



WATEREQUITY

WaterEquity Environmental, Social, and Governance Policy



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1. Introduction

1.1. PURPOSE

WaterEquity LLC (“WaterEquity”) is a dedicated social impact investment manager with a mission to expand access to water and sanitation across the globe. Consistent with this mission-driven focus, we seek to integrate Environmental, Social, and Governance (“ESG”) considerations into our investment strategy. This ESG Policy (“Policy”) reflects our current approach. We expect that this Policy will evolve over time to reflect changes in industry practices, business structures, technology, and the law. WaterEquity reviews and approves this Policy at least annually.

1.2. SCOPE

This Policy applies to all employees, investees, partners, independent contractors, stakeholders, and relevant third parties directly associated with WaterEquity’s business. Our ESG practices include:

- identifying potential ESG risks during the due diligence process;
- categorizing ESG risks for WaterEquity investments based on completed ESG scorecards;
- making ESG a part of WaterEquity funds’ investment agreements;
- outlining post-investment ESG monitoring & reporting by WaterEquity; and
- documenting WaterEquity’s ESG framework (general ESG principles and potential risk factors) and due diligence toolkit (ESG scorecard) for employees.

1.3. STANDARDS

This Policy is based on industry standards. WaterEquity’s approach to ESG integration is guided by principles outlined in:

- International Finance Corporation (“IFC”) Performance Standards;
- IFC Industry Sector Guidelines, in particular for Water and Sanitation;
- The Sustainability Accounting Standards Board’s Materiality Map;
- Environmental, social and quality standards issued by the International Organization for Standardization (“ISO”), in particular, those relevant to the water and sanitation sector; and

- for Financial Institutions, the Client Protection Standards and the Universal Standards for Social Performance Management.

2. Policy Elements

2.1. EXCLUSION LIST

The exclusion list identifies the types of sectors, businesses, or processes that WaterEquity does not invest in. In addition, some projects not on the exclusion list may require additional disclosure and ESG consideration before investment. For the full list of excluded activities and projects requiring disclosure see Appendix 1..

2.2. MINIMUM REQUIREMENTS

Any entity in which WaterEquity invests must meet basic ESG requirements, including compliance with local environmental laws and regulations, compliance with local labor laws, and good governance and business integrity practices. These requirements remain in place for the duration of any investment. Some investments may face additional minimum requirements based on type. For example, Financial Institutions must adhere to minimum client protection practices. For the full list of minimum requirements see Appendix 1.

2.3. ESG RISK ASSESSMENT

Investees that do not participate in any excluded activities and meet minimum requirements must also demonstrate sound environmental, social, and governance practices in areas of higher material risk. Material risk areas are determined by sector.

Environmental Risk Assessment

- Identify the potential risks for and impact on the environment, together with appropriate mitigating and management measures. The process includes a review of:
 - carbon emissions;
 - biodiversity;
 - waste management;
 - supply chain practices that involve the use of natural resources or disposal of harmful byproducts; and
 - the use of scarce resources.
- Apply the appropriate measures from the best practices of environmental standards¹ if the situation is considered relevant or if the business is considered to possess significant environmental risks, even when the measures are more stringent than local and national requirements.
- Report the impact on the environment that results from the investment.

¹ IFC Performance Standards of Environmental & Social Sustainability (Effective January 1, 2012)

Social Risk Assessment

- Identify potential risks for and impacts on labor, customers and society at large, together with any management and mitigation measures, prior to making an investment. This process includes a review of:
 - labor policies and regulations;
 - the impact of the supply chain practices on the local community;
 - health and safety working condition;
 - human rights; and
 - the stakeholder engagement process.
- Report social impacts arising from the investment.

Governance Risk Assessment

- Identify potential risks on the governance and legal front, together with any management and mitigation measures, prior to making an investment.
- Report governance risks and impacts that arise from the investment.

3. Implementation

3.1. INVESTMENT CYCLE

Implementation is the responsibility of every member of WaterEquity's Investment Management team. The Director, Impact & ESG ensures conformance with the Policy. WaterEquity's ESG activities and policies are embedded at every step of the investment cycle.

- **Screening Stage.** WaterEquity Investment Officers ("IOs") ensure that the investment opportunity is not on WaterEquity's Exclusion List (Appendix 1). Potential investees also undergo a "Know Your Customer" (KYC) process which includes searches for potential red flags related to business integrity, criminal activity, and misconduct, as well as to avoid transactions with any party confirmed by the U.S. Treasury Department's Office of Foreign Assets Control to be on the Specially Designated Nationals List or potential linkages to terrorist financing organizations.
- **Due Diligence Stage.** WaterEquity IOs conduct comprehensive due diligence on ESG risks and opportunities using the WaterEquity general ESG scorecard (Appendix 2), which is a standard assessment of core ESG-related policies and practices. In addition, the IO completes a sector-specific ESG scorecard (Appendix 3), which identifies specific material ESG considerations for each sector. Potential investees are assigned a score out of 100, based on these two scorecards. IOs may engage external ESG specialists or consultants as necessary depending on WaterEquity's capacity, and the risk level determined during the screening stage. IOs additionally confirm that the investee meets minimum requirements (Appendix 1).
- **Investment Decision Stage.** The assigned IO presents findings from the screening and diligence stages to the WaterEquity Investment Committee ("IC"). ESG risks and

opportunities are identified, and specific short-term and long-term recommendations are made to close ESG performance gaps and enhance ESG practices. A section of each investment memo is dedicated to the ESG scorecard and assessment. An ESG specialist or consultant may be engaged to develop the appropriate materials and present findings to the IC for relevant deals.

- **Investment Agreement Stage.** ESG terms are negotiated and incorporated into legal investment agreement(s), as appropriate. Depending on the nature of the investment, time-bound ESG action plans to close ESG performance gaps, set ESG targets, and report on performance may be included in the definitive documentation. Alternatively or additionally, IOs and company management may incorporate such action plans, targets, and reporting requirements into management's ongoing key performance indicators. All investees sign an ESG certificate certifying that the investee, as well as its directors, officers, and affiliates, complies with specific ESG requirements. In cases where candidates do not have acceptable ESG risk levels and are unwilling to agree to action plans to close ESG performance gaps, WaterEquity will not invest.
- **Holding, Monitoring & Reporting Stage.** On a quarterly basis, WaterEquity monitors the investee's performance against the ESG action plan if one is in place. Annually, WaterEquity requires investees to report any changes to their ESG policies, practices, and ratings, and confirm compliance with applicable laws and standards. KYC checks are also conducted annually. Additionally, investees must report any material ESG incident within five days.² .
- **Training:** On a regular and ongoing basis, WaterEquity provides ESG training to its investment and compliance staff to ensure effective implementation of the ESG management system. WaterEquity may procure additional external expertise to assist in such training and build internal capacity.

3.2. GRIEVANCES

WaterEquity is committed to ensuring that each of its investments has appropriate grievance procedures for their stakeholders (commensurate to the level of ESG risk of the investment) and maintains a grievance mechanism at the fund manager level, as well.

To effectively address any operational, social, environmental, labor, and other general concerns, WaterEquity has in place a structured grievance redressal framework supported by a review mechanism. This redressal mechanism can be used not just by its customers, but also by its employees, third-party contractors, and other relevant stakeholders. Stakeholders can directly reach out to WaterEquity (<https://waterequity.org/grievance/>) to lodge a complaint against WaterEquity. Any such complaints are reviewed by the Chief Compliance Officer in coordination with the Director, Impact and ESG, and resolved in a timely manner.

² A Material ESG Incident means any significant social, labor, health and safety, security or environmental incident, accident or circumstance having, or which could reasonably be expected to have, a material adverse effect on the implementation or operation of the Project.

3.3. POLICY MAINTENANCE

The Director, Impact and ESG is responsible for keeping this Policy current, including ensuring that it is reviewed on a regular basis. The WaterEquity Investment Committee reviews and approves this Policy no less than annually, and changes to the Policy are subject to review and approval by the WaterEquity Investment Committee.

4. Appendix 1: Requirements and Exclusion List

4.1. MINIMUM REQUIREMENTS

A1.1. ALL INVESTEES - ENVIRONMENTAL

- Comply with all applicable local and national environmental laws and regulations.

A1.2. ALL INVESTEES - SOCIAL

- Comply with all applicable local and national laws and regulations on social and labor aspects and have a fair compensation structure in place. Regulations include the right of association, organization and collective bargaining, forced labor, child labor, wages, hours of work, and occupational health and safety.
- Treat all employees and contractors fairly and with respect, including by not employing forced labor and child labor in any form. This includes not employing persons under the age of fifteen (15) for any form of labor or under the age of eighteen (18) for work involving hazardous labor activity.
- Apply appropriate measures from the best practices of social and labor standards if the situation is considered relevant or if the business is considered to possess significant social and labor risks, even when the measures are more stringent than local and national legislations. This is especially important when the business takes place in a country that has not ratified one or some International Labor Organization ("ILO") Fundamental Conventions.

A1.3. ALL INVESTEES - GOVERNANCE

- Comply with all the applicable local and national laws and regulations on transparency and corporate governance and promote the use of the international best practice on corporate governance when relevant and possible.
- Apply high standards of business ethics, integrity, and honesty to the business and to WaterEquity, and ensure that no corruption, bribery, money laundering, or internal misconduct activities are taking place in the business. This is especially important when the business is considered to possess significant governance risks.
- Clearly define the roles and responsibilities of the business shareholding and management structures through a relevant corporate governance manual.
- A grievance mechanism must have been established and be operational.

A1.4. FINANCIAL INSTITUTIONS

- Comply with all local and national laws and regulations on consumer or client protection.
- Adhere to the following client protection guidelines for all retail lending:
 - Provide its customers with clear and accurate information regarding the financial services or products offered.
 - Engage in responsible pricing for all such products.
 - Ensure transparency and actively promote client understanding of loan terms before loans are disbursed to clients, ensure that any loan agreements or ancillary documentation is drafted in a manner that is easily understood, and

- ensure that interest rates (inclusive of fees and commissions) are clearly disclosed prior to the execution of any agreements.
- Maintain policies that ensure the privacy of client data and inform clients of their rights regarding data privacy protection, accordingly.
 - Maintain policies and practices to prevent over-indebtedness of its clients, which shall include:
 - Analysis of client repayment capacity prior to entering into a loan agreement;
 - Credit methodology or loan approval processes that do not rely solely on the credit or field officer. A second party shall also evaluate and approve the loan amount and terms;
 - Accessing information of potential clients' debt and credit history through credit bureaus or alternative sources of information, which may include assessing repayment history at other institutions or other competitor data; and
 - Periodic review and analysis of portfolio quality reports regularly to identify any potential over-indebtedness issues
 - Have developed timely and responsive mechanisms for complaints and problem resolution for clients.
 - Maintain guidelines or codes of conduct that mandate and enforce fair and respectful treatment of clients among employees or agents which ensures that all representatives will refrain from any form of unfair, abusive, deceptive, or otherwise harmful debt collection, security enforcement, or collateral recovery practices, either physical, oral, or written.

4.2. EXCLUSION LIST

WaterEquity will not deal with any investees or vendors who are engaged in the business or trade of any product or activity deemed to be illegal under the laws or regulations in force in countries that WaterEquity funds invest in, or those appearing the following list of prohibited activities:

- conversion or degradation of critical forest areas or forest-related critical natural habitats
- leasing or financing of logging equipment, unless an environmental and social impact assessment indicates that; (i) all timber harvesting operations involved will be conducted in an environmentally sound manner which minimizes forest destruction; and (ii) the timber harvesting operations will produce positive economic benefits and sustainable forest management systems
- 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
- 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

- resettlement of 5,000 or more persons
- any impact on natural World Heritage Sites (<http://whc.unesco.org/en/list/>) unless it can be demonstrated through an environmental assessment that the project (i) will not result in the degradation of the protected area and (ii) will produce positive environmental and social benefits
- any impact on areas on the United Nations List of National Parks and Protected Areas (<http://www.unep-wcmc.org/>) unless it can be demonstrated through an environmental assessment that the project (i) will not result in the degradation of the protected area and (ii) will produce positive environmental and social benefits.
- extraction or infrastructure 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). Projects in IUCN Categories V (Protected Landscape/Seascape) and VI (Managed Resource Protected Area) must be consistent with IUCN management objectives (http://www.iucn.org/about/work/programmes/gpap_home/) unless it can be demonstrated through an environmental assessment (i) there is no degradation of the protected area and (ii) there are positive environmental and social benefits.
- production of or trade in radioactive materials, including nuclear reactors and components thereof
- production of, trade in or use of un-bonded asbestos fibers
- 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
- use of forced labor or harmful child labor
- projects or companies known to be in violation of local applicable law related to environment, health, safety, labor, and public disclosure
- projects or companies 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
- projects or companies that replace U.S. production or are likely to cause a significant reduction in the number of employees in the U.S., including "runaway plants" and outsourcing the provision of goods and services (e.g., Business Process Outsourcing) from the U.S.
- projects or companies subject to performance requirements that are likely to reduce substantially the positive trade benefits to the U.S.
- projects or companies in which host country governments have majority ownership or effective management control (except for investments in privatizing companies made in accordance with the Finance Agreement)
- companies found by a court or administrative body of competent jurisdiction engaging in unlawful monopolistic practices
- projects or companies that provide significant, direct support to a government that engages in a consistent pattern of gross violations of internationally recognized human rights, as determined by the U.S. Department of State

- Companies which are treated as inverted corporations under 6 U.S.C. 395(b).

4.3. PROJECTS REQUIRING DISCLOSURE

The following types of water and sanitation projects require disclosure to WaterEquity and must go through additional due diligence and reporting requirements to ensure compliance with the ESG policy.

- Major Greenhouse Gas emitting projects, defined as projects with scope 1 and scope 2 greenhouse gas emissions of more than 25,000 MT CO₂e per year.
- Projects with high levels of physical climate risk.
- Construction or significant expansion of large dams and reservoirs not otherwise prohibited.
- Groundwater abstraction activities or artificial groundwater recharge schemes in cases where the annual volume of water to be abstracted or recharged amounts to 10 million cubic meters or more.
- Municipal wastewater treatment plants servicing more than 150,000 people.
- Greenfield housing developments that contain more than 2,500 residential units.
- All projects with potentially major impacts on people or which pose a serious socio-economic risk, including Physical and Economic Displacement, impacts on Indigenous Peoples and adverse impacts on Cultural Heritage.
- Projects, not categorically prohibited, but located in or sufficiently near sensitive locations of national or regional importance which may have apparent environmental impacts on:
 - Wetlands;
 - Areas of archeological significance;
 - Areas prone to erosion and/or desertification;
 - Areas of importance to ethnic groups/indigenous peoples;
 - Primary temperate/boreal Forests;
 - Coral reefs;
 - Mangrove swamps;
 - Nationally designated seashore areas; and
 - Managed resource protected areas, protected landscape/seascape (International Union for the Conservation of Nature (IUCN) categories V and VI) as defined by IUCN's Guidelines for Protected Area Management Categories. Additionally, these projects must meet IUCN's management objectives and follow the spirit of IUCN definitions.

5. Appendix 2: General ESG Due Diligence

EXTERNAL RATINGS OR CERTIFICATIONS

1. Has the company obtained any external social or environmental rating in the last 3 years?
2. How did the company perform?

ENVIRONMENTAL POLICIES AND MANAGEMENT

1. Does the company have a written policy regarding compliance with all local environmental laws and regulations?
2. Does the company have a written policy regarding the impact of its internal practices on the environment?
3. Does the company have valid environment-related licenses and permits as required by local law?
4. Is there a monitoring, evaluation, and reporting plan in place for environmental-related business activities of the company?
5. Has the company paid any environmental fines over the last 3 years?

SOCIAL

1. Has the company developed specific social goals and assigned them measurable targets?
2. Is the company's staff trained on the institution's social mission and goals?
3. Does the company have a separate HR department?
4. Is there a clearly defined HR policy regarding compliance with all applicable local and national labor laws and regulations?
5. Does the company have a Health & Safety policy that is signed off by the CEO or equivalent?
6. Does the company have a non-discriminatory policy with respect to gender, race, color, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, or HIV status?
7. Does each employee have a written employment contract that includes his/her salary, benefits, and employment conditions?
8. Does the company have a formal grievance mechanism in place that allows employees to raise workplace concerns in a confidential manner?
9. Does the company ensure local minimum wage standards are met and employees are fairly compensated?
10. What is the employee turnover rate? (Enter rate from the last fiscal year, or last 12-month period)
11. In the past 3 years, has the company violated any relevant local health and workplace safety laws, standards, and regulations?

GENDER INCLUSION

1. Has the company integrated gender into its strategy?
2. Are women represented at leadership, including the board and c-suite levels?
3. Do employment policies and performance reflect gender equity?
4. Does the company target women clients?

GOVERNANCE

1. Is the Board of Directors made up of independent members?
2. Does the Board of Directors hold regular, in-person meetings?
3. Is there a board-approved code of ethics that management and staff are expected to follow and a committee dedicated to oversight?
4. Does the company have an internal audit function?
5. Does the company employ external auditors to audit financial statements on an annual basis?
6. Are specific staff explicitly responsible for ensuring ESG compliance and reporting noncompliance?
7. Does the board monitor social and/or ESG performance regularly and suggests improvements?
8. Does the company have policies in place for fulfilling anti-corruption and/or internal whistleblowing policies?

6. Appendix 3: Material ESG Risks by Sector

Financial Institutions

	Microfinance Institutions	Housing Finance Companies	Banks
Client Protection	X	X	X
Product Design & Client Satisfaction	X	X	
Environmental and/or Quality Standards	X	X	X
Environmental & Social Risk Analysis			X

Infrastructure

	Projects	Growth Companies (Services)	Growth Companies (Equipment / Tech)
Labor & Working Conditions	X	X	X
Community Health, Safety, and Security	X	X	
Land Acquisition and Involuntary Resettlement	X		
Indigenous Peoples & Cultural Heritage	X		
Stakeholder Engagement	X		
Pollution, Emissions, & Waste Management	X	X	X
Business Integrity	X	X	X
Water Resource Management	X	X	
Physical Climate Risk Management	X	X	
Service Quality & Affordability	X	X	X
Product Standards & Reliability			X