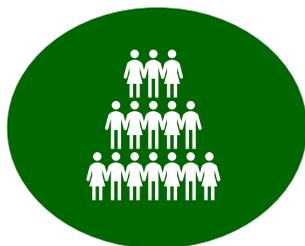
UFF considers the management of ES issues to being critically important as an investment consideration to mitigate risk, protect capital and create value. Therefore, UFF believes that by evaluating, monitoring and reporting on ES aspects of the funds and underlying portfolio companies, the funds can better understand and manage risks and opportunities, thereby enhancing long-term returns to their portfolio investments, from both a financial and ES perspective, whilst fulfilling UFF’s fiduciary responsibilities.

The food and agricultural sector is categorised as a medium to high risk sector from an ES perspective and involves potentially complex, significant, and diverse ES risks and impacts that are likely to have material implications for long-term shareholder value if not properly managed. On this basis, UFF has identified a number of key ES priorities as listed in **Figure 1** below, which are taken into account during pre- and post-investment processes and decision-making in order to manage risk and enhance opportunities (where possible).

Each investment will be exposed to a different level of ES risks and opportunities depending on a number of different factors, including geographic location, stage of project lifecycle, type of crop and associated facilities, operational performance and historical track record, etc. This means that it is not possible to adopt a single approach to ES integration across the UFF investment portfolio. Accordingly, within the bounds of its overall investment mandate, the internal ES requirements set by investors and fund management and the specific ES objectives set at a fund level, UFF adopts an ES integration approach that is value based and tailored to the specific investment in question based on its specific contextual realities and level of ES risk exposure (and potential opportunities).

Further information on how ES factors are integrated into each stage of the UFF investment process is outlined in **Section 3** below.

Figure 1 Key ES Priorities



Land Acquisition and Resettlement

Agriculture developments typically occupy large plots of land. This may require companies to negotiate necessary legal rights to use and access the land and related resources (e.g. water for irrigation). In emerging markets, land tenure and use rights can be unclear and complex due to a lack of regulation, customary / traditional land tenure, and/or the presence of communities that occupy and use lands, but without a formal, documented legal right or claim. In such instances, there may be a need for involuntary resettlement of people (relocation and/or loss of home or access to means of livelihood) due to land acquisition. UFF recognises such complexities. UFF seeks to avoid physical resettlement whenever possible and commits to ensuring that fair and robust processes are followed in accordance with international standards (i.e. IFC PS 5) to avoid any adverse impacts from such activities. This includes engaging with third party specialists as needed.



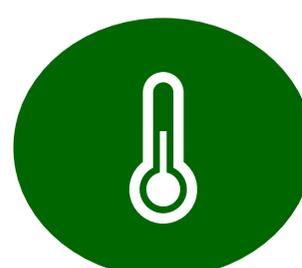
Social Licence to Operate

Food and agricultural operations bring many benefits to communities including employment, services and opportunities for economic development. However, they can also increase the potential for local community exposure to risks and impacts that create disturbance or dissatisfaction in such areas. In this instance, a company's social licence to operate can be put at risk if social impacts and/or community relations are not well managed (e.g. issues associated with the use of ecosystem services such as water). UFF therefore takes a proactive approach to engaging with those affected through the development and implementation of an on-going stakeholder engagement plan.



Labour & Working Conditions

The food and agricultural sector is a major employer of low-paid and often unskilled labour, including temporary or seasonal labour, migrant workers, and workers who provide services via supply chains (e.g. outgrower programmes). This exposes companies to several significant risks and impacts (and opportunities), including financial, reputational and legal risks, and lower production efficiency, product quality and profitability resulting from poor employee morale, industrial action, high staff turnover and/or deterioration of employees' health. UFF recognises this and seeks to drive good practice in portfolio companies to engage in fair labour practices, manage costs relating to recruitment, training and talent retention and maintain or enhance customer service and build the company's reputation and overall business success.



Combating Climate Change

Developing and operating large-scale food and agricultural projects may contribute to climate change in several respects. Potential negative impacts may result from fertiliser use, land clearing, enteric emissions and use of energy-intensive equipment. UFF recognises this and acknowledges the gravity of climate change effects upon the food and agricultural sector and the world as a whole. UFF is committed to the use of sustainable farming practices which reduce impact, including energy-efficiency and responsible fertiliser use, as well as to positive contributions such as reforestation, climate-positive enterprise development, and the dissemination of conservation agricultural practices to smallholders.



Water Management

Many food and agricultural operations rely on access to water of a suitable quality and may need extra supplies at certain stages of the production cycle. Furthermore, these operations may compete with other users for access to water, including local communities and other commercial operations. Every UFF project need to ensure that they have legal rights in respect of their water use. In addition to this, wastewater discharges (i.e. process wastewater, contaminated water from pesticides, sanitary wastewater) have potential to pollute nearby water bodies and create health / water supply issues for downstream users if not properly managed. UFF recognises that water is a scarce resource which needs to be carefully managed to avoid operational obstacles, or unfairly disadvantaging other users.



Biodiversity

Food and agricultural projects have the potential to impact negatively on biodiversity as a result of land use and unsustainable water and chemical management practices. UFF recognises that protecting and conserving biodiversity in all its form is fundamental to sustainable development and maintenance of ecosystem services (e.g. food and fibre, clean water and cultural aspects such as religious and spiritual values). On this basis, UFF seeks to avoid adverse effects to biodiversity through proper planning, assessment and management (i.e. through an ESIA or similar process) of any key risks and impacts identified for biodiversity throughout the investment lifecycle. In addition, UFF is committed to positive contribution to biodiversity through habitat conservation and restoration.

1.3. Developmental Impact

At UFF we acknowledge that, through our investments, the impact of our portfolio companies on a wide range of stakeholders is amplified. This takes into account impact which is intended and unintended, positive and negative, directly within our sphere of influence and less directly within our control. It is our intention that a sustainable operation that results in lasting and positive change is leveraged and maximised as much as possible, while negative impact is mitigated and avoided completely where possible.

Through careful consideration UFF has identified the following ES impact themes (**Figure 2**):

Figure 2 UFF Fund Core ES Impact Themes



For each of the selected UFF ES impact themes mentioned above, we will seek to measure and manage our contribution to these through a systematic and deliberate approach to measuring impact.

2. Policy Purpose, Scope and Commitments

2.1. Purpose and Scope

The purpose of UFF's ES Policy is to outline how the Funds identify, integrate and manage ES aspects in the investment analysis and decision-making process, and how UFF works in partnership with the portfolio companies to drive individual ES performance as well as the long-term sustainability of these businesses.

The scope of this policy covers all investments that UFF makes, manages or advises on in respect of the companies within its portfolio.

2.2. ES Commitments

To ensure that ES considerations are fully integrated into the investment process and decision making, UFF is committed to:

- Incorporating and assessing ES risks, opportunities and impacts of all potential investments as an integral part of the UFF investment and decision-making process;
- Ensuring consideration of ES factors plays an influential role in determine whether UFF proceeds with an investment or not;
- Ensuring that necessary resources are available to ensure adequate implementation and management of ES issues, including appointment of external resources and technical partners, where applicable;
- Not financing the types of projects / activities which form part of the UFF Exclusion List;
- Ensuring portfolio companies develop and implement ES Management Systems that meet the standards outlined in this ES Policy;
- Assisting portfolio companies in developing and implementing action plans to address areas of non-conformance with applicable requirements outlined in this ES Policy;
- Working in partnership with portfolio companies (as applicable) to help them 'unlock-value' from ES management through addressing linkages between material ES issues and business strategy in a way that generates commercial benefit;
- Seeking appropriate disclosure on ES aspects from portfolio companies;
- Monitoring, evaluating and reporting of the Funds ES performance against set objectives to drive lessons learnt, ensure continual improvement and build an ES track record; and
- Ensuring regular disclose of the Funds ES efforts to investors and other stakeholders.

2.3. Applicable ES Principles, Standards and Guidelines

UFF requires that the following national and local regulations and internationally accepted principles, standards and guidelines (referred to as 'the Reference Framework') are applied and used to support the ES management of its assets at both a fund and portfolio company level:

- Applicable national and local environmental and social laws and regulations;
- The United Nations Principles for Responsible Investment (UNPRI);
- The IFC's Performance Standards for Environmental and Social Sustainability;
- The IFC's General and Sector Specific Environmental, Health and Safety (EHS) Guidelines;
- The ILO Labour Conventions and Standards;
- The World Bank Group Environmental, Health and Safety and Sector Specific Guidelines (dated April 2007); and
- The African Development Bank Safeguards and Sustainability Series (dated December 2015).

UFF and the portfolio companies are required to operate in alignment with these standards. The extent of the application of the requirements mentioned above depends on the level of ES risk associated with the business activities of the portfolio company(s).

3. ES Management System

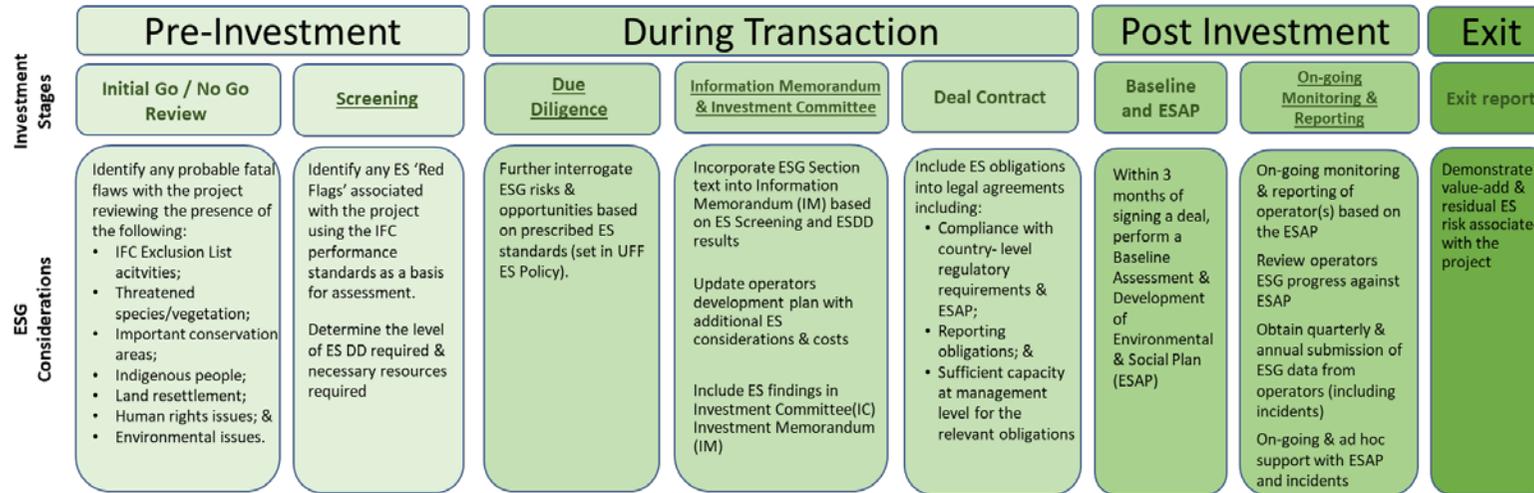
To support practical and effective implementation of this ES Policy and the commitments contained therein, UFF has developed a comprehensive fit-for-purpose ES Management System (see **Figure 3**). Key elements of the UFF ES Management System are outlined below.

3.1. *ES Integration into Investment Decision Making*

In terms of managing investment ES risks and opportunities, UFF's ES Management System seeks to fully integrate ES considerations into each stage of the investment process (from deal origination, through pre-investment screening and due diligence, to post-investment monitoring and final divestment). This includes various sets of templates, procedures and tools to support the successful integration of ES (see **Figure 3**).

The ES Management System will be applied to all new and existing investments with respect to identifying, assessing and managing ES risks and opportunities.

Figure 3 UFF ES Management System



3.2. Investment Level ESMS

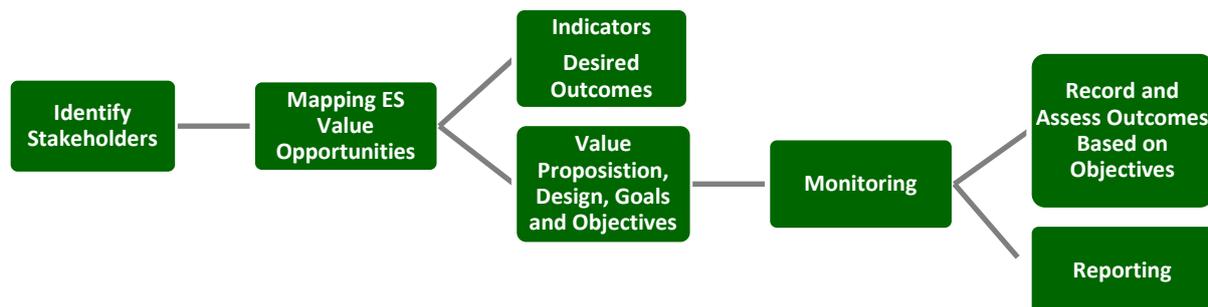
As part of its commitment to apply international good practice across all investments, UFF ensures that all investments have adopted a fit-for-purpose ES Management System (ESMS) aligned with [IFC Performance Standard 1 and AfDB Operational Safeguard 1](#). The ESMS focuses on key ES performance areas that are considered material for business success; as well as driving ES opportunities as feasible.

3.3. Driving ES Value Add Initiatives

UFF implements a customised approach to screen and explicitly identify active ES value add initiatives, comprising of key performance indicators (KPIs) that will measure the outcomes of such initiatives being implemented at portfolio company level.

The identification of ES value-add opportunities occurs early on in the investment process, because the identification of stakeholders and mapping out of potential opportunities at the screening stage allows for further effective engagement and interrogation of opportunities during the due diligence stage and close collaboration with portfolio companies to develop a value proposition that is agreed upon and properly designed. **Figure 4** shows the method for determining ES value add focus areas:

Figure 4 ES Value Add Approach



3.4. Stakeholder Engagement

Stakeholder engagement is a critical process to facilitate the integration of ES throughout UFF and its portfolio companies, to ensure increased alignment between the fund and its investees, as well as transparency and accountability throughout the organisation.

Within an ES management context, stakeholder engagement refers to proactive ongoing dialogue, information sharing and interactions between UFF and its stakeholders (e.g. all internal and external individuals and groups with interests in and potential influence on UFF investment activities). This targeted engagement seeks to understand from those stakeholders what is working, and / or where additional attention may be required to improve ES performance. Gathering of this information can feed into and improve decision-making around UFF investments activities, product offerings and refinement of its ES strategy. Frequent, open communication and responsiveness with stakeholders can also strengthen the organisation's social license to operate, by demonstrating accountability and building trust in the UFF brand.

To further facilitate an effective stakeholder engagement, UFF utilises a grievance mechanism to ensure that any complaints or feedback received from internal or external stakeholders are formally recorded and reported to senior management.

3.5. Training and Capacity Building

UFF recognises that without effectively embedding ES strategies, policies, commitments and management system components or capacity building (both internally and externally) key ES objectives will not be realised to their fullest extent. Therefore, UFF continually seeks to enhance internal capacity through leveraging training of executives and other relevant analysts and ES resources at a fund level.

3.6. Monitoring, Evaluation and Reporting on ES Performance

UFF strives to work close in collaboration with its portfolio companies to accurately measure and track ES performance. This allows the fund to gauge progress on agreed ES objectives and activities and demonstrate this to internal and external stakeholders.

This co-operative effort seeks to enhance value for both UFF and its portfolio companies through ensuring on-going management of ES performance, continual improvement and facilitating the ability to drive ES performance through results-based management.

The level of monitoring and reporting shall be commensurate with the level of ES risk and potential value add opportunities associated with a particular investment. Therefore, the level of monitoring, evaluation and reporting is determined on an individual portfolio company basis.

3.7. Periodic ES Policy and Management System Review

In order to keep up with emerging trends and ensure on-going relevance, the UFF ES Policy and Management System will be reviewed and, if necessary, updated on a three-yearly basis.

4. Execution and Implementation

4.1. Roles and Responsibilities

Overall responsibility for the implementation of the ES Policy and the associated ES Management System sits with UFF's Managing Partners. UFF's Environmental, Social and Governance (ESG) Manager is responsible for administration and oversight of the ES Policy. The ESG Manager may appoint a person or dedicated UFF ESG resources to support it and investment teams in the implementation of ES duties.

The Investment Team, being the persons with responsibility for leading the activities of a transaction, are responsible for the ES risks associated with the transaction and management thereof. The Investment Team and ESG Manager have the ability to designate team members to share in the responsibility of monitoring an investment on behalf of UFF, and the day-to-day monitoring of relevant ES risks and management thereof. The Investment Team are also responsible for communicating issues to the ESG Manager in accordance with the requirements of the ES Management System.

Approved by:

Name: **Erwin Bouland**

Position: **Managing Director**

Signature: 

Date: **23 May 2019**