CDC
Investment works

Disclosure Statement

Operating Principles for Impact Management

Published: July 2020

We are a founding signatory to the Operating Principles for Impact Management (the Principles). The Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.[1] We are pleased that 100 impact investors have now signed up to the Principles.

This Disclosure Statement affirms that our activities, including (a) impact management systems; (b) policies and practices; and (c) investment services (including debt, equity, trade and supply chain finance, asset management, syndications, derivatives and structured finance, and blended finance instruments) are managed in alignment with the Principles. Total assets under management in alignment with the Principles are $5.4 billion[2] as of 31 December 2019.[3] At the end of this Disclosure Statement, you will find an independent verification by Tideline Inc. We take the findings of this verification seriously, and will be working to bring our policies, procedures and practice up to the highest standards on all Principles.

Nick O'Donohoe

Chief Executive Officer, CDC

8 July 2020

Liz Lloyd

Chief Impact Officer, CDC

8 July 2020

1 CDC acknowledges that it is a high-level description prepared for public disclosure and may not, therefore, include every aspect of the systems and processes that each reader may consider important.

2 Includes CDC's own commitments, funds under management and direct mobilized funds. The covered assets exclude platforms: Gridworks, Globeleq and MedAccess who have independent boards, shareholders and funders.

3 The sole purpose of this Disclosure Statement is to fulfil CDC's obligations pursuant to Principle 9. This document shall not constitute and should not be construed as an offer, solicitation or invitation to buy or sell any securities, financial instruments or services whether described herein or otherwise, or as any prospectus or investment- related advice in relation thereto, nor is it intended to form the basis of a decision to participate in any investment. CDC makes no guarantee or other promise as to any outcomes, including any financial or development impact results that may be obtained from the practices disclosed in this statement. While past performance may be analysed in this Disclosure Statement, past performance should not be considered indicative of future performance. Accordingly, CDC shall not have any liability to any of the recipients of this Disclosure Statement, nor to any other party in connection with or arising in any way from, or in relation to, the information or any opinions expressed in this Disclosure Statement, and CDC does not accept any responsibility whatsoever for any action taken, or omitted to be taken by any party on the basis of any matter contained in, or omitted from, the Disclosure Statement.

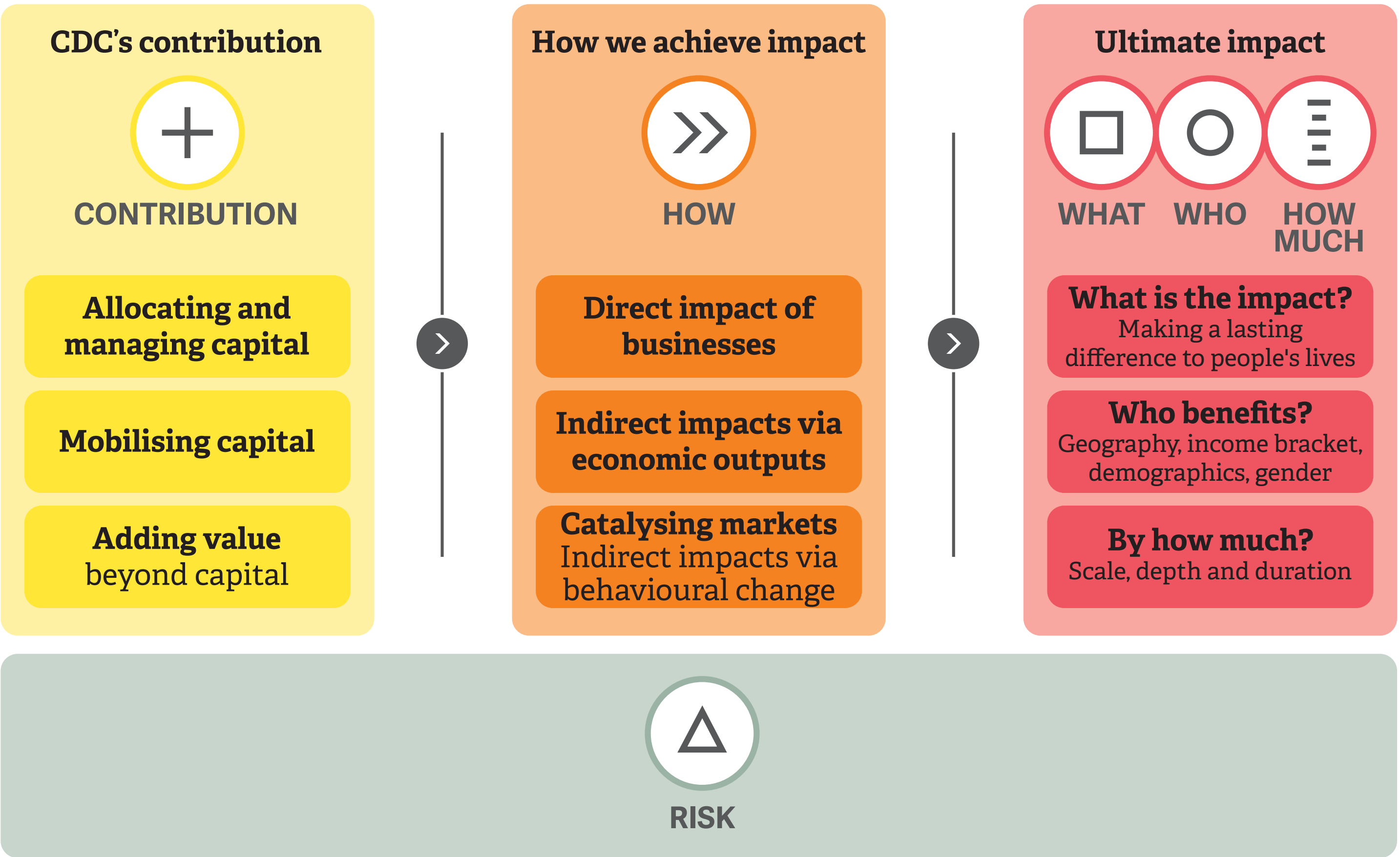
Principle 1

Define strategic impact objective(s), consistent with the investment strategy

Principle states: The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- We are the UK's development finance institution, wholly owned by the UK Government. We help solve the biggest global development challenges by investing patient, flexible capital to support private sector growth and innovation.
- In our 2017 – 2021 strategy we outline a strategic focus on job creation as well as a geographic focus and sectoral focus. We narrowed our geographical focus to Africa and South Asia, where a majority of the world's poorest people live, and prioritised investing in sectors where growth leads to jobs. The strategy also outlines our wider impacts (payment of taxes, sector impacts and mobilisation and demonstration effects) and commitments (gender, climate change, job quality and skills and leadership).
- Our strategy is aligned with the Sustainable Development Goals (SDGs), where achievement of many of the SDGs will lead to the elimination of poverty (SDG 1). Our investments in financial institutions support progress toward many of the SDGs, specifically SDG 8 on promoting economic growth and jobs; SDG 9 on supporting industry, innovation, and infrastructure; and SDG 10 on reducing inequality. Our broader impact includes helping remove market constraints in energy and infrastructure (SDG 7 and 9) and improving access to essential goods and services, such as health and education (SDG 3 and 4), both directly and through tax contributions. We will also mobilise additional sources of capital from partners because this is key to increasing the funding available to achieve the Goals (SDG 17). We are committed to supporting women's economic empowerment (SDG 5) and combatting climate change (SDG 13).
- We have developed an overarching Impact Framework (see page 4) that provides for a consistent approach to thinking of and articulating development impact across sectors and products. It adopts the Impact Management Project's (IMP's) definition of impact underpinned by sector-specific impact frameworks, as well as a standardised approach for assessing the development impact for each transaction.
  - **Sector impact frameworks** identify the specific impact(s) we seek to achieve in a sector and align this impact to our overarching Impact Framework and the SDGs.
  - **Impact dashboards and theses** are specific to each investment and articulate the development impact that we expect from each transaction enabling effective decision making around impact (see page 4).

Impact Framework



Impact Dashboard

WHAT	The type of impact the investment is contributing to, linked to the Sustainable Development Goals
HOW	Understanding how the company contributes to impact
WHO	Which stakeholders are reached and their circumstances prior to the investment
HOW MUCH	How many stakeholders are reached and the degree of change they experience
RISK	The likelihood the impact will be different than expected
CONTRIBUTION	CDC's role in achieving the impact

Principle 2

Manage strategic impact on a portfolio basis

Principle states: The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- Our development impact grid is designed as a first-level investment screening tool that grades the investment difficulty of each country (combining data on fragility, market size, income levels, ability to access finance and the ease of doing business) and the propensity of a sector to create jobs and creates a single score for each investment.
- We independently assure the development impact grid score annually.
- The portfolio scores are regularly monitored by management to ensure the portfolio is maintained above the target level. The grid score is a key component in the calculation of our staff's long-term incentive plan alongside financial performance.
- The annual monitoring process provides us with a consistent approach to establish and monitor portfolio impact performance, and manage impact achievements. A full review of portfolio metrics (aligned to the strategic objectives e.g. employment, mobilisation and local taxes) and sector metrics (aligned to the sector strategies) are collected, aggregated, published and trends analysed to monitor and manage the overall portfolio impact. A qualitative review of our Catalyst Strategies portfolio is conducted annually, alongside the annual grid score assessment.

Principle 3

Establish the Manager's contribution to the achievement of impact

Principle states: The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- Under our Investment Policy, agreed with DFID, which currently governs our operations, we consider, in each investment decision, our additionality in terms of contribution.
- Our contribution may arise from the provision or terms of our finance, role and influence as an investor, or the services that we provide. This considers the **nature** of our contribution, our **confidence** that we are providing support that commercial investors would not and the **scale** of difference that our contribution makes to the expected development impact.
- We will only make an investment when we believe that it will contribute meaningfully to development impact. The contribution is documented in detail in the investment papers.
- We commission regular independent performance reviews on the delivery of non-financial contributions.

Principle 4

Assess the expected impact of each investment. Based on a systematic approach

Principle states: For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer the fundamental questions: 1) What is the intended impact? 2) Who experiences the intended impact? 3) How significant in the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact.

In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relevant size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

- We have adopted a consistent structure and format for assessing and presenting analysis on development impact in investment decision making. This structure takes into account the six dimensions of impact that are part of our overarching Impact Framework: What, How, Who, How Much, Contribution and Risks. Approvals for new investments, regardless of the product or sector, must include a fully completed impact assessment. This provides a credible and evidenced case on whether net impact is commensurate with the capital and other resources deployed.
- We are an active investor, looking to add value to maximise the aggregate development impact generated by our investment portfolio. We have a set of resources which can be used on a case-by-case basis to actively help investees increase their commercial performance and development impact. Our Value Creation Strategies team provides additional expertise and resources for this purpose, with a focus on issues relating to our four key thematic priorities of gender equality and women's economic empowerment, human capital, job quality and climate change. The Impact Group manages a pool of grant funding from DFID, called CDC Plus, that can be allocated to pipeline and portfolio companies, for value-add projects.
- We consider further harmonisation of impact measurement, indicators and reporting an important focus area. We work with our fellow European Development Finance Institutions (EDFIs) on this, currently leading an EDFI initiative to harmonize the econometric modelling of impact on (direct and indirect) jobs. We also actively participates in various platforms that discuss impact measurement and harmonisation, such as the Harmonised Indicators for Private Sector Operations (HIPSO) and the IRIS+ metric system of the Global Impact Investors Network (GIIN).

Principle 5

Assess, address, monitor, and manage potential negative impacts of each investment

Principle states: For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- We invest in a responsible fashion, considering environmental and social (E&S) matters. Our E&S requirements are defined in a Code of Responsible Investing (the Code) which uses IFC Performance Standards as the basis of our E&S requirements. The Code describes our role and responsibilities in helping our investees implement the Code, as well as commitments to monitor implementation.
- The Code describes E&S requirements applicable to all fund managers, financial institutions and portfolio companies, separated into E&S and business integrity sections and covering areas such as working conditions, labour rights, access to remedy and sanctions. It identifies additional E&S requirements which apply in certain circumstances where higher E&S risks or opportunities may be apparent.
- We conduct E&S due diligence for all investments. This includes evaluating both the current state of the investees E&S management systems and practices and their commitment to making improvements and adhering to industry good practices. It is expected that all investees are in line with the Code or work towards adherence as a condition of investment.
- E&S due diligence is reviewed by management as well as through the Investment Committee process (which includes both internal and external parties). Regular reporting on E&S issues is provided to the Board, specifically the Development Committee.
- We use a risk-based approach to focus resources and attention to investments based on an assessment of the potential of an E&S incident occurring and our ability to provide additional value.

Principle 6

Monitor the progress of each investment in achieving impact against expectation and respond appropriately

Principle states: The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate actions. The Manager shall also seek to use the results framework to capture investment outcomes.

- We outline data collection, methodologies, and responsibilities prior to the beginning of supervision activities and we require that our investees report on key monitoring indicators each year.
- Quarterly portfolio review meetings are the forum through which management regularly monitor the status of the impact achieved as well as the financial performance. These include investments where impact is not performing as expected or where we have an opportunity to exert influence to materially improve their impact. This includes reference to the initial impact thesis and any changes against it.
- Our Development Impact team provides ongoing evaluation of investees which includes assessing progress and outcomes against a base case and the potential for additional value-add activities. Monitoring may include activities such as site-visits, meetings with management, assessments of management reporting and reports from third-party consultants.

Principle 7

Conduct exits considering the effect on sustained impact

Principle states: When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effects which the timing, structure, and process of its exit will have on the sustainability of the impact.

– In any exit from, or disposal of any investment, we shall seek, where we have discretion to do so, to ensure that such an exit or disposal is consistent with the achievement of our mission and objectives (both financial and developmental) and within the spirit of the Investment Code.

– When exits are sought we require an approval process which sets out a clear rationale for the exit, with commercial returns and development impact implications assessed equally (including analysis relative to original expectations). How development impact will be sustained after our exit is an important factor that is reviewed by management. The development impact considerations will be analysed in depth through an exit review.

Principle 8

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

Principle states: The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- Review and documentation of impact performance takes place in quarterly portfolio reviews, exit reviews, and post-mortem reviews, supplemented by an evaluation and learning programme covering each sector, co-managed with DFID and using independent evaluators overseen by an expert steering group. We also commissions **Insight** studies on impact performance. Additionally, our Evaluations team annually compiles a portfolio-wide impact dataset and reports results and analysis in our Annual Review.
- As part of our commitment to drawing out and learning lessons from our investments, our Chief Investment Officer leads a formal programme of periodic post-mortem reviews on key development impact outcomes of our investments. The aim of the post-mortem process is to strengthen our internal feedback loops through taking deep dives into transactions, both successful and unsuccessful, where outcomes warrant an in-depth review. The reviews focus on what lessons we should learn, and what we should do differently or more consistently in the future. They look to draw lessons for all relevant levels in the organisation, for example deal teams, Investment Committee, Executive Committee and the Board, focusing on forward-thinking collective lessons, rather than individual accountability.
- In addition to scrutiny from our Internal Audit function, impact performance is also reviewed quarterly by DFID, the shareholder, and regularly by UK government agencies such as the National Audit Office and Independent Commission on Aid Impact.

Principle 9

Publicly disclose alignment with the Principles and provide regular independent verification of the alignment

Principle states: The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- This Disclosure Note re-affirms the alignment of our procedures with the Principles and will be updated annually.
- The independent assurance report will be replicated in the next strategy period (2022-27).
- The independent assurance report on our alignment with the Operating Principles for Impact Management is included in the Appendix.
- Information on the current independent verifier is as follows:

Name and Address:
Tideline Verification Services, Inc. 915-2 Battery St.
San Francisco, CA 94111

Qualifications:
Tideline Advisors, LLC is a certified women-owned advisory firm in impact investing. Since its founding in 2014, Tideline has become a recognized leader in impact measurement and management, focused on the design and verification of impact management (IM) systems with leading asset owners and managers. In 2020, Tideline established a subsidiary with a separate, dedicated team focused on impact management verification. For more information about the organization, qualifications, and services, please visit tideline.com.

Appendix

Independent impact management verification

Background

As a signatory of the Operating Principles for Impact Management (the Principles), CDC Group plc (CDC) is committed to disclosing the degree of alignment of its impact management (IM) system with the Principles.[4] CDC engaged Tideline to undertake the assessment.

Assessment methodology

Tideline reviewed CDC's set of IM tools and processes for the purpose of assessing its degree of alignment with the Principles.[5] To do so, Tideline used a proprietary rubric informed by:

1. The text of each Principle and associated implementation guidance;
2. Tideline's proprietary process assessment criteria, which are mapped to each Principle; and
3. Tideline's retained knowledge of the state of IM practices

Summary Assessment

Tideline conducted an assessment to verify the CDC IM system's degree of alignment with the Principles. As of 31 December 2019, CDC's AUM covered by the Principles totaled US$5,427,190,562. Key takeaways from the assessment are:

- **Areas of strength:** CDC has developed deliberate and practical approaches to assessing and articulating its investor contribution for each investment (Principle 3), as well as for selecting impact KPIs (Principle 4) and using these to facilitate comparison of expected and actual impact over time (Principle 6). CDC also has a robust process for managing ESG risks across its portfolio, including action plans to address identified gaps, regular monitoring of ESG performance, and a protocol to address gaps and unexpected events (Principle 5).
- **Areas for improvement:** Tideline identified opportunities for further alignment, including additional steps to consider the sustainability of impact beyond the investment term in private debt and intermediated equity investments, drawing on CDC's standardized approach to the sustainability of impact at exit in private equity (Principle 7). CDC could also consider more directly integrating ex-post impact achievement into its staff incentive systems (Principle 2).

About Tideline

Tideline Advisors, LLC is a certified women-owned advisory firm in impact investing. Since its founding in 2014, Tideline has become a recognized leader in impact measurement and management, focused on the design and verification of IM systems with leading asset owners and managers. In 2020, Tideline established a subsidiary with a separate, dedicated team focused on impact management verification.

Tideline has offices in New York, NY and San Francisco, CA and is headquartered at 915 Battery St, San Francisco, CA 94111, USA.

4 Principle 9 states that signatories shall "publicly disclose alignment with the Principles and provide regular independent verification of the alignment: The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns."

5 Tideline's full assessment for CDC states each of the Principles, describes the CDC IM processes covered by the Principles, and identifies areas where further alignment is appropriate and feasible. The scope of Tideline's assessment procedures does not include the verification of the resulting impacts achieved. Tideline's assessment is based on its analyses of publicly available information and information in reports and other material provided by CDC. Tideline has relied on the accuracy and completeness of any such information provided by CDC. The assessment results represent Tideline's professional judgment based on the procedures performed and information obtained.

Detailed assessment

Tideline assessed the CDC IM system on its degree of alignment with the Principles, using the following four ratings: Advanced (limited need for enhancement); High (a few opportunities for enhancement); Moderate (several opportunities for enhancement); and Low (substantial enhancement required).[6]

The chart below summarizes Tideline's verification of CDC's IM system:[7]

PRINCIPLE	ALIGNMENT
1. Define strategic impact objective(s), consistent with the investment strategy	ADVANCED
2. Manage strategic impact on a portfolio basis	HIGH
3. Establish the Manager's contribution to the achievement of impact	ADVANCED
4. Assess the expected impact of each investment, based on a systematic approach	ADVANCED
5. Assess, address, monitor, and manage potential negative impacts of each investment	ADVANCED
6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	ADVANCED
7. Conduct exits considering the effect on sustained impact	MODERATE
8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned	ADVANCED

6 The decision to publicly disclose the results of Tideline's detailed assessment, and the specific ratings assigned to each Principle, is left to the sole discretion of CDC.

7 Tideline's full assessment for CDC states each of the Principles, describes the CDC IM processes covered by the Principles, and identifies areas where further alignment is appropriate and feasible. The scope of Tideline's assessment procedures does not include the verification of the resulting impacts achieved. Tideline's assessment is based on its analyses of publicly available information and information in reports and other material provided by CDC. Tideline has relied on the accuracy and completeness of any such information provided by CDC. The assessment results represent Tideline's professional judgment based on the procedures performed and information obtained.

For further information:

- **CDC Group plc:**

123 Victoria Street
London SW1E 6DE
United Kingdom

T: +44 (0)20 7963 4700

E: enquiries@cdcgroup.com

cdcgroup.com

CDC
Investment works