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**Verdant Capital Hybrid Fund LP
(the "Fund")**

USD 80 000 000

PRELIMINARY PRIVATE PLACEMENT MEMORANDUM

**(Issued in connection with a private placement of partnership interests in the
Verdant Capital Hybrid Fund)**

March 2021



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QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE LIMITED PARTNERSHIP AGREEMENT AND THE SUBSCRIPTION AGREEMENT, COPIES OF WHICH WILL BE MADE AVAILABLE UPON REQUEST AND SHOULD BE REVIEWED PRIOR TO SUBSCRIBING FOR INTERESTS IN THE FUND. IN THE EVENT THAT THE DESCRIPTION IN OR TERMS OF THIS MEMORANDUM ARE INCONSISTENT WITH OR CONTRARY TO THE LIMITED PARTNERSHIP AGREEMENT, OR THE SUBSCRIPTION AGREEMENT, THE TERMS OF THE LIMITED PARTNERSHIP AGREEMENT AND/OR THE SUBSCRIPTION AGREEMENT (AS APPLICABLE) SHALL PREVAIL. INFORMATION DISCUSSED IN THIS MEMORANDUM MAY PERTAIN TO MATTERS ADDRESSED IN THE LIMITED PARTNERSHIP AGREEMENT WHICH IS SUBJECT TO CHANGE PURSUANT TO PROPERLY ADOPTED AMENDMENTS TO THE LIMITED PARTNERSHIP AGREEMENT.

EACH PROSPECTIVE INVESTOR IS HEREBY INVITED TO MEET WITH THE REPRESENTATIVES OF THE FUND AND ASK QUESTIONS CONCERNING THE TERMS AND CONDITIONS OF THE OFFERING AND TO OBTAIN ANY ADDITIONAL INFORMATION, TO THE EXTENT SUCH REPRESENTATIVES POSSESS SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE.

NO PERSON HAS BEEN AUTHORISED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THAT WHICH IS CONTAINED IN THIS MEMORANDUM AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE FUND OR ANY OF ITS LIMITED PARTNERS, THE GENERAL PARTNER OF THE FUND, OFFICERS, EMPLOYEES OR CONSULTANTS.

IN CONSIDERING THE PURCHASE OF INTERESTS IN THE FUND, PROSPECTIVE INVESTORS SHOULD BE AWARE THAT THERE CAN BE NO ASSURANCE THAT THE FUND WILL ACHIEVE TARGETED RESULTS OR ITS INVESTMENT OBJECTIVES OR THAT INVESTORS WILL RECEIVE A RETURN OF THEIR CAPITAL. IN ADDITION, ANY FORWARD LOOKING STATEMENTS (INCLUDING, WITHOUT LIMITATION, PROJECTIONS OF FUTURE EARNINGS OR VALUE) CONTAINED HEREIN ARE SUBJECT TO KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS, WHICH MAY CAUSE ACTUAL RESULTS TO BE MATERIALLY DIFFERENT FROM THOSE CONTEMPLATED IN SUCH STATEMENTS.

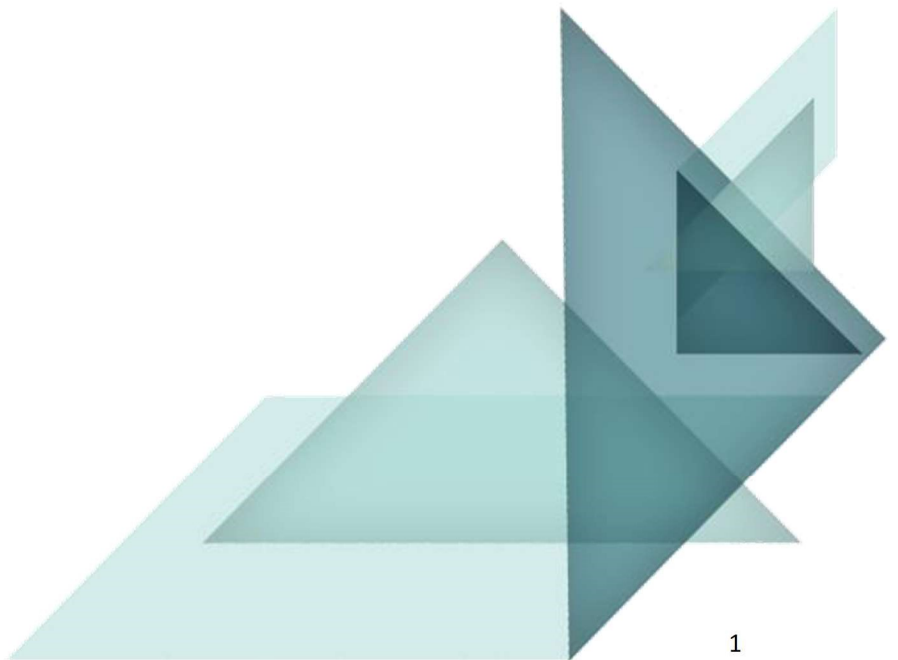
INVESTMENT IN THE FUND INVOLVES RISKS, WHICH INVESTORS MUST BE PREPARED TO BEAR FOR THE PERIOD OF INVESTMENT. PROSPECTIVE INVESTORS SHOULD PAY ATTENTION TO THE INFORMATION CONTAINED IN THIS MEMORANDUM. THE FUND WILL ONLY BE SUITABLE FOR INVESTORS, WHO FULLY UNDERSTAND AND HAVE THE FINANCIAL RESOURCES NECESSARY TO ACCEPT THE RISKS AND LACK OF LIQUIDITY INHERENT IN SUCH INVESTMENT.

THE PROMOTER OF THE FUND HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT THE FACTS STATED IN THIS PRIVATE PLACEMENT MEMORANDUM ARE TRUE AND ACCURATE IN ALL MATERIAL RESPECTS AND THAT THERE ARE NO OTHER MATERIAL FACTS, THE OMISSION OF WHICH WOULD MAKE MISLEADING ANY STATEMENT HEREIN WHETHER OF FACT OR OPINION.

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1. Executive Summary



Executive Summary

Verdant Capital Limited (“Verdant Capital” or the “**Firm**”), an established Pan-African investment advisory firm which has been operating for over eight years, is targeting an USD 80 million fund, the Verdant Capital Hybrid Fund (the “**Fund**”), to make hybrid capital investments into Inclusive Financial Institutions (“**IFIs**”) on a Pan-African basis. At the last count, the Firm has transacted in over 20 different countries across Africa. Critically, the Firm has developed a long track record and deep insight into Africa’s Inclusive Financial Institutions sector. As discussed herein, the COVID-19 pandemic has accentuated a need for hybrid and equity-like capital, but this gap in the market existed prior to the crisis.

Verdant Capital has a highly experienced, diverse, and local team which was complimented by the hire of an experienced Director in late 2019 in anticipation of First Closing. Verdant Capital has already identified a strong and actionable investment pipeline. Providing further credibility to the Firm’s commitment to this initiative, Verdant Capital and the Fund’s investment team members will in aggregate allocate to the Fund two percent (2.0%) of the total committed capital from its retained earnings.

The investment rationale for the Fund drives its specific investment strategy and choice of transactions and is premised upon the certain “market failures” that the Fund seeks to address, specifically the challenges relate to the lack of regulatory capital / risk capital to support the growth of IFIs. Further, most investors in this sector have been slow to support innovative business models, including loans / leases supporting specific productive assets in renewable energy or working capital finance. With this market failure in mind, the core purposes of the Fund are (i) to be “highly additional” to the other sources of capital available to the market, (ii) “crowd-in” other investors while providing new instruments to local capital markets, and (iii) focus on segments with a high development impact, i.e. providing capital to Micro, Small and Medium-Sized Enterprises (“**MSMEs**”), creating employment, rural and agricultural development, access to more affordable and accessible elements such as health, education, housing finance and sustainable energy, and with measurement aligned with the UN Sustainable Development Goals (“**SDGs**”). The Fund, as well as investing in private instruments will invest in locally pre-listed instruments as the anchor investor, thereby (i) further “crowding-in” other capital and (ii) contributing to capital markets development by bringing new products and expertise to local markets – i.e., market development.

With this investment rationale in mind, **the Fund’s investment strategy** will be to offer IFIs hybrid capital for a hybrid return, and by providing additional regulatory capital which as mentioned can be both additional (since there is very limited availability of such sources of capital for these IFIs in Africa) and leveraged to crowd-in other senior lenders (both local and international). According to Verdant Capital’s analysis and experience, an investment of USD 100 into hybrid capital instruments can facilitate a loan of USD 400 to USD 500 to an MSME, a school, or a family buying or making improvements to their home. At the institutional level, an investment of USD 1 million into the Fund, facilitates lending of USD 4 to 5 million by IFIs to their clients Africa. These leverage factors are consistent with the typical IFI that leverages its regulatory capital four to five times with senior debt, equating to regulatory capital levels of 20 to 25% of their total assets.

The targeted investee institutions will be middle-market financial institutions, including small banks, deposit-taking non-bank lenders (for example, microfinance banks), and other more specialist financial institutions, in each case with a financial inclusion impact, including those focused on SME lending, but also, for example - housing finance, leasing, invoice discounting, education finance or sustainable / renewable energy finance. The Fund will invest in hybrid capital instruments in IFIs in the Target Region. Investment will be in Lower Tier 2 Capital and Additional Tier 1 Capital (“**AT1C**”) capital for regulated deposit taking institutions (i.e., microfinance banks, mortgage banks and specialist banks), and subordinated debt and preferred equity for credit-only institutions. The investments will target a gross USD return of 13-16%. Investments will principally be made in local currency. Currency risk management policies and strategies, including for hedging and currency exposure limits, are discuss herein, in **Section 6: Fund’s Strategy & Investment Philosophy**.

The term “Inclusive Financial Institution” has grown out of the microfinance sector, specifically as market participants in the sector, both investors in the sector, and institutions in the ground, have extended their reach into

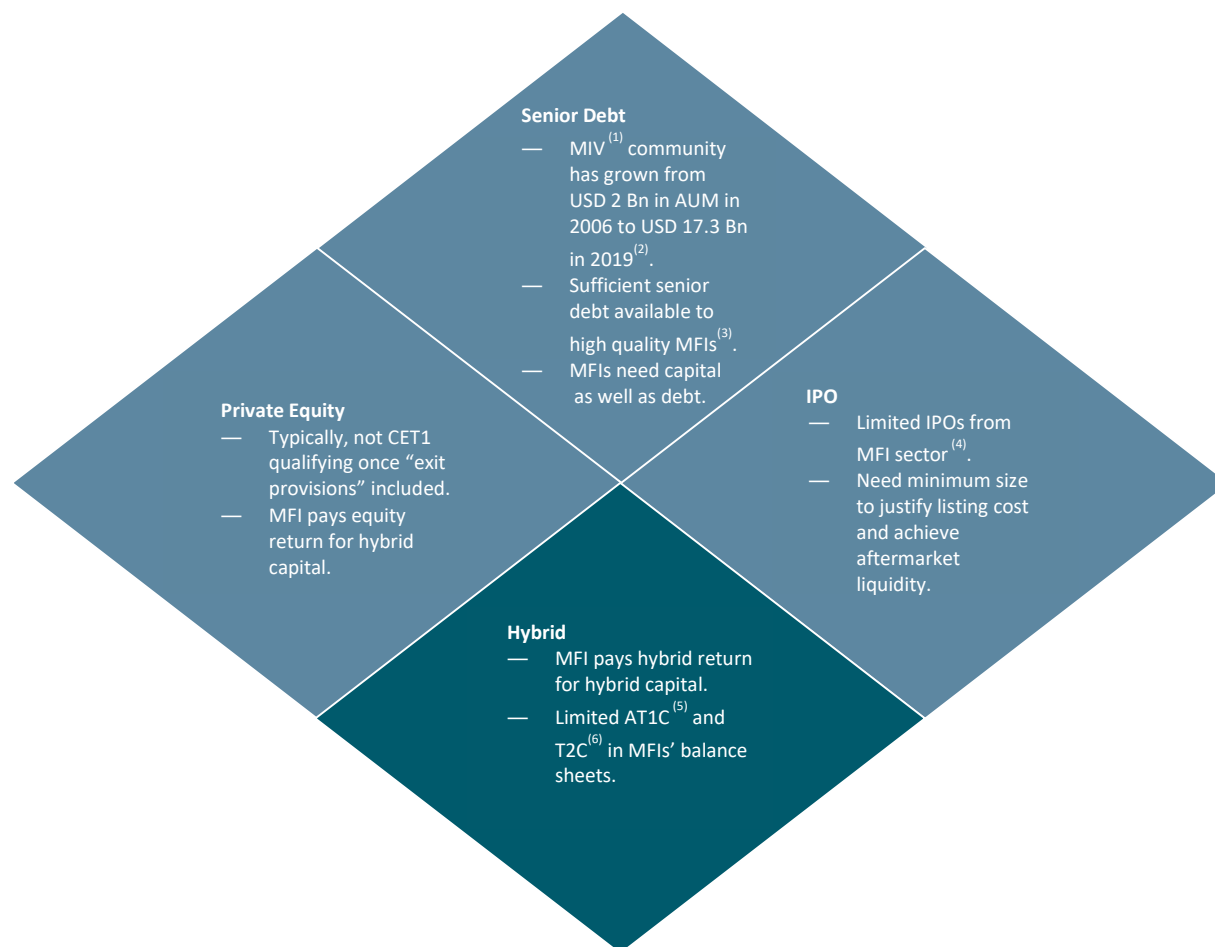
a broader range of activities than just “microfinance” as strictly defined. The term “Inclusive Financial Institution”, or IFIs, has been coined by market participants to describe financial institutions with a broader developmental impact than traditional banks, such as unbanked individuals and smaller companies. Focus activities for IFIs include, “traditional microfinance” (micro-loans for sole-traders and micro-entrepreneurs), lending to SMEs (often described as the “missing middle” or “mezzo” in reference to certain IFI business models focusing on francophone Africa), housing finance, or specific segments such as renewable energy, education finance, health finance or agricultural value chain financing. Some IFIs focus on specific asset classes that disproportionately appeal to small and medium-sized enterprises, for example, leasing, invoice discounting or merchant credit advances. Other positive impacts, which would help define an institution as an Inclusive Financial Institution, include providing access a wider set of financial products than just credit, such as simple savings products to stimulate smaller-scaler deposit mobilization or transaction services facilitated through more convenient distribution channels, such as agency or mobile banking. Fintech-oriented institutions can therefore often be considered Inclusive Financial Institutions, especially if their core technology is used to reduce transaction costs and enable services such as borrowing, savings or payments to be offered, more conveniently and cost efficiently, at a “micro-size”.

Verdant Capital believes the hybrid capital tier represents an attractive investment opportunity in Africa and is currently undersupplied by markets across the Continent. Furthermore:

- i. The significant growth in the global Microfinance Investment Vehicle (“**MIV**”) community, as well as the growth in local debt markets, has meant that there is now sufficient senior debt available for well-run Inclusive Financial Institutions;
- ii. Incorporation of Basel II or Basel III into the regulations of more African jurisdictions, meaning that traditional private equity with its “exit provisions” is frequently not qualifying as Common Equity Tier 1 (“**CET1**”) for local regulatory purposes (i.e., often qualifying for Additional Tier 1 Capital or Tier 2 Capital). By investing hybrid capital instruments, the Fund is achieving a common equity return, without all incurring all the complexities around negotiating valuation typical of traditional common equity investments; and
- iii. IPOs for this sector remain few and far between. To achieve reasonable aftermarket liquidity and to justify the listing costs, a minimum size of approximately USD 50 million is typically required.

The Fund’s anchor investors are the European Investment Bank (the “**EIB**”) and KfW Entwicklungsbank (“**KfW**”). These DFI anchor investors contribute to the **blended finance mandate** of the Fund as their capital will by facilitating First Closing the crowd-in of other investors to the Fund. The EIB has clearance-in-principle (“**CIP**”) to make an investment of up to USD 8 million or 20% of the Fund’s committed capital at First Closing, subject to not being the largest single investor in the Fund. KfW has an in-budget approval for an investment of EUR 30 million (approximately USD 36 million). The participation of the anchor investors in the Fund is subject to final due diligence and to final legal documentation.

Figure I: Financing Opportunities for Inclusive Financial Institutions to Raise Capital



(1) *Microfinance Investment Vehicle*

(2) *Source: Symbiotics*

(3) *“MFI” used interchangeably hereafter as another generic term for Inclusive Financial Institutions*

(4) *Please see Appendix II – IPOs in Inclusive Financial Institution Sector*

(5) *Additional Tier 1 Capital (i.e., non CET1)*

(6) *Tier 2 Capital*

The successful growth in Assets Under Management (“**AUM**”) demonstrated by MIVs over the last ten years, complementing the available senior debt financing from DFIs and the increased availability from local debt investors, means that there is now sufficient senior debt available to high quality MFIs in emerging markets.

A clear requirement to further advance financial inclusion in Africa via IFIs is for more – and more easily accessible - regulatory capital. Verdant Capital continues to see an increasing number of its clients having a higher level of leverage. The post COVID-19 pandemic environment is only accentuating the need for increased capitalization; IFIs play a more essential role than ever as a conduit of capital into local economies, yet with an ongoing need to strengthen their balance sheets. “Private equity” typically provides MFIs with hybrid capital at an equity cost. A specialist hybrid fund provides a more appropriate solution to meet the need for regulatory capital and balance sheet strengthening and may prove to be a bridge to an IPO in some cases.

According to a survey of leading IFIs in Africa conducted by Verdant Capital in November 2020, 57% of survey participants responded that they intended to raise equity or equity-like capital in “early 2021” evidencing the need for greater equity capital in the sector following the outset of the COVID-19 pandemic. This need has been

accentuated by crisis but clearly existed before. According to a survey of leading MIVs conducted by Verdant Capital in October 2019, the majority of respondents reported that capitalization levels for their MFI investees was lower than 12+ months earlier and reported that “low capitalization ratios” was an important factor for investment proposal rejection. 54% of survey participants also responded that more sources of equity and hybrid capital would be one of their two most important recommended changes to the microfinance ecosystem in order to facilitate more senior debt investment (the other being more currency hedging solutions).¹

¹ The 2020 Verdant Capital IFI Survey and 2019 Verdant Capital MIV Survey is available upon request.

2. Overview of Principal Terms

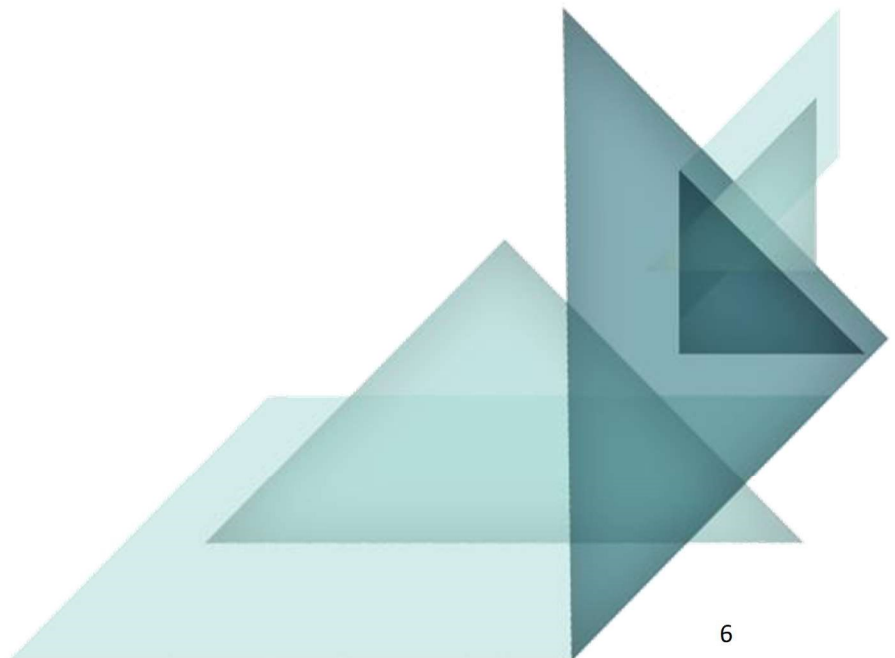
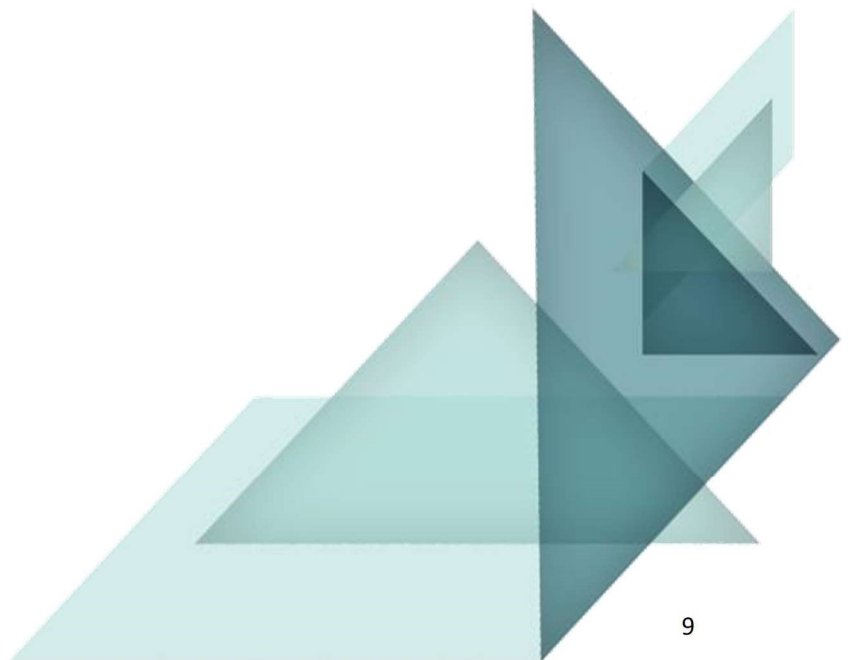


Figure II: Overview of Principal Terms

Distributions	<ul style="list-style-type: none"> ▪ Investment proceeds available for distribution by the Fund (“Investment Proceeds”) will consist of cash proceeds returned by investee institutions companies realised on the disposition of the investments, net of expenses relating to such disposal, and preference share dividends or interest realised on the Fund’s investments. ▪ Distributions will be made, within 30 days of receipt of Investment Proceeds. However, in the event it is an Income Investment Proceeds (interest and preference share dividends derived from investments), the Manager may, at its discretion, defer distribution to the end of the quarter. Distributions will be made following an order of priority as described below: <ul style="list-style-type: none"> a) first, 100.0% to the Limited Partners, in proportion to their capital contribution until the cumulative amount distributed pursuant to this clause is equal to their respective capital contributions; b) next, 100.0% to the Limited Partners, in proportion to their capital contribution, until all holders have been paid a cumulative return equal to 8.0% per annum, on all amounts referred to in (a) and on all portfolio investments previously realised at a loss (determined in each case from the date of drawdown of the relevant capital contributions) (the “preferred return”) compounded annually; c) next, 100.0% to an affiliate of the General Partner (the “Carry Vehicle”), in proportion to their capital contribution until they have received a catch-up equal to 25.0% of the preferred return; and d) thereafter, (i) 80.0% to the Limited Partners, in proportion to their capital contributions, and (ii) 20.0% to the Carry Vehicle (together with sums distributed in (c) this is the “carried interest”).
Investment Guidelines and Restrictions	<ul style="list-style-type: none"> ▪ The Fund will invest in line with its objective and the following restrictions will apply at <u>Final Closing</u>: <ul style="list-style-type: none"> i. up to 15.0% of committed capital may be invested into any single portfolio company; ii. up to 20.0% of committed capital in any one target country (after making proportional allocations for regional players); and iii. up to 10.0% of committed capital on open exposure to any single currency without hedging; and iv. up to 30.0% of committed capital on open currency exposure on aggregate portfolio basis. ▪ The following restrictions shall apply at <u>First Closing</u>: <ul style="list-style-type: none"> i. Single country limit is 25.0% (or USD 16 million whichever is lower); ii. Single investment limit is 20.0% (or USD 12 million whichever is lower); iii. Single currency open exposure limit is 15.0% (or USD 8 million whichever is lower); and iv. Aggregate currency open exposure limit is 30% (or USD 16 million whichever is lower). ▪ These restrictions may also be waived by the General Partner upon recommendation by the Advisory Committee. ▪ There shall be specific exclusions as regards environmental and social risks, in line with the EIB and IFC exclusion lists.
Investment Objective	<ul style="list-style-type: none"> ▪ The Fund will invest in a portfolio of investments in financial institutions in the Sub-Saharan Africa region (including African countries in the Indian Ocean). Specifically, the Fund will invest in hybrid instruments, be they subordinated

	debt or preference shares, or similar instruments. The Fund will invest in and hold these instruments in accordance with its investment guidelines.
Investment Period	<ul style="list-style-type: none"> ▪ The Investment Period will be five years; that is the fifth anniversary of the last day of the month in which the First Closing Date occurs, with the possibility of a one-year extension by the General Partner subject to the approval of the Advisory Committee. After the end of the Investment Period, the Fund will not make new portfolio investments, but, for the avoidance of doubt may: <ul style="list-style-type: none"> i. complete portfolio investments in respect of which letters of intent or term sheets have been entered into as at the end of the Investment Period; ii. for a period not to exceed two years following the date the investment was made, make follow-on investments in existing portfolio companies in an aggregate amount up to 15.0% of total Capital Commitments, and iii. continue to draw down Capital Commitments to pay the Fund's liabilities and expenses.
Management Fee	<ul style="list-style-type: none"> ▪ At an initial Fund size of USD 40 million of committed capital, the Management Fee shall be 2.250%, reducing to 2.125% at a Fund size of USD 50 million and to 2.000% at all Fund sizes of USD 60 million and above. ▪ The Manager will receive the Management Fee, payable quarterly in advance and applied to committed capital, during the Investment Period. ▪ Thereafter, the Management Fee will be applied to the accrued value of investments less value of investments written off, repaid or divested.
Minimum Commitment	<ul style="list-style-type: none"> ▪ The minimum commitment of an investor will be USD 250 000 although the General Partner reserves the right to accept commitments of lesser amounts.
Targeted Return (Gross IRR)	<ul style="list-style-type: none"> ▪ 10.0-13.0% USD for subordinated debt investments including Lower Tier 2 Capital investments. ▪ 12.0-15.0% USD for Additional Tier 1 Capital, preference equity and bank holding company debt; plus upside sharing. ▪ Hedging costs, or the premium for local currency is calculated based on covered interest rate parity and secondary benchmarks, including: (i) long-term historical performance, (ii) relative long-term inflation and (iii) key macro-economic leading indicators. ▪ Annual pay-out to LPs of coupon/preference dividend received (net of management fee).
Target Region	<ul style="list-style-type: none"> ▪ The Target Region shall be Sub-Saharan Africa and the Indian Ocean Islands. ▪ As discussed in Section 6: Fund's Strategy & Investment Philosophy, the Fund will target, but not be restricted to, specific countries within the Target Region.
Target Fund Size	<ul style="list-style-type: none"> ▪ Target total Capital Commitments for the Fund of USD 80 million, subject to a minimum of USD 40 million. The maximum capitalization of the Fund is USD 100 million.
Term of Fund	<ul style="list-style-type: none"> ▪ The Fund will expire twelve years from the date of the First Closing. It may be extended by two further period of one year each, subject to the prior consent of 75.0% of the Limited Partners.

3. Verdant Capital – the Leading Advisor to Inclusive Financial Institutions in Africa



Verdant Capital – the Leading Advisor to Inclusive Financial Institutions in Africa

Since inception in 2013, Verdant Capital has played a catalytic role in stimulating SME-oriented investment activity across Africa, facilitated by its diverse local teams fully based on the Continent across five offices and with over 120 years of aggregate and relevant experience. The Firm has transactional experience in over 20 countries all across the Continent, and has arranged M&A transactions, debt, and equity capital raises of over USD 500 million. In 2020, the activity level of the Firm accelerated in response to the COVID-19 pandemic and related funding needs of a range of client types.

Verdant Capital was founded with a vision to specialise in sectors with a high developmental impact such as Inclusive Financial Institutions as well as non-IFI impact sectors such as agribusiness, “WASH”² and renewable energy. The Firm was initially established to operate in two segments: Private Credit Advisory and Mergers and Acquisitions (“M&A”). The Private Credit Advisory business initially focused on solely the IFI sector but in 2018 expanded to include other high impact segments. The success of the M&A segment was further enhanced in 2018 by joining **IMAP** as the “Partner Firm” for Sub-Saharan Africa. The IMAP partnership was established in the early 1970s and has over 40 partner firms with 500+ M&A professionals spanning over 40 countries.³

The Firm has exceptional experience in private debt capital markets for IFIs in Africa and is one of the largest arranger of such transactions in the market, working with all of the major DFI and MIVs. Since 2013, the Firm has arranged over USD 250 million in private debt and equity capital for IFIs across the Continent. Transactions types and clients served varies across different sectors and includes complex debt capital programs for holding company entities involving multiple jurisdictions, currencies, and loan book categories. These transactions have also been placed with a variety of investors, both African and overseas, who have been continually attracted to the Firm’s capacity to analyse such companies and screen and structure the relevant investments.

The Firm complements these advisory services to provide a full-service Restructuring practice, also with special sensitivity to the African middle market that includes advising IFIs and SMEs; in response to COVID-19, Verdant Capital is advising several clients in Africa on their near-term liquidity needs and/or leverage levels.

In the M&A segment, the Firm specialises in cross-border transactions, both within Africa and between Africa and the Rest of the World: the Firm has successfully transacted with the leading institutions and corporates in their respective segments, for example, Symbiotics, BlueOrchard, responsAbility, Arise, LeapFrog Investments, Incofin Investment Management, Kibo Capital Partners, Saint Gobain, Yara and most of the leading DFIs. The Firm is perennially in the Top 20 in the *DealMakers Africa*⁴ league table, the leading Pan-African M&A league table agency. IMAP was ranked seventh in the global mid-market M&A league table in 2019. The Firm was also awarded the “Best Independent Advisory Firm - Pan Africa” by the Africa Global Funds⁵ 2020 Africa Service Provider Awards.

The Next 5 Years

The experience and success of these two advisory segments – Private Credit Advisory and M&A – has laid the foundation for the Firm’s expansion into investment management. The expansion into investment management is two pronged: (i) sub-advisory partnerships with leading global impact funds, whereby Verdant Capital is responsible for origination and underwriting in Africa, and (ii) the flagship fund, Verdant Capital Hybrid Fund. The investment management function leverages the expertise and market position of the Private Credit Advisory business.

² WASH is the abbreviation for acronym that stands for the interrelated areas of Water, Sanitation and Hygiene.

³ Source: www.imap.com

⁴ Source: <https://www.dealmakerssouthafrica.com/dealmakers-africa>

⁵ Source: <https://www.agfawards.com/>

Verdant Capital initiated its sub-advisory strategy in 2020 with a partnership with Advance Global Capital, a London-based supply chain financing fund. Verdant Capital is currently negotiating a second sub-advisory mandate with a leading German impact fund.

Following First Closing, the Fund will be the flagship business of the Firm. The strategy of the Firm is to successfully deploy the capital raised and create a track-record to enable a second hybrid fund, i.e., “Hybrid Fund II”, to be raised with a similar strategy. Going beyond the five-year horizon of the question, a successful deployment of Hybrid Fund II will provide a track record to raise “Hybrid Fund III” and additional funds targeting a combination of attractive returns and a high development impact.

It is the intention of the Firm to continue to operate and conservatively grow its advisory segments. The long-term growth focus is the funds business.

Figure III: The Verdant Capital Platform

	Specialist Funds	Mergers & Acquisitions	Private Credit Advisory	Restructuring
Key Sectors	<ul style="list-style-type: none"> Verdant Capital Hybrid Fund Supply chain financing Impact investing 	<ul style="list-style-type: none"> Financial Services Agri-business Manufacturing Telecoms 	<ul style="list-style-type: none"> Senior debt for IFIs Financial services technology Selected high development sectors 	<ul style="list-style-type: none"> Financial Services Agri-business Manufacturing Telecoms
Key Services	<ul style="list-style-type: none"> GP Sub-advisory mandates 	<ul style="list-style-type: none"> Mergers and acquisitions advisory (sell-side or buy-side) Equity capital raising 	<ul style="list-style-type: none"> Senior debt capital raising Capital structure advisory 	<ul style="list-style-type: none"> Advisory (creditor groups) Advisory (debtor) Technical Assistance Distressed M&A Distressed refinancing Debt restructuring Fairness opinions
Key Investor Groups	<ul style="list-style-type: none"> EIB and KfW acting as anchor investors DFIs Impact investors Selected Fund-of-Funds Selected HNWIs 	<ul style="list-style-type: none"> Africa private equity funds DFIs Global strategic investors IMAP Partner firms 	<ul style="list-style-type: none"> DFIs Financial Institution specialists MIVs Socially responsible investors African private equity funds Emerging markets credit funds 	<ul style="list-style-type: none"> Africa private equity funds DFIs Emerging markets credit funds Financial Institution specialists MIVs

Chinese Wall

As discussed in the next table, there are significant synergies for the Fund operating within the overall Verdant Capital Platform, and the Manager has agreed a specific protocol for how the different businesses can co-exist without potential or perceived conflicts of interest.

Figure IV: Fund Synergies within the Verdant Capital Platform

Synergy	Description
Deal flow	<ul style="list-style-type: none"> ▪ The Fund will benefit from the track-record and credibility of Verdant Capital in the IFIs sector to generate investment opportunities. ▪ This is evidenced by the breadth and depth of the pipeline, especially the prospective investments screened to date.
Human Capital	<ul style="list-style-type: none"> ▪ Verdant Capital hires the majority of its staff locally, targeting a diverse set of exceptionally talented individuals, invests and trains the individuals and pushes them hard. The team prides itself on effective teamwork, very hard work, being thoughtful and diligent about the work. ▪ The Manager has been able to take on board highly experienced members of staff, from the balance of the Verdant Capital, with significant experience and expertise in the IFI sector.
In-House Resources	<ul style="list-style-type: none"> ▪ The Manager will have access to all the in-house resources that Verdant Capital has built over the years in the IFI sector in Africa. ▪ These include our margin-based modelling templates, comprehensive benchmarking database, portfolio factsheets and social performance questionnaires.
Market Visibility and Brand	<ul style="list-style-type: none"> ▪ The Manager will also be able to capitalise on the brand value and market visibility created by Verdant Capital in the Inclusive Financial Institutions sector. ▪ Exceptional ecosystem of relationships with specialist investors, consultants, senior level executives and entrepreneurs in the sector.
Physical Presence	<ul style="list-style-type: none"> ▪ The Manager will have physical presence in four major markets in Africa from Day One.
Cost	<ul style="list-style-type: none"> ▪ The Manager's overall cost structure will be reduced given that a number of costs such as office space, printers, marketing, affiliations etc shall be shared with Verdant Capital as opposed to having to budget for 100%.
Capital Contribution	<ul style="list-style-type: none"> ▪ The successes of the advisory business has provided Verdant Capital with the capital for the fund raising costs, and for the General Partner's contribution to the Fund.
Economic Sustainability	<ul style="list-style-type: none"> ▪ The breadth of Verdant Capital's businesses provide ballast to the overall economic sustainability of the Firm, across the fund cycle ▪ Challenges of overall economic sustainability of has been the root cause of some of the issues at some smaller impact oriented private capital funds.

Co-existence of the Fund and the balance of Verdant Capital

While there are significant synergies for the benefit of the Fund, Verdant Capital has already agreed to specific protocols for how the different businesses can co-exist without potential or perceived conflicts of interest. These protocols were developed and ultimately agreed in conjunction with EIB and KfW, the first two anchor investors for First Closing.

The protocols are relatively clear and simple. There are four key protocols:

1. Segregation of Teams;
2. Restriction of Advisory Activities;
3. Segregation of Clients;

4. Role of Advisory Committee.

Segregation of Teams

Verdant Capital's advisory teams has separate electronic files and from First Closing will have a separate office space. In the short term, the advisory teams will be moved to serviced offices approximately 600 metres away from the current head office, albeit the intention is to acquire a single permanent site in 2022 with sufficient space for separate rooms per team.

Each of the Firm's business units has a separate team with separate leadership, with the senior role for the Private Credit Advisory is currently vacant and will be filled prior to First Closing. The leaders of each of Verdant Capital's regional offices (in Accra, Kinshasa, and Lagos) are senior-level bankers, whose main responsibility will be to originate and assist in the management of investments for the Fund (Fund work to be at least 50% of their time). More specifics on the segregation in responsibilities for the full team between the Fund and the Firm is outlined in further in **Section 4: Highly Experienced Team**.

Restriction of Advisory Activities

Verdant Capital's advisory teams shall be restricted from all advisory activity in terms of hybrid or subordinated capital for Inclusive Financial Institutions. All said projects identified by any part of Verdant Capital shall be referred directly to the Manager (without any remuneration for the advisory businesses).

Segregation of Clients

Clients of the advisory businesses may be referred to the Hybrid Fund, for consideration for an investment by the Fund and will be subject to the same investment appraisal and approval process as any other investment.

However, clients who originated as investees of the Fund cannot be referred to the Advisory Businesses.

Role of Advisory Committee

Any issues of potential or perceived conflict of interest shall be referred to the Fund's Advisory Committee to adjudicate.

Verdant Capital – Key Affiliations

Verdant Capital has offices in Johannesburg, Kinshasa, Mauritius, Accra, and Lagos. **Verdant Capital Limited** is regulated by the Financial Services Commission in Mauritius, and **Verdant Capital (Pty) Ltd** is BB-BEE Level 4. Verdant Capital is authorised by the Financial Services Board in South Africa (FSP 44608).

In terms of M&A advisory services, the Firm is typically in the Top 20 in the *DealMakers Africa* league tables on a Pan-African basis. **IMAP**, the international M&A partnership that Verdant Capital serves as the "Partner Firm" for Sub-Saharan Africa, is perennially ranked in Top 10 of global mid-market M&A league tables.






Verdant Capital is active in the microfinance and impact investment community, regularly writing and blogging in industry journals on relevant topics and issues, as well as speaking at the main industry conferences. To this end, the Firm publishes a monthly "Financial Inclusion Africa" newsletter, sent to over 5 000 clients and stakeholders of the Firm. Verdant Capital also regularly engages with think tanks, universities and industry stakeholders and on request collaborates on research and white papers.⁶

⁶ This newsletter and relevant research and white papers are published on the Firm's website (www.verdant-cap.com) and social media channels.

Verdant Capital maintains a number of global and regional affiliations to ensure maximum profile with potential co-investors, lead sharing parties as well as to keep up with industry best practices in terms of trade, regulatory, economics, banking sectors and financial inclusion.

Figure V: Selected Affiliations:

Name	Description
	Created in 1998, CERISE is a French non-profit organisation that promotes responsible, ethical, and inclusive finance through the measurement and management of social performance. For 20 years, CERISE has been sharing its vision of social performance through training, tools, and the emergence of international standards. The SPI4 is a social audit tool for financial service providers (“FSPs”) to measure their social performance. The SPI4 is a set of quantitative and process indicators for FSPs to evaluate their level of implementation of the Universal Standards for Social Performance Management, which include the SMART Campaign’s Client Protection Certification Standards. Since founding, over 600 different FSPs have completed nearly 1 000 SPI4 audits in over 80 countries. There have been nearly 1 300 professionals trained to use the tool. Verdant Capital was represented on the stakeholders advisory committee of the CERISE SP1-W project.
	COBRA (Covid-19 Business Rescue Assistance) was established in March 2020 as a direct response to the immediate and immense need to support distressed businesses that were impacted by the economic lockdown caused by the COVID-19 pandemic. To date, it has assisted close to 300 businesses in various ways. This includes restructuring, refinancing, accessing unemployment insurance for staff, pivoting core offerings, moving onto digital platforms, business rescue and business turnaround. Verdant Capital is a member organisation as a resource to provide direct assistance as well as knowledge sharing to this Forum.
	This platform was launched by the e-MFP, the Centre for Financial Inclusion at Accion International, and the SPTF, for which key impact investors in financial inclusion are signatories. Verdant Capital is a signatory. The platform’s objective is to provide a practical knowledge sharing forum about the challenges and solutions for the financial inclusion sector in response to the COVID-19 pandemic.
	EMPEA is the global industry association for private capital in emerging markets. An independent, non-profit organisation, the association’s membership comprises 300+ firms who together manages more than USD 5 trillion in assets across 130 countries.
	The European Microfinance Platform (“e-MFP”), with over 130 members from all geographic regions and specializations, is the leading network of European organisations and individuals active in the microfinance / financial inclusion sector in developing countries.
	FCI is the Global Representative Body for Factoring and Financing of Open Account Domestic and International Trade Receivables. With close to 400 member companies in 90 countries FCI has an extensive network for cooperation in cross-border factoring. Member transactions represent nearly 90% of the world’s international correspondent factoring volume.
	The Global Impact Investing Network (“GIIN”) is the global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. The impact practice includes the GIIN Initiative for Institutional Impact Investment, IRIS (performance metric initiative) and the Research Centre.
	IMAP is the world’s leading global mergers and acquisitions partnership focused on the middle market. The IMAP partnership was established in the early 1970s and has over 500 M&A professionals spanning five continents. IMAP is perennially ranked in the Top 10 of global mid-market M&A league tables, ranking 7th in 2019.

	<p>Microfinance African Institutions Network (“MAIN”) was established in Abidjan in 1995 through the initiative of several institutions to help reinforce the social and economic role of the African microfinance institutions by initiating an African agenda for microfinance promotion in the process of African overall development. As of 2019, MAIN has organized 11 international Conferences, 36 sessions of university program, 67 trainings, 12 exchanges visits. In total, 3 737 microfinance practitioners have been trained MAINs resources</p>
	<p>SAVCA is the industry body and public advocate for private equity and venture capital asset classes in Southern Africa. The association represents 180 members in the region, who collectively manage ZAR 171 billion in assets.</p>
	<p>Verdant Capital is a Signatory to the “Investor Guidelines for Responsible Investing in Digital Financial Services”, an industry initiative sponsored by the Responsible Finance Forum (“RFF”) with objective to “strengthen the resilience of and catalyse investment in the digital finance ecosystem”. The RFF funding and membership comprises a variety of DFIs and leading impact investors as well as fintech practitioners.</p>
	<p>Launched in 2005, the SA-NBC is a non-profit organisation created for the promotion, facilitation, and assistance of Nigeria-related business. Their network is a unique reservoir of Nigeria-related business knowledge and practical advice.</p>
	<p>The Social Performance Task Force (“SPTF”) is a globally recognized membership organisation working to advance social performance management, custodial oversight for the Universal Standards for social performance management. The SPTF has over 3 000 members globally, and from every stakeholder group in inclusive finance. Core funders are DFIs, governments and inclusive finance focused foundations.</p>

Verdant Capital – a Market leading Franchise Working with Inclusive Financial Institutions

Since 2013, Verdant Capital has established a market leading franchise working across Africa and with a variety of IFIs. The Firm has completed transactions with most major DFIs and MIVs. However, as earlier explained, Verdant Capital's franchise is much broader, including M&A, equity capital raising and financial advisory/restructuring services. Verdant Capital also has strong credentials and a significant client footprint including in telecommunications, fintech, renewable energy, and in other corporate sectors such as manufacturing and agri-business.

Figure VI: Selected Financial Institutions Transactions

Zambia 2021  Modison Finance Company Limited Debt Advisory Sole Advisor	Rwanda 2021  INCOFIN UBU BANK On-going Sale of Minority Stake Sole Advisor and Arranger	Mozambique 2021  anse Socremo On-going Sale transaction Sole Advisor and Arranger	Uganda 2021  TUGENDE Own your future USD 20 M Debt and Equity Capital Raise Sole Advisor and Arranger	Nigeria 2021  Capricorn Digital Digital Solutions and Distribution USD 20 M Equity Capital raise Sole Advisor and Arranger
Ghana 2021  ZeePay USD 4 M Equity Capital Raise Sole Financial Advisor	Various 2021  LA REGIONALE EUR 5 M Debt Capital Raise Sole Advisor and Arranger	East Africa 2018 - 2021  PLATINUM CREDIT LTD PremierCredit USD 28 M (equiv) Debt Capital raise Sole Advisor and Arranger	South Africa 2020  Planet42 Formerly CarGel USD 13 M Debt and Equity Capital Raise Sole Advisor and Arranger	South Africa 2018-2020  Retail Capital USD 13 M Debt Capital Raise Sole Advisor and Arranger
Various 2018-2019  Letshego Let's improve life USD 90 M (equiv) Debt Capital Raise Sole Advisor and Arranger	Various 2018  FINCA Digital transformation Strategic Advisor	Botswana 2018  BBS Capital Management Plan Financial Advisor	South Africa 2018  MediSmart oti Sale of 100% of MediSmart Sole Advisor and Arranger	Botswana Ghana 2017  JUMO Letshego afb GHS 92 M (USD 23 M) Sale of 100% of afb Ghana to Letshego Group Holdings Sole Advisor and Arranger

Verdant Capital's business model and, advisory on cross-border transactions has proven effective across the Continent. Verdant Capital is currently executing or has recently closed transactions in over 20 African countries, including both Anglophone and Francophone countries. A key competitive advantage of the Manager is the experience of the team in executing in a broad range of countries across the Continent.

Figure VII : Verdant Capital’s Transaction Experience



In terms of Verdant Capital's existing businesses, the Firm has transacted with leading DFIs, specialist investors (for example, MIVs), African private equity firms, emerging markets credit funds, and leading global and regional institutions. The size, profile, and sophistication of the parties that the Firm transacts with is a testament to the quality of the work produced by the Firm and the thoroughness of its processes. Please see overleaf.

Figure VIII: Verdant Capital's Global Reach



Verdant Capital has significant experience in the Inclusive Financial Institution sector honed from over eight years of successfully working on transactions in the sector.

Verdant Capital has developed a number of important proprietary in-house tools, including:

- i. Proprietary benchmarking database, with detailed financial information on Inclusive Financial Institutions across the Continent, over a time series of a number of years;
- ii. Margin-based forecasting model;
- iii. Loan portfolio factsheet; and
- iv. ESG Questionnaire.

These in-house tools have been made available in the data room. Furthermore, Verdant Capital has also been a member of CERISE Steering Committee for the SPI4 social performance audit tool. The Steering Committee has played an integral role in developing and enhancing the tool's functionality over the years. The Fund's investment

team is already trained on using the tool, with one of the team, Patrick Ball, designated in 2021 as an “SPI4 Qualified Auditor”, one of only 127 such Qualified Auditors globally.⁷

The below sets out Verdant Capital’s standard financial institution transaction execution process for the senior debt capital markets business from its internal policies and procedures. Clearly, a number of these steps will not be applicable to the management of the Fund (for example, marketing to investors). However, it does set out the depth of the analytical framework the firm uses.

Figure IX: Standard Execution Process

Stage	Description
New Business	<ul style="list-style-type: none"> ▪ Prepare pitch ▪ Business development NDA execution ▪ Information, request, and review ▪ Background checks ▪ Benchmarking versus proprietary benchmarking database ▪ Prepare engagement letter ▪ KYC request list ▪ New business solicitation sheet (screening)
Transaction Preparation	<ul style="list-style-type: none"> ▪ Due diligence request list ▪ Due diligence conference call ▪ Reviewing answers and documents requested ▪ Review of business model, for example, route to market and life cycle of Loans ▪ Review of portfolio composition and quality ▪ Prepare data room index ▪ Set up the data room ▪ Complete portfolio factsheet ▪ Check portfolio factsheet ▪ Prepare financial model ▪ Add the actual audited numbers to the model ▪ Analyse key outputs/ratios for key business issues ▪ CERISE SPI4 template ▪ Prepare Information Memo (IM) ▪ Updating IM ▪ Prepare teaser ▪ Complete ESG template ▪ Prepare investor target list ▪ Prepare covering email to investors ▪ Approach investors
Transaction Execution	<ul style="list-style-type: none"> ▪ Share IM, data room, financial model, and portfolio factsheet ▪ Follow-up with investors ▪ Complete investors factsheets ▪ Address investors' questions and information requests ▪ Set-up conference calls and due diligence meetings ▪ Check covenants of term sheets against historical and forecasted rates ▪ Review term sheet ▪ Term sheet negotiations ▪ Arranging site visits ▪ Final due diligence
Closing	<ul style="list-style-type: none"> ▪ Review loan and guaranty agreements ▪ Check covenants against historic and forecasted performance ▪ Check loan agreements against term sheets (terms) ▪ Address conditions precedent (“CPs”) to drawing ▪ Transaction documents checks and discussions ▪ Drafting transaction announcements ▪ Transaction closing and announcements
Ongoing	<ul style="list-style-type: none"> ▪ Request ongoing portfolio reports ▪ Ongoing covenant reports ▪ Checking financials

⁷ Source: <https://cerise-spm.org/en/spi4/auditors-spi4/external-auditors/>

	<ul style="list-style-type: none"> ▪ Updating data rooms ▪ Updating factsheets ▪ Prepare quarterly deals sheet
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In its senior debt capital markets business (under the Private Credit Advisory segment), Verdant Capital assists clients in ongoing post-deal reporting, typically either monthly or quarterly depending on the frequency that was negotiated with each investor. In contrast, for investments by the Manager on behalf of the Fund this ongoing review of period reports will be complimented by Board Observer rights in the Additional Tier 1 Capital and holding company debt transactions.

Recent Transaction Experience

Some of the key institutional learning from Verdant Capital’s recent transactional experience is discussed below:

Leading East African Motorcycle Leasing Institution

Since 2018, Verdant Capital has been the exclusive financial advisor for a rapidly growing and leading innovative credit institution in East Africa. The institution’s innovative business model leverages financial technology to provide asset-backed loans to a key segment of the unbanked population in East Africa – motorcycle taxi drivers. Most taxi drivers do not own their vehicles and, as such, scramble daily to earn a meagre take-home pay after paying the vehicle’s owner the daily fee that was agreed to. Through word-of-mouth and referral client origination and after a “high touch” loan approval process, new clients enter an 18 to 24-month lease that almost doubles their daily take-home pay, creating an immediate impact to their livelihood. More importantly, during the onboarding process, clients are provided training on safe driving practices and accident prevention techniques, a helmet and reflective jacket, and are prohibited from driving after dark for their and their passengers’ safety. Each lease includes an appropriate insurance policy to cover the driver, passenger, and motorcycle. The institution has also set up an emergency medical fund to cover immediate needs in the event of an accident, thus mitigating any delays in the insurance claims process. At the end of the lease term, the client owns an asset worth approximately USD 800, which can be used as collateral for subsequent loans, allowing them to continue along their journey of financial independence and economic empowerment. The institution is successfully delivering on its mandate of banking the unbanked while building a growing database of creditworthy clients.

At the time of launching Verdant Capital’s capital raising mandate, the institution had a gross loan portfolio of approximately USD 8 million. As of December 31, 2020, the institution’s gross loan portfolio totaled USD 20 million - a seven-fold increase directly attributable to Verdant Capital’s successfully arranging USD 16 million in debt and equity capital from major international DFIs, MIVs, and strategic equity investors. The institution’s growth remains robust in the post COVID-19 lockdown period, as evidenced by a strong backlog of close to 3 000 clients (each of whom placed a deposit while waiting for onboarding and disbursement). To date, almost 35 000 customers have benefited from the institution’s loans, with close to 175,000 lives improved, and more than USD 13 million in assets transferred into the hands of its proud owners. The prospective funding plan includes the raising of an additional USD 15 million in equity and USD 40 million in debt. The proceeds of the fundraising program shall allow the institution to continue to grow its loan book in East Africa (which experiences an MSME credit gap of USD 6 billion) as well as geographic expansion into markets where it will have a strategic advantage. The overall MSME credit gap in sub-Saharan Africa is USD 331 billion, providing the institution with a significant runway for future growth.⁸

Leading South African Merchant Cash Advance Business

In 2018, Verdant Capital advised on and implemented an international debt capital markets programme for a leading South African multi-channel technology-driven MSME financier, in the form of a financing mechanism called “merchant cash advances.” At the time, Verdant Capital initiated its work for the client, the specialist institution had

⁸ Source: IFC, SME Finance Forum, 2018

advances of approximately USD 10 million, and no international lenders. Within 18 months, Verdant Capital had successfully raised approximately, ZAR 95 million (approx. USD 7 million) for the institution in senior debt from US and European-based MIVs. In 2020, Verdant Capital raised an additional USD 6 M through the Medium Term Notes program. As of November 2020, the advances had grown to USD 53 million, having acquired two business with high synergies in asset finance leasing and SME funding. The acquisitions supports the overall diversifications of the portfolio.

Verdant Capital identified the merchant cash advance model as being an exciting tool to extend credit to the MSME sector in a profitable and risk-mitigated manner. This form of financing is particularly important in South Africa, a country where unemployment is consistently estimated to be above 20% and youth unemployment above 35% in recent years⁹. Verdant Capital specifically was attached to work with the institution given its white labelled product to extend financing to “Bottom-of-the-Pyramid” (“BoP”) merchants utilising acceptances on payment solutions platforms such as Snapscan, SureSwipe, Ikhoka and Yoco.

Verdant Capital is currently raising additional equity and debt for the institution to position it for additional customer demand in the post-COVID-19 period. The pandemic had a large impact on the institution’s portfolio, experiencing a once-off COVID-19 related write-off of ZAR 25 million (USD 1.6 million). The business has since recovered from the series of rolling lockdowns in South Africa throughout 2020, having a recorded a monthly disbursement rate in October 2020 of ZAR 120 million, up from an average of ZAR 80 million per month earlier in the year. The institution’s smaller (and more recently acquired) asset finance book performed consistently well during the lockdowns. The institution purposely financed businesses with stronger balance sheets and tangible collateral, including businesses operating in the medical sector which was deemed an “essential service.”

Leading Zambian Financial Services Company

2016: Capital Raise / Equity Advisory

In 2016, Verdant Capital was hired by a leading financial services institution in Zambia to raise equity capital to buy-out the equity partners and to raise expansion capital. The capital instruments invested by equity partner were convertible preference shares and did not qualify as CET1, rather as AT1C. In fact, given their fixed maturity their investment was actually more characteristic of Lower Tier 2 Capital than AT1C. The fact that the investment was denominated in US Dollars caused losses on the institution given the fixed maturity.

Verdant Capital negotiated extensively a new instrument with a new investor, a local currency Additional Tier 1 Capital instrument in order to buy out the equity partner’s investment and grow the equity base. The instrument had no fixed maturity (perpetual) but had a put to the parent company in order to be investible by a fixed life fund. Crucially, such an instrument could still be considered Tier 1 Capital under Basel II regulations. There was extensive negotiation with both the outgoing and incoming investors for the valuation of the instrument. At the time, it appeared that the most likely scenario for the new investor’s exit was to exercise the put.

The transaction did not ultimately close prior to the end of the new investor’s fund life. That said it was an important learning curve for the Verdant Capital team. Extensive negotiations around equity valuations were somewhat futile given the instrument would be refinanced by the sponsor any way – begging the question, why not just agree a rate of return? Furthermore, it is very hard to structure a Common Equity Tier 1 instrument in a finite life fund - in fact, almost impossible under Basel III. The key takeaway for Verdant Capital was that the African market needed a “new model” to support the capitalization of “inclusive” financial institutions like our client if their historical growth rates are to continue.

2020 – Present: Financial Advisor – Debt Restructuring

⁹ Source: Statistics South Africa. South Africa’s 2020 estimated total unemployment rate was 28.5% and youth unemployment rate was 55.8%, respectively.

The institution's loan portfolio grew steadily until 2019, when it started experiencing delays in payments for its general government payroll book. These arrears have impacted all such lenders (banks and NBFIs) in the market and since mid-2019, the institution has experienced severe delays in payments causing NPLs to increase. While outstanding payments are expected to be received in the medium-term and the remaining loan book remains well-performing, this has posed challenges to the business' liquidity and capital management. The issues in the institution were exacerbated by the economic dislocation caused by COVID-19 and the sovereign credit crisis in Zambia.

In 2020, Verdant Capital was hired by the institution at the insistence of a key DFI lender as its financial advisor for reviewing to help better identify the underlying issues of the business and craft an action plan, including a renegotiated term profile with the lender group to: (a) ensure its continued operation on a going concern basis; (b) ensure a new term profile so that the institution could meet of obligations to investors going forward; and (c) place the institution on a sound footing for future growth and expansion. Verdant Capital is currently advising the institution on its options in consideration of the relief measures for NBFIs offered by the Zambian central bank in response to the COVID-19 crisis while helping the institution navigate its ongoing payment arrears from the government on its payroll book and representing the institution in its discussions with current creditors.

Leading Global Microfinance Bank with Significant Network in Africa

In 2018, Verdant Capital acted as strategic advisor to a leading global microfinance bank with a significant network in Africa regarding their business plan for their transformation into a "digital bank", or to be more specific, to leverage financial technology to be more efficient in terms of their historic products and to introduce new products. The client's Africa business had experienced a challenging 2017, impacted by key themes in the market as a whole, including macro-economic and credit weakness in their largest market, the Democratic Republic of Congo, and the competition to group lending products from fintech disrupters.

Verdant Capital's work broke down into three broad tasks:

- i. Assessment of the transformation achieved to date against the road-map and the headwinds going forward;
- ii. Valuation of the institution and assessment of the capital requirements; and
- iii. Preparation of a roadmap for future capital markets transactions.

As part of the assessment of the transformation, Verdant Capital broke down the existing loan products into each step of the loan life-cycle and reviewed the specific plans to use technology to make the products more efficient, and then reviewed the milestones in terms of implementation. Verdant Capital also prepared a detailed assessment of the "headwinds" for the transformation, both internal and external. Verdant Capital considered the core strengths of the client's group, for example, broad agent network in terms of whether or not they are synergistic with a digital business model. Verdant Capital also reviewed the plans to introduce mobile financial services from a perspective of integrating the outlook for this business into the financial model as well as the fit with the client's historic mission. Verdant Capital considered the valuation of the institution based on different scenarios for the digital transformation.

Leading Pan-African Inclusive Lender

Verdant Capital was engaged by a leading pan-African inclusive lender in 2017 to assist with its ongoing senior debt funding. Verdant Capital prepared a comprehensive review of client's funding profile, by (i) tenor and tenor mismatch, (ii) currency and open foreign exchange exposure, (iii) market of origin, (iv) type of funder.

The conclusion of the review included identifying certain weaknesses and risks in the funding structure such as:

- i. Too much short-term funding from banks;

- ii. Too much exposure to South African banks in an environment where the funding costs of the South African banks is increasing and their financial strength weakening, presenting both cost pressure to client and systemic risks;
- iii. Open foreign exchange (FX) exposure position too high, even considering the fact the business represents a portfolio of currencies; and
- iv. Too much concentration of funding from a small number of lenders.

The Firm's client had a number of strong positives on a social performance perspective, including (i) migrating a portion of its loan book to MSE lending, and (ii) the core "Deduct At Source" (i.e., payroll) lending business, being used to a significant proportion for family members' / second businesses and having one of the lower APRs in the market. However, their social performance measurement strategy was sub-par. At our recommendation, in order to prepare for the funding program, we had in mind, in 2016 we recommend a social performance measurement strategy and referred them to a third-party consultant, EBS to implement a third-party review.

Verdant Capital's due diligence also included an assessment of the client's diversification strategy, which had been implemented since 2012, by geography and by product type. Verdant Capital considered the "new" MSE and housing related products, including the market positioning in the markets of operation and portfolio quality. Verdant Capital also proposed a full review of social performance measurement, including survey data relating to the use of loan proceeds by end customers.

Verdant Capital advised the client to implement a funding programme focused on European and US MIVs and DFIs. Verdant Capital focused on longer-term financing (three to five years), local currency funding (or where not available, structured the funding to include FX hedging from international or local institutions), funding from new sources (diversification away from South Africa, and a broader panel of funders).

Verdant Capital successfully implemented this programme raising USD 60 million of funding in the first nine months of 2018 and an additional USD 30 million in Q1 2019.

Leading Southern African Building Society

Verdant Capital acted as strategic advisor to a leading Southern African building society in terms of its transformation from a building society to a bank. In particular, Verdant Capital advised the client on its capital management plan. The scope of work encompassed a full review of the client's business model, portfolio diversification strategy and deposit gathering strategy. This included an assessment as to how to broaden the business model and expand the net interest margin sufficiently to defray the additional cost of complying with the regulatory burdens of being a bank. The scope included providing a full roadmap and internal targets.

Verdant Capital's advisory work further ensured that the institution:

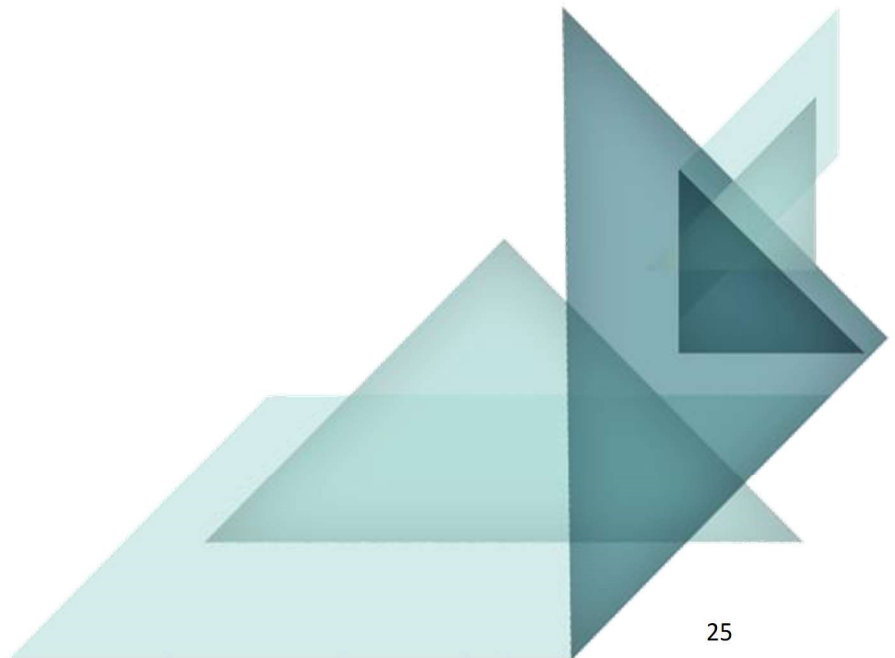
- Complied with the prudential requirements of Basel II and the country's banking act, as directed by central bank, and had in place a robust capital management framework that took into consideration the risk profile of the entity;
- Had in place a well-defined and detailed plan of how and when to raise capital (including addressing which type of capital to raise, i.e., Tier 1 or Tier 2 Capital);
- Had in place a clearly articulated dividend pay-out and complimentary shareholder retention strategy which reconciles to and is completed by the capital management framework that complies to all regulatory requirements (Capital Adequacy ratios); and
- Had a clearly defined and reconciled economic capital to regulatory capital.

Leading Ghanaian Inclusive Financial Institution

The client was founded in 2009 as the bricks and mortar lending business of a pan-African financial services and fintech group. Prior to 2016, the business was in scale-up mode and had not yet reached consistent profitability. The client faced similar challenges to other alternative lenders during its scaling up, including, (i) growing the loan book to dilute operating expenses per loan, (ii) growing the loan book while maintaining a consistent cost of risk and (iii) sourcing sufficient local currency funding to grow without excessive foreign exchange exposure. The client completed its first Ghana Stock Exchange listed bond in 2015. The parent company elected to divest the business in order to focus on its technology driven mobile financial services platformed and initiated the sale process at the beginning of 2016, prior to the business reaching break-even.

Verdant Capital was able to understand the potential offered by the business and successfully market the business to potential buyers. Verdant Capital received four bids for the business in mid-2016, three of which valued the business at a premium to book value, before completing the sale in early 2017, following Bank of Ghana approval. In 2017, the client, under new ownership of a leading pan-African inclusive lender, had profits of the equivalent of USD 1.9 million and had grown its net loan book by year end to be USD 37 million equivalent from USD 21 million the previous year end.

4. Highly Experienced Team



Highly Experienced Team

Verdant Capital's track record and network complements a highly experienced and trained team, with an aggregate of 120+ years' experience, both in the IFI sector and with established international investment firms and banks. Furthermore, the investment team is physically based full-time in Africa and with significant professional and cultural experience and language skills in its respective regions. The vast majority of the investment team are nationals of an African country. Two of the investment team (as well as two of the Fund's Investment Committee) are females, as is the Firm's Business Manager, Sibonelo Mavuso, who is responsible for HR and Administration. Given the culture of the Firm, as well as the long-term retention strategy (training and share-scheme), the Firm has enjoyed a lower staff turnover than is common amongst peer firms serving the African market.




The planned investment team of the Fund Manager has grown in its collaboration since 2014, reflecting the growth of the Firm which has necessitated additional regional offices and staffing, specifically:





- Hiring of **Patrick Ball** in 2019 was specifically hired for a leadership role in the Fund, and he has significant prior experience working with the Verdant Capital team; and
- **Chris Low, Senior Advisor** – Operational Excellence, has worked extensively with the Verdant Capital team, from 2016 while CEO of the pan-African inclusive lender Letshego Group, who first acquired afb Ghana for which Verdant Capital was sell-side financial advisor, and then became a client of the Firm's Private Credit Advisory business unit.




In order to cement alignment of investment priorities and strategy, as well as develop a high-quality pipeline and with the team having internalized Fund processes and mechanics, the Firm has in place a solid team well before the First Closing of the Fund. Furthermore, the Fund has already secured commitments of senior professionals with a diverse and relevant set of experiences to join the Investment Committee.

The senior team is complimented by a team that is hired as graduates from local universities and rigorously trained by the Firm. The Firm's annual Graduate Analyst programme is highly competitive in entry and evaluation. The Firm's recruitment cycle and associated training programme is discussed further below in this section.

Figure X: Highly Experienced Team

Key Team Members	Summary Profile
 Edmund Higenbottam Managing Director	Performed senior roles at Morgan Stanley and Renaissance Capital. Having started his career at Deutsche Bank in the City of London, Edmund has 20 years' experience in investment banking, 11 years of which have been in Africa. Verdant Capital from 2013.
 Patrick Ball Director	20+ years' experience developed and emerging / frontier markets banking, investment management and consulting experience. Has performed senior roles at CDC, Deutsche Bank, FINCA International (in DR Congo), DWM and Incofin Investment Management. Also performed technical expert roles in financial inclusion on three field projects for DAI. Conversant in French and has passed his CFA Level I and II. Verdant Capital from 2019.
 Chris Low Senior Advisor – Operational Excellence	Extensive experience performing senior roles at emerging markets financial institutions, including as CEO of pan-African lender, Letshego Holdings from 2013 to 2018, and as part of a tenure at Standard Chartered stretching from 1990 to 2008, CEO and COO of various of the Group's banks in Africa and Asia. Now focused on building a portfolio of Board and Advisory roles that leverage on his financial and digital services skills as well as his international leadership experience. Verdant Capital from 2019.

	MacDonald Gomo Associate	Completed his CFA level II and has completed his Bachelor of Commerce Honours Degree in Business Finance in 2014 at the University of KwaZulu-Natal and he is a certified expert in Microfinance. Has worked on 10 transactions in his 3+ year career to date across Africa with a combined value of more than USD 110 million. Speaks two languages and dialects. Verdant Capital from 2017.
	Farai Masendeke Senior Analyst	Completed his Master of Science degree in Finance and Investments from the National University of Science and Technology in Zimbabwe and a Bachelor of Commerce Honours in Banking and Finance from Midlands State University, also in Zimbabwe. Has worked on 7 transactions in his career to-date across M&A and capital raising and spanning the Continent. Prior to Verdant Capital, Farai worked at BancABC in Harare. He is a certified Advanced Financial Modeler (AFM) designated from the Financial Modelling Institute. Speaks three languages and dialects. Verdant Capital from 2018.
	Rumbidzai Sithole Analyst	Completed her Bachelor of Science degree in Economics from Monash University and an Honours degree in Economics from the University of Johannesburg. She also holds a Master of Commerce in Financial Economics from the University of Johannesburg. Previously she was an intern for Nhendo Investments in South Africa and a research assistant at the University of Johannesburg. Speaks two languages and dialects. Verdant Capital from 2020.
	Naa Ayorkor Buxton-Tetteh Analyst	Completed her Bachelor of Business Science degree in Actuarial Science from the University of Cape Town. She also holds a Master of Commerce in Investment Management from the University of Cape Town and has passed CFA level I. Previously she was a trainee analyst for Abax Investments in South Africa and an offshore fund analyst at Zaina Wealth Management. Speaks three languages and dialects. Verdant Capital from 2021.

Regional Offices		Summary Profile
	Ikponmwosa Izedonmwun Director (Nigeria)	Investment Banking and Corporate Treasury sector, having most recently worked in the financial sector with Citibank, FirstBank Nigeria/FBN Quest Merchant Bank and FSDH Merchant Bank. Speaks two languages and dialects. Verdant Capital from 2019.
	Imran Patel Director (DR Congo & Francophone)	Investment management and finance expert, with a strong Africa and emerging markets focus. Prior to joining Verdant Capital, Imran worked at Anson Funds Management, a leading North American hedge fund. Speaks five languages fluently, including French. Verdant Capital from 2017.
	Kwabena Appenteng Vice President (Ghana)	Direct experience working in the International Financial Institution field, as a Senior Private Sector Officer at USAID in Ghana. Broad corporate, entrepreneurial and transaction experience in Ghana and beyond. Speaks four languages and dialects. Verdant Capital from 2014.

Team Transactional Experience

Verdant Capital is perhaps the single most experienced advisor in Africa to Inclusive Financial Institutions, in terms of debt capital markets and M&A advisory. The firm will leverage this experience for the management of the Fund. The full CVs of the team members are available in the virtual data room. The table below shows the experience of specific team members working together at the Firm on different transactions (financial institution related transactions only):

Figure XI: Selected Transactional Experience of the Manager's Team

	Norfund	Trustco	Madison Finance	afb Ghana	Trustco	Prudential Bank	Botswana Bldg. Society	RenMoney	FINCA Internat'l	Letshego
Sub-sector	MFI	Student finance / diversified	MFI	MFI	Student finance / diversified	Bank	Mortgage bank	MFI	MFI	MFI
Country	Kenya	Namibia	Zambia	Ghana	Namibia	Ghana	Botswana	Nigeria	Multiple	Multiple
Type	M&A	Senior / hybrid	Various	M&A	Advisory	Equity / Advisory	Advisory	Senior debt	Advisory	Senior debt
Size (USD M)	n/a	35	n/a	23	n/a	n/a	n/a	3	n/a	90
Date	2013	2016 & 2020	2014-2016, 2020	2017	2017	2018	2018	2018	2018	2018-2020
Edmund Higenbottam	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Patrick Ball			✓							✓
Chris Low				✓						✓
MacDonald Gomo		✓			✓		✓		✓	✓
Farai Masendeke			✓							
Rumbidzai Sithole										
Ikponmwosa Izedonmwun										
Imran Patel							✓		✓	
Kwabena Appenteng				✓		✓		✓		

	Retail Capital	Planet42	Platcorp Group	Xtenda	Invoice Discounting Facility	La Regionale	Zeepay	Capricorn Digital	Tugende
Sub-sector	SME lender	Leasing Finance	MFI	MFI	Bank / MFI / Specialized	MFI	Fintech	Fintech	Leasing Finance
Country	South Africa	South Africa	East Africa	Zambia, Mozam., Tanzania	Pan-African	Cameroon	Ghana	Nigeria	Uganda
Type	Senior Debt	Senior debt and equity	Senior debt	Senior debt	Senior debt (revolving)	Senior debt and equity	Equity	Equity	Senior debt and equity
Size (USD M)	13	13	28	n/a	30	5	4	20	20
Date	2018-20	2020	2018-21	2020-21	2019-21	2019-21	2021	2021	2019-2021
Edmund Higenbottam	✓	✓	✓	✓	✓	✓	✓	✓	✓
Patrick Ball			✓	✓	✓				
Chris Low									
MacDonald Gomo	✓	✓	✓						
Farai Masendeke			✓	✓		✓			✓
Rumbidzai Sithole							✓		✓
Ikponmwosa Izedonmwun					✓			✓	
Imran Patel					✓	✓			✓
Kwabena Appenteng					✓		✓		

Source: Verdant Capital

Chris Low's involvement in two of the transactions listed above is as the client in the case of the Letshego debt capital raise (2018-19) and as the acquiror in the case of the afb Ghana (2017) sale.

The individuals above also currently perform a significant role in business development and origination function for the Firm in the IFI sector, including, writing articles for the specialist press and associations/task forces, networking and presenting at conferences, and continually meeting new clients, investors and advisors.

Track Record of Senior Team Members

The table below shows selected transactions from Edmund Higenbottam's career prior to Verdant Capital, focusing specifically on transactions involving financial institutions, or involving hybrid or convertible instruments. Since founding Verdant Capital in 2013, up until recently, Edmund personally led most of the advisory transactions that the Firm executed. Edmund also designed the strategy of the Firm in terms of its building of a specific track record in inclusive financial institutions and other high development impact sectors. His role in the transactions executed by the Firm is not presented in the table below.

The virtual data room includes the full transactions record for Edmund, as well as for all the other members of the investment team.

Figure XII: Track Record – Edmund Higenbottam

Year	Client	Country	Transaction	Size
2003	Heidelberg Cement	Germany	Three-part refinancing (rights issue, high yield bond and syndicated bank facility)	EUR 2.4 Bn
2003	ABB	Switzerland	Convertible bond	CHF 1 Bn
2003	ABB	Switzerland	Three-part re-financing (rights issue, high yield bond and syndicated bank facility)	USD 4.3 Bn
2004	BMPS	Italy	Exchangeable bonds (into BNL)	EUR 447 M
2004	Kaupthing Bank	Iceland	Fully marketed secondary offering	EUR 600 M
2006	Aabar Petroleum	UAE	Convertible Sukuk	USD 460 M
2008	National Bank of Abu Dhabi	UAE	Convertible Lower Tier 2 Capital	AED 2 Bn
2008	Tabreed	UAE	Mandatory convertible Sukuk	AED 1.7 Bn
2008	Riyad Bank	Saudi Arabia	Rights issue	SAR 13.13 Bn
2008	Commercial Bank of Qatar	Qatar / UK	GDR IPO	USD 900 M
2009	Skye Bank	Nigeria	Buy-back of Convertible Loan	USD 50 M
2009	First Bank of Nigeria	Nigeria	Block trade	USD 20 M
2010	Skye Bank	Nigeria	Fully-marketed follow-on offering	USD 75 M
2011	Seven Energy	Nigeria	Sale of Actis' mezzanine note	USD 40 M
2011	Ecobank Nigeria	Nigeria	Delisting from Nigerian Stock Exchange and merger with parent company, ETI	USD 150 M

2012	Letshego	Botswana / South Africa	JSE-listed bond	ZAR 700 M
2012	Ecobank Transactional Inc	Togo / Nigeria / South Africa	Private Placement of Equity	USD 25 M

Edmund developed a broad investment banking skill set covering both corporate finance and financial institutions, as well as across mergers & acquisitions, equity capital markets and debt capital markets while working for leading global institutions Deutsche Bank, Morgan Stanley, and Renaissance Capital for twelve years in total. During the latter part of this period, Edmund was physically based in and working in Africa, first Nigeria and then South Africa. During these formative stages of his career, Edmund was involved in a number of highly relevant financial institution and hybrid or convertible financing transactions at Deutsche Bank and Morgan Stanley.

In early 2013, Edmund established Verdant Capital, with the vision of the firm being an impact-oriented investment advisory firm operating on a pan-African basis. Edmund used his broad experience across investment banking to establish the protocols, procedures, and tool kit for the Firm. Verdant Capital's initial strategy was to focus on two high development impact sectors: microfinance / IFIs and agri-business. These sectors remain a core focus of the advisory businesses today, though each business has diversified more into non-IFI impact sectors such as renewable energy and fintech. The Firm's senior debt placement function has evolved into the market leader for MFIs/IFIs on the Continent. The M&A business is more diversified sector-wise, including significant client presence in other sectors such as telecommunications, manufacturing, consumer, and natural resources.

Edmund designed a recruitment strategy in 2014, which has been further refined by the Firm's Associates since. The core group of the team joined in 2014. In 2015, the core in-house tool kit was developed and has been refined at least annually since. Edmund has been responsible for recruiting and leading the team, managing the Firm overall and originating the majority of the new business. Furthermore, until early 2018, Edmund has personally led the execution of each assignment in the Firm. From 2018, execution leadership, for a number of transactions has been delegated to other members of the team. From 2017, Edmund has led the team preparing the investment strategy and fund raising for the Verdant Capital Hybrid Fund.

Edmund is a graduate in Economics of Cambridge University in the UK.

Figure XIII: Track Record – Patrick Ball

Year	Client	Location	Transaction	Size (USD)
2019	ABSA Bank	South Africa	Debt / Trade finance risk participation	USD 100 M
2019	Afrexim Bank	Egypt	Debt / Trade finance risk participation	USD 100 M
2019	Trade and Development Bank	Ethiopia	Debt / Trade finance risk participation	USD 50 M
2018	Premier Credit Ltd	Kenya	Debt investment	USD 1.5 M
2018	Fidelis Leasing Finance	Burkina Faso	Debt investment	USD 1.2 M
2018	Advans Lafayette Microfinance Bank	Nigeria	Debt investment	USD 1.5 M
2018	ACEP	Burkina Faso	Debt investment	USD 1.2 M
2018	Microcred Senegal	Senegal	Debt investment	USD 5.0 M

2017	MicroCred Ivory Coast	Ivory Coast	Debt investment	USD 4.5 M
2017	Advans Ivory Coast	Ivory Coast	Debt investment	USD 3.0 M
2017	FINCA Tanzania	Tanzania	Debt investment	USD 2.0 M
2016	Kenya Women MFB	Kenya	Debt investment	USD 9.5 M
2017	FINCA DR Congo	DR Congo	Debt investment	USD3.0 M
2017	Fidelis Leasing Finance	Burkina Faso	Debt investment	USD 2.0 M
2017	Fidelity Bank	Ghana	Debt investment	USD 3.0 M
2016	Pride Tanzania	Tanzania	Debt investment	USD 2.0 M
2016	Beige Bank	Ghana	Debt investment	USD 2.0 M
2014	N/A - Assisted Living Company	USA	Debt investment	USD 5.0 M
2014	d.Light	Africa, India	Debt investment	USD 1.5 M
2014	FINCA Malawi	Malawi	Debt investment	USD 0.8 M
2013	IMON	Tajikistan	Debt investment	USD 1.0 M
2013	FINCA Tanzania	Tanzania	Debt investment	USD 2.0 M
2013	Kenya Women's MFB	Kenya	Debt investment	USD 2.5 M
2013	FINCA Jordan	Jordan	Debt investment	USD1.0 M
2012	AMK	Cambodia	Debt investment	USD 2.0 M
2012	Ujjivan	India	Debt investment	USD 9.0 M
2012	Grameen Koota	India	Debt investment	USD 7.0 M
2012	Janalakshmi	India	Debt investment	USD 2.7 M
2012	KREDIT	Cambodia	Debt investment	USD 3.0 M
2012	LOMC	Sri Lanka	Debt investment	USD 6.0 M
2012	PRASAC	Cambodia	Debt investment	USD 5.0 M
2012	HKL	Cambodia	Debt investment	USD 4.5 M
2011	Access Bank Tanzania	Tanzania	Debt investment	USD 1.5 M

Patrick Ball has 20+ years' experience developed and emerging and frontier markets banking, investment management and consulting experience. Patrick has excellent experience and relationships in middle-market financial services, inclusive finance, and small banks in emerging markets, with an emphasis on Africa. He has led multiple private debt and equity investment projects, developed fundraising strategies for a range of institutional

and social investors, and executed private credit and equity analyses, documentation and monitoring across four continents. Patrick transitioned into the financial inclusion sector after 7+ years working in investment banking with Bear Stearns & Co. and in private equity with Doughty Hanson & Co in New York and London.

Since 2011, Patrick has worked on nearly 40 private debt transactions into IFIs of all types and in several emerging markets. A snapshot of those transactions is provided above, with his full transaction record available in the virtual data room. His role in the transactions executed by the Firm is not presented in the table above. Patrick also has direct operational experience as CFO for FINCA International's deposit-taking microfinance bank in the DR Congo for two years (2009-11).

While at Verdant Capital, Patrick has managed the USD 30 million "Invoice Discounting Facility", a Pan-African sub-advisory mandate that provides senior debt to IFIs in order to specifically fund their SME-focused receivables financing book (i.e., invoice discounting, factoring, supply chain financing and also Purchase Order financing).

Patrick holds an MBA from the University of Michigan, Stephen. M. Ross School of Business and a Bachelor of Science in Business Administration, finance concentration, from Georgetown University. He is conversant in French and has passed his CFA Level I and II.

Figure XIV: Track Record – Chris Low

Directorships / Senior Advisory Roles

Year	Client	Role	Location
2020-Present	Ajocard	Non-Executive Director ("NED")	Lagos, Nigeria
2020-Present	ClickPesa	NED	London, UK
2019-Present	UK Gov't – DFID	Senior Advisor – Banking	London, UK
2019-Present	CDC Group plc	Financial Institutions Advisory Panel Member	London, UK
2018-Present	Motive Labs	Advisory Board Member	New York City, USA
2019-2020	I&M Bank Ltd.	Senior Group Advisor; NED for the Kenyan bank	Nairobi, Kenya
2019-2020	FINCA International	Senior Advisor	Washington, DC, USA

Executive / Managerial Experience

Year	Client	Role	Location
2020-Present	I&M Bank	Regional Director	Nairobi, Kenya
2013-2018	Letshego Holdings	Group CEO	Gaborone, Botswana
2013-2016	Diamond Bank	Board NED and Member of Credit Committee	Lagos, Nigeria
2011-2013	ACML Consulting	Independent Advisor and Consultant	London, UK
2008-2011	National Bank of Kuwait	Deputy CEO	Kuwait City, Kuwait
1990-2008	Standard Chartered Bank	CEO and COO roles in Africa and Asia	Africa and Asia
1986-1990	Goldman Sachs	Vice President, Finance	London, UK
1981-1986	Arthur Andersen & Co.	Assistant Manager, Audit	London, UK

Chris Low is an international banking, emerging markets, digital financial services and financial inclusion specialist and practitioner, with more than 30 years in the financial services industry and a Chartered Accountancy

qualification. He has held Board, CEO and Advisory roles in Africa, Asia, the Middle East, and the UK; most recently he was Group CEO at Letshego Holdings. Specific highlights of his managerial experience include:

- **Letshego Holdings Ltd (2013 to 2018)** – Chris developed and executed a diversification and digital transformational strategy towards creating Botswana’s largest and most profitable multinational business, with a market capitalisation of USD 400 million and an annual PBT in excess of USD 110 million. Specific initiatives implemented:
 - Embedded robust regulatory and compliance risk management international best practices and mentored emerging young talent;
 - Completed majority acquisitions of a commercial bank in Tanzania, a microfinance bank in Nigeria and a finance company in Ghana (Verdant Capital was the sell-side M&A advisor). Also made a minority investment in a fintech provider;
 - Converted credit only institutions in Mozambique, Namibia and Rwanda to Central Bank-regulated deposit-taking institutions so as to align with the Group’s Inclusive Finance strategy;
 - Led the initiative to leverage digitisation for enhanced customer experience and data analytics, operational savings and enhanced risk management; and
 - Increased subsidiaries sector exposure in low income housing, agriculture, education, health and MSME financing as well as exposure to the latest financial technology applications relevant to financial inclusion and funders supporting this.
- **National Bank of Kuwait (2008 – 2011)** – Chris implemented effective strategies and required restructuring of the Wholesale and Private Banking businesses in London, Paris, New York, Singapore and Shanghai (combined full-time employees of 180 and USD 40 million in PBT) to counter the global crisis downturn and to support the bank’s MENA region focus.
- **Standard Chartered Bank (1990 to 2008)** – key roles included CEO of South Africa, COO and Head of Integration of South Korea, CEO of India, and General Manager East Africa. In South Africa, he completed transformation of the business and converted a USD 30 million per annum trading loss business to a USD 2 million per annum profit in three years. In South Korea, he implemented the USD 3.3 billion acquisition plan of Korea First Bank ahead of schedule. In India, he led a major sales and service initiative that contributed to revenues increasing from USD 350 million to more than USD 450 million per annum and profits by 30% to USD 195 million per annum in two years.

Chris holds an MA in Zoology from the University of Oxford in the UK.

Figure XV: Track Record – MacDonald Gomo

Year	Client	Country	Transaction	Size
2021	UsPlus	South Africa	Senior Debt	Ongoing
2020	MyBucks Banking Corporation	Malawi	Senior Debt	Ongoing
2020	Retail Capital	South Africa	Equity	Ongoing
2020	Planet42	South Africa	Debt and Equity	EUR 9 M
2018-21	Platcorp Group	East Africa	Senior Debt	USD 28 M
2018	FINCA International	Pan-African	Advisory / Digital strategy	N/A
2018	Botswana Building Society	Botswana	Advisory	N/A
2018-20	Letshego Holdings	Pan-African	Senior Debt	USD 90 M
2018-20	Retail Capital	South Africa	Senior Debt	USD 13 M
2017	Trustco	Namibia	Advisory	N/D

MacDonald Gomo joined Verdant Capital as a graduate analyst through the Firm's graduate recruitment programme in 2017 and has risen to an Associate level after having acquired broad investment banking knowledge in the Inclusive Financial Institutions sectors covering capital raising and advisory transactions. MacDonald has acquired extensive exposure and experience in high impact transactions on capital raising for listed and unlisted IFIs in Africa. He has travelled to a number of African countries to perform due diligences, prepare, and review complex financial models and assist in corporate restructuring as well as representing the firm at investment conferences in Europe. MacDonald is responsible for his own transactions on a day-to-day basis.

MacDonald has worked on ten transactions in his career to date in East, West and Southern Africa with a combined value of more than USD 110 million. MacDonald holds a Bachelor of Honours in Finance degree from the University of KwaZulu-Natal, South Africa, he has passed his CFA Level II and he is a Certified Expert in Microfinance with Frankfurt School of Finance and Management. He speaks two languages and dialects.

Figure XVI: Track Record – Farai Masendeke

Year	Client	Country	Transaction	Size
2019-21	Tugende	Uganda	Senior Debt and Equity	USD 20 M
2019-21	La Regionale	Cameroon	Senior Debt and Equity	USD 5 M
2020-21	Madison Finance	Zambia	Advisory / Restructuring	N/D
2020-21	Xtenda Financial Services	Pan African	Senior debt	N/A
2020	Unguka Bank	Rwanda	Sell-side M&A	N/D
2020	Socremo Bank	Mozambique	Sell-side M&A	N/D
2018-20	Platcorp Group	East Africa	Senior debt	USD 8 M

Farai Masendeke joined Verdant Capital in November 2018 as a graduate analyst through the Firm's graduate recruitment programme and has risen to Senior Analyst level after having acquired broad investment banking knowledge in the IFI sector covering capital raising and advisory transactions. Farai has acquired extensive exposure and experience in high impact transactions on capital raising for listed and unlisted IFIs in Africa. Farai is a certified Advanced Financial Modeller, designated from the Financial Modelling Institute¹⁰, and prepares and reviews complex financial models supporting a variety of transactions. Furthermore, he assists in corporate restructuring assignments and has been involved in several due diligence exercises. Farai is now responsible for his own transactions on a day-to-day basis.

Farai has worked on seven transactions in his career at Verdant Capital to date in East, West and Southern Africa. Prior to Verdant Capital, Farai worked at BancABC in Harare. He completed his Master of Science degree in Finance and Investments from the National University of Science and Technology in Zimbabwe and a Bachelor of Commerce Honours in Banking and Finance from Midlands State University, also in Zimbabwe. He speaks three languages and dialects.

Figure XVII: Track Record – Rumbidzai Sithole

Year	Client	Country	Transaction	Size
2021	Baxi	Nigeria	Equity	Ongoing
2021	Kibo	Kenya	Equity	Ongoing
2021	Bloom	Mauritius	Equity	Ongoing

¹⁰ Financial Modelling Institute: <https://fminstitute.com/>

2021	Kalibre	South Africa	Equity	Ongoing
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Rumbidzae Sithole joined Verdant Capital as a graduate analyst through the Firm's graduate recruitment programme in 2020. She completed her Bachelor of Science in Economics degree at Monash University and an Honours degree in Economics from the University of Johannesburg. Previously she was an intern for Nhendo Investments in South Africa and a research assistant at the University of Johannesburg. She also holds a Master of Commerce in Financial Economics from the University of Johannesburg, which she obtained in 2019. She speaks two languages and dialects.

Naa Ayorkor Buxton-Tetteh joined Verdant Capital as a graduate analyst through the Firm's graduate recruitment programme in 2021. She completed her Bachelor of Business Science degree in Actuarial Science from the University of Cape Town. She also holds a Master of Commerce in Investment Management from the University of Cape Town and has passed CFA Level I. Previously she was a trainee analyst for Abax Investments in South Africa and an offshore fund analyst at Zaina Wealth Management. Speaks three languages and dialects. Verdant Capital from 2021.

Figure XVIII: Track Record – Ikponmwosa “Ik” Izedonmwon

Year	Client	Country	Transaction	Size
2021	Capricorn Digital	Nigeria	Equity	USD 20 M
2018	Federal Government of Nigeria	Nigeria	Debt Capital Markets (DCM), Eurobond	USD 2.9 Bn
2018	Union Bank of Nigeria	Nigeria	ECM, Follow-on Capital raise	NGN 50 Bn
2016	Sterling Bank	Nigeria	DCM, LCY Bond	NGN 32.8 Bn
2017	Mixta Africa	Nigeria	DCM, LCY Bond	NGN 4.5 Bn
2017	FSDH Merchant Bank	Nigeria	Sell side M&A	N/D
2016	Wema Bank	Nigeria	DCM, LCY Bond	NGN 6.3 Bn
2015	Stanbic IBTC	Nigeria	DCM, LCY Bond	NGN 15 Bn
2015	Transcorp Hotels	Nigeria	DCM, LCY Bond	NGN 19.7 Bn
2014	United Bank for Africa	Nigeria	DCM, LCY Bond	NGN 30.5 Bn
2013	Notore Chemicals	Nigeria	Debt restructuring	NGN 50 Bn
2010	Mainone Subsea Cable	West Africa	Project Finance Advisory and Sell side M&A	USD 240 M
2008	Lekki Toll Road Project (LCC)	Nigeria	Project Finance Advisory	USD 320 M
2007	Mosvold Jack-up Ltd	Norway	Buy-side Adviser	USD 260 M
2007	East Horizon Gas	Nigeria	Project Finance Advisory	NGN 14 Bn

Ikponmwosa “Ik” Izedonmwon has 25+ years' experience in Investment Banking and Corporate Treasury. In the financial sector, Ik has worked with Citibank, FirstBank Nigeria/FBN Quest Merchant Bank and FSDH Merchant Bank. His investment banking skill set covers Corporate Finance, Project Finance and Capital Markets. Ik started his career on the finance team of Procter and Gamble, based in Lagos, and has executed transactions for a number of corporates and several jurisdictions.

Ik is a Chartered Accountant and holds a Bachelor of Science degree in Biochemistry from the University of Benin. He speaks two languages and dialects.

Figure XIX: Track Record – Imran Patel

Year	Client	Country	Transaction	Size
2019-21	Tugende	Uganda	Senior Debt and Equity	USD 20 M
2019-21	La Regionale	Cameroon	Senior Debt and Equity	USD 5 M
2019-20	Solutions 4 Africa	DR Congo	Senior Debt	N/D; ongoing
2018	Ferme Agropastorale Jambo	DR Congo	Senior Debt	USD 7 M
2018	FINCA International	Pan-African	Advisory / Digital strategy	N/A

Imran Patel joined Verdant Capital in April 2017 to manage and oversee the Firm's Francophone Africa business from the Kinshasa office, where he is based. Imran is a results-oriented capital markets and corporate strategy professional with over 17 years' experience in actively managing investments, fundraising, and advising businesses across a variety of sectors in developed and emerging markets.

Prior to joining Verdant Capital, Imran spent 15+ years at Anson Funds Management, a leading hedge fund manager based in Toronto and Dallas, where he was a member of the founding team and helped oversee the growth of AUM to over USD 500 million. The firm's focus was global listed equities but also allocated a portion of its portfolio to private equity and debt securities. Imran was responsible for advising on investment strategy, investment analysis, and portfolio management. He also assisted on fundraising initiatives given his network of relationships. Under Imran's initiative, the firm took an active interest in sub-Saharan Africa investments which spanned across a variety of sectors, from financial services, telecommunications, mining, and agriculture.

At Verdant Capital, Imran is responsible for deal origination, client relationships, and transaction management and thus works closely with the Private Credit Advisory and M&A teams, respectively. He will contribute to the management and growth of the Hybrid Fund in a variety of ways, given his experience as described above. Imran's experience and background on the buy-side complement the skill set of the Verdant Capital team by adding a unique perspective and insight into deal flow and transaction management.

Imran holds a Bachelor of Commerce degree from the University of Toronto, specialising in Finance. He is fluent in French and speaks five languages in total.

Figure XX: Track Record – Kwabena Appenteng

Year	Client	Country	Transaction	Size
2021	Zeepay	Ghana	Equity	USD 4 M
2018	RenMoney	Nigeria	Senior Debt	USD 3 M
2018	Prudential Bank	Ghana	Strategic Advisory	N/A
2017	afb Ghana	Ghana	M&A	USD 23 M
2013	TLG Ghana	Ghana	Debt	USD 2 M
2005	EcoBank Ghana	Ghana	LPG	USD 40 M
2004	Standard Chartered Bank	Ghana	LPG	USD 20 M
2004	EcoBank Ghana	Ghana	LPG	USD 20 M

Kwabena Appenteng joined Verdant in 2014, opening the Verdant Capital office in Accra, Ghana and also serving the neighbouring countries in West Africa. His in-depth knowledge and understanding of the Corporates and Financial Institutions in the region originates from his role as a Senior Private Sector Officer in Ghana with USAID, working on government policy and private sector interventions to stimulate the enabling environment through capital markets, financial intuitions, and private sector businesses.

While at USAID, Kwabena was responsible in developing several MFIs, expanding the financial inclusion for the Ghanaian markets through technical assistance for both MFIs and banks. Further to this, his initiatives expanded the Agency's focus on the sector, working through private sector associations and also developing gender initiatives in the private sector, bringing in other international agencies to support these initiatives. Kwabena also has direct private sector trading experience in trading of commodities, working with human relief agencies to create market opportunities for small scale farmers for distribution across the region.

Kwabena's career with Verdant Capital is focused on corporate finance transactions, capital raising and M&A for both IFIs and non-IFI sectors. In his business development role over the years, has represented the Firm at investment conferences across Africa and Europe, contributing to its overall growth in clients and stakeholder relationships

Kwabena holds a Bachelor of Science Honours in Business Studies from the Surrey University, Roehampton Institute of Higher Education (UK) and an MBA degree from Webster University (UK). He speaks four languages and dialects.

Figure XXI: Additional information regarding team members

	<i>Title</i>	<i>Date joined Verdant Capital</i>	<i>Prior experience</i>	<i>Location</i>	<i>Nationality</i>	<i>Languages</i>
Edmund Higenbottam	<i>Managing Director</i>	2013	<i>Morgan Stanley, Deutsche Bank, Renaissance Capital</i>	<i>Johannesburg, South Africa</i>	<i>UK</i>	<i>English</i>
Patrick Ball	<i>Director</i>	2019	<i>CDC, Incofin IM, DAI, Deutsche Bank, DWM, FINCA, Doughty Hanson, Bear Stearns</i>	<i>Johannesburg, South Africa</i>	<i>USA</i>	<i>English, French</i>
Chris Low	<i>Senior Advisor – Operational Excellence</i>	2019	<i>Standard Chartered Bank, Letshego Holdings, Diamond Bank, Goldman Sachs</i>	<i>Nairobi, Kenya</i>	<i>UK</i>	<i>English</i>
Ikponmwosa Izedonmwem	<i>Director</i>	2019	<i>Citibank, FirstBank Nigeria/FBN Quest Merchant Bank, FSDH Merchant Bank</i>	<i>Lagos, Nigeria</i>	<i>Nigeria</i>	<i>English, Edo</i>
Imran Patel	<i>Director</i>	2017	<i>Anson Funds Management</i>	<i>Kinshasa, DR Congo</i>	<i>Canada</i>	<i>English, French, Gujarati, Hindi, Lingala</i>
Kwabena Appenteng	<i>Vice President</i>	2014	<i>USAID</i>	<i>Accra, Ghana</i>	<i>Ghana</i>	<i>English, Twi, Ga, Fante</i>
MacDonald Gomo	<i>Associate</i>	2017	<i>n/a⁽¹⁾</i>	<i>Johannesburg, South Africa</i>	<i>Zimbabwe</i>	<i>English, Shona</i>
Farai Masendeke	<i>Senior Analyst</i>	2018	<i>BancABC</i>	<i>Johannesburg, South Africa</i>	<i>Zimbabwe</i>	<i>English, Shona, SiSwati</i>
Rumbidzai Sithole	<i>Analyst</i>	2020	<i>Nhendo Investments</i>	<i>Johannesburg, South Africa</i>	<i>Zimbabwe</i>	<i>English, Shona</i>
Naa Ayorkor Buxton-Tetteh	<i>Analyst</i>	2021	<i>Abax Investments, Zaina Wealth Management</i>	<i>Johannesburg, South Africa</i>	<i>Ghana</i>	<i>English, French, Fante</i>

(1) Product of the Firm's Graduate Recruitment and Training Programme
Source: Verdant Capital

The Managing Director, **Edmund Higenbottam**, has an exceptional track record in investment banking, both in Western Europe and on a pan-African basis, including in the impact finance sphere. **Patrick Ball** brings experience in investment management in both developed and emerging/frontier markets along with specialized operating and consulting experience with IFIs. **Ik Izedonmwun, Imran Patel and Kwabena Appenteng** have between them diverse experience on the sell-side and buy-side: Ik at Citibank, FirstBank Nigeria and FSDH Bank in corporate finance and investment banking, Imran at leading a successful North American hedge fund, Anson Funds, where he ran the Africa fund, and Kwabena at USAID in Ghana. **MacDonald Gomo, Farai Masendeke, Rumbidzai Sithole and Naa Ayorkor Buxton-Tetteh** were hired and extensively trained in recent years as part of Verdant Capital's Graduate Recruitment and Training Programme. The team has the language skills to cover both Anglophone and Francophone Africa, as well as over ten African languages.

Details of the Investment Committee are set out in **Section 11: Structure of the Fund, the Manager and Corporate Issues**.

Role of Team Members

Organisation and Staffing of the Fund Team versus the Remainder of the Firm

In order to facilitate the focus of senior management on the Fund, Verdant Capital is in the process of a senior hiring programme to support the businesses of the Firm as a whole:

- i. Senior hires in the M&A business, including Brett Roberts, the Firm's Head of M&A who joined in June 2019, and further senior hire for whom the process is ongoing;
- ii. The Firm is the process of recruiting a head of the Private Credit Advisory business. Short-listed candidates are in place with completion of the hire prior to First Closing; and
- iii. Following First Closing, the Firm will appoint a Chief of Staff who will act as a senior resource to support the Managing Director in terms of the strategy and day-to-day management of the firm.

M&A therefore has a dedicated team and senior team leadership. The Firm's full Organisational Chart is available for reference in the virtual data room.

The team members working for the Fund will be a segregated function within the Firm, with segregated office space, with the M&A and Private Credit Advisory businesses continuing as separate teams. Along with the new head of the Private Credit Advisory business, additional analysts will be hired in order to replace the staff moving over to work on the Fund's business.

Edmund Higenbottam and Patrick Ball

Currently, Edmund Higenbottam and Patrick Ball are responsible for both the Fund (pipeline preparation and fund raising). Mr. Higenbottam is also responsible for Private Credit Advisory, Mr. Ball also assists with certain mandates in the short-term, even though he was hired specific for the Fund.

On First Closing of the Fund, Edmund and Patrick shall be responsible for the Fund. Edmund will cease to do day-to-day work in the Advisory Businesses. While as Managing Director, he will continue to have overall responsibility for the Firm, he will allocate at least 60% of his time to the Fund.

Each of the Firm's business verticals has a separate team with separate leadership, albeit that the senior role for Private Credit Advisory is currently vacant and will be filled prior to First Closing.

At the end of the investment period Edmund and Patrick will dedicate less time to Hybrid I and allocate more time to raising capital for the second fund.

Chris Low

Chris will use his extensive operational expertise, executive and regulator relationships, and strategic knowledge to perform the role of Senior Advisor – Operational Excellence. The role is a part-time role focusing on value add for the portfolio companies.

Based on our review of the template portfolio, we characterise the portfolio breaking down into three approximately equal categories (three or four investments per category):

- i. Institutions requiring no technical assistance post-investment (“**No Touch Cases**”);
- ii. Institutions requiring some technical assistance and support (“**Moderate Touch Cases**”); and
- iii. Institutions in transition requiring extensive technical assistance and support (“**High Touch Cases**”).

Examples of **Moderate Touch Cases** to **High Touch Cases** include:

- i. MFIs undergoing regulatory transformations, including those transforming to full transactional banking licences or from credit-only to incorporate basic deposit taking;
- ii. Larger institutions benefiting from scale economies, and notwithstanding strong overall performance which could benefit from assistance to optimise or digitalise their credit life cycle, or their MIS/Core Banking System (“**CBS**”);
- iii. Institutions introducing new products for SMEs, i.e., supply chain financing, leasing or renewable energy/energy efficiency loans; and
- iv. Successful single country institutions expanding cross-border.

Some investee institutions, notwithstanding strong overall financial and portfolio performance, may have “amber flags” identified in due diligence which require remediation for which “Operational Excellence” initiatives will be required. These initiatives are discussed further in **Section 7: Social and Development Impact**.

As also discussed in **Section 6**, the Manager will be raising a Technical Assistance Facility (“**TAF**”), principally from DFIs. Part of Chris’ role will be to oversee the selection and reporting of the consultants engaged on TAF assignments, as well as providing critical value-add based on his diverse experience, including “C-suite” level experience in leading banks and IFIs in various emerging markets.

In certain investment structures, particularly for Additional Tier 1 Capital, senior equity or holding company debt transactions, the Fund will have a Board Observer seat, which in many cases will be performed by Chris.

Maximising the social and developmental impact of the Fund, including the value-add to the institutions in the portfolio, is a critical part of the vision and strategy of the Fund. Chris will work with the other members of the Fund’s investment team to achieve these objectives. The majority of the role will be focused on “High Touch Cases”, and with respect to less complex cases, the Senior Advisor will leverage other members of the Fund’s team. Key scope of the Senior Advisor role includes:

- i. Responsibility for identification, and where appropriate, quantification of the objectives of performance optimisation post-investment, including development of time-based milestones for the investment roadmap;

- ii. Ensuring that the social and developmental impact of each investment is maximised, through inclusion of value-add measurements in the institution's objectives;
- iii. Responsible for the communication, and where necessary, negotiation of such objectives with the Board/CEO of the investee institutions;
- iv. Overseeing the commissioning of the Fund's TAF work by technical experts, in co-ordination with the institution's senior leadership, be it individual experts or consultancy firms, including review of scope of work (RFPs), selection of parties, agreement of implementation timetables, review and input into draft reports. It is noted that the Senior Advisor is not anticipated to perform the role of a direct consultant to the institution;
- v. Periodic review of performance optimisation objectives with CEO and/or senior management of the investee institutions;
- vi. It is anticipated that High Touch Cases will require two physical trips to visit the investee institutions to meet with the CEO/senior management, one at the outset of the optimisation project and one at the completion of the project. Other cases are expected to be completed as desk top exercises;
- vii. Where necessary, intervention with the CEO and/or senior management of the investee institution, in the event of a material deterioration of the performance of the institution, or material deviation from the performance optimisation roadmap;
- viii. Overseeing the reporting of the performance of the investee institutions to the LPs; and
- ix. Performing the role of Board Observer on certain High Touch investments.

Distribution of Involvement for Operational Excellence

The bulk of this Operational Excellence work is expected to be in 12 months following each investment, and then "lighter touch" in the 12 months thereafter. Given the expected fund disbursement schedule, the work is expected to be approximately twice as intense in the second, third and fourth year as in the first and fifth year. Less intensity of involvement is expected in subsequent years (i.e., after the completion of the investment period of the Fund).

MacDonald Gomo and Farai Masendeke

MacDonald and Farai are two highly experienced professionals working in the Private Credit Advisory team at Verdant Capital and have already accumulated significant specialist transactional expertise over their relatively short careers at the Firm. The two individuals are the "tip of iceberg", with another cohort of newer recruits developing specific expertise and working with the same level of dedication.

As at First Closing one of MacDonald or Farai will be allocated permanently to the Fund Team. At Second Closing, both MacDonald and Farai will be allocated to the Fund Team. At the end of the Investment Period, either MacDonald or Farai will be reallocated to the second fund.

MacDonald and Farai will perform a role assisting the origination of prospective investments, building financial models and portfolio analytics of the prospective investments, drafting screening memos and investment memos. They will help lead the management interviews in terms of due diligence meetings; they will conduct these meetings independently as required and judged appropriate (i.e., in the absence of Edmund or Patrick).

One member of the team will be allocated the roll of compiling the financial and development reporting of the Fund's portfolio to the Fund's LPs. This will be a part-time role working closely with Chris Low, with part of the week left for development of new investments.

Ongoing training and development of the more junior members of the team will remain an important part of the function of MacDonald and Farai. This function remains aligned with the core ethos of the Firm to rigorously train and develop fresh graduates from local universities as the principal way to build up its pool of analysts and associates.

It is to be stressed that the team responsibilities are dynamic, and as the Fund life progress, and individuals in the team gain further specific skills and experience, they will be expected to take a more and more senior role in the performance of the Manager.

Rumbidzae Sithole and Naa Ayorkor Buxton-Tetteh

Rumbidzae and Naa are two recent graduate hires who are in the process of being trained as per the Verdant Capital's training methodology as discussed later in this section. At First Closing, one or Rumbi or Naa will be permanently allocated to the Fund Team. At Second Closing, both Rumbidzae and Naa will be allocated to the investment team of the Fund. At the end of the Investment Period, Rumbidzae and Naa most likely will be allocated to other duties.

The role of Rumbi and Naa is to support more senior team members, for example in terms of preparation of financial models and portfolio analytics of prospective investments, drafting screening memos and investment memos. The intention is that each will perform more senior roles as their experience and skills develop during the investment period,

Ikponmwosa Izedonmwon, Kwabena Appenteng and Imran Patel

Finally, the leaders of each of Verdant Capital's regional offices (in Accra, Kinshasa, and Lagos) are senior-level bankers, whose main responsibility will be to originate and assist in the management of investments for the Fund (Fund work to be at least 50% of their time) but will be permitted to continue to originate business for the Firm's advisory businesses.

Team Organisation

Figure XXII: Team Composition

Team Member	Position	Time Allocation	Development	Operations	Investor Relations
Edmund Higenbottam	Managing Director	60%+	Yes	Yes	Yes
Chris Low	Senior Advisor / Operational Excellence	NA	No	Yes	No
Patrick Ball	Director	100%	Yes	Yes	Yes
MacDonald Gomo	Associate	100%	Yes	Partially	Partially
Farai Masendeke	Senior Analyst	100%	Yes	Partially	No
Rumbidzae Sithole	Analyst	100%	Yes	Partially	No
Naa Ayorkor Buxton-Tetteh	Analyst	100%	Yes	Partially	No
Ikponmwosa Izedonmwon	Director	50%+	Yes	Partially	No

Imran Patel	Director	50%+	Yes	Partially	No
Kwabena Appenteng	Vice President	50%+	Yes	Partially	No

(1) The new Associate will join between First and Second Close and will be responsible for all the monitoring of investee institutions, liaison with the Fund Administrator and reporting to Limited Partners. This will be a key member who will have a solid background in private equity / private credit

There are three principal work streams. As the senior members of the Fund, Edmund Higenbottam and Patrick Ball will have responsibility across all three streams

i. Development:

- Sourcing, screening, presenting to IC, due diligence, working on the legal agreements.
- Presenting the pipeline to the IC, Advisory Committee and Board. These so-called “Pipeline meetings” will occur twice per year and will coincide with meetings of Advisory Committee and the Board.

ii. Operations:

- Portfolio companies subject to Operational Excellence initiatives will be overseen by Chris Low.
- Monitor and report on the investment until the Fund has been repaid.

iii. Investor Relations:

- Quarterly reporting, valuation reports as well as liaising with the Fund Administrators for capital calls, financial accounts, and minutes of meetings.

Remuneration Structure for the Team

Verdant Capital regularly benchmarks its compensation practices versus the market to ensure if overall compensation levels are attractive. Furthermore, as detailed in **Section 11: Structure of the Fund, the Manager and Corporate Issues**, Verdant Capital has a staff shareholding scheme which has proved highly successful in terms of staff retention, motivation and incentivisation. The shareholding by staff is a critical component of the Firm’s culture, generating alignment of interests between staff and firm, aiding long-term retention, and perhaps above all promoting a sense of staff ownership in the day-to-day work of the Firm and its vision.

The Fund structure has a traditional carried interest model. The carried interest or “carry” will be allocated to the Fund’s team members in order to align their incentives as closely as possible to those of the LPs. The Manager believes allocation of carry, in addition to monthly compensation and annual bonuses, is the best way to align the incentives of the team members to the investment outcomes achieved for the LPs.

Figure XXIII: Allocation of Carry

	Carry (% of total)	Fund Commitment	Percentage Points
The Manager	50%	USD 1 360 000	1.700%
Edmund Higenbottam	15%	USD 80 000	0.100%
Patrick Ball	15%	USD 80 000	0.100%
Chris Low	5%	USD 26 667	0.033%
MacDonald Gomo	5%	USD 26 667	0.033%
Farai Masendeke	5%	USD 26 667	0.033%

Other members of the Team (VPs, Associates, Analysts)	5%	-	-
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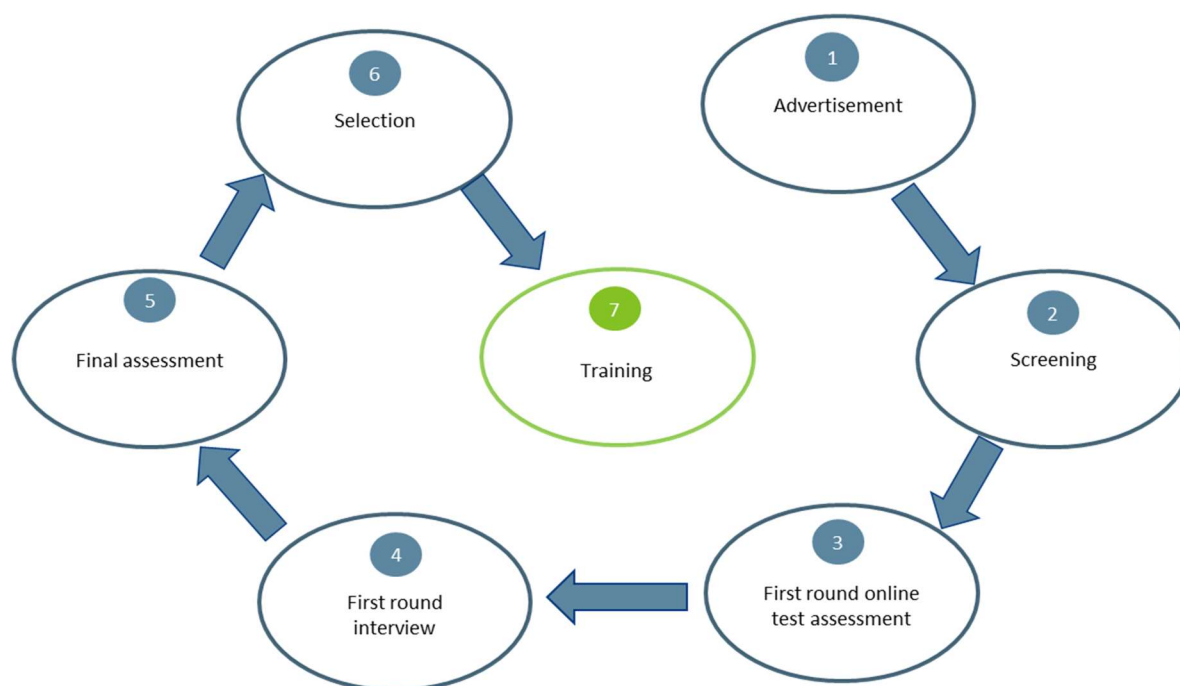
In terms of the financial commitments of the team members, Verdant Capital and the management team will invest from its retained earnings 2.0% of the total commitments. This capital commitment will be split between Verdant Capital itself (1.70%) and the management team (0.30%). Given Edmund Higenbottam is currently a 90% shareholder in Verdant Capital and other staff are an approximately 10% shareholders (including vested and unvested shares) the commitment by Verdant Capital represents a significant personal financial commitment on the part of each individual, in comparison to their respective net wealth. The remaining contribution will be split between Edmund Higenbottam, Patrick Ball, Chris Low, MacDonald Gomo and Farai Masendeke pro rata their allocation of carry.

The Limited Partnership Agreement (“LPA”) will have a **key person clause** and the specified key person will be Edmund Higenbottam. The LPA further includes a secondary key person clause specifying Patrick Ball and Chris Low as secondary key persons.

The allocation of carry to the Manager will also allow the Manager to allocate additional carry to junior team members as they become more senior. Furthermore, it will enable carry on specific investments to be allocated to the team members with specific regional roles (i.e., Ikponmwosa Izedonmwun, Kwabena Appenteng and Imran Patel).

Team Development and Training

Figure XXIV: Recruitment Cycle



Verdant Capital follows a rigorous graduate recruitment process and aims to attract, train and retain the best candidates to its Graduate Analyst programme. A critical part of the Verdant Capital’s vision and mission is the training and development of local talent into skilled and experienced professionals who can contribute to the development of the Continent. The Firm therefore offers young people from the Continent training in a finance career without them having to move to New York, London, or Paris to work for an Africa-focused fund based outside the Continent. As well as a key part of the Firm’s vision and mission, this is a key competitive advantage of the Firm.

Step 1 & 2: Advertisement and Screening

Verdant Capital uses various platforms to advertise its programme. The Firm uses its website, top local universities' career portals and recruitment fairs, recruitment agencies, and team members' professional networking and social media profiles. These platforms combined have proven to be very efficient as they provide access to a large pool of suitable candidates. Targeted local universities are from around the country and include the: University of KwaZulu Natal (UKZN) (Durban), University of the Witwatersrand (Johannesburg), University of Johannesburg (Johannesburg), University of Cape Town (Cape Town), University of Pretoria (Pretoria), University of Free State (Bloemfontein), University of North West (Potchefstroom) and Stellenbosch University (Stellenbosch).

Verdant Capital targets graduates with degree level qualifications in Economics, Business, Finance, Accounting, Investments or similar and graduates must have scored at least 80% in Mathematics and 70% overall in Matric / Grade 12, or equivalent A-levels. Verdant Capital recruits South African nationals and permanent residents of all demographic backgrounds.

Step 3: First Round Online Test Assessment

With hundreds of job applicants to choose from, Verdant Capital uses online tests as an initial assessment to progress the most talented individuals. Verdant Capital's online tests include:

Figure XXV: First Round Testing Modules

Testing Modules	Description
Numerical reasoning	questions in a format of facts and figures presented in statistical tables
Verbal reasoning	questions are typically in the "true, false, cannot say" multiple choice format
Logical reasoning	arguably the toughest and is designed to measure a graduate's non-verbal skills

Candidates who are based in Johannesburg are required to do the assessment at Verdant Capital's offices while candidates outside Johannesburg can write in their locations through video call supervision (Zoom, Teams, Skype etc). The entire assessment takes approximately 1 hour.

Step 4: First Round Interviews

Candidates who have successfully passed Steps 2 and 3 attend a first round of interviews conducted by one of our Associates at our main office. This takes approximately 40 minutes. This first-round interview is designed to find the most qualified and suitable graduates for the vacancy. Candidates who are based in Johannesburg are required to attend physically while interviews for candidates in other cities are conducted via Skype video call.

Step 5 & 6: Final Round Assessment

All candidates who have passed Stages 2, 3 and 4 are required to go through the final round of assessments physically at our main office. The final assessment is conducted on a Saturday. The final assessment includes:

Figure XXVI: Final Round Assessment Phases

Assessment Phases	Description
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Financial modelling exercise	<p>A complicated exercise designed to test candidates' financial modelling skills. Candidates are required to build from scratch a financial model based on the assumptions provided, linking the balance sheet, income statement, and cashflow statement correctly.</p> <p>The financial modelling is shared with them five days before the assessment day to allow familiarisation with the modelling materials. However, the model must be prepared on the day of the assessment. Candidates are allowed to ask any questions before the assessment and these questions are addressed in a timely matter. This entire exercise takes approximately four hours.</p>
Face-to-face interviews	with the Managing Director, and one of the Directors and Associates, respectively. This stage takes approximately 60 minutes per interview.
Second round online test assessment	at this stage, candidates go through Level Two of numerical, verbal and logical aptitude tests which are much more difficult compared to initial online tests at this stage. This assessment takes approximately one hour.

An aggregation of all the scores for online tests, face-to-face interviews, financial modelling exercise is considered during the final selection. Candidates are ranked from highest to lowest in the terms of aggregate scores / performance and the final decision is discussed between members of the team.

Training

Verdant Capital has comprehensive training programmes in place for our analysts. These programmes ease our analysts into the field of work and give them skills necessary to become part of our larger team. The Graduate Training programme includes:

Figure XXVII: Training Programme Component

Programme Component	Description
Initial internal induction	The Firm's analysts are taken through a five-day internal induction programme by our senior members (senior analysts and associates). This is an important process to properly on-boarding new analysts. Analysts are taken through the transaction process management and tasked to go through our in-house tools with a high level of guidance from the senior members.
Basic financial modelling	The Firm's highly experienced external financial modelling trainers take our new analysts through a three-to-four day training course.
PowerPoint and Excel training	The Firm's highly experienced external Microsoft trainers take our new analysts through extensive and relevant training sessions on these software programmes, lasting two-to-three days.
Advanced financial modelling	<p>Verdant Capital has a comprehensive six-month advanced financial modelling training programme, focused on financial institutions and corporate finance. The topical focus for the analyst is tailored to whether they are on the M&A team (i.e., more focused on corporate finance) or the Private Credit Advisory team (i.e., more focused on financial institutions).</p> <p>This programme is run by the Firm's Associates who take our analysts through this internal course, utilizing the materials of the external financial modelling training platform, "<i>Breaking into Wall Street</i>." This platform's approach is renowned for its use of real-life and tailored modelling tests and interview case studies.</p>
Financial analysis tools training	The analysts receive initial and then periodic training for using the <i>S&P Capital IQ</i> and <i>SNL Financial</i> platforms, part of S&P Global Market Intelligence, by the

	relevant local representatives as well as by the Firm’s more experienced internal team members.
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Advanced Stage Training

As our analysts become more senior and formally graduate to the Senior Analyst position and beyond, they are registered for critically relevant advanced courses, notably the following:

Figure XXVIII: Third Party Training Providers

Provider/Programme	Description
Frankfurt School of Finance & Management	Six months remote learning course that provides a formal Certification as a “Microfinance Practitioner” that is globally recognized in financial inclusion.
Moody’s	Three-day proprietary “Advanced Bank Risk Analysis” course provided by <i>Moody’s Analytics</i> .
CERISE SPI4	The virtual training provided by CERISE team reviews cloud-based ALINUS ¹¹ tool, the latest iteration of the industry-recognized social performance management tool that allows investors in inclusive finance to conduct their due diligence with IFIs. The training curricula includes online, interactive with both material and case studies, and ultimately requires one “live” ALINUS assessment with a financial institution within 12 months of completing the training. All members of the Fund’s team will ultimately be trained on the tool and the senior team members will become SPI-4 accredited auditors. Patrick Ball has already qualified as an SPI4 Qualified Auditor from 2021 onwards. The intention is that the majority of the team should qualify as Qualified Auditors.
CFA Program/CFA Institute	Verdant Capital supports the CFA initiative and may contribute to fees for registration and training. Staff members are also allocated three extra leave days as study leave.
Redcliffe Training	Additional ad hoc topical training, for example on debt restructuring. These courses are arranged through providers including UK financial services training firm “Redcliffe Training”.

Long Term Retention

The investment banking sector tends to have high staff turnover, particularly at junior levels. This type and rate of turnover can be destabilising, as trained analysts and associates are typically the “engine” enabling the level and detail of required work. Verdant Capital has a multi-faceted strategy to retain its talent:

Figure XXIX: Firm Retention Strategy – Key Components

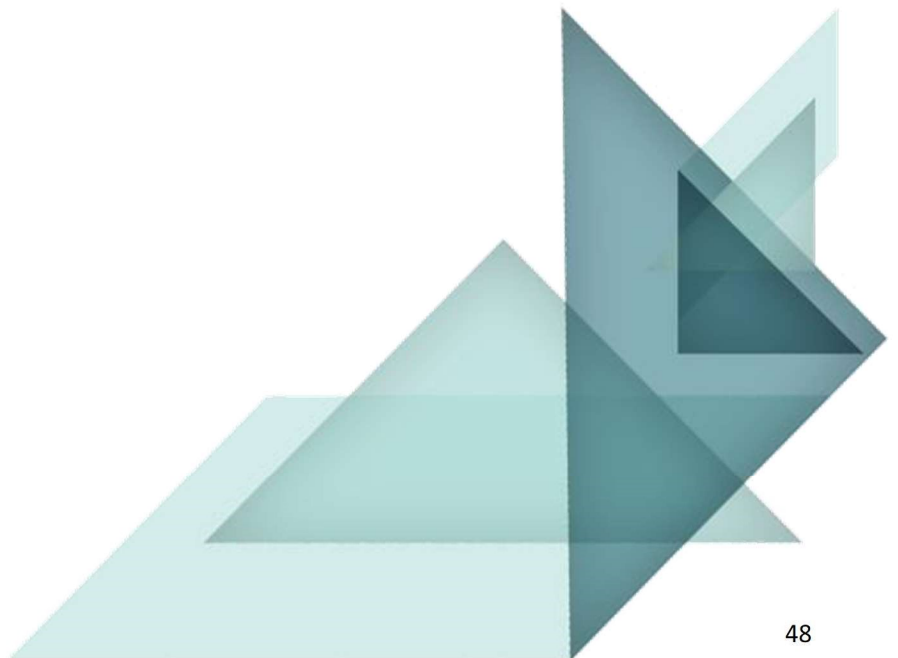
Strategy	Description
Learning all the time	Training and mentoring.

¹¹ ALINUS stands for “Aligning Investors due diligence and reporting with the Universal Standards”. <https://cerise-spm.org/en/alinus/>. Verdant Capital has worked with CERISE and its stakeholders (often the Firm’s clients) to both develop, refine, and utilize the tool. The relevant members of the Fund’s team are fully trained on the tool.

Small firm / big exposure	Hands-on exposure to investments, and responsibility for difficult analysis and clients, at an early stage of their respective careers - while very challenging – tests and ultimately builds a range of technical and interpersonal skills, adding to job satisfaction.
Dual mission	Making a positive impact at the same time as making a profit.
Pay and benefits	Not the highest pay level in the market, but fair pay and benefits including medical aid and car scheme.
Long-term share scheme	Every year, employees are awarded their bonuses in a mixture of cash and shares. The shares are subject to vesting conditions, and the intention is to align the individual the time horizon of the Firm.

More broadly the intention is to create a sense of **ownership** on the part of the team members, ownership over their own career progression, their “own” projects, and ownership over the Firm.

5. COVID-19 – Implications and Opportunity



COVID-19 – The Implications

Economic Implications

The implications of the COVID-19 pandemic on economic growth in Sub-Saharan Africa, as elsewhere globally, has been acute and expected – consensus estimates for 2020 is contraction by 3-4%, pushing the region into its first recession in 25 years and potentially driving up to 40 million back into poverty in one year and erasing years of progress.¹² In terms of case numbers, the Continent's larger, more connected countries have expectedly been most impacted – South Africa, Ethiopia and Nigeria account for over 50% of SSA's total cases as of February 2021.¹³ However, the economic dislocation caused by lockdowns and border closings as well as reduced fiscal spending and global FDI has been Continent-wide, and with full recovery expected to be gradual. Consensus recovery estimates for SSA are 2-4% for 2021, hampered by threat of future waves of outbreaks and the resultant dislocations and investment restrictions, as well persistent concerns of servicing still-high sovereign debt levels – the IMF reports that government debt in Africa increased to approximately 70% of GDP in aggregate. More diversified economies are expected to have marginally better short-term recovery prospects. These include countries such as Kenya, Côte d'Ivoire, and Tanzania, where agricultural commodity exports is projected to push GDP growth above 4.0% through 2022. More broadly, progress towards fuller practical implementation of the African Continental Free Trade Area agreement ("**AfCFTA**") should be helped by the economic realities presented by the pandemic – not to mention boosted by the appointment of the first-ever African heads to the World Trade Organisation and the IFC, respectively, in February 2021.

Financial Sector Implications

The negative implications for IFIs across Africa have expectedly included increased credit, operational and liquidity risks. Inability to conduct normal, field-based due diligence and monitoring activities and conduct normal accounting, finance and control procedures increased risk at a time of lower credit volumes, due both to lower economic activity and self-imposed lending restrictions given elevated environmental risks. Surveys of MFIs in the early months of the pandemic by impact investor stakeholders such as Grameen Crédit Agricole Foundation, CGAP and the Microfinance Centre all found larger increases in loan book arrears (as measured by "PAR30") for MFIs in SSA than in other emerging market regions. As one example, CGAP's "Global Pulse Survey of MFIs" from June 2020 found that for its sample of SSA MFIs, PAR30 increased from 11.1% in June 2019 to 22.1% by May 2020 – the next highest region was MENA, reporting PAR30 for its MFIs of 16.3% in May 2020.¹⁴

Completing these risks for IFIs were their generally more restricted access to funding, both locally from banks and institutional investors, as well as from international investors who typically focused only on supporting existing IFI investees or completely halted any new lending. African IFIs already limited access to formal capital markets further regressed, with negligible bond issuances (private placements had been growing in recent years) and no IPO listings of note; on the latter, pan African lender Bayport Management as well as Nigerian payments business Interswitch each announced in early 2020 delays to their IPO plans.

However, generally speaking, as the pandemic unfolded further, IFIs across Africa proved resilient, and further provided their role as more essential than ever in providing capital to BoP MSMEs. External stakeholder support helped the IFI sector:

- African central banks such as those in Zambia, Kenya, DR Congo, and Tanzania, among others, provided relief in the form refinancing facilities, extension periods for compliance with measures such as licensing, adoption of IFRS 9 and Basel-standard definitions of capital, and meeting capital requirements; and

¹² Source: World Bank

¹³ Source: Statista, 23 February 2021

¹⁴ Source: <https://www.cgap.org/pulse>. CGAP is the "Consultative Group to Assist the Poor."

- Coordination amongst global social and development investors to agree on common principles and processes when working with IFIs affected by COVID-19. Specifically, Verdant Capital was one of 14 Signatories of an Memorandum of Understanding in June 2020 on “Coordination among MIVs in response to COVID-19” via the covid-finclusion.org forum.¹⁵ Specific measures among this forum to ease the burden on IFIs included consolidated reporting and liquidity forecasting templates and coordinated reconsideration of financial covenant thresholds and repayment schedules - all intended to immediately alleviate liquidity pressures that provide these institutions with the ability to replicate the same critical treatment for its MSME client. Other group initiatives have included promotion and development of an “Crisis Assessment Tool” as well as a parallel “TA Coordination Group.”

Another structural development arising from the pandemic is the acceleration of the use of mobile and digital technology in African financial sectors, both in terms of accounts held but also how financial institutions deliver their products and services and create more “asset-lite” banking models. Central banks have played a role in this acceleration, for example in Zambia by adopting “COVID” regulation to promote the use of contactless mobile banking aimed at minimizing in-person contact and decongesting banking halls and in Kenya by introducing relief measures on mobile phone payments such as increasing daily transaction limits and eliminating charges for money transfers between mobile wallets and bank accounts. The target market focus and pace of technology adoption of IFIs across the Continent will ensure that they continue to play a vital role in driving this innovative trend, and hence remain critical to driving financial inclusion by creating safer, more convenient and cost efficient delivery and operating models.

Lastly, IFIs themselves proactively addressed the situations by acting quickly and looking ahead at their strategic positioning for the period post crisis. In particular, these actions in many African economies preserved their provision of financial services to MSMEs hard hit by the combined effect of economic dislocation and as well as reduced access to funding from banks that became even more risk averse than normal in their SME lending lines. Examples of steps taken by Verdant Capital IFI clients include:

- For a leading East African motorcycle leasing institution that experienced severe lockdowns in its markets, temporary suspension of penalty charges and provision of small unconditional cash transfers while allowing clients to retain their assets and keep working where possible;
- For a leading East African SME finance provider, early activation of formal crisis management teams at its Group and across subsidiaries, combined with analysis of the current and expected portfolio impact by sector and loan producing, including projected impact on MSME clients’ trading revenues. The analyses were continually refreshed to allow its teams to respond to its clients quickly and appropriately, while also helping portfolio risk management; and
- For a leading South African merchant cash advance provider, early in the pandemic, segmented its clients base of 15 000+ SME retail partners on the abasis of sectors served and delivery channels in order to prioritize financing strategies. In parallel, it mapped its competitive landscape to identify expected further gaps in access to financing for SMEs, for example, to step in for less active lending from banks. The company further strengthened channel partnerships and its automated platforms, while raising debt and equity financing – all intended to help fill the expected significant post-pandemic demand for SME funding in the country.

COVID-19 – The Opportunity

The post COVID-19 pandemic environment is only accentuating the need for increased capitalization; IFIs play a more essential role than ever as a conduit of capital into local economies, yet with an ongoing need to strengthen their balance sheets. “Private equity” typically provides MFIs with hybrid capital at an equity cost. A specialist hybrid fund

¹⁵ Source: <https://www.covid-finclusion.org/investors>

provides a more appropriate solution to meet the need for regulatory capital and balance sheet strengthening and may prove to be a bridge to an IPO in some cases.

Capital Position of IFIs

As earlier indicated, IFIs have demonstrated resiliency since the start of the pandemic – especially top-quartile IFIs with strong risk management and sufficient capital and liquidity buffers. Nevertheless, the direct impact of lockdowns in many countries have caused most top quartile IFIs to break-even or make losses in 2020, i.e., a one-time loss of retained earnings. These top quartile IFIs now need external capital in order to continue their growth at the same trajectory. Many second and third quartile IFIs are also revisiting their strategy, including loan-life cycle, markets of operation, product, and funding strategy. Some of these IFIs will prove to be the acquisition targets for top-quartile IFIs, thus enabling benefits of scale and sharing of best practice. For some bottom quartile IFIs, the crisis will be trigger for the institution leaving the market altogether.

Funding from IFIs to MSMEs

At the same time, feedback from top-quartile IFIs connected to the Firm is that they expect a sharp uptick in demand for credit following the crisis driven by, for example: demand by IFIs to restock, other weaker IFIs leaving the market, or exiting specific products, and larger banks exiting certain SME financing products. Some IFIs in markets with stricter lockdowns such as South Africa and Uganda saw sharp growth in credit volumes to SMEs post-lockdown. At the same time, there has clearly been a higher degree of scrutiny on lending opportunities where strong credit risk underwriting is essential to ensure the borrowers are resilient to any resurgence of the pandemic, particularly given the risks to pandemic resurgence and further economic volatility.

Verdant Capital IFI Survey

The post-pandemic capital needs of IFIs was affirmed by results of a survey of leading IFIs across SSA conducted by Verdant Capital in November 2020. The survey's objective was to understand better how IFIs weathered the pandemic in the short-term and medium-term. In terms of funding, 57% of IFI survey participants responded that they intended to raise equity or equity-like capital in "early 2021." Of these respondents, 56% attributed the plans to raise capital as being to support loan portfolio growth (the other answers were to meet regulatory capital requirements, or to "strengthen the balance sheet").

This need has been accentuated by crisis but clearly existed before. According to a survey of leading MIVs conducted by Verdant Capital in October 2019, the majority of respondents reported that capitalisation levels for their MFI investees was lower than in the prior 12+ months and reported that "low capitalization ratios" was an important factor for investment proposal rejection. 54% of survey participants also responded that more sources of equity and hybrid capital would be one of their two most important recommended changes to the microfinance ecosystem in order to facilitate more senior debt investment (the other being more currency hedging solutions).¹⁶

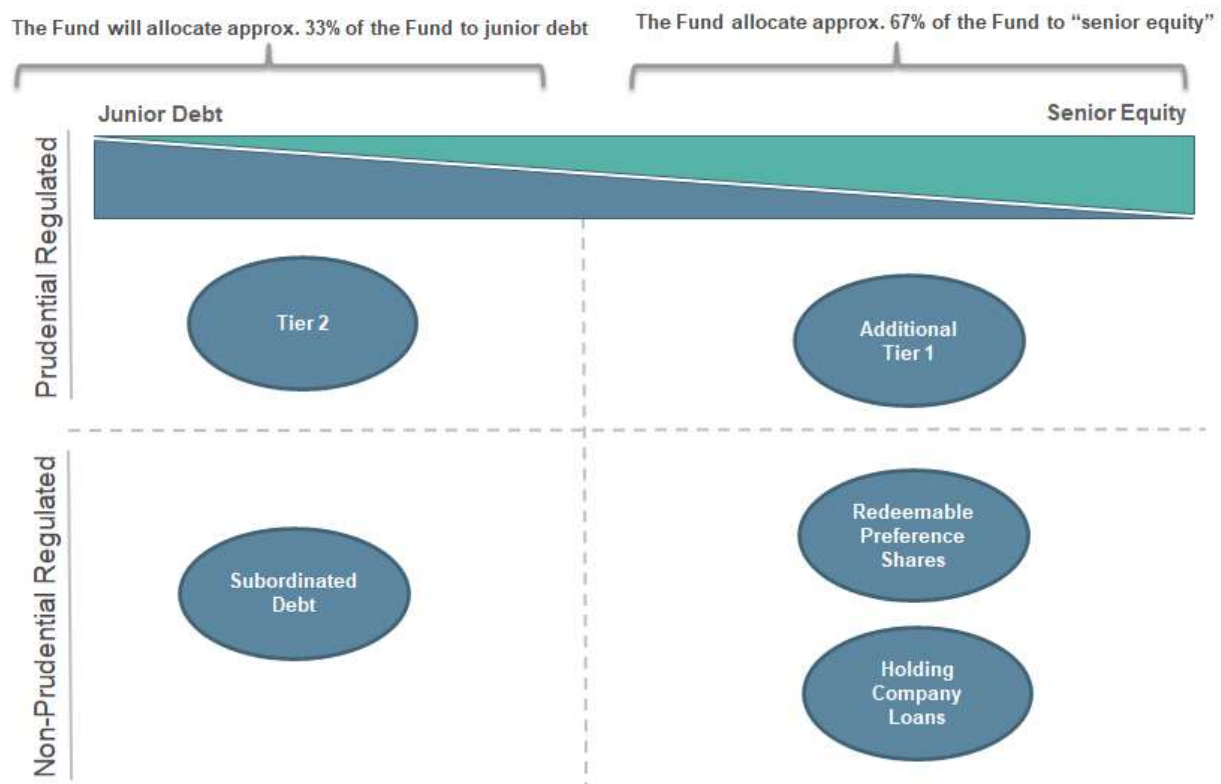
The Role of the Fund

The Manager sees these specific survey results as consistent with wider reported experiences in the market, and further, validating the core hypothesis of the Verdant Capital Hybrid Fund. Recapitalising balance sheets of "best-in-class" IFIs in the post-pandemic environment has however "tilted" the opportunity set more towards "senior equity" structures. This rotation will help replace the "lost" retained earnings on the part of IFI which would have been used for growth. Reallocating the Fund to senior equity also provides a helpful yield pick-up in the current environment.

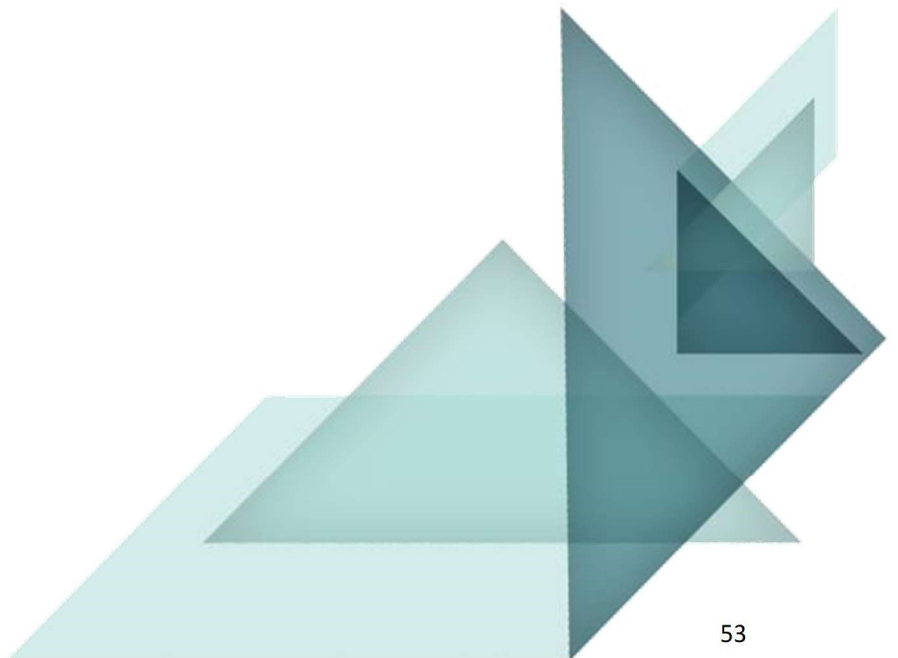
¹⁶ The 2020 Verdant Capital IFI Survey and 2019 Verdant Capital MIV Survey is available upon request.

The following schemata provides an overview of this reallocation, based on the investment instruments on offer by the Fund. The Fund's targeted instruments and portfolio allocations are described further in **Section 6: Fund's Strategy & Investment Philosophy** and **Section 9: Fund Model, Cash Returns and Exits**.

Figure XXX: Portfolio Allocation of Investment Instruments



6. Fund's Strategy & Investment Philosophy



The Investment Rationale

Sub-Saharan Africa Overview

- Sub-Saharan Africa (“SSA”) has 46 countries and a population of just over 1 billion people. According to latest available figures from the World Bank, approximately 66% of adults in Sub-Saharan Africa remain unbanked¹⁷;
- The region had a GDP of USD 1.76 trillion in 2019 (source: World Bank). Recent consensus forecasts for SSA economic growth are for an approximate 3-4% contraction in 2020 due to the impact of COVID-19, with recovery to 2-4% growth in 2021;
- The banking sector remains underdeveloped in SSA, thus reducing its contribution to growth, although its limited integration with global financial markets helped countries weather adverse effects of the 2008 global financial crisis (less correlated investment). As discussed below, even countries with relatively developed banking sectors in Sub Sahara Africa have low bank assets-to-GDP ratios (such as Kenya at 43%), whereas most mature economies have ratios in excess of 100%;
- Mobile and digital technologies have helped noticeably boost financial inclusion in Sub-Saharan Africa in recent years. The spread of mobile and digital technologies has already helped to significantly boost mobile money account ownership throughout SSA. The same World Bank data cited above noted that 21% of adults in SSA had mobile money accounts as of 2017, up from 12% in 2014. In both years, SSA was the global leader in mobile money when compared to other regions. However, mobile money accounts do not linearly increase the “banked” population: nearly half of SSA adults reporting having mobile money accounts did not have an account with a financial institution. This correlates to the significant gap in banked adult populations that remains on the Continent; and
- The impact of COVID-19 is anticipated to only accelerate the use of mobile and digital technology in financial sectors, both in terms of mobile-money accounts held but also how financial institutions deliver their products and services and create more “asset-lite” banking models. IFIs across the Continent will continue to play a vital role in driving this innovation trend. As a result, they will also remain critical to driving financial inclusion.

The largest economies in other regions of the World have Bank Assets-to-GDP of 100-180% of GDP. The largest economies in Sub-Saharan Africa have a lower ratio at 20-80%.¹⁸ A key explanation for this statistical discrepancy remains the financial exclusion of SMEs, micro-entrepreneurs, and generally ordinary retail customers. Overall, the Sub-Saharan African banking sector remains underdeveloped and offers opportunities for IFIs with the right strategy and capitalisation.

Figure XXXI: Bank Assets to GDP (%) per Region

Africa		Europe		North America		South America		Asia	
Country	(%)	Country	(%)	Country	(%)	Country	(%)	Country	(%)
South Africa	78.0	UK	131.7	Canada	246.0	Brazil	105.3	China	174.5
Kenya	42.9	Spain	129.9	USA	90.5	Chile	81.1	Japan	157.5
Côte d'Ivoire	32.6	France	113.0	Costa Rica	61.1	Colombia	54.4	Vietnam	137.4
Nigeria	19.3	Germany	91.1	Mexico	41.3	Peru	41.5	India	68.3

Source: TheGlobalEconomy (via the IMF), Helgi Library

¹⁷ Source: World Bank Global Findex Database 2017 (% age 15+). The figure is only slightly down from levels ranging from 65-75% going back to 2011 from the same dataset

¹⁸ These figures do not include the Middle East and North Africa (“MENA”) whose ratio for larger economies range from 80-120%, whose banking sectors are influenced by commodity-driven economies, monopolistic banking competition, leading to the general characteristic of being “overbanked” by number of banks, but without corresponding gains in financial inclusion.

Addressable market

The Fund will invest in Inclusive Financial Institutions, i.e., micro finance banks and institutions, “innovative” micro finance, SME lenders, leasing companies, housing finance institutions and banks, and specialist banks. Focus activities for IFIs, include, “traditional microfinance” (micro-loans for sole-traders and micro-entrepreneurs), lending to SMEs (often described as the “missing middle”), housing finance, or specific segments such as renewable energy, education finance, health finance or agricultural value chain financing. Some IFIs focus on specific asset classes that disproportionately appeal to MSMEs, for example, leasing, invoice discounting or merchant credit advances.

The Fund will invest in hybrid debt and subordinated debt. Verdant Capital believes the hybrid capital tier represents an attractive market opportunity in Africa and is currently undersupplied by the market. Furthermore:

- i. The significant growth in the global MIV community, as well as the growth in local debt markets, has meant that there is sufficient senior debt for well-run IFIs;
- ii. Incorporation of Basel II or Basel III into the regulations of more African jurisdictions, means that traditional private equity with its “exit provisions” is frequently not qualifying as Common Equity Tier 1. It can be said that these private equity funds are investing hybrid capital with a common equity return, and adding significant complexity (compared to actually investing hybrid capital) including around negotiating valuation; and
- iii. IPOs for this sector have been few and far between. To achieve reasonable aftermarket liquidity and to justify the listing costs, a minimum size of approximately USD 50 million is typically required.

Opportunity and Demand for Funding by MSMEs in Africa

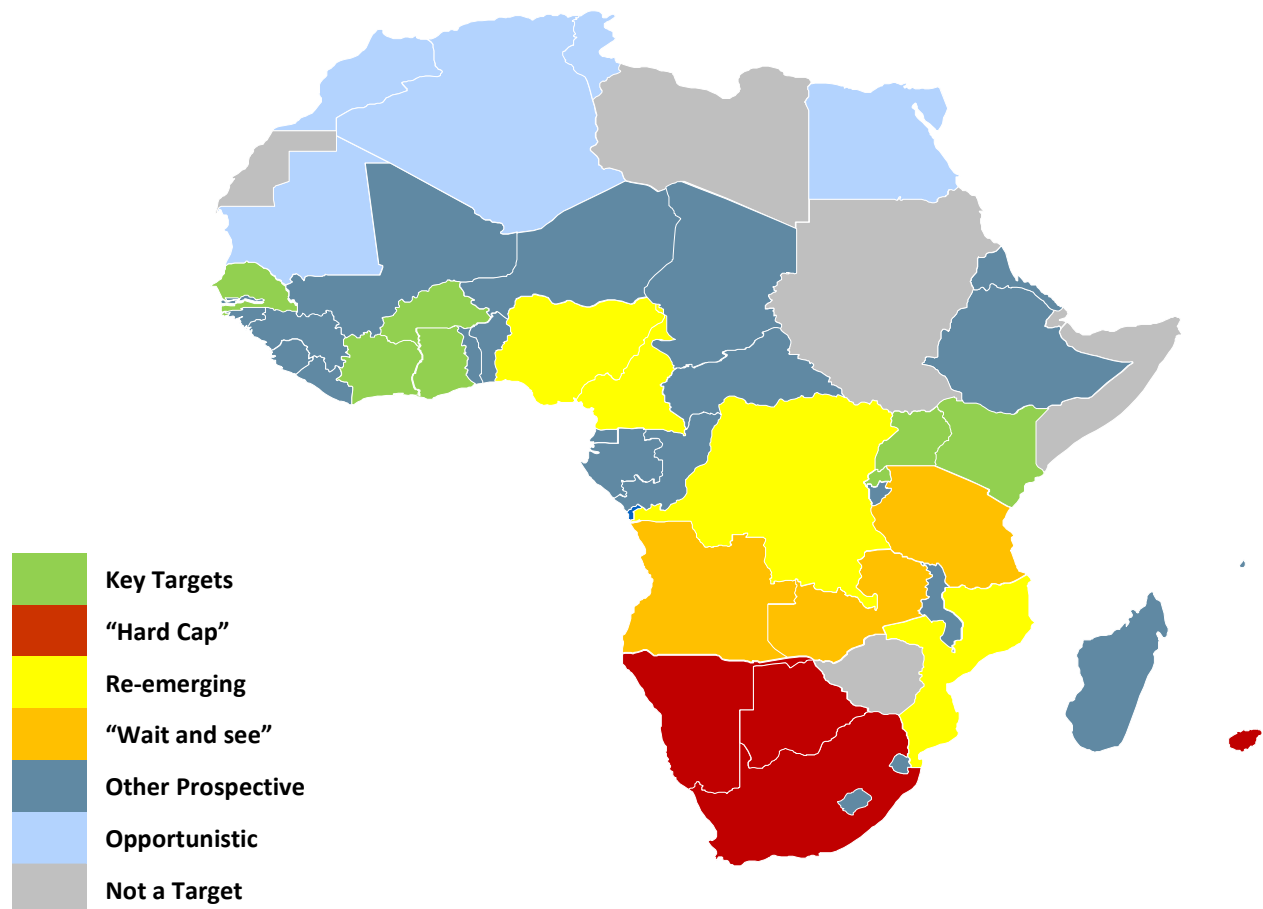
Notwithstanding the growth of the MIV investment community as discussed herein, these MIVs remain structurally underweight when investing in Africa. Verdant Capital estimates that Sub-Saharan Africa historically represents approximately 8-10% of global MIV investment allocations, whereas approximately 26% of Low Income and Lower Middle-Income countries globally, by population, are in Africa. Based solely on the share of population in these designated countries relative to other emerging regions, Verdant Capital estimates that the allocation to Africa should be significantly higher than current allocations, i.e., closer to 26%.¹⁹ Part of the impact strategy of the Fund is to help grow the IFI/microfinance sector in Africa and contribute to a rebalancing of the sector to the geographies which need it most. The Fund also intends to support more innovative MSME-focused financing models that most investors in the sector have been slow to support; these include loans / leasing supporting productive assets or sustainable / renewable energy or specific forms of working capital finance such as invoice discounting, factoring, agricultural-focused supply chain financing and merchant cash advances.

The banking sector remains underdeveloped in Sub-Saharan Africa – as indicated earlier, there is consistently more than 60% of the Continent’s population who remain unbanked. This gap is being addressed by IFIs, including challenger banks and innovative credit institutions by leveraging best practice and new technologies. However, these institutions have a need for regulatory capital which unfortunately is scarcely available across the Continent’s regions, as opposed to senior debt. The opportunity to invest in this market is particularly attractive during the Fund’s investment period as the SSA region (the target market for the Fund) represents an addressable market of over 1 billion people (46 countries) with growing financial services needs that will remain difficult to fulfil over the coming decade. The COVID-19 pandemic only exacerbates this need, as traditional banks become even more conservative taking on additional perceived credit risk at a time when “missing middle” SMEs need capital more than ever. At the same time, digitization and mobile banking will take even greater prominence in driving financial inclusion by creating safer, more convenient, and cost-efficient delivery and operating models.

¹⁹ Source: Symbiotics Annual MIV surveys and World Bank Income Indexes.

Overview of Target Countries

Figure XXXII: Sub-Saharan Africa and the Indian Ocean Islands



The Fund shall target Sub-Saharan Africa countries and the Indian Ocean Islands that are considered part of the Continent. The Manager has divided the countries into four groups:

- Key target countries;
- Re-emerging countries;
- "Wait and see"²⁰;
- "Opportunistic", being CwA countries in North Africa; and
- Other prospective countries.

In order to meet on of anchor investor KfW's specific Africa allocation objectives, the Fund will commit to allocating at least 37.5% of the Fund's capital to countries designated under the G20 Compact with Africa ("CwA") initiative.²¹ This initiative currently has 12 African countries, of which five fall within the key target countries of the Fund: Burkina

²⁰ Includes "previously distressed" countries, as evaluated by the Fund. Absent a meaningful improvement in macro-economic conditions would more likely be considered through regional platforms or for Fund II.

²¹ The G20 Compact with Africa ("CwA") was initiated under the German G20 Presidency to promote private investment in Africa, including in infrastructure. The CwA's primary objective is to increase attractiveness of private investment through substantial improvements of the macro, business, and financing frameworks. The twelve countries currently in the initiative are Benin, Burkina Faso, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Morocco, Rwanda, Senegal, Togo, and Tunisia. Source: <https://www.compactwithafrica.org/>

Faso, Côte d'Ivoire, Ghana, Rwanda, and Senegal. The number of countries joining the country may expand over time.

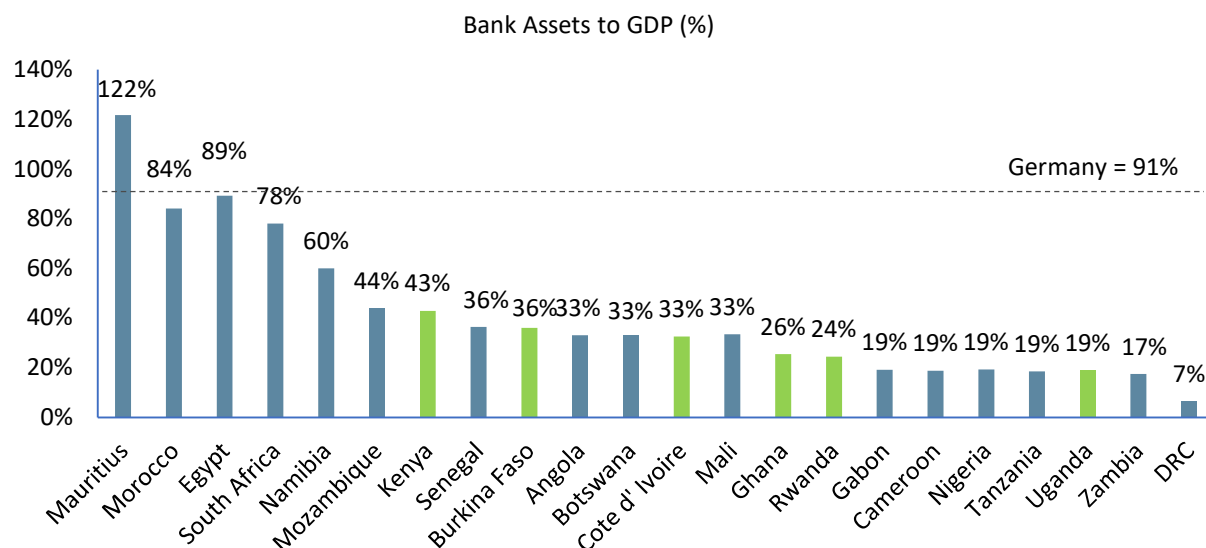
The Fund shall further apply a “Hard Cap” on the aggregate portfolio exposure to the upper middle-income countries in Southern Africa (i.e., South Africa, Botswana, Namibia, and Mauritius). South Africa is a mature market (albeit one with a youth unemployment that is perennially over 50%). Accordingly, the Fund will only look at institutions who are providing their financial services to businesses focussing on innovative distribution channels. The Hard Cap is 20% of committed funds.

The “Re-emerging” countries are target countries albeit ones where the Manager will exercise a degree of additional caution in investment selection given recent macro-economic issues. Notwithstanding the macro-economic volatility in these markets, the Manager sees significant medium-term investment prospects.

It is further noted that based on the pipeline prepared to date that the Manager expects to deploy almost 50% of the Fund in countries which are “Low Income” by World Bank definitions.

As shown below, the ratio of Bank Assets-to-GDP is less than 50% in all “Key Target” countries (shaded green).

Figure XXXIII: Penetration of the Banking Sector in Africa



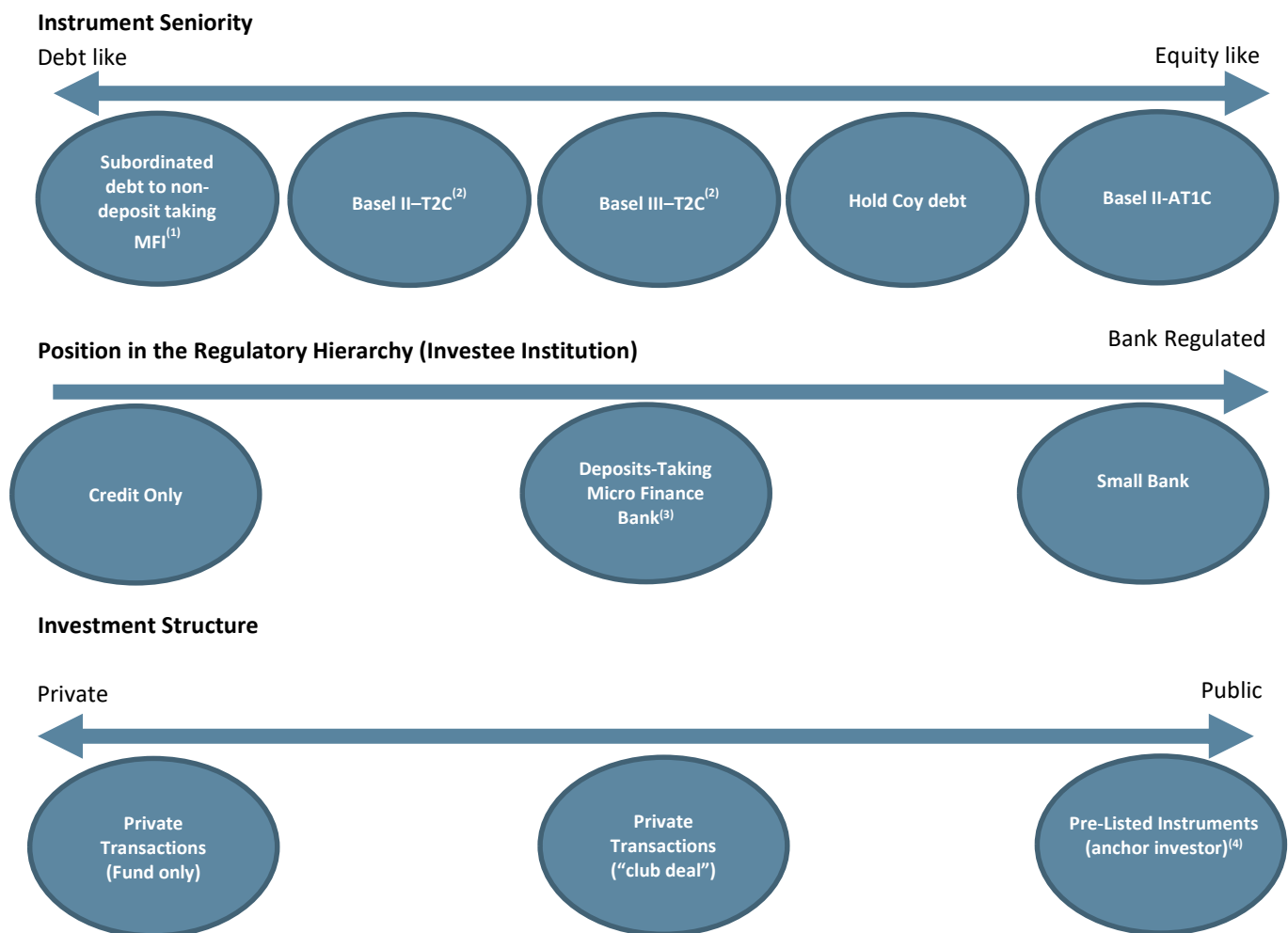
Source: *The Global Economy*, IMF

Investment Structures

The Fund will invest in the complete spectrum of hybrid capital, from subordinated debt through to preference shares. Investment will be in Lower Tier 2 Capital and AT1C for regulated deposit-taking institutions, and subordinated debt and preferred equity for credit-only institutions. The targeted investment structures for the Fund are set out below:

The vision of this Fund is to act as a trailblazer to facilitate the adoption and issuance of longer-tenor, regulatory capital-qualifying instruments that can be replicated not only in the capital market of the given country of issuance (i.e., Senegal), but also throughout the particular contiguous region (i.e., the other Francophone West African countries using the CFA) or on an even wider pan-African basis. These instruments will often be issued in local currency, thus deepening capital markets development, which in parallel will “drag along” further development and availability of local FX hedging options.

Figure XXXIV: Instruments Targeted



(1) In many markets MFIs are not permitted to take deposits and are not subject to prudential regulation. Please see Appendix I

(2) For timelines for adoption of Basel III, please see Appendix I

(3) Or similar non-bank institutions with a deposit-taking licence (typically savings only and not transactional)

(4) “Crowd-in local pension funds. New instruments to local capital markets in Africa (capacity building and expertise)

Risk Mitigation via Investment Structure

Risk is further mitigated by the fact that the investments will all be structured as senior to the common equity of investee institution, and therefore representing a preferential position versus the holders of the common equity, which will often include founders, directors, and senior management.

Each investment will receive significant recurring cash pay (subordinated debt and Lower Tier 2 Capital transactions shall typically be structured as fully cash pay, whereas preference share and AT1C transactions shall be structured as principally - but not 100% - cash pay, the balance being accrued interest or in some cases a participation in the return on equity). Such cash payments help validate the ongoing performance of the institution as well as providing an advanced notice of any issues in the business prior to the expected exit. The table in Figure XXXVII below provides more detail on the targeted investment structure for each instrument at the disposal of the Fund.

This position in the capital structure and the cash pay element of the instruments help mitigate against certain of the investment risks presented in private equity between the insiders and the “external investor”. In the event of an investment in an institution with a single major shareholder, or promoter, the Fund will typically require a

shareholder guarantee of the instrument invested. Holding Company (“**Hold Coy**”) investments shall typically benefit from a share pledge over the shares in an entity which is not subject to prudential regulation.

In terms of exit options, investments in non-prudential regulated institutions (including Hold Coy investments) shall benefit from a contractual maturity, as shall the instruments in Lower Tier 2 Capital instruments. Investments structured as AT1C shall benefit from typical private equity exit rights, such as drag-along rights and a put option to the shareholder. The investment return is comparable to (or often higher than) the performance achieved by African private equity funds in the upper quartile. This return is delivered with less risk given foreign currency hedging and the more tightly defined exit mechanism. According to the Manager, these two issues remain amongst the key risks of investing in the Africa private equity sector for the last ten-plus years.

Other Investment Structures

Certain other investment structures will be considered especially if they support financial inclusion or capital markets development. Specifically, the Fund may consider other investment structures, each capped at a maximum of 10.0% of the Fund, and subject to an overall cap of 25.0%. These investment structures may include:

- Perpetual preference shares for the insurance sector (with conversion and force-to-market rights, similar to AT1C instruments);
- Mezzanine tranche for an SPV to acquire captive or semi-captive solar/off-grid and renewable energy assets, or housing finance assets. In many markets where there is no effective mortgage market, housing finance has a tenor of five years or less. Such initiatives will play an important role in capital markets development, for example, listed securitisations; and
- Debt funding to established financial technology (“fintech”) operating subject to these having a risk-return profile. Of note, “innovative credit” businesses, i.e., institutions using technology to originate, underwrite, secure, or collect credit in a differentiated manner, are treated on their merits like other credit businesses and are not subject to this cap.

Verdant Capital has been approached by parties looking to structure securitisations for specific asset types, such as renewable power leases, or mortgages, in order to promote the availability of such loan products in specific African markets. Such high impact funding types are often less readily available in African markets, because of a lack of term funding available in the local capital market. This issue in many cases is potentially addressed by securitisations with the senior tranches listed on the local stock exchange. In such structures, the Manager shall consider an investment in the mezzanine or junior tranche of the securitisation vehicle. This investment shall rank above the equity tranche but junior to the senior debt tranche. Participation in the structuring of such transactions, and investment in the mezzanine tranche, shall contribute towards the developmental objectives of the Fund by facilitating the growth of these high impact loan products to the end customer, as well as by facilitating broader capital markets development.

Basel Requirements

The Fund will target investments of an amount equivalent to 25-50% of the respective institution’s CET1. As set out in the next table, this target range is consistent with the limits set out under Basel III. Currently, the IFI sector in Africa as a whole has limited exposure to hybrid capital instruments. Broadening this exposure is a key development objective for the Fund.

Figure XXXV: Minimum Capital by Tier Under Basel II and Basel III as a percentage RWA ⁽¹⁾⁽²⁾

	Basel II	Basel III ⁽³⁾
CET1	4.0% ⁽⁴⁾	7.0%
CET1 + AT1C		8.5%

T1C + T2C	8.0% ⁽⁵⁾	10.5%
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(1) Risk Weighted Assets

(2) Most African central banks have higher % minimums

(3) Including 2.5% “capital conservation buffer”; excluding “counter cyclical buffer” which is discretionary for the national regulator

(4) Minimum CET1 at discretion of national regulator

(5) Lower Tier 2 Capital at 50% of Tier 1 Capital (“T1C”); Upper Tier 3 Capital at further 50% of T1C

It is expected that the bulk of the Fund’s investments shall be private instruments. However, the Fund shall also be permitted to invest in pre-listed instruments as part of its targeted overall developmental impact. It is noted that in many markets in Africa, there is limited expertise in terms of hybrid capital, on the part of regulators, local investors, and local brokers. Such investments, which the Manager will structure and act as the anchor investor, shall contribute to the capital markets development (“demonstration effect”) through:

- i. Constructive dialogue with stock exchanges and capital markets regulators to ensure consistency between the terms of the hybrid instrument (including as required by central bank rules) and the requirements to list on the stock exchange. This will pave the way for other institutions to follow in terms of listed instruments;
- ii. If required, constructive dialogue with other regulators, such as pension fund regulators, given the importance of pension funds in many of the stock markets on the Continent;
- iii. The prospectuses for such transactions will be public documents, setting out the terms and conditions of the hybrid instrument, which can then be replicated in use by other market participants;
- iv. The involvement in the locally listed instrument by local brokers will require a high degree of education and “technology transfer” by the Manager;
- v. Such transactions will also contribute to the experience of local investors in such structures.

The preparation of listed instruments shall be labour intensive, given the need to align potentially conflicting requirements of central banks, stock exchanges, capital markets regulators, pension fund regulators, as well as the expectations of local market participants. Edmund Higenbottam has extensive experience in capital markets development, having represented Morgan Stanley on the Practitioners’ Committee of the Dubai International Financial Exchange from 2007-2008 (now NASDAQ Dubai), and played an active role in practitioners’ consultations by The Securities and Exchange Commission of Nigeria. Where appropriate, the Manager will work cooperatively with other international investors who have a capital markets development mandate, such as the African Local Currency Bond Fund²² and the African Domestic Bond Fund²³.

Overview of Capital Qualification under Basel II and Basel III

The table below is a summary of the different rules governing capital qualifications for hybrid instruments in jurisdictions adopting Basel II and Basel III. Some regulators have opted for partial adoption, and in many cases a specific dialogue with regulators will be required. The proximity for on the ground dialogue is a critical value add of the Manager.

Most countries in Africa, with the exception of South Africa and Mauritius, currently have rules based on Basel II or Basel I. Several countries have partially adopted Basel III, but many will only implement major aspects of the accord and have not announced specific timeline or intention to fully implement. **Appendix I** contains a summary of which markets in Africa have adopted Basel II or Basel III, either partially or in full.

²² Established and initially funded by KfW in 2012; managed by LHGP Asset Management since 2015.

²³ Listed on the Stock Exchange of Mauritius in 2018, backed by the African Development Bank and with the listing managed by MCB Capital markets.

Figure XXXVI: Basel II and Basel III

	T2C ⁽⁴⁾		AT1C	
	Basel II	Basel III	Basel II	Basel III
Tenor	Minimum 5-years	Minimum 5-years	Perpetual	Perpetual
Call Option	Permitted after 5-years	Permitted after 5-years	Permitted after 5-years	Permitted after 5-years
Capital Amortisation	Over last 5-years of life	Over last 5-years of life	None	None
Step-up or Incentive	Permitted	Not permitted	Permitted	Not permitted
Regulatory Permission to Call	No	Yes	Yes	Yes
Replacement Capital at Call	Not required	Required ⁽¹⁾	Not required, but typically call only permitted if the institution has sufficient capital	Required ⁽¹⁾
Subordination	Subordinated to depositors and creditors	Subordinated to depositors and creditors	Subordinated to depositors, creditors, and subordinated creditors	Subordinated to depositors, creditors, and subordinated creditors
Payment of Coupon / Dividend	Contractual	Contractual	Discretionary ⁽²⁾	Discretionary and non-cumulative
Dividend Blocker Permitted	N/a	N/a	Permitted	Permitted, but only until dividend on AT1C is paid ⁽³⁾
Principal Loss Absorption	No	No	No	Mandatory in distress scenario
Core Target for Fund	Yes	Yes	Yes	No

(1) Replacement by capital of the same structure or more junior

(2) Can be cumulative depending on the jurisdiction

(3) Not permissible to pay dividend on AT1C in kind if payment is suspended

(4) Under Basel III, T2C must be replaced if “called.”

The key difference between Basel II and Basel III codes for Tier 2 Capital (“**T2C**”) is the fact that a step-up in coupon, or other incentive to encourage the institution to call the instrument is not permitted under Basel III. If the instrument is not called, it is repaid at its final maturity. In the case of the investment structure the Fund is targeting, this maturity is seven years. For this reason, the Fund is targeting a twelve-year term, i.e., a five-year investment period plus a seven-year harvest period.

The key differences between Basel II and Basel III criteria for **AT1C** include the requirement for replacement capital if this instrument is called. As such, new AT1C or common equity must be used to redeem the instrument. More importantly, given that AT1C is perpetual in its final maturity, incentives to force the exercise by the investee of a call option over the instrument are not permitted under Basel III. For this reason, the Fund will not target AT1C investments into regulated entities in Basel III countries. At the current time, in Africa, only South Africa, Namibia and Mauritius have fully adopted Basel III.

In certain markets adopting the Basel III regulatory banking framework, a duration longer than seven years may be required for Lower Tier 2 Capital transactions, making investments in the deposit-taking segment more difficult in those markets.

Figure XXXVII: Targeted Investment Structures and Basel Requirement

	Subordinated Debt to Non-Deposit Taking MFI	Basel II – T2C	Basel III – T2C	Hold Coy Debt	Basel II – AT1C
Final Maturity	▪ 6-years	▪ [7]-years ⁽¹⁾	▪ [7]-years ⁽¹⁾	▪ [6]-years	▪ Perpetual
Call Option	▪ 4-years ⁽²⁾	▪ 5-years	▪ 5-years	▪ TBC	▪ 5-years
Subordination	▪ To general creditors	▪ To depositors and general creditors	▪ To depositors and general creditors	▪ Structurally subordinated	▪ To depositors, general creditors, and subordinated debt
Security Enhancements	▪ Negative pledge: maximum senior or secured debt vs portfolio size ▪ Cap on dividends to ordinary shareholders	▪ None	▪ None	▪ Share pledge over subsidiaries ▪ Negative pledge: maximum debt at subsidiary level ▪ Cap on dividends to ordinary shareholders	▪ None ▪ Cap on dividends to ordinary shareholders
Coupon Step-up	▪ n/a	▪ Yes, at year 5	▪ None	▪ None	▪ None
Conversion Right ⁽³⁾	▪ Typically, none	▪ None	▪ None	▪ Typically, none	▪ Typically, yes, at year 5 if not called
Force to Market ⁽⁴⁾	▪ n/a	▪ n/a	▪ n/a	▪ n/a	▪ Yes, at year 5 or 6
Coupon / Dividend	▪ Coupon ▪ Typically, all cash-pay ▪ Mandatory	▪ Coupon ▪ Cash-pay ▪ Mandatory	▪ Coupon ▪ Cash-pay ▪ Mandatory	▪ Coupon ▪ Potential combination of cash-pay and accrued	▪ Preferred dividend ▪ Potentially combination of cash-pay and accrued in initial three years ▪ Deferrable in defined scenarios ⁽⁵⁾ , subject to dividend blocker on ordinary shares for life of instrument and enhanced governance rights ⁽⁶⁾
Governance	▪ Monthly or quarterly reporting ⁽⁷⁾	▪ Monthly or quarterly reporting ⁽⁷⁾	▪ Monthly or quarterly reporting ⁽⁷⁾	▪ Monthly or quarterly reporting ⁽⁷⁾ and board observer rights	▪ Monthly or quarterly reporting ⁽⁷⁾ and board observer rights
Targeted Return (USD)	▪ 10.0-13.0%	▪ 10.0-13.0%	▪ 10.0-13.0%	▪ 12.0-15.0% + upside sharing	▪ 12.0-15.0% + upside sharing

(1) There is increasing pressure from regulators for a longer final tenor for Lower Tier 2 Capital instruments. This provides advantages to issues in terms of deferring the regulatory amortisation

(2) Commercially desirable, otherwise effective subordination is diminishing as maturity approaches

(3) To ordinary shares at price-to-book multiple agreed at investment

(4) Typical private equity force to market rights, including IPO, secondary sale, and drag-along provision

(5) Insufficient regulatory capital, losses in specific year; in most Basel II jurisdictions, will be cumulative

(6) Board voting rights and negative control rights

(7) Principally: profitability, liquidity, portfolio quality and compliance with senior debt covenants

Portfolio Diversification

Alongside the thorough due diligence and broad pipeline origination, a critical risk mitigant will be the portfolio diversification policies. Specifically, the maximum portfolio exposure thresholds set out below will provide a critical risk management framework for origination and monitoring:

Figure XXXVIII: Portfolio Diversification

Portfolio exposure as a % of committed capital	First Closing	Final Closing
Single country limit ⁽¹⁾	25% (or USD 16 M whichever is lower)	20%
Single investment	20% (or USD 12 M whichever is lower)	15%

Single currency open exposure ⁽²⁾	15% (or USD 8 M whichever is lower)	10%
Aggregate currency open exposure ⁽²⁾	30%	30%

(1) After making country allocations for regional or multi country players

(2) Without hedging

The Fund shall further apply a “Hard Cap” on the aggregate portfolio exposure to the upper middle-income countries in Southern Africa (i.e., South Africa, Botswana, Namibia, and Mauritius). The Hard Cap is 20% of committed funds.

Where an investment is deployed into a regional institution with exposure to more than one country, the country exposure will be allocated to the countries within the said institution pro rata for the economic exposure (i.e., pro rata for the loan book exposure).

Currency Risk Management

Currency risk is a critical risk factor in investing in Africa and in impact investing in general. Currency losses have significantly impacted financial returns of private equity funds investing in Africa.

In contrast, the Verdant Capital Hybrid Fund will hedge most of the currency risk of the portfolio. Being a hybrid debt fund with contractual returns making up the vast majority of the expected return provides a critical discipline to hedge the currency risk implied by investing in Africa.

The Manager expects approximately 20% of the Fund to be deployed in US Dollars. Examples of such US Dollar funding requirements include where the investee institution has a significant US Dollar loan book. Another such requirement is for holding company transactions, where the investee institutions will on-invest the US Dollar funding into different subsidiaries and will manage its own hedging. In such cases, the Manager will also consider dual tranche transactions, with local currency for the largest local subsidiary and US Dollars for the balance.

The balance of the Fund will be deployed in local currency. The local currency risk will always be priced into our transactions, and most of the time will be fully hedged. For investments in institutions which are not subject to prudential regulation, we would look to hedge the exposure entirely. For investments in prudentially regulated institutions, it will not be possible to hedge 100% of our exposure as in some cases (i.e., AT1C), in order to achieve the regulatory structure, there will not be a fixed contractual maturity (instead, there will be a private equity like exit right). For example:

- i. For Lower Tier 2 Capital transactions, the contractual maturity will in most cases be seven years, but with a call option for the investee after five years, which the Manager expects to be exercised in the majority of cases. For such transactions, the Manager would typically hedge for seven years;
- ii. For AT1C transactions, there will be no contractual maturity, but there will be typical private equity exit rights (i.e., drag-along rights). In the event that there is a put option to the parent company - which there may be in cases where there is an investment to an entity in a broader group - the Manager would consider the put option as the maturity for the hedge;
- iii. If the exit structure is a drag-along right, i.e., the Fund is investing in a stand-alone entity, the Manager would not treat this exit right as a maturity and would likely hedge the flow of coupons (or preference share dividends) only;
- iv. Finally, while the Manager notes that while great progress has been made in terms of the breadth of hedging available – in terms of both providers and currencies hedged - over the last ten years, it is not unthinkable that such a trend might reverse in the event of changes to global macro-economic conditions, sovereign credit standings, or to key institutions. It is therefore important that the Manager has a strategy to implement its investments with appropriate risk management in such scenarios.

Where it is not possible or practical to hedge, the residual currency risk will be 100% priced into the investment structure under consideration (please see below).

The key exceptions to the local currency strategy are:

- i. USD Dollar functional currency economies, such as in the Democratic Republic of Congo; and
- ii. USD Dollar functional currency institutions (certain leasing or mortgage financing institutions).

For investments institutions in one of the two CFA Franc currency blocs²⁴, the Manager would consider an investment denominated in Euros, provided the size of the implied currency exposure for the investee institution is within reasonable bounds.

Finally, we note that the following formal limits on open exposure will be applied at Final Closing:

- i. there will be a “hard cap” of 10% on open exposure to any single currency. It is the expectation that that actual maximum open exposure to any one currency will be much less; and
- ii. there will further be an “hard cap” of 30% on open exposure as it applies to the entire investment portfolio.

These hard caps may not consider certain currencies where a fixed exchange rate (i.e., “hard peg”) is in place, subject to a updated currency and country risk analysis performed by the investment team at the time of the transaction. Currencies where this may apply included those in the two CFA Franc currency blocs and the Namibian Dollar, the latter being pegged to the South African Rand (“ZAR”). In this case, the Fund will most likely make its investment in ZAR.

The key benchmarking to be employed for “pricing in” currency risk where hedging is not possible will include:

Figure XXXIX: Currency Exposure Hedging

Primary Metrics	Covered Interest Rate Parity Theory	Interbank rate (benchmark tenor)	USD LIBOR (same tenor)
		Local long-term bond	USD T-bond of similar tenor
		Local T-bill bond	USD T-bill of similar tenor
Secondary Metrics	Inflation	Local inflation	US CPI
	Leading Indicators	Current account deficit (% of GDP)	
		Fiscal deficit (% of GDP)	
		National debt to GDP (%)	
		Foreign currency denominated debt to GDP (%)	
	Historical Measurement	Long-term historical devaluation	

Source: S&P Capital IQ

Verdant Capital’s in-house research on currency performance over the last 20 years in Africa demonstrates that the most effective two methods to forecast future currency performance are:

- i. Long-term historic devaluation rates; and

²⁴ The West African CFA franc (“XOF”) and Central African CFA franc (“XAF”), respectively.

- ii. Covered interest rate parity theory: i.e., the theory that in the long-term, the risk-free interest rate differential between two currencies is the best predictor of long-term devaluation given it is the price at which market participants can hedge foreign exchange rate movements.

In terms of the implementation of the hedging: The Manager has an excellent relationship with several key counterparties who provide currency hedging in Africa. Verdant Capital, in many cases, arranges hedging solutions on a consultancy basis on behalf of its clients in its Private Credit Advisory business. The first option for hedging will be MFX, and the Manager is in the process of completing the on-boarding process with MFX, a sector specialist whose key partners include the U.S. International Development Finance Corporation (“DFC”) and FMO, the Dutch development bank. However, for each investment, the Manager will consider the best hedging solutions on a case-by-case basis. For example, either a non-deliverable swap with an international institution or a back-to-back structure (deposit and loan), with a local bank. Other key counterparties that the Firm has worked with recently include:

- i. Absa Group in South Africa;
- ii. CRDB Bank in Tanzania;
- iii. I&M Bank across East Africa;
- iv. First Bank of Nigeria; and
- v. Standard Bank.

The Fund will therefore actively influence – and in many local African jurisdictions take the lead – in further development of appropriately structured, affordable, and widely available FX hedging options for international investors. It will work with existing - and any credible new - specialist counterparties, but also directly with banks in order to ensure the Fund’s instruments are appropriately hedged. As the Fund’s instruments are replicated in issuance from market-to-market, a “blueprint” shall be developed that will give comfort to hedging counterparties and investors, thus delivering further “additionality”.

Pricing

The Manager’s high-level pricing model is based on “Tiering” of prospective investees and allocating “senior” margin in USD, and then considering the appropriate multiple of the margin for a subordinated instrument. Within each Tier, we will consider factors such as:

- Country risk, especially if the institution is a single country operator;
- Institutional performance; and
- Leverage.

In terms of institutional performance, all the investee institutions will be in the top quartile for the sector, and as such wide pricing variations are not expected. That said, institutions who are clearly outliers in terms of exceptionally low cost of risk, and it can be demonstrated that these advantages are sustainable, will be “notched up” within their tier to qualify equating to lower overall pricing. Some institutions will be considered for investment by exception, if they have a higher cost-income ratio or a higher cost of risk, if overall their business model is best in class. In such a case, these institutions will be “notched down.” within their tier equating to higher pricing.

With respect to leverage, some investees companies may require additional capital to meet minimum regulatory requirements in nominal terms (as opposed to minimum CAR). These institutions may be less leveraged for the medium-term while they grow into to the additional capital. These institutions may be “notched up” within their tier, especially if they can maintain a strong ROE while they grow into their new capital base.

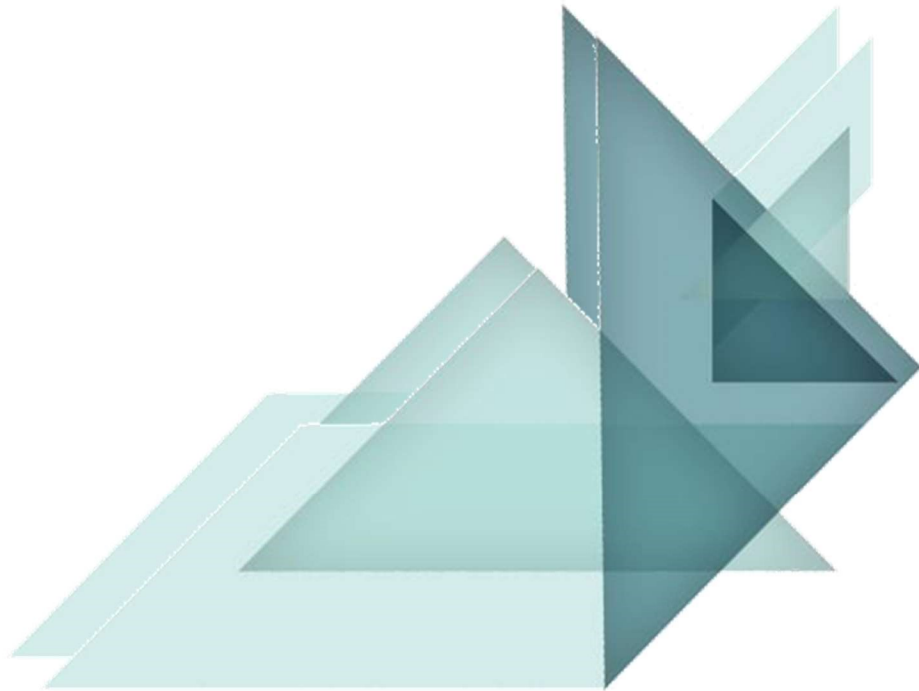
The senior pricing in the table below is the reference rate, with the pricing for instruments invested by the Fund being 1.5-2.5x the margin on an senior unsecured debt financing, depending on the instrument structure (i.e., Lower Tier 2 Capital or AT1C) and the size of the institution. The Fund will not be investing senior debt. The pricing below is assuming a USD LIBOR rate of 1.0%, which is broadly in line with the 10-year swap rates. For most AT1C

transactions, the interest rate will be achieved through a combination of cash interest and accrued interest and / or profit participation.

Figure XL: Indicative Pricing by Tier

Tier Institution	Description	History	Indicative size of institution	Margin vs LIBOR			Approximate pricing (before hedging)		
				Senior	LT2	AT1C	Senior	LT2	AT1C
Tier 1	Challenger bank or major pan-African MFI	Early mover in the industry in their respective markets	> USD 150 M	4.25%	6.38%	8.50%	5.25%	7.38%	9.50%
Tier 1	Challenger bank or major pan-African MFI	Early mover in the industry in their respective markets	> USD 150 M	4.50%	6.75%	9.00%	5.50%	7.75%	10.00%
Tier 1	Challenger bank or major pan-African MFI	Early mover in the industry in their respective markets	> USD 150 M	4.75%	7.13%	9.50%	5.75%	8.13%	10.50%
Tier 1	Challenger bank or major pan-African MFI	Early mover in the industry in their respective markets	> USD 150 M	5.00%	7.50%	10.00%	6.00%	8.50%	11.00%
Tier 2	Regional MFI or major single country operator	Well established operator (5+ years, typically much longer)	USD 30 - 150 M	5.25%	9.19%	13.13%	6.25%	10.19%	14.13%
Tier 2	Regional MFI or major single country operator	Well established operator (5+ years, typically much longer)	USD 30 - 150 M	5.50%	9.63%	13.75%	6.50%	10.63%	14.75%
Tier 2	Regional MFI or major single country operator	Well established operator (5+ years, typically much longer)	USD 30 - 150 M	5.75%	10.06%	14.38%	6.75%	11.06%	15.38%
Tier 2	Regional MFI or major single country operator	Well established operator (5+ years, typically much longer)	USD 30 - 150 M	6.00%	10.50%	15.00%	7.00%	11.50%	16.00%
Tier 3	Small or medium-sized operator	Established operator (3+ years, typically much longer)	< USD 30 M	6.25%	12.50%	17.19%	7.25%	13.50%	18.19%
Tier 3	Small or medium-sized operator	Established operator (3+ years, typically much longer)	< USD 30 M	6.50%	13.00%	17.88%	7.50%	14.00%	18.88%
Tier 3	Small or medium-sized operator	Established operator (3+ years, typically much longer)	< USD 30 M	6.75%	13.50%	18.56%	7.75%	14.50%	19.56%
Tier 3	Small or medium-sized operator	Established operator (3+ years, typically much longer)	< USD 30 M	7.00%	14.00%	19.25%	8.00%	15.00%	20.25%
Tier 3	Small or medium-sized operator	Established operator (3+ years, typically much longer)	< USD 30 M	7.25%	14.50%	19.94%	8.25%	15.50%	20.94%

7. Social and Developmental Impact



Developmental and Social Impact of the Investee Institution

Framing the Challenge²⁵

The Manager considers one of the greatest challenges to human development on the African continent is underemployment and unemployment. Even in an apparently “affluent” country such as South Africa, youth unemployment is consistently at or above 50%. In Africa, as in most parts of the world, SMEs are the engine of job creation. SMEs account for an estimated 90% of firms worldwide and approximately 70% of Africa’s industrial production base. In terms of people employed, SMEs are especially important in Africa, employing approximately 80% of the Continent’s workforce. They are especially important since most African governments have stressed fiscal positions and do not have budget for job creation at scale (directly or indirectly). This problem is exacerbated by the fact most large multinationals operating in Africa, especially in extractive industries, have traditionally created few jobs.

The COVID-19 pandemic, in the short-to-medium term, also stresses this situation by causing a dislocation of the economy and further increasing fiscal deficits (especially for countries principally relying on commodity exports like Nigeria, DR Congo and Zambia), reducing FDI that can ultimately drive job creation within value chains, and increasing the conservatism of local banks.

Framing a Solution

SMEs therefore continue to contribute significantly to employment and serve as a source of income to most populations across the Continent. Specifically, micro-entrepreneurship – either SMEs representing primary employment or informal “side” businesses that people run to generate critical additional income sources - can provide a route out of poverty for the underemployed and unemployed. Creation of employment and micro-entrepreneurship opportunities can also create more specific developmental impacts:

- Increased educational opportunities for girls: The additional income generated from micro-entrepreneurship provides parents with an opportunity to send their children to school, or more of their children to school, or for longer. Unfortunately, in Africa, like elsewhere in the emerging world, there can be gender bias, i.e., parents may pay for their sons’ education before their daughters’ education, or for more years per child. There is specific, but isolated, research and field studies in Africa and elsewhere indicating that increases in household incomes leads to greater investments in the schooling of girls as much as boys, particularly in settings where households face tight liquidity constraints caused by lack of insurance and limited possibilities to smooth consumption through credit and savings. Higher educational development for girls has potential long-term socio-economic development, not just in terms of female incomes, but also in terms of female empowerment, lower infant and maternal mortality, and benefits for the next generation. However, further research on a greater scale is needed, and with specific analysis of the impact of microfinance;
- Alleviating rural poverty: Rural and agricultural development has a particular importance since human development in rural areas traditionally lags that in urban areas in the recent history of most of emerging countries, and especially in Africa. In Nigeria for example, the National Bureau of Statistic’s 2019 report on poverty and inequality indicated that 40% of the population lived below its poverty line of USD 382; it further reported that the rural poverty rate was 52%, compared with an urban poverty rate of 18% (by the same measure). The traditional microfinance business model, set-up to provide “last mile” banking to excluded populations precisely like those in rural areas, has been essential to tackling this poverty rate. The advent of digitally-driven delivery channels is further helping IFIs reach more excluded populations in more a time- and cost-efficient manner;

²⁵ Sources for citations in this sub section are: Making Finance Work for Africa (“MFW4A”), Afreximbank and SME Finance Forum.

- Increasing youth employment: Youth unemployment creates a long-term human capacity development challenge. There is risk of creating a “wasted generation” that spirals into prolonged unemployment and a lifetime of missed opportunities. On a macro level, a persistently high youth unemployment rate can translate into an overall low-skilled labour base that creates a competitive disadvantage for a country that can manifest itself in the form of inability to attract FDI, build a service or new / gig economy, or reduce fiscal deficits through increased taxes and reduced social assistance spending. Endemic crime and persistent emigration are additional negative factors that may originate from high youth unemployment and make it difficult for a country to realise its full potential.
- Increasing female employment: Microfinance is a proven model for helping fund entrepreneurship opportunities for disadvantaged women in Sub-Saharan Africa, as elsewhere in the emerging world. Not only creating jobs and generating essential family income, business ownership on even a small scale helps create credit histories and financial familiarity - often for the first time - that ultimately may lead to greater inclusion in the formal economy and the accompanying social rights. The growth in the microfinance industry has led the launch of MFIs that are gender-led in their client acquisition strategy, and an increase in those that may have a gender-specific lending product or financial education program. Despite these advances, much work remains. Female unemployment rates are consistently higher than male rates across the Continent. Furthermore, although the percentage of women in the workforce across SSA comparable to other regions (i.e. the top 5 countries have participation rates of 50-53%; rates in the USA, Canada and France are 47-48%), over 75% of this participation is low-skilled, low-paid and ultimately vulnerable work in the informal economy.²⁶ Creating more, better opportunities for female opportunities therefore remains essential, and it is the intention of the Manager to support gender-specific technical assistance initiatives where possible, as well as to partner its portfolio companies with partial portfolio guarantee schemes arranged by certain DFIs, as discussed later in the section.

Framing the Fund’s Impact Approach²⁷

Such SMEs typically receive limited support from the banking sector – in Africa, the banking sector in most markets is focused on lending to the government, multinationals and to the largest local companies. Despite being the “engine of employment” for the Continent, consistent access to finance is regularly cited as one of the key constraints to growth and development of SMEs across Africa:

- in South Africa, where SMEs are estimated to employ between 30-50% of the workforce and contribute 20% of GDP, the estimated credit gap for SMEs in South Africa is between USD 6 and USD 23 billion;
- in Kenya, recent estimates put the SME Finance gap as a percentage of GDP at 31%, totalling nearly USD 20 billion. Similar estimates put SMEs providing 80% of the country’s employment and contributing 20% of GDP;
- in Côte d'Ivoire, 2016 government reports indicated that SMEs constituted 80% of all firms in the country yet received just 12% of total investment. 70% of SMEs are estimated to be unable to obtain bank credit; and
- in Nigeria, SMEs total over 40 million, contributing to over half of the overall workforce and representing well over 90% of all Nigerian businesses nationwide. Yet, the SME access to finance gap as a % of GDP is estimated at 32.9%, totalling approximately USD 158 billion. Further, the estimated “unbanked” population remains around 100 million, compared to a total population of 207 million.

SMEs are continually frustrated by raising capital from traditional funding channels such as banks, who still typically require traditional (and expensive) information sources such as audited financial statements that few SMEs have a consistent need for or access to collateral security that SMEs have access to. As earlier cited in this section, the

²⁶ Source: Pew Research Center, Brookings Institute

²⁷ Sources for citations in this sub section are SME Finance Forum (IFC), Oxford Business Group, sme360.ng, Small Business Unit of South Africa

current pandemic-induced economic crisis is accentuating this situation, with SME demand for funding increasing at a time when bank lending will be, in many instances, less active to these companies.

IFIs have typically stepped in to provide this critical funding for informal business activity – for the “Bottom of the Pyramid” micro-entrepreneurs up to the “missing middle” SMEs – across the Continent. With this central access to financing constrain in mind, **the three pillars for development and social impact of the Fund are:**

- i. **Developmental impact** of the loan portfolio;
- ii. **Client protection**; and
- iii. **Financial inclusion** via (i) access to different products (i.e., savings, insurance, remittances, specialty use loans for housing, sustainable/renewable energy, etc.); (ii) more convenient distribution (i.e., agency or mobile banking); and (iii) improved financial education and literacy.

With these three pillars in mind, The Fund’s specific social performance and development impact mission includes:

- Providing capital to self-employed micro-entrepreneurs;
- Creating employment through providing funding to SMEs, which are the engine of jobs growth in Africa;
- Rural and agricultural development;
- Access to education, health, housing, and sustainable/renewable energy; and
- Broad-based financial inclusion (including for women) while respecting best-class client protection principles.

The Manager has extensive experience in terms of measuring the developmental impact of IFIs through its extensive experience in the IFI sector through the work of its Private Credit Advisory business.

To qualify for consideration by the Fund, an investee institution must have at least 50% of its loan book allocated to “eligible loans”, or for larger institutions, above USD 100 million of total assets must have at least 33% of their loan book in “eligible loans”. The Fund will not invest in consumption-driven business models, pay-day (short-term) or exploitative business models.

Verdant Capital is in discussions with the DFIs Proparco (France) and the DFC (USA) to utilise their portfolio guarantee schemes, respectively, whereby investee institutions can benefit from partial loan book guarantees when expanding their loan books into higher risk / higher impact segments (i.e., SMEs run by targeted demographics, start-ups, health and education SMEs, agriculture). This will typically be combined with specific TAF funded product experts supporting the product development. This will enable the Fund to promote a greater development impact overall along with better risk management.

Verdant Capital is also in discussions with KfW, one of the Fund’s anchor investors, with respect to technical assistance to support IFIs with innovative methods to support SME with loans requiring less or no collateral but using cashflow underwriting to measure and manage the risk. Examples of such an IFI would be 4G Capital in Kenya or Retail Capital in South Africa.

Furthermore, the institution must commit to adhere to the **SMART Campaign’s Client Protection Principles (“CPP”)** that are embedded in the **Social Performance Task Force’s (“SPTF”) “Universal Standards for Responsible Inclusive Finance.”**²⁸ The Technical Assistance Facility that the Manager is raising from DFIs as a side-car to the Fund will help fund a client protection survey for every Fund investment within 18 months of disbursement.

²⁸ In July 2020, Center for Financial Inclusion at Accion International announced that the SMART Campaign, which it has led since 2009, would cease and transfer all implementation resources to the Social Performance Task Force (“SPTF”) and the French NGO CERISE, who will continue managing them. The CPPs are already contained in the SPTF’s Universal Standards, Dimension 4, “Treat Clients Responsibly.”

All prospective investee institutions will be subject to a **CERISE SPI4 Social Performance Audit** as part of the due diligence phase. The SPI4 audit will be performed in-house by the Manager. The framework and guidelines for this audit process are discussed further below in this section.

Competitive Landscape for the Fund

A number of DFIs and MIVs state that they invest in Tier 2 Capital for financial inclusion, but actually these investments from these institutions have been into larger, top-tier banks (Access Bank in Nigeria and Ecobank Group/ETI and Commercial International Bank in Egypt are examples from the last three years). Also, we have not seen these types of institutions participate in transactions structured to be Additional Tier 1 Capital. Exceptions include:

- The regional DFI for Southern Africa, Norsad Finance, which has historically invested hybrid capital into medium-sized financial institutions; and
- KfW (an anchor investor in the Fund), who has also invested capital of this type, i.e., into FINCA International subsidiaries in DR Congo and Malawi in 2018.

Verdant Capital sees a number of mezzanine / subordinated debt funds active in Africa. However, these are generalist in focus and have had a limited investment interest in financial institutions, let alone to invest in Inclusive Financial Institutions. The Fund has a much higher and more focused developmental impact mandate than other such mezzanine funds. Example of such funds are discussed below.

- Vantage Capital: is restricted from investing in financial institutions;
- Abraaj Group, Falcon Group and Helios Investment Partners are effectively out of the market;
- Ethos Private Equity: no specific experience in financial services, or particular interest in the sector, nor have they much experience outside South Africa; and
- Gulf Capital: have shown some interest in financial institutions – but are targeting a slightly more commercial investee base and their interest in Africa is more specific to North and East Africa.

There are a handful of specialist equity funds targeting financial services / financial inclusion, though none of which are targeting Tier 1 and Additional Tier 1 Capital, and the majority of which are targeting slightly larger transactions (approximately USD 20 million and up). Exceptions targeting smaller investments into smaller financial institutions include, WWB, Equator Capital, and the Nordic Microfinance Initiative.

Figure XLI: Generalist Mezzanine Funds

Fund Name	Size of Fund	Type of Funding	Sector Focus	Target Region	Deals Targeted	Notes
Vantage Mezzanine Fund III	USD 280 M	Mezzanine	<ul style="list-style-type: none"> ▪ Infrastructure ▪ Manufacturing ▪ Other consumer services ▪ Effectively restricted from investing in financial services 	<ul style="list-style-type: none"> ▪ Pan-Africa 	<ul style="list-style-type: none"> ▪ Expansion Capital ▪ Management buy-out and buy-ins ▪ BEE ▪ Replacement Capital ▪ Re-leveraging or refinancing 	<ul style="list-style-type: none"> ▪ No financial services

Ethos Fund VII	USD 150 – 200 M (target)	Mezzanine	<ul style="list-style-type: none"> ▪ SME ▪ Generalist 	<ul style="list-style-type: none"> ▪ South Africa and selectively in other sub-Saharan economies, especially in East Africa 	<ul style="list-style-type: none"> ▪ Mezzanine funding 	<ul style="list-style-type: none"> ▪ Southern and East Africa only
Gulf Capital Credit Opportunities Fund II	USD 250 M	Debt	<ul style="list-style-type: none"> ▪ Power ▪ Education ▪ Oil and gas servicing ▪ Business services ▪ Industrial ▪ Healthcare and telecoms 	<ul style="list-style-type: none"> ▪ Middle East, Turkey with expansion into Africa 	<ul style="list-style-type: none"> ▪ Mid-market companies ▪ Some interest in large IFIs 	<ul style="list-style-type: none"> ▪ Interested in North Africa and East Africa only ▪ Fund II is fully deployed

Source: Company websites, Bloomberg, Crunchbase

Figure XLII: Specialist Equity Funds (Financial Services)

Fund Name	Size of Fund	Type of Funding	Sector Focus	Target Region	Deals Targeted
Apis Growth Fund I	USD 287 M	Equity	<ul style="list-style-type: none"> ▪ Financial services industry sub-sectors including payments, credit and savings, insurance, technology enablers and service providers, and capital markets ▪ Financial services infrastructure 	<ul style="list-style-type: none"> ▪ Africa and South Asia 	<ul style="list-style-type: none"> ▪ A core tenet of APIS' investment mandate is the recognition and promotion of financial inclusion, which fulfils the fundamental needs of underprivileged and disenfranchised segments of the population in Growth Markets, to provide paths out of poverty ▪ Targets larger investments, with a minimum of USD 20 M
Leapfrog Financial Inclusion Fund II	USD 400 M	Equity	<ul style="list-style-type: none"> ▪ Financial services such as insurance (general and life insurance), savings, pensions, and investment products to emerging consumers ▪ Communications and IT Services 	<ul style="list-style-type: none"> ▪ Africa, South Asia, and Southeast Asia including India and Sri Lanka, Indonesia, the Philippines, and parts of sub Saharan Africa, such as Ghana, South Africa, Nigeria, and Kenya 	<ul style="list-style-type: none"> ▪ Target investments of between USD 10 M and USD 30 M which can go up to USD 60 M
Progression Eastern African Microfinance Equity Fund	USD 40 M	Common equity and Quasi Equity including convertible debt and convertible preferred stock, with or without redemption and/or participation rights	<ul style="list-style-type: none"> ▪ Financial inclusion companies, such as MFIs, MSME-focused commercial banks; providers of specialised agri-finance, leasing, factoring and/or mortgage finance solutions, inter alia ▪ Financial technology companies and other businesses acting as enablers of financial inclusion, including but not limited to (mobile) payment platform solutions, banking infrastructure solutions providers, alternative 	<ul style="list-style-type: none"> ▪ Kenya, Ethiopia, Uganda, Tanzania, Rwanda, Zimbabwe, and Zambia. ▪ Also considered - businesses incorporated in other parts of Sub-Saharan Africa, with significant operations in any of the above countries 	<ul style="list-style-type: none"> ▪ USD 2 M - USD 8 M per investee, over the life of the Fund ▪ Initial investment amount of no less than USD 0.5 M ▪ Fully deployed and has left the market

			service delivery channels and insurance companies		
AfricInvest Financial Inclusion Vehicle LLC ("FIVE")	EUR 200 M	Equity	<ul style="list-style-type: none"> Tier II and Tier III financial institutions 	<ul style="list-style-type: none"> Africa 	<ul style="list-style-type: none"> A company targeting equity investments in Tier II and Tier III financial institutions in Africa
ShoreCap III, LP (managed by Equator Capital Partners)	USD 40 M	Equity	<ul style="list-style-type: none"> Inclusive financial institutions such as Small Business Banks (SBBs), microfinance institutions (MFIs), insurance providers, leasing companies, housing finance companies and financial technology providers 	<ul style="list-style-type: none"> Sub-Saharan Africa 	<ul style="list-style-type: none"> Average ticket size of USD 8 M
Women's World Banking, or "WWB"	USD 100 M	Equity	<ul style="list-style-type: none"> Financial services institutions such as SME financing, smallholder finance, affordable housing, education, and insurance The fund aims to advance women's financial inclusion as well as increase gender participation at investee companies 	<ul style="list-style-type: none"> Sub-Saharan Africa Middle East North Africa South Asia 	<ul style="list-style-type: none"> Ticket sizes of USD 5-10 M
Danish Microfinance Partners K/S Maj Invest Financial Inclusion Fund II K/S Maj Invest Financial Inclusion Fund III K/S	USD 65 M USD 137 M First Closing – USD 144 M	Equity, seeking minority positions between 10-30% ownership	<ul style="list-style-type: none"> Financial inclusion companies, specifically financial institutions, financial companies and financial service providers servicing client groups below the middle class in the selected countries The companies should be regulated by national financial regulators, in the growth stage and in the well-established top segment (i.e., Tier 1) of their financial sector 	<ul style="list-style-type: none"> Sub-Saharan Africa included from Fund III only Latin America Asia 	<ul style="list-style-type: none"> Ticket sizes of USD 10-20 M
Nordic Microfinance Initiative, or "NMI" NMI Frontier Fund (2008) NMI Fund III (2013)	 USD 6.5 M USD 28 M	Equity	<ul style="list-style-type: none"> Emerging MFIs directly and through MIVs 	<ul style="list-style-type: none"> Principally Sub-Saharan Africa, South/Southeast Asia; earlier funds in Central America also 	<ul style="list-style-type: none"> Fully invested, six investments (3 Funds, 3 direct investments) Currently directly invested in 11 MFIs

NMI Fund IV	USD 25-30 M (First Closing)				▪ Currently directly invested in 4 MFIs
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Source: Company websites, Bloomberg, Crunchbase

Apis Partners and LeapFrog Investments are targeting larger transaction sizes (and are investing common equity). Progression Capital has left the market after fully deploying Fund I. MAJ Invest now includes Africa in its mandate but has limited experience investing on the Continent. AfricInvest (via FIVE), WWB and Equator Capital (via ShoreCap III) are investing in institutions of a similar size. Of these investment vehicles, FIVE is a better co-investor for the Fund because as an evergreen / permanent capital fund, it can invest CET1 alongside hybrid capital from the Fund. The ShoreCap III fund that invests “equity” with a traditional five-year harvest period is a less suitable co-investor since the Fund is investing capital for a longer tenor but in theory senior to the common equity.

Crowding-In

According to the Symbiotics Private Asset Impact Fund (“**PAIF**”)²⁹ report of 2020, the global microfinance asset class as of 2019 is estimated at USD 17.3 billion, which represents an increase of 8.7x versus the comparable figure from 2008. The fund managers comprising this AUM are principally the so-called Microfinance Investment Vehicles (“**MIVs**”). This growth in AUM equates to a CAGR of approximately 22% over this period. The international community of MIVs has clearly established itself as a niche asset class in the global investment universe.

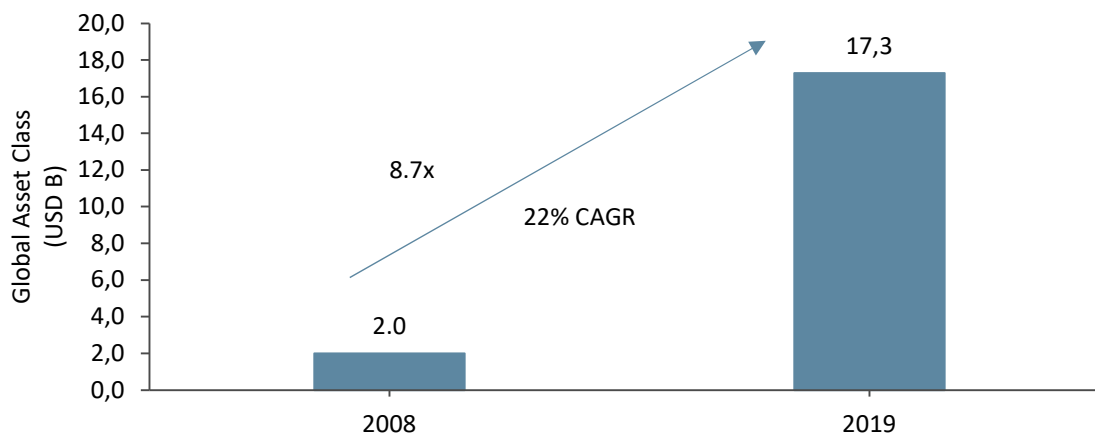
The growth of the asset class is testament to the strength of its financial performance. Further, the IFI sector (or traditionally the microfinance sector) has a strong track-record of low correlation to traditional assets classes globally (equities or bonds). A clear quantitative benchmark is the SMX-MIV Debt USD Index³⁰, a key sector benchmark, which has delivered a positive return every year since 2006 – including through the 2008-2009 financial crisis. The long-term performance of the asset class globally is marginally lower than the JPMorgan Global Aggregate Bond Fund Index but with a much lower volatility. Inclusion of IFI/Microfinance into an investment performance improves the Sharp ratio of the overall portfolio.

In Africa, this AUM growth has stretched the equity capital bases of many financial institutions - and of the financial sector as a whole - due to the narrow range of equity and equity-like capital sources and instruments available to these institutions. The unaddressed opportunity for the market is to provide additional regulatory capital, in the form of equity or hybrid capital.

²⁹ Symbiotics, an European-based impact investment manager, has produced an annual “MIV Survey” reviewing key trends on the microfinance off-shore investment industry since 2006. The Survey has consistently captured responses from 90%+ of relevant MIVs in the industry. The PAIF is the successor to these annual MIV surveys, covering a wider spectrum of types of fund managers and sectors invested (i.e., beyond microfinance).

³⁰ Symbiotics Microfinance Investment Vehicle USD debt benchmark Index.

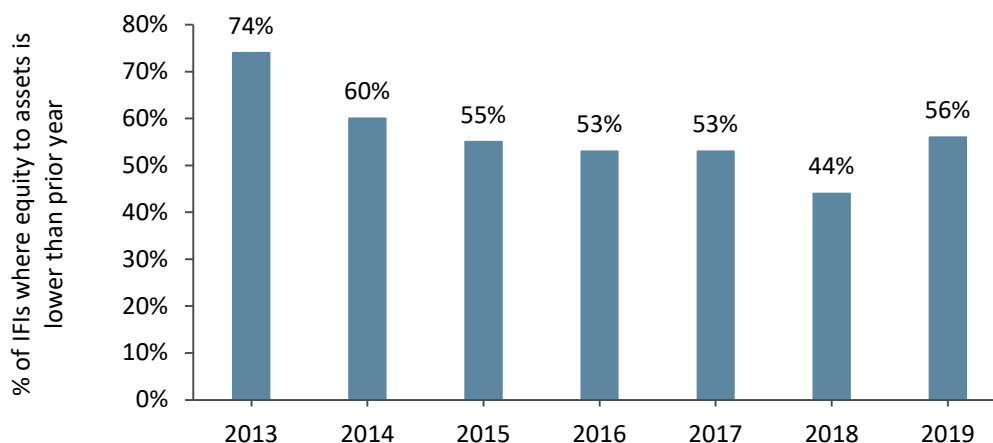
Figure XLIII: MIV Assets Under Management



Source: Verdant Capital, annual Symbiotics PAIF and MIV Surveys (2020)

Specialist funds investing in the IFI sector globally have performed well in terms of performance, low volatility and low correlation. The success of the MIV community has left the underlying investee institutions overleveraged. As per Verdant Capital's proprietary benchmarking database, since 2013 each year over 40% of IFIs became more leveraged than the year before.

Figure XLIV: MIV Assets Under Management



Source: Verdant Capital proprietary benchmarking database

The Fund will support the capital base of its investee institutions allowing them to tap the available sources of senior debt, and continue to grow their loan books and the resultant development impact.

MIVs - Structurally Underweight Investment Allocation in Africa

From a macro perspective, the peer specialist funds MIVs investing in the microfinance space are structurally underweight when investing in Africa. Part of the impact strategy of the Fund is to help grow the IFI/microfinance sector in Africa and contribute to a rebalancing of the sector to the geographies which need it most. As evidenced by the tables below, Verdant Capital estimates that Sub-Saharan Africa historically represents approximately 8-10% of global MIV investment allocations, whereas approximately 26% of LI/LMI countries globally, by population are in Africa.

Figure XLV: MIV Investment Allocations – by Region (%)

	2015	2016	2017	2018	2019
Eastern Europe and Central Asia	30.0%	26.0%	27.0%	25.0%	31.0%
Latin America & Caribbean	30.0%	33.8%	32.0%	34.0%	28.0%
East Asia & Pacific	12.0%	12.8%	14.0%	13.0%	11.0%
South Asia ⁽¹⁾	15.0%	13.8%	16.0%	16.0%	17.0%
Middle East & North Africa	3.0%	3.8%	3.0%	4.0%	4.0%
Sub-Saharan Africa	10.0%	9.8%	8.0%	8.0%	9.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Annual Symbiotics PAIF and MIV Surveys (2020)

(1) Most India investment are structured from India-only funds.

Based solely on the share of population in “LI” and “LMI” countries relative to other emerging regions, Verdant Capital estimates that the allocation to Africa should be significantly higher than current allocations, i.e. closer to 26%.

Figure XLVI: Population in Countries, 2019 (%)

	LI	LMI	LI + LMI
Eastern Europe and Central Asia	1.4%	2.8%	2.6%
Latin America & Caribbean	1.7%	1.1%	1.2%
East Asia & Pacific	3.9%	18.5%	16.0%
South Asia	10.2%	57.1%	48.9%
Middle East & North Africa	7.8%	4.9%	5.4%
Sub-Saharan Africa	74.8%	15.5%	25.9%
Total	100.0%	100.0%	100.0%

Source: World Bank. Note: LI = Low-Income; LMI = Lower-Middle Income, as per World Bank Income Index definitions

The reasons for this structurally underweight allocation to Africa are several:

- Africa is more fragmented, i.e. Africa is a similar-sized population and economy in aggregate to a country such as India, but instead has 54 countries (appreciating that there are considerable differences between India’s states);
- Africa also traditionally has lower intra-regional trade and investment flows (even when considering existing regional trading blocs);
- Fragmentation of the markets typically leads to smaller institutions;
- Smaller equity and equity-like capital bases, again translates into smaller individual investments amounts, therefore making it harder for MIVs with their costs bases principally located in Europe or North America to cover their costs;
- Less developed sources of local capital in Africa, vs. other regions (i.e. local stock and bond markets) also implies smaller institutions;

- As a whole, predominantly upper middle income countries (“**UMI**”) in Latin America and EE/Central Asia dominate the MIV investment allocations.

Representative of the Fund’s strategy of both geographic diversification and also targeted impact, “LI” countries will represent over 40% of the current Fund pipeline of prospective investees, by volume and number of investees. When including “LMI” countries, the representation increases to over 80% on the current pipeline. Please see the table presented below. Please see the summary table presented below. The current pipeline is presented in more detail in **Section 10: Pipeline**.

Figure XLVII: Exposure by Income Category (%)⁽¹⁾

Income Split	Number of Investees	% of Number of Investees	Aggregate Amount (USD M)	% of Aggregate Amount
LI (low income)	22	41.5%	120.0	43.7%
LMI (lower-middle income)	23	43.4%	121.9	44.3%
UMI (upper-middle income)	8	15.1%	33.0	12.0%
Total	53	100.0%	274.9	100.0%

(1) Represents Categories 1, 2A, 2B and 3 of the current pipeline. Please refer to **Section 9: Pipeline**

Further, the pipeline across these four categories has 18 investees located in Compact with Africa countries (in SSA), representing 34.0% of the total pipeline, and an aggregate pipeline amount of USD 115 million, representing 41.8% of the total pipeline. All of the nine CwA countries in SSA are classified as either LI (5) or LMI (4) countries.

The Manager has also conducted a survey of 11 prospective IFI investees across different geographies and institutional types from its pipeline in order to assess the representation in their loan books for rural penetration. The results of this penetration analysis are presented as follows, indicating more refined spectrum for financial inclusion, i.e. within borders.

Figure XLVIII: Impact Analysis by Rural Penetration

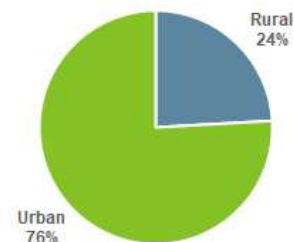
Percentage of Rural⁽¹⁾ Clients

Number of prospective investees surveyed	11
Average % of rural clients	24,1%
Median % of rural clients	15,6%
Q1 (rural clients)	10,0%
Q3 (rural clients)	33,5%

Source: Verdant Capital pipeline

(1) Where possible, “peri-urban” locations were included in rural data calculation. The definition of which is subjective per institution and based on country context

Average Client Mix By Location



The Fund’s impact strategy therefore will clearly play an impactful role in addressing financial inclusion by increasing investment allocations to the financial intermediaries focused on SMEs in some of the world’s poorest countries, and further in typically more neglected peri-urban and rural areas.

Financial Inclusion Mandate

As discussed in **Section 1: Executive Summary**, the term “Inclusive Financial Institution” has grown out of the microfinance sector, specifically as market participants in the sector, both investors in the sector, and institutions in the ground, have extended their reach into a broader range of activities than just “microfinance” as strictly defined.



The term “Inclusive Financial Institution” has been coined by market participants to describe financial institutions with a broader developmental impact than traditional banks, such as unbanked individuals and smaller companies.


Focus activities for IFIs, include, “traditional microfinance” (micro-loans for sole-traders and micro-entrepreneurs), lending to SMEs (often described as the “missing middle” or “mezzo” in reference to certain IFI business models focusing on francophone Africa), housing finance, or specific segments such as renewable energy, education finance, health finance or agri-value chain financing. Some IFIs focus on specific asset classes that disproportionately appeal to small and medium-sized enterprises, for example, leasing, invoice discounting or merchant credit advances. Other positive impacts, which would help define an institution as an IFI, include providing access a wider set of financial products than just credit, such as simple savings products to stimulate smaller-scaler deposit mobilization or transaction services facilitated through more convenient distribution channels, such as agency or mobile banking. Fintech-oriented institutions can often be considered Inclusive Financial Institutions, especially if their core technology is used to reduce transaction costs and enable services such as borrowing, savings or payments to be offered at a “micro-size”. Financial Inclusion examples are available under **Section 6: Fund’s Strategy & Investment Philosophy**.

It is Verdant Capital’s belief that solid social performance and solid portfolio credit performance are correlated. Verdant Capital has its own criteria for inclusive finance. The Firm has been part of the Steering Committee for CERISE SPI4 and a key member of the core Fund team, Patrick Ball, completed his certification as an “SPI4 Qualified Auditor” in 2021. Verdant Capital also collaborates with key industry stakeholders and benchmarks against best practice impact standards and guidelines, several of which are outlined in earlier sections. These stakeholders include: the *Responsible Finance Forum (“RFF”)*, the *Global Impact Investing Network (“GIIN”)*, the *European Microfinance Platform (“e-MFP”)*, the *Social Performance Task Force (“SPTF”)*, and the recently launched covid-finance.org platform.

The Manager has identified the following financial inclusion stakeholders for more membership and targeted collaboration upon First Closing.

Figure XLIX: Selected Prospective Affiliations:

Name	Description
	<p>The Financial Inclusion Equity Council (FIEC) is the first membership organisation to bring together the leading entities that make equity investments in financial inclusion throughout the developing world. The FIEC has operated for over a decade, with a mission to strengthen the financial inclusion industry and advance the of commercial financial service providers by helping FIEC members deepen their relationships with their investees, enhance the performance of their investments and develop best practices and standards. Its members are leading entities making active, long term, and sustainable equity investments in institutions focusing on under or unserved clients, with the goal of achieving greater financial inclusion.</p> <p>The FIEC primarily focuses on issues related to good governance, providing members with relevant transaction and valuation data, tracking the global flow of funds, documenting the impact of new entrants and business models in the market, and exploring technical fund management issues.</p>
	<p>GIIRS Ratings are the gold standard for funds that manage their portfolio’s impact with the same rigor as their financial performance. The GIIRS platforms such as (i) GIIRS “Fund-in Formation” Rating - Fund Rating Report, (ii) access to the B Analytics data platform, and (iii) participation in a GIIRS Fund Cohort add credibility to the Fund’s impact assessment and support to investees, as well as a more organized way to collect, benchmark and disseminate a richer impact data set to LP investors and other relevant stakeholders. GIIRS is managed by B Lab, a US non-profit that serves a global movement of entrepreneurs using the power of business to solve social and environmental problems.</p>
	<p>The six UN Principles for Responsible Investment (“PRI”) are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors.</p>

	<p>As an official Signatory to the PRI, the Fund will have access to a variety of resources, including investor tools, guidance documents, case studies and collaborative engagement opportunities, including a guide to writing a responsible investment policy for those new to responsible investment. There are also exclusive resources available to signatories only, such as the Collaboration Platform and Data Portal. The Fund will also be required to submit on investment activities annually, making it part of one of the largest global reporting projects and data sets on responsible investment.</p>
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All these types of organisations play a critical role in helping the Fund achieve its impact objectives, in terms of:

- Evaluating and monitoring investee impact metrics;
- Maintaining best practice ESG standards and guidelines; and
- Meaningfully contributing to the wider impact investing community

Relationship between Social Performance and Credit Performance

While Verdant Capital does not have empirical data to support our hypothesis, there are strong reasons to believe that there is a correlation between social performance and credit performance. For this reason, the Manager sees the social performance review as an integral part of the due diligence process. It will therefore be performed by the Investment team.³¹ Reasons to believe that there is a correlation between social performance and financial performance include:

- Productively used loans are more likely to be repaid than loans for pure consumption, for example a loan used to grow a small business, may facilitate the business owner growing the business and having a higher income to repay. Another example might be a loan to build an extra room on a house that can be rented out for extra income. A loan drawn for pure consumption does not typically increase an individual's income generation capabilities, but rather is directed to his or her immediately due expenses;
- Clients who understand the terms of the loan clearly before they borrow are more likely able and willing to repay the loan;
- Institutions which have a strong practice of confirming the affordability of their loan to the customer are more likely to be repaid;
- Institutions with a strong and effectively measured social performance will find it easier to generate new senior debt funding; and
- Using digital means to mobilize small scale savings, thereby both financially including "Bottom-of-the-Pyramid" customers and providing a source of highly retained ("sticky") deposits.

Figure L: Financial Inclusion Mandate

³¹ Verdant Capital is also a recent Signatory to the "Investor Guidelines for Responsible Investing in Digital Financial Services", developed as an offshoot of the SMART Campaign. These guidelines are sponsored by the Responsible Finance Forum, co-founded in 2010 by BMZ/GIZ (German Ministry), the International Finance Corporation ("IFC"), and the Consultative Group to Assist the Poor ("CGAP").

- Access to capital for micro and small enterprises and sole traders.
- Employment creation and protection through access to capital for SMEs.
- Rural and agricultural development through capital for agricultural value chain.
- Loans supporting climate change abatement, renewable/clean energy, and energy efficiency
- Capital for social infrastructure.
- Access to education:
 - Loans to schools; and
 - School fees loans.
- Access to health.
- Housing finance.
- Access to financial services:
 - Savings / deposits;
 - Insurance;
 - Emergency loans for health care or funerals;
 - Car loans / social mobility; and
 - Fintech.
- Target demographics:
 - Women;
 - Rural;
 - Youth; and
 - Historically disadvantaged.

The development mission of the Fund is an important objective of the Fund and the Manager. This mission shall be reflected in the investment criteria of the Fund. The Fund will invest in institutions with a financial inclusion mandate and vision. A core criteria is that at investment, the investee institution must have at least 50% of its loan book allocated to “eligible loans”, or a minimum threshold of 33% if the institution has total assets greater than USD 100 million. Furthermore, the institution must confirm adherence to the principles of customer protection as set out by the SMART Campaign/SPTF Universal Standards. Any issue relating to the prospective institution’s compliance with best practice development impact and ESG standards will be referred to the Fund’s Advisory Committee for advice.

Access to Renewable Energy

Of the more specialized MSME financing models that the Fund will target, access to sustainable or renewable energy will be a particularly important target. Sub-Saharan Africa remains among the world’s most “unelectrified” regions, with a significant number of countries still with less than 50% of its population having access to electricity. There has been progress, with steady declines in unelectrified populations through 2019. However, the gains were concentrated in a handful of countries, notably in Eastern Africa; in Kenya alone, the access rate from 20% in 2013 to almost 85% in 2019.³² Furthermore, the health crisis and economic downturn caused by COVID-19 has stalled this progress in Africa, with shifting government priorities, supply chain disruptions and social distancing measures slowing access programmes and hindering initiatives that advance decentralised energy access. Initial estimates for 2020 indicate that the aggregate population of SSA without access to electricity could actually increase for the first time since 2013. The Fund sees here another important opportunity to “crowd in” DFI and impact investor senior debt at a time when mobilizing capital to ensure continued progress in energy access across the Continent is more important than ever.

This specialist model for renewable energy includes companies financing climate change abatement, energy efficiency, and especially PAYGO (“pay as you go”) solar financing companies as well as those providing solar solutions on a lease basis to SMEs. The Fund will also invest in specialized energy financing companies that focus on, for example, improved access to clean cooking, biomass-based electricity, solar-powered irrigation solutions for small-scale farmers, or micro-franchising models focusing on training and credit for local entrepreneurs.

³² Source: International Energy Agency (“IEA”) Progress Reports on global access to electricity, October 2020.

The Fund will apply its filter of targeting interesting (typically non-regulated) companies financing specific assets that allows a strong understanding of the associated risk of this type of asset. As outlined in the prior paragraph, several types of renewable energy asset financing can be accommodated (i.e. leasing, secured lending, or installment sales) - but with an underlying focus on financing productive assets that give their customers a livelihood by enabling them to own the asset once they have repaid the financing. Hence, actual client “wealth creation” and by extension real financing inclusion by providing the opportunity to earn an asset for the first time. This impact complements improved access to cleaner, safer, less costly sources of energy for households and small businesses who currently may either not be electrified or rely on expensive diesel generators and dirtier cookstoves.

When considering its portfolio allocation to renewable energy, the Fund will consider closely the stage of the company as well as specific types of companies and regions that may be “overtraded” in terms of numbers of investors looking at them (and the competition in their respective markets). For example, certain areas of Kenya are increasingly penetrated via certain PAYGO solar companies that are also well invested. In such cases, the Fund will evaluate whether there are attractive entry points. The Fund already has prospective investees providing solar solutions on a lease basis across its other target LMI and LI markets, for example in DR Congo, Cameroon and Nigeria. For example, the Fund has already screened in its pipeline a PAYGO solar company in the DR Congo with a business objective to create 2 000 new jobs and directly impact 5 million people nationwide by 2022. It is estimated that approximately 70 million of the country’s 86 million total population live in areas where grids will not reach into the foreseeable future.

Other investment targets may be the same solar companies who have subsidiaries or are starting operations in new countries that the Fund will help finance, or focusing on companies that focus on rural communities and/or those that still have limited access to national grids.

As presented in Figure LVI below, the Fund will specifically link its impact metrics to the **UN SDG #7, “Affordable and Clean Energy”**. The Manager has also allocated up to 20% of the Fund’s planned Technical Assistance Budget to the category of “Access to Renewable Energy” (please refer to Figure LIX below).

IFI Credit Risk Mitigation: *Tackling Environmental Factors to further unlock “Inclusive Growth”*

The Fund can also use its investments – packaged with Board Observer seats when applicable and technical assistance – to address certain environmental roadblocks to MSME access to finance in many African financial sectors, thus maximizing the social and developmental impact of the Fund. The following are two key examples of areas where the Fund can play a more transformational role in improving business environments thus unlocking both institutional-level access to finance and country-level FDI.

Private Credit Bureaus

There has been recent progress in the introduction and utilisation private credit bureaus across Africa, supported in part by DFI technical assistance like the IFC’s “Credit Bureau Program.” Though precise recent data appears unavailable, it remains likely that most Sub-Saharan Africa countries still mostly rely on public registry credit bureaus, with a minority of countries having private credit bureaus (and those weighted towards Southern Africa).³³ More recent data from the World Bank indicates that private credit bureaus still cover less than 15% of adults in Sub Saharan Africa. Beyond that, Verdant Capital’s anecdotal experience indicates that even in countries with private credit bureaus, utilisation may be lacking due to any combination of reasons, including technology / connectivity, commercial reasons (i.e. costs per inquiry), and lack of prioritisation by the regulator or ineffective partnership with the private company chosen for implementation.

³³ Source: World Bank Doing Business annual report (2012).

The overall trend however is exponentially positive, albeit from a low base – the same World Bank study quoted above notes annualized annual growth rates in population coverage since 2004 of 5.2%. The Fund can work through its investee with local stakeholders, such as banking and MFI associations and the regulator itself, in order catalyse introduction and/or higher financial sector utilisation, especially with financial institutions working with MSMEs to reduce the kind of information asymmetries that typically stymie access to finance in the first place. At a minimum, investee institutions will be required to report client credit performance to credit bureaus where available.

Collateral Registry for Movable Assets

Weak creditor rights, including enforcement of contracts, property rights and collateral laws are generally proven to correlate to more conservative local lending practices, either through withholding of credit altogether or restrictions to short-term, overly-collateralized, and expensive lending. This profile of the legal environment is still common across Sub-Saharan Africa, and contributes to an ongoing access to finance restriction for MSMEs.

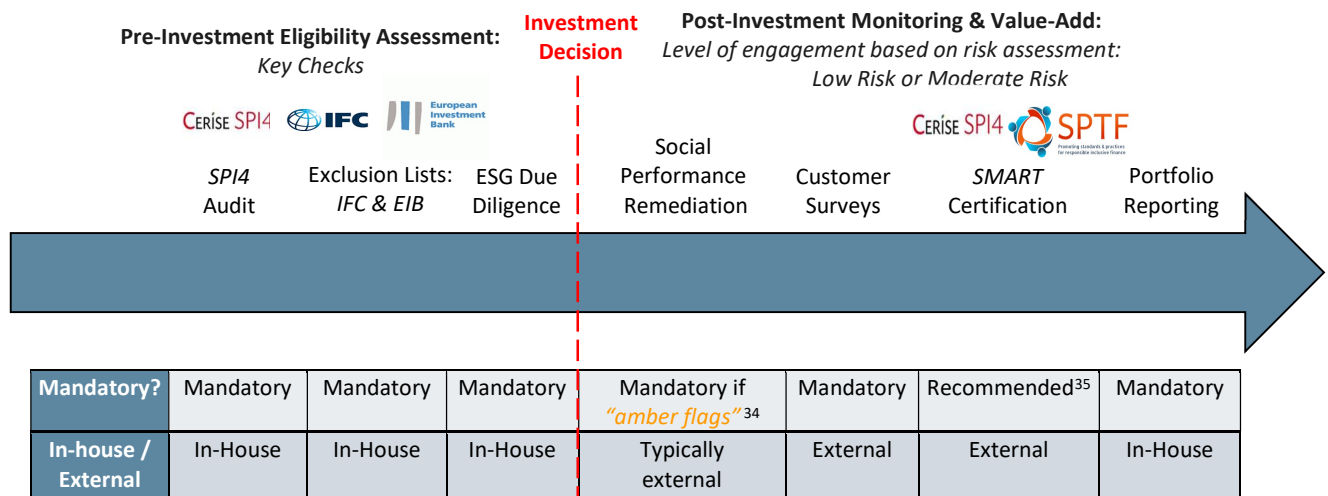
It is well documented that “movable assets”, i.e. not land or buildings, often accounts for most of the capital stock of for MSMEs. Establishing a legal regime for using movable assets as security via a central – and ideally electronic/online - registry of collateral security is also gaining momentum in the emerging world, including Africa. Again, there has been some advisory support from international stakeholders like the IFC, but overall penetration when considering from a pan-African perspective, remains limited.

The Fund can play a proactive role through its investments in exploring and advancing this initiative, depending on the market and region. One example is in Mozambique, currently rated as an “Re-emerging” country within the Fund’s Target Country rating hierarchy. The country’s Parliament only passed a bill establishing a legal regime for using movable assets as security via a central registry of collateral security in November 2018. And there is no official electronic repository as of yet. Via its investment, the Fund could explore how its investee can lead in the ecosystem to progress implementation in a way that improves local MSME access to finance, while leveraging the generally accepted successful introduction in neighbouring Malawi of an electronic registry for movable collateral in 2016.

Importance of Social And Development Impact: Pre and Post investment

As summarized in the following flow chart, the Fund will apply industry best practices, combined with Verdant Capital's internally-developed tools, to provide a thorough framework for investment selection and appraisal and post-investment impact assessments and measurement.

Figure LI: Development and Social Performance – Flow Chart



Pre-Investment Eligibility Assessment

The starting point for the Fund's impact evaluation is assessing the type and focus of the IFI, with baseline support for:

- Eligible Loans;
- Adherence to SPTF Universal Standards equivalent (formerly SMART Campaign CPP); and
- Avoiding consumption driven business models, or IFIs with management with poor reputation for governance, ethics or "CSR".

The following table summarizes the tools and mechanisms utilized by the Fund at the Pre-Investment phase:

Figure LII: ESG / Social Performance Measurement Tools

Tool / Mechanism	Description
ESG Due Diligence Template and Questionnaire	<ul style="list-style-type: none"> Internal template incorporating analysis key ESG areas; All investment agreements will contain representations and warranties regarding the absence of bribery and corruption; The Firm's in-house ESG questionnaire complements the Due Diligence template and is designed to collect information on an IFI's potential impact in ESG areas

³⁴ Oversight by the Fund's "Operational Excellence" initiative, led by its Senior Advisor.

³⁵ The Fund will work with CERISE and the SPTF to discern and apply the equivalent to the SMART Certification under their new stewardship of the SMART Campaign. The adoption of the SMART Campaign CPP / SPTF Universal Standards equivalent is mandatory; certification is recommended. For institutions deemed to be higher risk, certification post-investment will be mandatory.

CERISE SPI4 Audit	<ul style="list-style-type: none"> ▪ <i>CERISE SPI4</i> social performance audit tool utilized to measure responsible, ethical, and inclusive finance through the measurement and management of social performance; ▪ All relevant Fund team members are trained on the tool; ▪ A key member of the Fund’s investment team, Patrick Ball, completed his process for becoming a Qualified External Auditor via <i>CERISE</i> in 2021, the French NGO that manages the Tool, while Verdant Capital has been represented on the SPI4 Steering Committee since 2018. It is the intention of Verdant Capital to qualify the majority of the team to become SPI4 Qualified Auditors.
Exclusion Lists	<ul style="list-style-type: none"> ▪ Specific exclusions as regards environmental and social risks, as guided by the exclusion lists of <i>the EIB and IFC</i>, respectively; ▪ Any items within the <i>EIB and IFC</i> exclusion lists would be considered deal breakers to progressing an investment
IFC Performance Standards	<ul style="list-style-type: none"> ▪ Also references the <i>IFC’s</i> Environmental and Social Performance Standards , which given the content of the Standards, serve more as a complement to the afore-referenced tools and mechanisms that serve as a “harder” filter on investment assessment
Covenants	<ul style="list-style-type: none"> ▪ Will also be included in legal documentation, if required, and can be used to ensure the investee institution accepts <i>SMART Campaign’s</i> seven Client Protection Principles (now incorporated in the <i>SPTF’s</i> Universal Standards Dimension 4), either generally or for specific Principles such as “responsible pricing”

The following provides more a specific overview of some of these pre-investment eligibility assessment tools.

Environmental, Social and Governance (“ESG”) due diligence

Verdant Capital’s internal ESG template is a key tool providing information on the company’s potential impacts in ESG areas. The template focuses on the following key areas:

- Regulatory framework and adherence to international agreements;
- Assessment and management of ESG risks and impacts;
- Stakeholder engagement and community security, health and safety, labour and working conditions;
- Energy use and efficiency;
- Loan book information;
- Ownership and management;
- Compliance;
- Anti-bribery and corruption;
- Anti-Money Laundering (“**AML**”) and Combating the Financing of Terrorism (“**CFT**”);
- Customers and transactions;
- Tax policies;
- Commitment to corporate governance;
- Structure and functioning of the board of directors;
- Internal audit and control;
- Transparency and disclosure; and
- Shareholder rights.

SMART Campaign Principles / SPTF Universal Standards for Social Performance Management

The Fund’s investee institutions must promote and enforce the seven SMART Campaign’s CPPs, all of which are included in the SPTF’s Universal Standards for Responsible Inclusive Finance, Dimension 4, titled “Treat Clients Responsibly.” The seven original CPPs are:

- Appropriate product design and delivery;
- Prevention of over-indebtedness;
- Transparency;
- Responsible pricing;
- Fair and respectful treatment of clients;
- Privacy of client data; and
- Effective complaint resolution.

CERISE SPI4 Social Performance Audit Tool

The Social Performance Indicators 4 (“**SPI4**”) is an cloud-based social performance assessment tool for financial institutions to evaluate the level of implementation of the SPTF’s Universal Standards for Social Performance Management. The SPI4 tool also offers users with a specific mission focus—green, poverty, gender—to assess their practices, via optional indicators that reflects wider realities of financial inclusion. SPI4 brings together industry standards under one tool, offering a common language for reporting to investors, funders and regulators.

Market participants use the SPI4 to obtain a quick and complete diagnosis of the social performances in a graphical form and can collect their social data and generate an analysis of their social performance. The main aim is to save time in the processing of information in order to be in a position to quickly identify the IFI’s shortcomings in the area of social performance and to take measures to address these issues.

Before using the SPI4, the auditors must be trained in order to fully understand how to use SPI4 and the results which it generates.

- Key members from the Fund team have gone through the SPI4 social audit training specifically on the ALINUS tool³⁶;
- Additional members of the team will be specifically trained on this ALINUS tool every year; and
- Patrick Ball completed his certification as a Qualified External Auditor in 2021; the Manager will seek to have more members of the Fund team certified as auditors over time.

Since founding there have been nearly 1 000 social audits performed using the SPI4 by over 600 different Financial Service Providers in over 80 different countries. There are currently 127 official “SPI4 Qualified Auditors” globally.

Verdant Capital currently uses the SPI4 tool in its Private Credit Advisory business in order to show best practice as we assess our clients, showcase our client’s social achievements with the SPI4 social dashboard, reduce time spent on social reporting to our partners, take advantage of technical resources and implementation guidance for each essential practice assessed in the SPI4 and compare our client results to peer benchmarks, to get a fresh perspective and see where to focus improvement. Verdant Capital has been part of the SPI4 Steering Committee which oversees and implements feedback from users of the tool for developing further iterations. The SPI4 Steering Committee comprises a diverse set of stakeholders from the inclusive finance community, including investors, advisory bodies, foundations, consultants and MFIs themselves.

Figure LIII: How does the Tool work?

Questionnaire	Objectives
General Information	<ul style="list-style-type: none"> ▪ Collects information on the firm like the registered name, date of registration, reporting period and the reporting currency.
Social Objectives	<ul style="list-style-type: none"> ▪ The mission statement and the social impact goals of the firm.

³⁶ As noted in **Section 4**, the ALINUS tool is the latest iteration of the industry-recognized social performance management tool from CERISE that allows investors in inclusive finance to conduct due diligence on IFIs.

Organisational Information	<ul style="list-style-type: none"> Focuses on the Board and Staff composition, number of branches etc.
Products / Services	<ul style="list-style-type: none"> Focus is on products offered: loans to Microenterprise loans, MSE loans, Agri-loans, Renewable energy/Energy efficiency, Education, Housing, Personal loans, Micro leasing etc.
Clients	<ul style="list-style-type: none"> Collects information on number of women, men, legal entities, rural vs urban clients and number of voluntary vs non-voluntary savers.
Portfolio composition	<ul style="list-style-type: none"> Number of individual loans, Solidarity groups, Village Banking, Rural, Urban, and total deposits, voluntary deposits.
APR Estimation Tool	<ul style="list-style-type: none"> The tool collects 3 samples of each product: minimum loan amount and minimum maturity, maximum loan amount and maximum maturity, most frequent loan amount and maturity. The tool also collects information like the purpose of the loan, % of active borrowers % of GLP, currency, grace period, security, interest rate method, upfront and admin fees. The result will be an average APR of your loan portfolio.
Financial Information	<ul style="list-style-type: none"> Collects information on the balance, income statement and key financial indicators.
External Reporting and Best Practise Initiatives	<ul style="list-style-type: none"> The tool assesses endorsement / membership of initiatives such as smart campaign, Social Performance Task Force, Mix Market Financial Indicators and Mix Market Social Indicators and other ratings, assessments, and certifications.
Social dashboard	<ul style="list-style-type: none"> This scores to what extend the MFI performs relative to other MFIs in defining and monitoring social goals, design products that meet clients' needs, treat clients responsibly, treat employees responsibly, balance social and financial performance.

Post-Investment Monitoring & Value-Add for Low Risk Investments

The Fund will actively monitor “Low Risk” investments via mandatory Customer Surveys and Portfolio Monitoring - including required reporting, periodic calls, and annual visits. Implementation and oversight of “Social Performance Remediation” activities will be lead by the Fund’s Senior Advisor, who is managing its “Operational Excellence” and will be complemented in oversight by the investment team.

Any “amber” flags for Moderate Risk for on social performance identified during post-deal monitoring (or pre-investment evaluation) will utilize a range of tools for mitigation and improvement, as outlined in the following table. External resources will be utilized as required in applying low- and high- touch interventions.

Figure LIV: Overview of Post-Investment Monitoring tools

Tool / Mechanism	Description
Customer Surveys	<ul style="list-style-type: none"> Mandatory, with Technical Assistance funding to be provided for third-party preparation; Verdant Capital believes this will be important to confirm adherence to client protection principles/outcomes, how the end-client is using the loan (i.e., for small business, housing, school fees, PAYGO home solar systems), and generally overall social performance; Surveys are also a valuable tool as investees look to refine their product design and risk management; Verdant Capital also believes it is important, where practical, that the actual surveys themselves are conducted by external consultants rather than employees of the investee institution

Recommendations	<ul style="list-style-type: none"> ▪ Even institutions performing strongly from a development and social performance perspective may benefit from specific recommendations, i.e., including use of proceeds data on loan application forms
Portfolio Reporting	<ul style="list-style-type: none"> ▪ Includes the specific ESG reporting and leverages input from the in-house ESG Due Diligence Template and Questionnaire; ▪ Social performance metrics and results of screenings from the SPI4 Audit Tool will also be contributed to CERISE and other industry networks like the <i>GIIN/IRIS+</i>, the <i>GRI Standards</i> and the <i>SPTF</i> for updating benchmarks ultimately used by investors and other stakeholders
Annual Visits	<ul style="list-style-type: none"> ▪ Mandatory, and to include ESG due diligence checks; ▪ For more equity-like investments from the Fund (i.e., AT1C and Holding Company Debt), there will be a Board Observer representative of the Fund and this seat will be used to monitor and influence appropriate social performance and development impact initiatives; ▪ Examples including (but not limited to) recommendations to obtain social ratings or audits or <i>SMART Campaign</i> Certification (and equivalent under the new stewardship of <i>CERISE</i> and the <i>SPTF</i>)

Portfolio Reporting

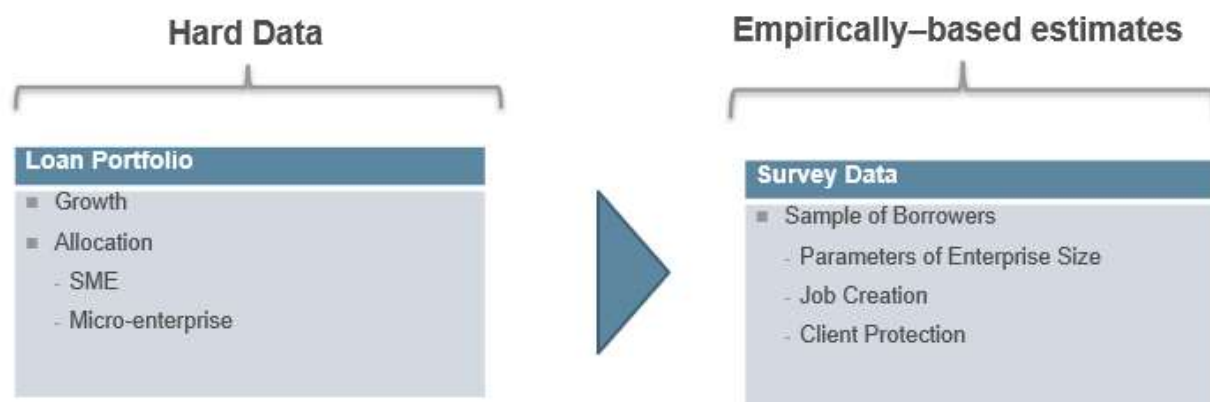
The Manager will report to the LPs on the social and development performance of the portfolio. The reporting will be based around the key social and development impacts targeted, including:

- Crowding-in/Financial impact;
- Social performance;
- Human development performance;
- Value-add and operational excellence; and
- Market development/Demonstration effects.

Figure LV: Portfolio Reporting

Key Social and Development Impact	Description
Crowding in/Financial impact	<ul style="list-style-type: none"> ▪ Access to senior debt: growth of the investee institutions borrowings. ▪ Loan book growth.
Social performance	<ul style="list-style-type: none"> ▪ Mitigation of social performance risks identified in the due diligence process (assuming such risks are not so serious as to cause a postponement or delay to the investment). ▪ Mandatory third-party customer surveys – post transaction. ▪ Targeted portfolio growth, using guarantee relationships.
Human development performance	<ul style="list-style-type: none"> ▪ Given the importance of job creation for human development, SME-lending institutions will be required to estimate empirically job creation impact of the increase in the loan book facilitated by the Fund. ▪ Overall job creation impact of the Fund will also be reported (please also see below).
Value-add and operational excellence	<ul style="list-style-type: none"> ▪ Mitigation of due diligence issues identified in the due diligence process (assuming such risks are not so serious as to cause a postponement or delay to the investment). ▪ Use of TA funding for specific projects.
Market development/Demonstration effects	<ul style="list-style-type: none"> ▪ Transaction structures being replicated by other investors in the market in question (including other investors completing “tap” issuance to the Funds initial transaction).

The Manager will use a combination of “hard data”, i.e., specific reporting by IFIs on their loan book break down and growth and “empirical data”, i.e., customer surveys asking a sample of MSME borrowers regarding their job creation in order to provide estimates of the overall job creation impact.



Separately to reporting to the Manager, as part of overall market development, the investee institutions will be required to report to:

- Credit screening bureaus (end customer defaults); and
- High level financials to MIX.

The investment team will also share with investee institutions the insights learned across the investment portfolio and from their experience operating in the sector, as well as insights from Verdant Capital's other businesses.

Impact Metrics – Linked to the UN SDGs³⁷

In terms of the impact aspect of portfolio monitoring/reporting, the Fund will track specific client segments, sectors, products, business practices and align with best practice standards such as the GRI³⁸ and the GIIN³⁹ while constantly linking impact to the UN SDGs. A snapshot of the Fund's alignment with the SDGs is captured below.

Figure LVI: Overview of Fund Impact Metrics Linked to SDGs

UN SDGs	Impact Metric
<div>1 NO POVERTY</div> <div>8 DECENT WORK AND ECONOMIC GROWTH</div>	<ul style="list-style-type: none"> ▪ # of MSMEs, active borrowers reached ▪ # of clients that are low income, poor, MSMEs ▪ % of investee's investment portfolio dedicated to business / productive loans ▪ # of investee's loans for income-generating purposes ▪ # of Fund investees providing business, agriculture, or life insurance
<div>1 NO POVERTY</div> <div>10 REDUCED INEQUALITIES</div>	<ul style="list-style-type: none"> ▪ # of clients of Fund investees living in rural areas ▪ # of Fund investees operating as non-banks, and serving a smaller-sized market ▪ # of investment countries that are Low Income ("LI") or Low Middle Income ("LMI") ▪ Measurements of USD median GNI per capita of investment countries, and with comparison to investee's average outstanding loan sizes

³⁷ Referencing the 17 Sustainable Development Goals ("SDGs"), outlined and adopted by the United Nations ("UN") in 2015.

³⁸ Global Reporting Initiative ("GRI") Sustainability Reporting Standards. <https://www.globalreporting.org/>

³⁹ Global Impact Investing Network ("GIIN"). <https://thegiin.org/>

5 GENDER EQUALITY 	<ul style="list-style-type: none"> % of female active borrowers % of female management, staff, board members Amount of income generated by female clients
2 ZERO HUNGER 	<ul style="list-style-type: none"> % of lending by Fund investees to agricultural sector # of Fund investees with at least 30% allocation to the agricultural sector
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	<ul style="list-style-type: none"> # of Fund investees utilizing some tech-driven product in field # of Fund investees with tech-driven product, distribution channel in development
4 QUALITY EDUCATION 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	<ul style="list-style-type: none"> # of Fund investees providing financial literacy or business development assistance to clients # of Fund investees offering voluntary deposit saving products to clients # of Fund investees utilising technology to enhance operational efficiency or financial inclusion % of Fund investees implementing Smart Campaign CPP, receiving social impact rating Amount of Fund's TA funding for operational strengthening, product development, improved distribution channels, etc.
6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY 	<ul style="list-style-type: none"> # of Fund investees providing credit products in water, sanitation # of Fund investees providing credit products in renewable energy, or energy efficiency # of solar home systems installed, kWh renewable energy produced, # homes served, and amounts of energy expenditure saved

Impact Metrics – Linked to 2X Challenge⁴⁰

The Fund will also specifically track the qualifying criteria of the “2X Challenge”, an initiative launched in June 2018 by the G7 DFIs to mobilize to mobilize significant private capital to projects that empower women in developing countries. The Fund targets qualifying as a “Flagship Fund” for this initiative by tracking criteria that makes an investment in the Fund by its DFI investors “2X Eligible.”, along with a commitment by the Fund to a gender action plan with planned oversight by the Manager.

Promoting gender equity has been fundamental to Verdant Capital’s to its advisory business as well as the Firm’s internal organisation itself. The Fund would however be an early pilot of Verdant Capital’s specific “gender smart” investing framework. Initial sampling of 21 IFIs from the Fund’s pipeline indicates qualification against the 2X Challenge’s Direct Qualifying Criteria threshold, as outlined in Figure LVII below⁴¹.

Two of the Fund’s investment team - as well as two of the Fund’s Investment Committee - are females, as is the Firm’s Business Manager, Sibonelo Mavuso, who is responsible for HR and Administration. The 2X Challenge measures the Qualifying Criteria against both the investee itself, i.e., Fund Manager, as well as the portfolio companies of the Fund Manager.

Figure LVII: Overview of 2X Challenge Direct Qualifying Criteria

Investee Criteria	Description	IFIs Sampled (# 21)

⁴⁰ Referencing the 2018 initiatives of DFIs from the G7 and elsewhere to collectively mobilize USD 3 billion in commitments towards women’s empowerment in developing countries. <https://www.2xchallenge.org>

⁴¹ According to the 2X Challenge, a Fund Manager can qualify as an “Flagship Fund” if (i) the percentage of portfolio companies of the Fund that meet the “Direct” criteria is greater than 30%, or (ii) the Fund Manager has established a “credible gender strategy and clear thesis to invest in women”, or (iii) the Fund Manager itself meeting the Direct criteria.

Entrepreneurship	<ul style="list-style-type: none"> Share of women ownership in the IFI (threshold: 51%) IFI founded by a woman (yes/no) 	<ul style="list-style-type: none"> N/a
Leadership	<ul style="list-style-type: none"> Share of women in senior management of the IFI (threshold: 25%) Share of women on the Board of the IFI (threshold: 30%) 	<ul style="list-style-type: none"> 17 of 21 IFIs (81%) have at least 20% share of women in senior management 6 of 21 IFIs (29%) have at least 30% share of women on their Board
Employment	<ul style="list-style-type: none"> Share of women in the workforce of the IFI (threshold: 40%) IFI policy or program addressing barriers to women's "quality employment" 	<ul style="list-style-type: none"> 14% of 21 IFIs (67%) have at least 30% share of women in their workforce
Consumption	<ul style="list-style-type: none"> Product or service specifically or disproportionately benefitting women, i.e., increasing their access to finance or to markets 	<ul style="list-style-type: none"> 5 of 21 IFIs (24%) have a "product or service" specifically or disproportionately benefitting women

The Manager also has conducted a survey of 11 prospective investees in the Fund pipeline across different geographies and institutional types in order to estimate the total of their loan portfolios comprising female clients, the results of which are presented in the following table. Of the prospective investees sampled, the majority of clients are female.

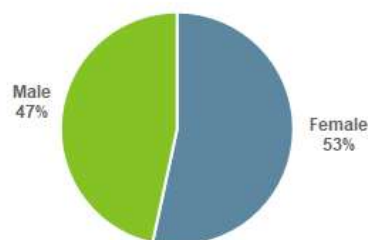
Figure LVIII: Impact Analysis by Gender

Percentage of Female Clients

Number of prospective investees surveyed	11
Average % of female clients	53.4%
Median % of female clients	58.5%
Q1 (female clients)	33.8%
Q3 (female clients)	70.0%

Source: Verdant Capital pipeline

Average Client Mix By Gender



Measurement of the gender representation in the IFI investees' loan book is not an discrete 2x Challenge Direct Qualifying Criteria; however the Manager believes the survey is further indicative of Fund's gender impact potential, and consistent with the Firm's historical commitment to actively promoting gender equity.

Portfolio Company - Value Add

The Fund will add value which is disproportionately higher to the amount of capital that it is investing. This is because the Fund is investing risk capital / regulatory capital which will be leveraged by other lenders. Separately, Chris Low, Senior Advisor and Head of Operational Excellence, will lead specific projects within specific portfolio companies and for the portfolio overall.

As discussed in **Section 4: Highly Experienced Team**, based on the investment team’s review of the illustrative investment portfolio, there are three categorizations of technical assistance, for which the Fund expects three-to-four investments per category:

- i. Institutions requiring no technical assistance post-investment (“**No Touch Cases**”);
- ii. Institutions requiring some technical assistance and support (“**Moderate Touch Cases**”); and
- iii. Institutions in transition requiring extensive technical assistance and support (“**High Touch Cases**”).

Examples of **Moderate Touch Cases** to **High Touch Cases** include:

- i. MFIs undergoing regulatory transformations, including those transforming to full transactional banking licences or from credit-only to incorporate basic deposit-taking;
- ii. Larger institutions benefiting from scale economies, and notwithstanding strong overall performance which could benefit from assistance to optimise or digitalise their credit life cycle, or their MIS/Core Banking System (“**CBS**”);
- iii. Institutions introducing new products for SMEs, i.e., agricultural-focused supply chain financing, leasing, or renewable energy/energy efficiency loans;
- iv. Successful single country institutions expanding cross-border.

Maximising the social and developmental impact of the Fund, including the value add to the institutions in the portfolio, is a critical part of the vision and strategy of the Fund. Chris will work with the other members of the Fund’s investment team to achieve these objectives. performing the role of Board Observer on certain **High Touch Case** investments.

Furthermore, the investment team will leverage the specific expertise of Chris Low, will also monitor “amber flags” uncovered in the due diligence process, and addressing an action plan. Such action plan may be:

- Action items to be resolved by investee institution management, with progress overseen by the Operations team;
- Using technical assistance funding to involve third-party consultants for on the ground assistance; and
- On the ground assistance by Chris Low in his specific areas of expertise, especially (i) strategy, (ii) process optimisation, (iii) team leadership expertise and governance.

Social performance optimisation and measurement will add-value and was discussed earlier in the section. Loan portfolio expansion into higher impact segments. The Manager is in discussions with the DFIs Proparco (of France) and DFC (of the USA) to utilise their respective portfolio guarantee schemes, whereby investee institutions can benefit from partial loan book guarantees when expanding their loan books into higher risk / higher impact segments (i.e. start-ups, agriculture, rural, education, etc.). This will typically be combined with specific TA funded product experts supporting the product development. This will enable the Fund to promote a greater development impact overall, while managing the overall risk. Reporting to the LPs on the performance of the portfolio, including critically on the development and social performance. These are an important tool, along with management information systems, to confirm the use of proceeds by the end-customer of their loans. The investment team will also share with investee institutions the insights learned across the investment portfolio and from their experience operating in the sector, as well as insights from Verdant Capital’s other businesses.

Many investments will be structured as a “package”, i.e. hybrid capital plus technical assistance and/or loan guarantees that would support growth of specific portfolios.

Technical Assistance

In parallel to the Fund, we are pursuing technical assistance facilities (“TA”) of USD 2.9 million (net of an approximately 20% contribution by the respective investee company), which is the equivalent to the 3.7% of the Fund size. The TA is being solicited both from LPs and from separate funders such as Foundations and other DFIs. The TA is segmented into three categories:

- i. Capital markets development (approx. 25%);
- ii. Social performance and reporting (approx. 25%); and
- iii. Operational excellence and product development (50%).

Though segmented, it is clear that these three categories significantly “bleed” into each other. For example, social reporting is a pre-requisite for ongoing access to wholesale capital, which in turn relies upon an efficient MIS/CBS. Furthermore, achievements of the objectives of the TA in each of these categories is viewed by the Manager as being highly correlated with the investment performance of the Fund.

Figure LIX: Technical Assistance

Category	Timing	Goal	Estimated Number of Transactions	Potential Sponsor	Cost	Total
Capital Markets Development	Pre-investment	Introduction of subordinated / hybrid product to new markets ⁴²	5	FSD Africa	50 000	250 000
Capital Markets Development	Post-investment	Ongoing access to capital, e.g., cost associated with rating or listing (debt or equity)	3	FSD Africa	100 000	300 000
Client Survey	Post-investment	Real feedback to institution assisting social performance and credit performance. Reporting to LPs. <i>Three surveys per client over the five-year investment period</i>	10 (x 3 surveys per client)	KfW	15 000	450 000
Social Performance Reporting	Post-investment	Ongoing access to capital; mitigating social risks	7	KfW	20 000	140 000
SMART Campaign CPP / Universal Standards ⁴³	Post-investment	Ongoing access to capital; mitigating social risks	3	KfW	40 000	120 000
Operational Excellence	Post-investment	Mitigating investment risks	3	KfW	300 000	900 000
Product Development	Post-investment	Product development associated with guarantee product	5	KfW / DFC / Proparco	150 000	750 000
Access to Renewable Energy	Post-investment	Product development associated with loans related to access to renewable energy	5	KfW	150 000	750 000
Total						3 660 000

⁴² Given the lack of precedent in these markets for such instruments, the TAF anticipates covering the additional costs and legal work to facilitate issuance and appropriate regulatory adoption. Ensuring appropriate FX hedging for these instruments can be facilitated through this TAF support.

⁴³ In July 2020, the Centre for Financial Inclusion at Accion International announced that the SMART Campaign, would cease and transfer all implementation resources to the Social Performance Task Force (“SPTF”) and the French NGO CERISE, who will continue managing them. The CPPs are already contained in the SPTF’s Universal Standards, Dimension 4, “Treat Clients Responsibly.”

<i>Investee contribution</i>	20.0%
Net total cost	2 928 000
<i>% of Fund Size</i>	3.7%

Step-up Structure

In order to mitigate the risk of “mission creep”, i.e., the risk of an investee institution materially weakening its social and development performance following the completion of the investment, the Fund shall consider a step-up structure, especially in investments where the Manager considers the risk of mission creep to be significant.

Key principals for a step-up structure:

- It is relevant only for the credit-only institutions in the portfolio. In the case of deposit-taking institutions, the existence of a step-up would be problematic for the capital treatment of the instrument invested;
- It must be based on a “bright line” test, i.e., no ambiguity or room for disagreements. These disagreements can relate to items such as use of funding proceeds and or widely acceptable portfolio composition from an impact perspective.

Potential “Bright-Line” Tests

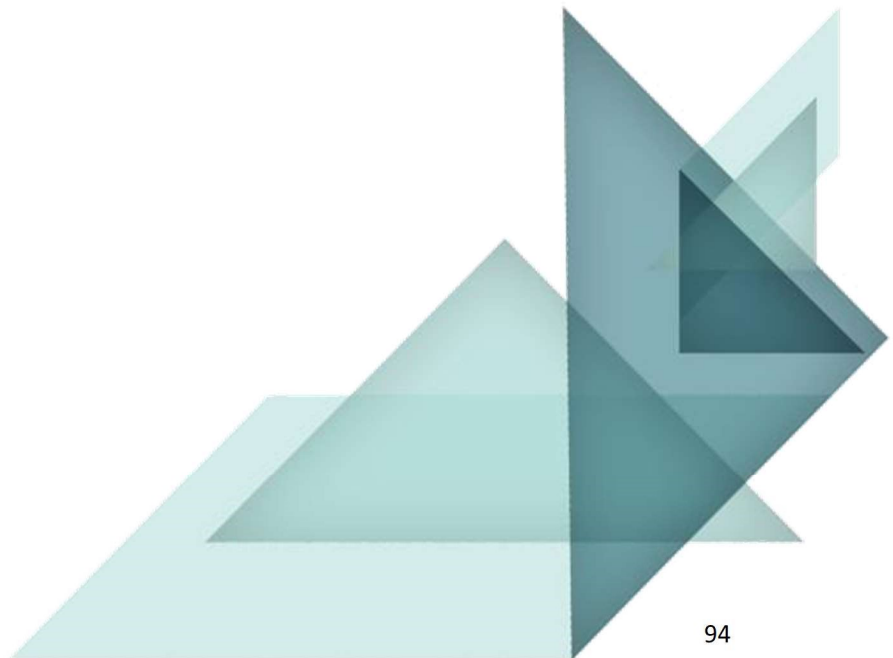
As discussed, for certain institutions, which are appraised as a moderate risk (i.e., rather than “low risk” investments expected to make up the majority of the portfolio) from an overall social and development performance perspective, it will be compulsory to achieve an agreed objective third-party accreditation for client protection or broader social performance. Such accreditation will be a “condition subsequent”, and if the investee institution does not achieve the certification within the given timetable (and after a certain grace period), the step-up would apply. The step-up would cease to apply once the accreditation is achieved.

Earlier in this section, we have also discussed credit enhanced portfolios, benefiting from the support of partial credit guarantees from two DFIs: the DFC of the U.S., or Proparco of France. The intention of such programmes will be to enhance the overall social and development impact of the institution by adding into it an additional high impact portfolio segment. The Manager would identify the investee institutions to benefit from such partial guarantees in advance of investment. To the extent that an investee institution benefits from a finally approved portfolio guarantee structure and does not take advantage of such a scheme (again after a certain grace period) the step-up would apply.

Quantum of the Step-up

The Manager would propose that the step-up is set based on 15% of the implied margin. So, for example an institution with a 10% implied margin in the pricing model, would be attributed a 1.5% step-up.

8. Investment Appraisal Process



Investment Appraisal – Investment Selection

The table below sets out certain of the key criteria for the selection of investments.

Figure LX: Investment Selection

Criteria	Description
Quality of the management team and promoters	<ul style="list-style-type: none"> It is very hard to do a “good deal” with “bad people”. An important criterion shall be validating the technical competencies of the senior management team and identifying any critical gaps. Furthermore, we will use our extensive network in the sector to ensure we obtain references on the senior management and promoters of the investee institutions. These reference checks will be complemented using desktop research, including best-practice KYC tools such as World-Check One and XDS.
Social performance	<ul style="list-style-type: none"> The Fund has a strong social performance and development impact mission, including: <ul style="list-style-type: none"> i. providing capital to self-employed micro-entrepreneurs; ii. creating employment through providing funding to SMEs, which are the “engine” of jobs growth in Africa; iii. rural and agricultural development; iv. better access to affordable and clean energy, water, and sanitation; v. access to education, health, and housing; vi. broad-based financial inclusion (including for women) while respecting the best possible client protection principles. An investee institution must have at least 50% of its loan book allocated to “eligible loans”. Larger institutions with total assets of more than USD 100 million must have at least 33% of their loan book in “eligible loans”. The institution must commit to adhere to the SPTF Universal Standards (SMART Campaign Client Protection Principles equivalent) The Fund will not invest in consumption-driven business models, pay-day (short-term) or exploitative business models.
Financial and portfolio performance	<ul style="list-style-type: none"> The Fund will invest in the upper quartile of IFIs as per their financial and operating performance. Verdant Capital has a benchmarking database dating back to seven years with over 100 datapoints from the sector from across the Continent. Key takeaways include: <ul style="list-style-type: none"> i. PAR 30, best quartile $\leq 7.5\%$; ii. Return on equity, best quartile $\geq 25\%$; and iii. Cost-income-ratio, best quartile $\leq 46\%$.
Size of institution	<ul style="list-style-type: none"> The Fund will not invest more than 50% of the common equity of the investee. Potential for the Fund, by exception, to invest in high quality, and highly differentiated institutions of a smaller size, in which case the investment will be a concurrent or “stapled” investment of hybrid/subordinated debt and common equity (or senior debt) with a blended return within the target range.
Minimum capitalisation	<ul style="list-style-type: none"> Minimum capitalisation evaluation is based upon nominal amounts and ratios. Minimum equity – nominal terms: <ul style="list-style-type: none"> i. The institutions we invest in must be capable of meeting the regulatory minimum capital as per the applicable central bank regulations, considering, our investment. The Manager sees a potential catalyst for the Fund’s investments in the form of central banks increasing the minimum capital for deposit-taking non-bank institutions / microfinance banks, with Nigeria and Ghana as just two recent examples;

	<ul style="list-style-type: none"> ii. Around USD 6 million of common equity, and therefore we can invest USD 3 million of subordinated/hybrid capital and the hybrid capital would be no more than 50% of common equity; and iii. As discussed above, the Fund may by exception also consider a stapled structure of a hybrid capital instrument and common equity (or a stapled structure of hybrid capital instrument and senior debt), for a slightly smaller institution with exceptionally low PAR and a differentiated business model, so that it can invest the minimum amount of USD 3 million (i.e., USD 2 million of subordinated / hybrid capital and USD 1 million equity investment), without investing hybrid capital of more than approximately 50% of the investee institution's common equity. Such transactions are likely to be rare in the portfolio. <ul style="list-style-type: none"> ▪ Minimum equity – ratios: <ul style="list-style-type: none"> i. In the regulated sectors, i.e., banks and microfinance banks must be compliant with the regulatory minimum; and ii. In the credit-only sector, i.e., the Fund will typically require MFIs and specialist SME lenders to obtain (including the capital invested by the Fund) a minimum solvency ratio (equity-to-total assets) of 20%. The Manager would also monitor the ratio of equity to the gross loan book, which based on our experience is typically a better measure.
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Additional Investment Considerations

The Manager – will look out for a range of potential “deal breakers”.

- Evidence of abusive lending practices, i.e., pay-day loans, very high interest rates compared to local competitors considering tenor and sizes, excessive penalties (pre-payment or late payments);
- Consumption loan-focused portfolios without evidence of positive financial inclusion outcomes (such positive outcomes might be related to individual loans linked to housing, school fees, or PAYGO home solar systems, for example);
- Inexperienced management, or management with a poor reputation for governance or ethics;
- Weak balance sheet structure, i.e., term or currency mismatch, high concentration amongst a limited number of lenders, especially if combined with “weak” shareholders;
- European or US headquarters with significant staff commitments. This often implies top-heavy operating costs and potentially out of touch management. The Firm's experience demonstrates that it is difficult to run an institution with a first world cost base and third world revenues.; and
- There are certain tell-tale signs which are often indicative of issues within institutions of this type (not always but certainly worth looking out for). Examples of such issues are set out below:

Figure LXI: Tell-Tale Signs

“Tell-tale” sign:	Can be a warning sign for:
Very short-term book with a very low PAR (or rapid shortening of the average loan tenor or re-weighting of the loan book to short term loans).	Loans restructured or rolled over / re-lent and under-reporting of restructured loans.

Very high levels of cash or liquid assets on balance sheet vs market norms or regulatory minimums.	Underreported bad debts, hence the need for extra liquidity.
Large proportion of the loan book structured as “overdrafts”.	Overdrafts can be a veil for NPLs.
Highly concentrated deposit base with a lower cost of deposits than peers in the same market / similar size.	KYC issues in the deposit base.

Any items discovered that are cited by cross-checking with the EIB and IFC Exclusion Lists would be considered deal breakers.

In-house Assessment Tools

Other the last eight years, Verdant Capital has developed a range in-house tools that are critical to the performance of the Firm’s work.


Figure LXII: In-house Assessment Tools

ESG Questionnaire	<ul style="list-style-type: none"> Designed to collect information on a financial institution’s potential impact in Environmental, Social and Governance areas.
CERISE SPI4 Social Performance Audit Tool	<ul style="list-style-type: none"> The SPI4 Steering Committee comprises a diverse set of stakeholders from the inclusive finance community, including investors, advisory bodies, foundations, consultants, and MFIs themselves. Measures the level of implementation of the Universal Standards for Social Performance Management, including the Smart Campaign Client Protection Principles for the Firm and the Fund’s IFI clients. Not strictly a “proprietary” tool, however Verdant Capital was in the steering committee to develop the tool.
Proprietary benchmarking database	<ul style="list-style-type: none"> Detailed financial information on Inclusive Financial Institutions across the Continent, over a time series of a number of years. Mainly covers the key traditional KPIs including cost of risk, return on equity, cost to income, yield on advances, cost of funds, solvency ratio.
Loan portfolio factsheet	<ul style="list-style-type: none"> Designed to capture the key aspects of the financial institution’s loan book performance including Portfolio at Risk; loan book split by gender, location, tenor, branch, currency.
Margin-based forecasting model	<ul style="list-style-type: none"> Margin-based with a clear layout of assumptions on assets (mainly loan products and investment products), on liabilities (mainly debt funding and customer deposits) and on equity (capital injection). Clearly shows how the assumptions feed through the Balance sheet and Income statement. The Cashflow statement is linked clearly to the Balance sheet and Income statement. Shows financial performance ratios including profitability, loan activity, liquidity, asset structure, funds utilisation ratios. Shows performance growth of the key Balance Sheet items including loan portfolio, total assets, total equity, borrowings, customer deposits; and key Income Statement items including interest income, interest expense, operating income, operating expense, profit before tax and profit after tax. Shows funding sources including an institutional debt schedule.

Other Resources Available to the Team


Verdant Capital has invested heavily in resources and systems, which provide significant analytical depth and market visibility. The investment banking sector has changed significantly in the last 15-20 years since the senior team members started their careers, when valuation “comparables” and bank ratios were all calculated by team members manually. These information systems have reduced the economies of scale benefiting larger investment houses and have facilitated niche operators entering the market and providing specialist services. Furthermore, third party economics research is now widely available, eliminating the need for in-house economics teams. The systems do not replace in-house analytical work but do provide a platform for more specific analysis. Verdant Capital has invested heavily in the training and mentoring of local talent, both through internal mentoring and through external training.

Figure LXIII: Resources Available to the Team

Compliance and KYC	
	<ul style="list-style-type: none"> Global relevance and recognition as industry standard resource. Reputational checks. Criminal record checks. Litigation.
	<ul style="list-style-type: none"> South Africa only. Additional resource to identify individuals as well as credit history and criminal record and litigation checks.
Financial Analysis	
	<ul style="list-style-type: none"> Verdant Capital maintains a proprietary data set on IFIs across the Continent providing intelligence in terms of key trends in financial performance, asset quality and leverage. Also provides interesting comparisons between countries and sub-sectors. Verdant Capital's other in-house tools include (i) its margin-based forecasting model; and (ii) its portfolio factsheets.
	<ul style="list-style-type: none"> Specialist information on regulated financial institutions. Provides coverage of listed and unlisted banks, as well as some deposit-taking microfinance institutions.
	<ul style="list-style-type: none"> Globally recognized “go to” source for extensive data sets on range of inclusive financial institutions, including all types of MFIs. MIX was founded by the Consultative Group to Assist the Poor (“CGAP”) in 2002, provides market data on over 3 000 IFIs globally. Recently expanded to “adjacent” inclusive finance sectors like smallholder agricultural finance and green energy finance Data sets include asset size, market shares, asset quality, profitability. MIX is now part of Accion International's Centre for Financial Inclusion⁴⁴.

⁴⁴ Source: https://www.accion.org/institutional_partnerships/mix

	<ul style="list-style-type: none"> ▪ Global relevance. ▪ Financial ratios on listed financial institutions and companies. ▪ Company valuations, transaction valuations, credit statistics, banks ratios. ▪ Also provides ability to analyse shareholders and ultimate beneficiary owners (“UBOs”). ▪ Market data on currencies and rates. ▪ News alerts.
Macro-Economics	
	<ul style="list-style-type: none"> ▪ In depth coverage of key political and economic stories across the Continent. ▪ Provides forward visibility on key events.
	<ul style="list-style-type: none"> ▪ Dedicated economics coverage on the African continent. ▪ Key forecasts for variables including GDP growth, FX rates, policy and interbank rates.
	<ul style="list-style-type: none"> ▪ Dedicated and frequently updated country overviews, inclusive of legal, regulatory and “doing business” evaluations.
Market intelligence	
	<ul style="list-style-type: none"> ▪ Proprietary deal intelligence in global emerging markets private equity. ▪ Benchmarking of market returns. ▪ Insight into key themes in the industry and best practice.
	<ul style="list-style-type: none"> ▪ Proprietary deal intelligence for the microfinance sector globally. ▪ Key themes in academic research, industry best-practice and deal structuring. ▪ Potential source of co-investments.
	<ul style="list-style-type: none"> ▪ e-MFP is the leading network of European stakeholders for financial inclusion, with over 130 members. ▪ Extensive knowledge-sharing opportunities, along with access to key industry trends, market best practices and training resources. ▪ Link to academic research and stakeholder market studies and white papers on inclusive finance sectors in Africa and globally.
	<ul style="list-style-type: none"> ▪ Leading resource for tracking Africa’s private capital markets and regulatory trends. ▪ Potential source of co-investments.
Social Performance Measurement	
	<ul style="list-style-type: none"> ▪ Proprietary tools for social performance due diligence and scoring. ▪ Recognized as the best practice tool for the global inclusive finance sector. ▪ Verdant Capital has been part of the CERISE SPI4 Steering Committee. ▪ The Fund’s investment team will have at least two Qualified Auditor by First Closing; Patrick Ball already completed his certification for the Qualified Auditor in 2021; are of the investment team are using the tool for social performance due diligence.
	<ul style="list-style-type: none"> ▪ Ratings for IFIs – financial, social, credit. ▪ Also provide assessments, due diligence support and country analyses, and social performance outcomes measurement. ▪ Access to knowledge sharing, including research, and sharing. ▪ Now offering industry-recognized certification services for evaluating social performance (i.e., Universal Standards / Smart Campaign CERISE SPI4, Truelift), mobile money (i.e., GSMA).

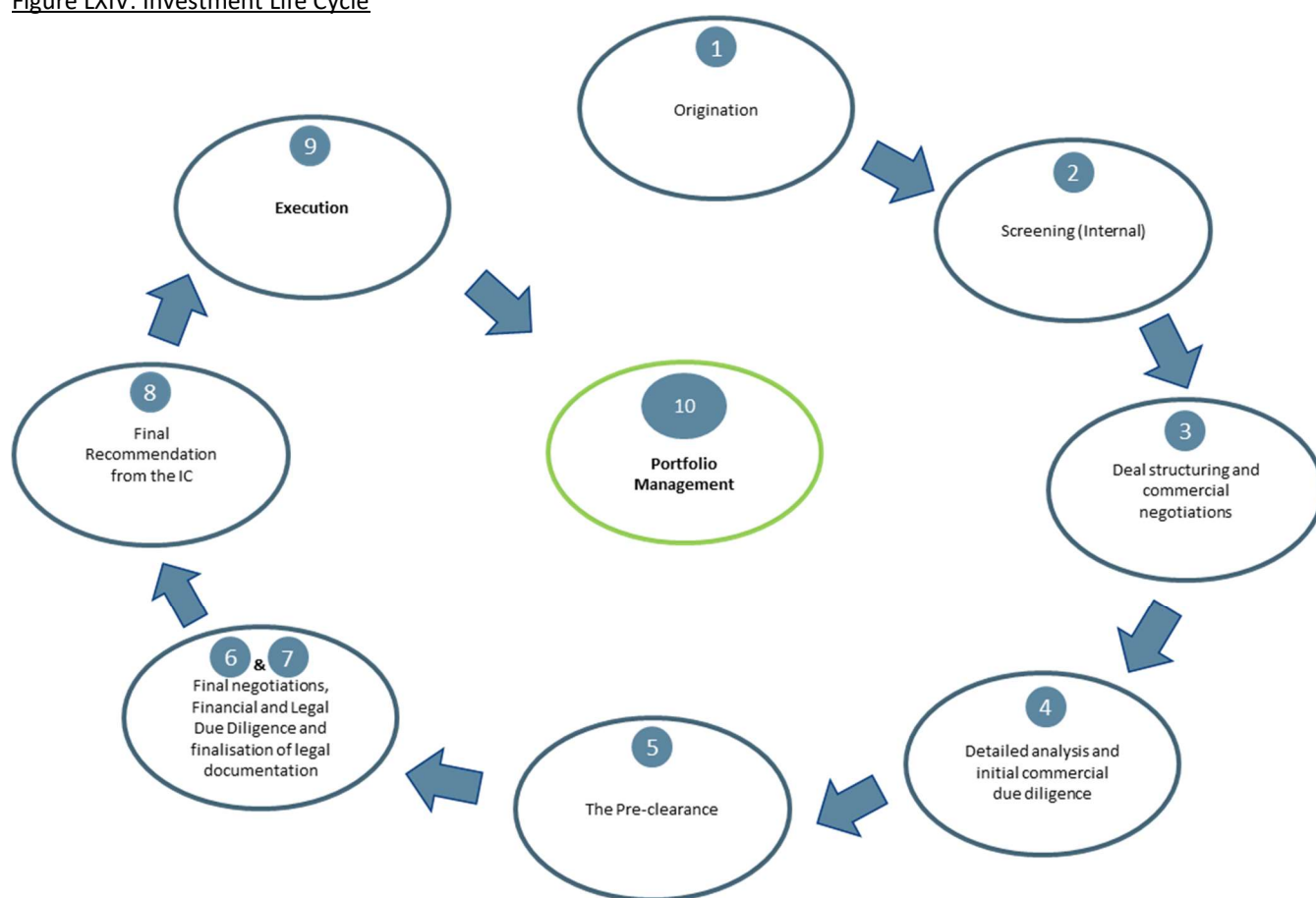
	<ul style="list-style-type: none"> ▪ The globally recognized membership organisation working to advance social performance management; custodial oversight for the Universal Standards for social performance management. ▪ Access to Resource Centre (guides, templates, tools, templates), events (webinars, meetings, trainings, events) and TA database.
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The above resources are indicative and alternative sources may be substituted by the Manager as per availability in the market of new products, as well as factors such as pricing.

Investment Appraisal – Process

The Manager has a thorough origination and risk appraisal process for each investment. The investment process is a ten-step process starting from the deal origination to the execution of the investment through to post-deal portfolio management.

Figure LXIV: Investment Life Cycle



Step 1: Origination

Verdant Capital is the largest advisor to the IFI sector in Africa and has a long track-record over multiple years. This provides Verdant Capital with an exceptional reputation in the market and a very broad network of relationships and contacts.

Verdant Capital believes that a broad pipeline is a critical component of successful fund investment. A broad pipeline, provides:

- i. A multitude of comparators, and enables detailed ongoing benchmarking; and
- ii. For discipline in risk appraisal process.

As set out below, the Manager has a multiple channel approach to investment origination:

- i. Direct contact between members of the Manager and senior executives and board members of the potential investee institutions;
- ii. Referrals from the Managers immediate network of contacts, including of LPs of the Fund;
- iii. Exceptional relationships with other market participants who can provide referral and leads, be they funds referring investments from outside their mandates (size, hybrid rather than senior, hybrid rather than equity, financial institution rather than non-financial), consultants especially specialists in the sector, stock-brokers and other local market players;
- iv. Extensive existing client base in the IFI sector, and a long-track record as the leading advisor to this sector in Africa;
- v. Extensive personal relationships of the senior team;
- vi. Membership of all relevant trade and stakeholder groups, for example, the European Microfinance Platform (“**e-MFP**”), the Global Impact Investing Network (“**GIIN**”), the Social Performance Task Force (“**SPTF**”), Microfinance African Institution Network (“**MAIN**”), Making Finance Work for Africa (“**MFW4A**”), and the Responsible Finance Forum (“**RFF**”); and
- vii. Direct outreach through Verdant Capital’s extensive mailing list (in excess of 5 000), as well as frequent writings across the board in the speciality press.

Step 2: Screening (internal)

The Manager will perform detailed screening on each potential new investment.

Figure LXV: Initial Screening

Compliance and Reputational Risk	Institutional Credit Analysis	Eligibility & Social Performance Evaluation
<ul style="list-style-type: none"> ▪ Reference checks; ▪ Know-your-client (KYC) information⁽¹⁾; ▪ AML-CFT checks⁽¹⁾; and ▪ Compliance checks on management, directors, and shareholders⁽²⁾. 	<ul style="list-style-type: none"> ▪ Portfolio quality (typically PAR 30 < 10%, considering write-offs and restructuring); ▪ Specialized portfolio analysis, including segmentation, quality, and concentration analysis as well as review of collateral policies; ▪ Acceptable leverage and compliance with regulatory minimum requirements; ▪ Sustainable yield on advances⁽³⁾; ▪ Track-record: operating for minimum three years; ▪ Sustainable funding structure; 	<ul style="list-style-type: none"> ▪ Adherence to EIB and IFC exclusion lists⁽⁴⁾; ▪ KYC / AML policies; ▪ Acceptable Social performance via CERISE SPI4 Social; Performance Audit Tool; ▪ Financial inclusion mandate; and ▪ ESG Due Diligence (using Verdant Capital’s proprietary tool).

	<ul style="list-style-type: none"> ▪ Sustainable and stable shareholder structure; ▪ Operational practices: suitable credit underwriting and collection policies, management information system; and ▪ Experienced management team. 	
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(1) KYC and AML-CFT information is collected according to standards set out by the Financial Sector Conduct Authority ("FSCA") and the Financial Intelligence Centre Act ("FICA") in South Africa and the Federal Financial Supervisory Authority ("BaFin") in Germany.

(2) Verdant Capital subscribes to World-Check One and, in South Africa, XDS

(3) Country specific considering, for example, interest rate and inflation rate environment

(4) For the EIB and IFC's exclusion lists, please refer to **Appendix III**

Any credible investment opportunity is presented and discussed at the weekly team meeting after customary background checks. During this internal screening exercise, discussions will centre around the business' promoters, current financial condition, rationale for the deal and use of funds and finally the 'investment storyboard'. A significant number of deals being discussed at the weekly meeting are rejected at that stage. If a proposed investment is deemed to be exciting, realistic and within the Fund's investment criteria, the investment shall progress to the Step 3.

Step 3: Deal structuring and commercial negotiations

This is a critical step in the investment process whereby the specific requirements of the potential investee institution are considered, in terms of factors such as the required capital treatment, tenor, the size of the investment and use of the proceeds of the transactions. Commercial negotiations will then be carried out with the other party; during such negotiations, a number of critical points shall be discussed:

- Capital treatment of the instrument;
- Related structural features, including tenor;
- Agreement on the deployment of capital; and
- Capital repayment or exit requirements.

During this stage, the due diligence process to closing will also be agreed with the prospective investee. Furthermore, if we anticipate a significant role for TA post-investment, we will agree it in the term sheet. This can be refined post due diligence.

If the negotiations prove fruitful, a term sheet shall be signed between the parties. Note that in some cases, an indicative term sheet is required by the other party prior to disclosure of detailed information and can be signed at the start of Step 3 rather than at the end of this step. The signature of a term sheet is a critical milestone for both parties in that although it is usually non-binding, it sets out in detail the terms of the investment, including structural features that the investee institution may not be familiar with and provides the Manager with a period of exclusivity to conclude the investment.

Step 4: Detailed analysis and initial commercial due diligence

During Step 4, an investment team, usually consisting of a director and an associate or analyst will start a more detailed review of the investment. This analysis will cover a number of areas such as:

- The background of the promoters, main shareholders and senior management and their track record;
- Site visits to head office and to branches;
- Detailed due diligence question and document review, including credit policies and recovery policies;
- The financial sector environment in the country of operation;
- The market position, key differentiating factors of the institution;

- The institutions products, targeted client types and product life cycle;
- Detailed review of the loan portfolio;
- Key risk factors in the sector such as related party lending, risk management and liquidity management;
- Quality of management and human resources;
- Key strengths and weaknesses;
- Proposed growth strategy and plans for implementation;
- Financial review (balance sheet, income statement and cashflow);
- Financial forecasts are reviewed, built up on a product-by-product margin-based methodology;
- Health, environment, and social issues if any, client protection principals and mitigating factors;
- Social performance; and
- Risk analysis including currency depreciation.

During this period, the analysis will usually include a number of meetings with the shareholders or CEOs or CFOs but also research work through a range of information available to the Manager. Critical in this investment review process is the specific expertise of the Manager in the sector. At the end of this step, the team would be convinced of the quality of the proposed investment opportunity and its pertinence in the Fund's portfolio while a possible business plan and the financial model is checked and validated by the analytical process.

In some cases, during this phase, discussions with the central bank will be required to confirm the capital treatment of the instrument, if the rules in the country in question are not suitably specific.

Step 5: The Pre-Clearance

As detailed in **Section 11: Structure of the Fund, the Manager and Corporate Issues**, the Investment Committee will have five members. A majority of four out of five shall be required to approve any investment. Details of the Investment Committee members are set out in **Section 10: Structure of the Fund, the Manager and Corporate Issues**.

Once Step 4 has been completed, the Manager will seek to obtain Pre-Clearance from the IC. The proposed investment shall be presented thoroughly to the IC through a detailed Investment Memorandum (also known as a "**Pre-Clearance Note**" or "**PCN**") which would cover all critical aspects of the investment as described in Step 4 above as well as an estimation of possible due diligence and out-of-pocket costs required to finalise the investment.

The IC will provide a 'GO or NO GO' recommendation to the Manager; a 'GO' recommendation can be subject to a number of amendments to the proposed investment and to be decided upon by the Manager and agreed with the business promoter. A 'NO GO' recommendation is usually final.

Step 6 & 7: Final negotiations, financial and legal due diligence, and finalisation of legal documentation

Once a 'GO' recommendation has been secured, the Manager will have three main further tasks being:

- Carrying out a thorough financial and legal due diligence;
- Complete final negotiations with the other party; this may include fine tuning the terms and conditions of the instrument in light of the due diligence; and
- Complete and agree upon legal documentation – this step remains critical as it may include last minute discussions on representation and warranties or monitoring rights.

Verdant Capital has experience in the social performance measurement of clients in the IFI sector in Africa. Verdant Capital also plays an important role in sector-wide initiatives. For example, Verdant Capital has been a member of the CERISE's SPI4 Steering Committee which has a mission to help inclusive financial institutions evaluate their level of implementation of the Universal Standards for Social Performance Management, including the Smart Campaign's Client Protection Principles. CERISE also assists investors and fund managers committed to using the same evaluation

tool in their investments. Please see also **Section 7: Social and Developmental Impact**, specifically the subsection “Financial Inclusion Mandate”.

The Manager will use an external audit firm for each potential investment to assist with financial due diligence and perform a defined scope review on the prospective investee, its management accounts, its last audit, and its portfolio. This requirement is mainly driven by a number of high profile failings in audit integrity in recent years, including Kingdom Bank and VBS in Southern Africa, several Nigerian banks in 2008-09 and several collapsed banks in Ghana in 2017-18. The key takeaway for the Fund’s team from such examples is that it is important to note that audited financial statements cannot be trusted without verification.

Where there is specific “ESG risks” to closely evaluate, the Manager will use an external consultant to review the practices of the prospective investee. The Universal Standards on Client Protection Principles are key guides on evaluating such risks.

Step 8: Final Recommendation from the IC

As part of this process, the Manager will prepare a further Investment Committee Memorandum. This memo will tend to be briefer than the PCN as per Step 5 and will cover a number of specific points:

- How the institution has been performing over the period since the Pre-Clearance;
- Findings of the Due Diligence process carried out during Step 6 & 7;
- How the Manager intends to mitigate the effect of the risks identified in Step 5;
- Result of the final commercial negotiations;
- Any pertinent issues relating to the capital treatment of the instrument; and
- The subscription agreement, including any deviations from the expected terms expected.

If the IC is satisfied with the above and with the overall quality of the proposed investment, it will give a final recommendation to the Manager. The Board will make the final decision on the proposed investment and execute the relevant documentation.

Step 9: Execution

Step 9 is the execution or deal closing of the proposed investment. In many cases, the execution may be subject to fulfilment of some final CPs. During this last step, the Manager will be helped by the Fund’s usual counsel as well as a local counsel in the drafting of the subscription agreement and conditions precedent. Through the experience in the advisory business as well as the network of the senior members of the investment team, the Manager maintains and extensive network of local counsel contacts across the Continent.

Each investment will have a subscription agreement setting out the terms of the investment, structure, covenants and reporting requirements. The agreements will be typically governed under either South African law and arbitration in Johannesburg or English law and arbitration in London. South African law offers significant cost advantages over English law and arbitration in London, but English law can be accepted certain markets in the Continent. Support of external counsel will be used for preparing the agreements, but the investment team will be responsible for negotiating the agreement. Local law input will be required, including local law opinion on enforceability. Input of local lawyers, as well as, if required, central bank meetings will be important in confirming the capital treatment.

Typical conditions precedent for investment disbursement will include:

- i. Final KYC requirements;
- ii. Signed confirmation of authorised signatories;
- iii. Board resolution of the investee company (and if appropriate, shareholder resolutions); and
- iv. Local law opinions as discussed above.

Upon fulfilment of the CPs, the Manager will then call monies from the LPs to finance the investment.

Step 10: Portfolio Management

As discussed earlier, Verdant Capital has experience in terms of post-deal monitoring from the support it provides clients in terms of post-deal reporting. The Manager will monitor each investment through detailed review of quarterly reports, as per the reporting required in the subscription agreement. The reporting requirements shall cover:

- i. Financial performance;
- ii. Portfolio performance;
- iii. Portfolio composition;
- iv. Refinancing and scheduled maturities;
- v. Liquidity;
- vi. Social performance including job creation;
- vii. ESG and CPP compliance; and
- viii. Other events, such as a change in shareholding, directors, or senior management.

In addition, the investment team shall visit each investee company at least once every year. For the more equity-like investments, for example, AT1C, and holding company debt, the Manager shall require a board observer seat, enabling the investment team to review board minutes, and to attend board meetings.

Restructuring and Write-Down Decision-Making Process

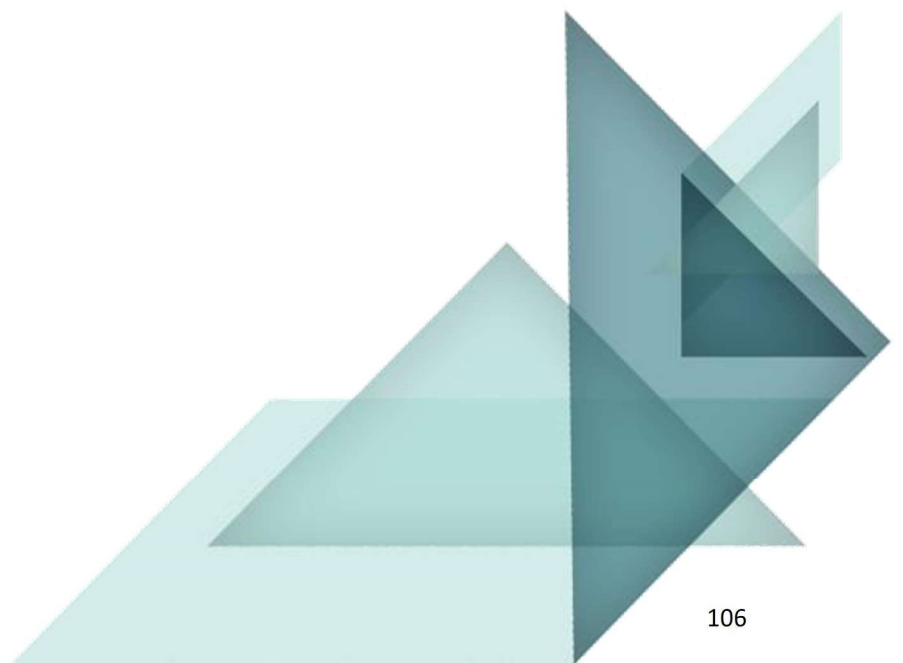
Any restructuring or write-down decision-making process will have to go through the Investment Committee and shall be accompanied by an Investment Note to clearly explain the rationale for such recommendation. Similar for any decision to materially amend the terms of one of our investments.

The starting point will be an investment for which a payment of cash interest or principal is 90 days overdue or more. The assessment carried out by the team will be audited by the external auditors, in unison with the investment team responsible for that investee, with report to the Investment Committee. As each situation is different, the Investment Committee will render a decision using this information on whether to impair the investment partially or fully. The external auditor may provide input on valuation at this stage as well.

The Fund's monitoring procedures will utilise the agreed upon financial covenants set forth in the lending agreements in order to identify "red flags" that could lead to non-payment. Specifically, breaches (and near breaches) will be systematically monitored and followed up on by the investment team from Day 1 of non-compliance. Since each case of breach(es) is unique and specific, the decision process will consider the underlying situation and risks. However, the general evaluation process by the investment team will assess the ability of the investee to cure a breach over a 90-day period. The investment team will report to the Investment Committee and propose measures to be taken – for example, further waiver or legal amendment – and whether there is "limited" or "material" risk of non-payment.

The Investment Committee will then determine a further pathway, essentially either adding the investee to "watchlist" or a "problem list", the latter triggering more formal workout procedures, in consultation with the Senior Advisor to the Fund, Chris Low.

9. Fund Model, Cash Returns and Exits



Fund Model

The Fund will target a Final Closing of USD 80 million. The Fund will be invested over a five-year investment period. The target is to complete two investments per year, i.e., ten investments over the life of the Fund, implying an average investment size of USD 8 million.

The targeted minimum investment size will be USD 4 million (although the initial investment tranche can be less) with a maximum investment size of USD 12 million, the latter representing 15% of Fund Size at Final Closing.

The harvest period will be seven years, making the overall life of the Fund 12 years. The seven-year harvest period is to enable the desired capital treatment, for example, Lower Tier 2 Capital investments structured with a seven-year final maturity, and preference shares with a conversion right and drag-along option at year five or year six.

Given (i) the targeted investment size, (ii) the investment size as a percentage of the investee's CET1 and (iii) certain assumptions regarding the capitalisation of the investee institutions, the Manager expects that investee institutions will have total assets of between USD 40 million and USD 320 million. However, the Manager further expects that the majority of the Fund's investees will be in the lower spectrum of this range, i.e., with total assets of between USD 40 million and USD 150 million.

The investment period as per the LPA is five years in order to account for contingencies, especially relating to macro-economic conditions in the markets of investment. It is the expectation of the Manager to make three high quality investments per year and complete the investment period in less than five years.

Figure LXVI: Fund Model

Targeted Fund size at financial close (USD)	80 000 000
Investment period (years)	5
Transactions per year	2 to 3
Total number of investments	10
Average investment size (USD)	8 000 000

Figure LXVII: Investment Size and Investee Size Analysis

	Min	Max
Investment size (USD)	4 000 000	12 000 000
% of CET1	50%	25%
CET1 of investee (USD)	8 000 000	48 000 000
Solvency ratio of investee	20%	15%
Total assets of investee (USD)	40 000 000	320 000 000

Certain investments may be "tranching" as the investee grows, and for this reason in some cases the first disbursement for certain investments may be less than USD 4 million.

Cash Income

The Fund will pay quarterly distributions to LPs, based on interest income or preferred dividend income, less management fees and applicable VAT.

The gross targeted portfolio return is 13-16%, assuming three investments are targeted per year over the Investment Period. Please see below an illustration of the cash income ultimately payable to LPs. The table below shows the illustrative annual cash return, noting that the actual frequency of payments shall be as set out in **Section 12: Summary of Terms**.

Figure LXVIII: Illustration of cash income to LPs

All figures in USD

Percent of Portfolio

Invested in junior debt	33,0%	Management fee	2,0%
Invested in senior equity	67,0%	Fund size	80 000 000

Pricing assumptions

Return on junior debt (cash pay)	11,00%	Investment rate	97,0%
Return on senior equity (cash pay)	11,00%	Investment period (years)	5
Senior equity (accrued or upside participation)	5,50%	Hold period (years)	7
		Transaction per year	2
		Total transactions	10

Year	Investment Period				
	2021	2022	2023	2024	2025
Amount deployed (start of year)	-	5 121 600	31 474 859	53 451 484	81 508 625
Amount deployed (during year)	5 121 600	25 918 400	20 641 600	25 918 400	-
Accrued dividend	-	434 859	1 335 025	2 138 740	3 138 530
Amount exited (during year)	-	-	-	-	-
Amount outstanding (end of year)	5 121 600	31 474 859	53 451 484	81 508 625	84 647 155
Amount written-off, (post investment period)	-	-	-	-	-
Average outstanding (start/end of year)	2 560 800	18 298 229	42 463 172	67 480 054	83 077 890
Recurrent Cash Inflows ⁽¹⁾	76 824	1 962 714	4 528 959	7 060 605	9 093 940
Management Fee	225 000	975 000	1 300 000	1 600 000	1 600 000
Other Fund Costs (incl VAT)	707 682	953 917	914 041	1 081 473	568 097
Net cash	(855 858)	33 797	2 314 917	4 379 132	6 925 843
Cash income (net) %	-33,4%	0,2%	5,5%	6,5%	8,3%

Source: Verdant Capital

The table provides an illustration of the cash flow and is based on a number of assumptions. There is no assurance that the above will be achieved. The full Fund model can be found in the virtual data room.

The cash income (as illustrated above) is shown before the return of capital, accrued interest (paid at maturity), as well as before carried interest, which will be paid from investment exits, subject to a “hurdle rate” of 8.0%.

The target gross return expectations on the portfolio overall of 13-16% in US Dollars reflects the Fund’s expected portfolio mix (at issuance) of approximately 33% in junior debt (i.e., subordinated debt or Lower Tier 2 Capital instruments) and approximately 67% in senior equity (i.e., AT1C instruments, redeemable preference shares, or holding company debt). In the case of senior equity investments such as on AT1C or preference shares, the overall return may include non-cash accrued dividends or upside participations that monetise at or in the run-up to their contractual maturity. The accrued dividends or interest increase the proportion of the portfolio represented by senior equity (vs the 67% at issuance) and increases the overall return. The Fund will also charge a small fee to the investee upon disbursement.

Exits

The majority of investments will have a contractual maturity (Lower Tier 2 Capital investments, subordinated debt and holding company debt). The position in the capital structure implies that many or most of the investments will be refinanced by the investee institutions, for example through:

- i. New senior debt, given the investee institution will have had the opportunity to expand its loan book and net interest income through the additional capital provided by the Fund and in which case retained earnings can replace the capital instrument provided by the Fund;
- ii. New instrument issued at the same level of the capital structure, which may include a locally-listed Lower Tier 2 bond, or preference share as local markets deepen; and
- iii. A new Common Equity transaction, which might take the form of an IPO or a private equity transaction if the investee institution has grown to a size that permits such a transaction.

Verdant Capital notes many successful IFIs are too small for an IPO listing and are too small for investment by Africa-focused generalist private equity funds. The investment from the Fund, by providing an opportunity to grow with the institution up to a seven-year period, can provide a “bridge” to the IPO market. The Manager has the skills and experience to assist portfolio companies with the refinancing transactions.

However, the AT1C instruments will not have a contractual maturity, given that such a maturity would invalidate the Tier 1 regulatory capital treatment under the Basel III standards. The AT1C instruments invested by the Fund will include enhanced governance rights and drag-along right after year five or year six. Specifically, if the instrument is not refinanced by the institution in these years, the Fund will have a drag-along right to sell the institution in the M&A market. M&A transactions in the African inclusive finance sector have become more common in recent years, with transactions volumes driven by regional consolidators (for example, Letshego Group or Equity Bank of Kenya), horizontal acquisitions in the financial services sector (for example, banks acquiring non-banks or speciality banks), pressure from regulators to strengthen and consolidate the financial services sector, and well as increasing activity by private equity in the sector (albeit at larger transaction sizes).

Figure LXIX: M&A transactions in the Inclusive Financial Institutions sector in Africa

Date	Status	Target	Country	Buyer	Size (USD M)	P/E	P/B
2021	Announced	TymeBank	South Africa	Apis Partners, JG Summit Holdings	110.0	n/d	n/d
2020	Completed	Tugende Ltd.	Uganda, Kenya	Series A – Toyota Tsusho (Mobility54), Global Partnerships ⁴⁵	6.3	16.0x	3.8x
2020	Announced	BankABC (Atlas Mara)	Mozambique	Access Bank PLC (Nigeria)	n/d	n/d	n/d
2020	Announced	Grobank	South Africa	Access Bank PLC (Nigeria)	n/d	n/d	n/d
2020	Announced	MyBucks Mozambique	Mozambique	Xtenda Financial Holdings Ltd.	n/d	n/d	n/d
2020	Announced	MyBucks Zambia	Zambia	Xtenda Financial Holdings Ltd.	n/d	n/d	n/d
2020	Completed	La Nouvelle Banque de Mauritanie NBM SA	Mauritania	Westbridge Mortgage REIT (Canada)	n/d	n/d	n/d
2020	Aborted	Jamii Bora Bank	Kenya	Co-op Bank	n/d	n/d	13.7
2020	Completed	Transnational Bank	Kenya	Access Bank PLC (Nigeria)	n/d	n/d	n/d
2020	Completed	I&M Bank (Rwanda) PLC	Rwanda	AfricInvest Group (PE)	n/d	n/d	n/d
2020	Completed	EFC Tanzania MFC Ltd	Tanzania	Mwanga community Bank Ltd.	n/d	n/d	n/d
2019	Completed	Nedbank (Malawi) Ltd	Malawi	MyBucks Banking Corporation Ltd.	n/d	n/d	n/d
2019	Completed	NIC Group	Kenya	Commercial Bank of Africa	n/d	n/d	n/d

⁴⁵ Other participating investors in the Round include current shareholders Denali Venture Philanthropy and Segal Family Foundation, and new angle investors.

2019	Completed	Mayfair Bank	Kenya	Commercial International Bank (Kenya)	34.6	n/d	n/d
2019	Completed	KCB Group	Kenya	National Bank of Kenya	9.1	3.9x	0.2x
2019	Completed	Banque Commerciale du Congo S.A.	DR Congo	Equity Group (Kenya)	95.0	n/d	n/d
2019	Completed	Transaction Capital	South Africa	Public Investment Corporation	n/d	15.0x	2.4x
2019	Completed	BRAC Uganda	Uganda	DEG; Triple Jump B.V.; Equator Capital Group	n/d	n/d	n/d
2019	Completed	Retail Capital	South Africa	Crossfin Technology Holdings	n/d	n/d	n/d
2019	Completed	Banque Populaire pour l'Epargne et le Crédit	Togo	SUNU Assurances Vie Côte d'Ivoire	n/d	n/d	n/d
2018	Completed	SA Taxi Finance	South Africa	South African National Taxi Association Council	121.0	18.5x	4.2x
2018	Completed	First Asset Finance	South Africa	Retail Capital	n/d	n/d	n/d
2018	Completed	Banco Terra SA	Mozambique	Arise B.V.	n/d	n/d	n/d
2018	Completed	Bank Gaborone	Botswana	Capricorn Investment Group	7.0	n/d	n/d
2018	Completed	Stanbic Holdings	Kenya	Stanbic Africa Holdings	29.8	6.0x	0.9x
2018	Completed	Banque Des Mascareignes Ltee	Mauritius	Banque Centrale Populaire ; Groupe Sipromad SA	n/d	n/d	n/d
2018	Completed	Hackett Enterprises	Seychelles	Value Convergence Holdings Limited	20.4	n/d	n/d
2018	Completed	Bank of Athens (SA)	South Africa	AFGRI Limited	21.5	n/d	n/d
2017	Completed	Sasfin Holdings	South Africa	Unitas Enterprises Limited	2.5	n/d	0.7x
2017	Completed	Diamond Bank Bénin SA	Benin	NSIA Banque Cote d'Ivoire, S.A. ; NSIA Assurances Côte d'Ivoire ; Manzi Finances S.A.	70.8	n/d	n/d
2017	Completed	Capricorn Investment Holdings	Botswana	Capricorn Investment Group	n/d	n/d	n/d
2017	Completed	Reefy - Micro Finance Enterprise Services Company	Egypt	CI Capital Holding S.A.E.	n/d	n/d	n/d
2017	Completed	FBN Bank (DRC)	DRC	First Bank of Nigeria	n/d	n/d	n/d
2017	Completed	Nedbank Group	South Africa	Coronation Asset Management Proprietary Ltd.	n/d	9.0x	1.5x
2017	Completed	Equity Group Holdings	Kenya	Arise Investment Management	n/d	6.0x	1.4x
2017	Completed	African Dawn Capital	South Africa	Toothrock Investments CC	n/d	-	1.0x
2017	Completed	Absa Group	South Africa	Old Mutual	n/d	8.0x	1.3x
2017	Completed	New Finance Bank Malawi	Malawi	MyBucks S.A.	5.0	n/d	n/d
2017	Completed	Banque Internationale pour l'Afrique au Niger	Niger	Groupe Banque Atlantique	n/d	n/d	n/d
2017	Completed	Opportunity International Bank Malawi	Malawi	FMBcapital Holdings Plc	n/d	n/d	n/d
2017	Completed	dfcu Limited	Uganda	Arise B.V.	n/d	4x	1.0x
2017	Completed	Finbond	South Africa	Riskowitz Capital Management	14.9	16.0x	2.4x
2017	Completed	Habib Bank	Kenya	Diamond Trust Bank (Kenya)	13.3	n/d	n/d
2017	Completed	Banco Único	Mozambique	Nedbank Group	22.4	n/d	n/d
2017	Completed	afb Ghana	Ghana	Letshego Holdings	10.0	n/d	1.2x

2016	Aborted	MFinance (25% stake)	Zambia	Progression	4.0	3.7x	1.5x
2016	Completed	Banque de l'Habitat de Côte d'Ivoire	Côte d'Ivoire	Banque de l'Habitat	2.1	n/d	n/d
2016	Completed	Exim Bank Uganda	Uganda	Exim Bank Tanzania	6.8	n/d	n/d
2016	Completed	FBN MFB	Nigeria	Letshego Holdings	n/d	14.3x	2.0x
2015	Aborted	MicroKing	Zimbabwe	Inscor	11.0	4.4x	1.3x
2015	Aborted	Kogi Micro Finance Bank	Nigeria	Assoc of Federal Civil Servants Coop	n/d	n/d	n/d
2015	Completed	Agaseke Bank	Rwanda	Bank of Africa	n/d	n/d	n/d
2015	Completed	Banque Internationale pour l'Afrique	Niger	Banque Centrale Populaire	25.0	n/d	n/d
2014	Completed	ProCredit S&L	Ghana	Fidelity Bank	n/d	n/d	n/d
2014	Completed	Sudanese Egyptian Bank	Sudan	Tadamon Islamic Bank	22.0	n/d	n/d
2014	Completed	FIDES Bank	Namibia	Trustco Group Holdings	n/d	n/d	n/d
2014	Completed	Development Bank of Rwanda	Rwanda	Atlas Mara Co-Nvest	n/d	n/d	n/d
2013	Completed	Access Bank Cote d'Ivoire SA	Ivory Coast	Afriland First Bank	1.0	n/d	n/d
2013	Completed	ICB Financial Group Holdings	Ghana	First Bank of Nigeria	n/d	n/d	n/d
2013	Completed	Faulu Kenya DTM	Kenya	Old Mutual	n/d	n/d	n/d
2013	Completed	HFC Bank	Ghana	Republic Bank	n/d	n/d	n/d
2011	Completed	Micro Africa	Kenya	Letshego Holdings	3.0	n/d	n/d
2011	Completed	Trust Bank	Ghana	Ecobank Transnational Inc	n/d	n/d	n/d
2011	Completed	FinBank	Nigeria	FCMB	3.0	n/d	n/d

Source: Verdant Capital, Thomson Reuters, S&P Capital IQ, financial news, and press

Financial Stability of the Manager

The Manager will benefit from enviable advantages over similar small private equity fund managers in Africa. Firstly, the team will be located in Johannesburg which offers significant cost savings versus locating a team in London, Paris or New York, and some savings versus other African financial hubs such as Lagos, Nairobi, or Abidjan. Secondly, Verdant Capital has two other profitable businesses, and while the team responsible for the Fund will be separate, the Firm can share costs across the businesses, for example, office rental, administration, data licenses, affiliations, and marketing.

Figure LXX: Costs and Profit & Loss Scenarios for the Manager for the First Five Years of Fund Life

USD 80 M FINAL CLOSE					
FYE Dec	2021	2022	2023	2024	2025
Manager					
Management fees	225 000	975 000	1 300 000	1 600 000	1 600 000
Staff cost & benefits (including bonus)	(103 250)	(459 281)	(607 767)	(633 233)	(663 097)
Other costs	(65 756)	(266 201)	(279 442)	(285 125)	(281 778)
Profit before tax	55 9944	249 518	412 790	681 642	655 125
Profit after tax	47 133	210 032	347 466	573 772	551 451

The above are based on estimated expenses of the Manager which may be subject to variations.

USD 60 M FINAL CLOSE					
FYE Dec	2021	2022	2023	2024	2025
Manager					
Management fees	225 000	940 625	1 096 875	1 200 000	1 200 000
Staff cost & benefits (including bonus)	(103 250)	(421 031)	(452 257)	(467 876)	(485 478)
Other costs	(54 268)	(217 358)	(221 176)	(225 626)	(224 632)

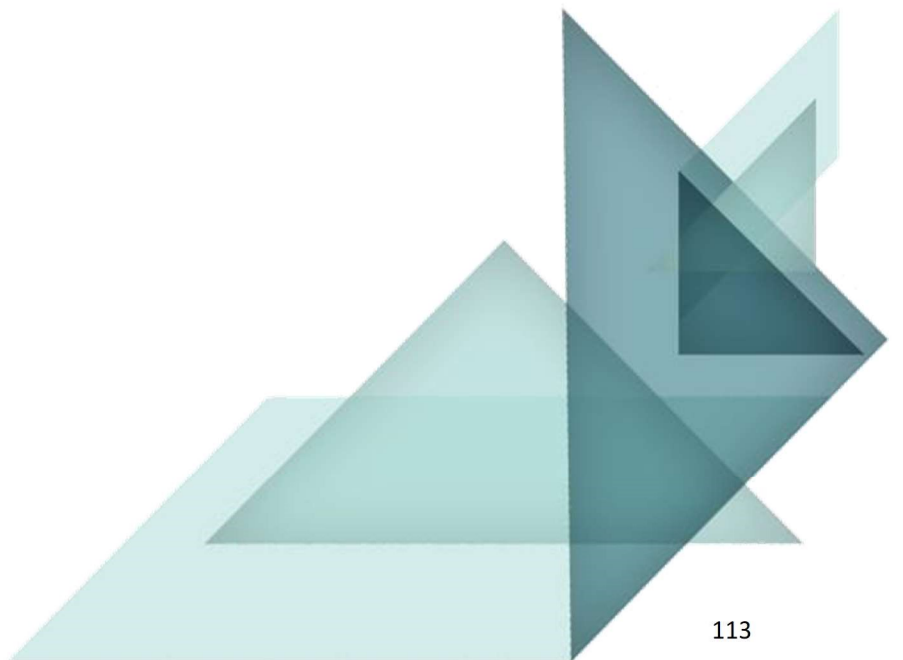
Profit before tax	67 483	302 236	423 442	506 498	489 890
Profit after tax	56 803	254 407	356 432	426 345	412 365

The above are based on estimated expenses of the Manager which may be subject to variations.

USD 35 M FINAL CLOSE					
FYE Dec	2021	2022	2023	2024	2025
Manager					
Management fees	196 875	787 500	787 500	787 500	787 500
Staff cost & benefits (including bonus)	(95 550)	(389 482)	(416 375)	(428 405)	(442 059)
Other costs	(42 926)	(171 923)	(174 844)	(178 586)	(180 624)
Profit before tax	58 399	226 094	196 281	180 509	164 817
Profit after tax	49 158	190 315	165 220	151 943	138 735

The above are based on estimated expenses of the Manager which may be subject to variations.

10.Pipeline



Pipeline

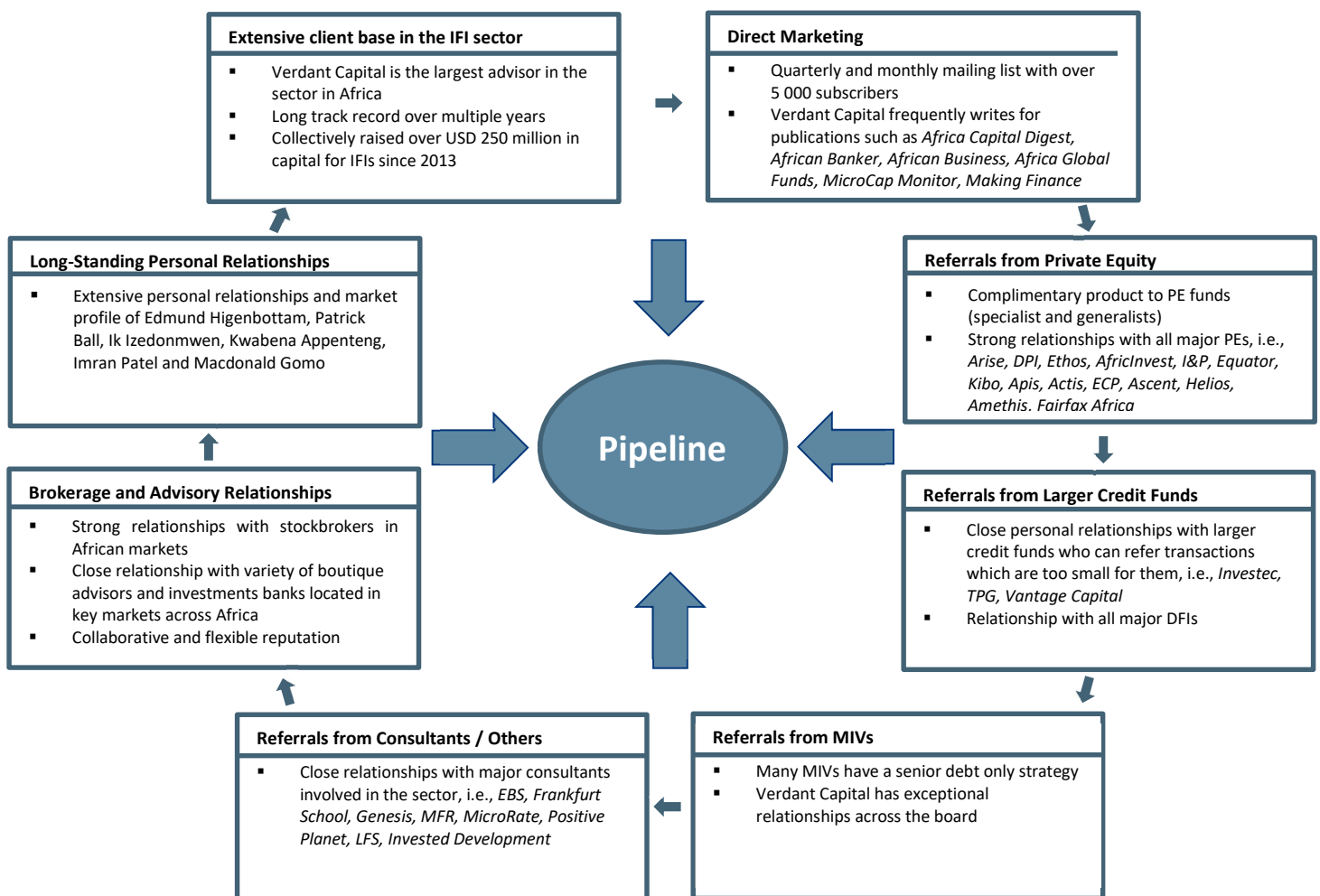
Transaction “pipelines” for private equity and for hybrid or mezzanine capital typically have a short “shelf life”. The Manager would expect to complete three investments from this pipeline in the first two years of the Fund’s life. Thereafter, Verdant Capital’s profile and relationships in the sector will be critical in the developing and implementing of the pipeline. Furthermore, the Manager expects a number of interesting new opportunities will become available in the coming years, driven by a variety of factors, including but not limited to:

- Best-in-class IFIs with the greatest opportunity to grow their loan portfolios have been impacted by COVID-19 and associated economic dislocations. These institutions had, in the recent past, been using retained earnings to provide the equity underpinning for loan book growth. Notwithstanding their usual profitability, most of these institutions were approximately break-even in 2020. As such, these institutions need to raise external equity or equity-like instruments to continue to capture the growth opportunities;
- Increased need for capital by MSMEs in the post COVID-19 pandemic environment, driven by even tighter lending standards from traditional banks, meaning that IFIs will play an even more essential role than ever as a conduit of capital into local economies. Hence, there will be an ongoing need for leverage by IFIs (particularly non-deposit taking IFIs and specialist financiers), and hence an urgency to strengthen their balance sheets to accommodate this leverage;
- Increased capital needs from top-tier IFIs that are opportunistically scaling in the post COVID-19 environment, either driven by organic growth opportunities via new target markets, and/or by taking advantage of consolidation trends (i.e., either acquiring other entities or portfolios, or simply stepping in when other weaker institutions fail);
- Increased adoption and graduation to higher Basel II and III regulatory standards, necessitating the need for increased capital by regulated banks and microfinance banks, such as in Nigeria and in Francophone West Africa; non-Basel related regulatory changes may also necessitate the need for increased capital, for example the increased minimum capital requirements for regulated Savings & Loans institutions in Ghana; and
- Certain “fintech lenders” reach a size, maturity and proof of business model so they can be considered by the Fund.

Pipeline Origination

Verdant Capital is one of the largest advisors in Africa to Inclusive Financial Institutions with an established track record over multiple years. The Firm and its team members retain substantial relationships across the sector. The Firm is well known by institutions on the ground, a variety of specialist investors investing in different segments in the capital structure, as well as consultants and advisors who can refer transactions to us. Verdant Capital is seen as an opinion leader in the sector and highly visible in terms of publications in the specialty press, speaking at conferences and has its own proprietary mailing list. The ability of Verdant Capital to source investments is well evidenced by the quantum of business the Firm generates and executes. As one example, the Firm was an early responder to COVID-19 via its three-day “Video Africa” event in May 2020, arranging 150+ virtual meetings with 50+ relevant investors for eight of its clients with operations in seven countries across Africa. The Video Africa event will be annual, in response to post-pandemic operating realities; Verdant Capital held the second such event in March 2021 with 17 of its clients from across the Continent.

Figure LXXI: Origination Network



Verdant Capital has divided its transaction pipeline into five specific categories.

Figure LXXII: Pipeline Categories

Category		Explanation	# of Investments	Total USD M
1	Screened Transactions	▪ First phase approval achieved	5	18
2A	Screened Transactions – Watchlist. Positive but investee’s capital requirement not for 12-24 months	▪ Screened, with positive indication, but due to specific reasons (i.e., changes expected regulatory cap. requirements or upwards revision in growth forecasts), need for capital is transparent but slightly delayed	9	51
2B	Screened Transactions – Watchlist. Investee progress required before further consideration	▪ Screened, but due to specific reasons, specific matters relating to the institution, or the macro-economic climate, need further investigation prior to taking further through the investment process	4	13
3	Not Screened – but potentially actionable in the first 18 months of the investment period	▪ Not yet screened but viewed as prospective in the first part of the investment period	35	193
4	Not Screened - but potentially actionable later in the investment period	▪ Not yet screened ▪ Viewed as more likely to be actionable later in the investment period. For example, may have recently completed a capital raise and needs to grow its loan book before returning to the market for additional capital	38	239
TOTAL			91	514

Representative of the Fund’s strategy of both geographic diversification and also targeted impact, “LI” countries according to the World Bank Income Index represents over 40% of the current Fund pipeline of prospective investees for the first four categories (Nos. 1-2A-2B-3), by volume and number of investees. When including “LMI” countries according to the same Index, the representation for these first four categories increases to over 80% of the current pipeline.

Figure LXXIII: Exposure by Income Category (%)

Income Split	Number of Investees	% of Number of Investees	Aggregate Amount (USD M)	% of Aggregate Amount
LI (low income)	22	41.5%	120.0	43.7%
LMI (lower-middle income)	23	43.4%	121.9	44.3%
UMI (upper-middle income)	8	15.1%	33.0	12.0%
Total	53	100.0%	274.9	100.0%

Further, the pipeline across these four categories has 18 investees located in Compact with Africa countries (in SSA), representing 34.0% of the total pipeline, and an aggregate pipeline amount of USD 115 million, representing 41.8% of the total pipeline. All of the nine CwA countries in SSA are classified as either LI (5) or LMI (4) countries.

The following tables provide more detail on the pipeline for the first four categories. More detail on the pipeline is provided in the virtual data room. For those opportunities with multi-country / regional opportunities, the categories

present the country(ies) with the greatest presence in the consolidated book by assets or loan book, and which also would likely be a significant use of proceeds from a Fund investment.

Figure LXXIV: Category 1 - Screened Transactions

Institution Type	Amount (USD M)	Country	WB Income Index	Currency	Transaction Type	Background	Impact	Ownership	Comment
NBFI	6	Regional / Kenya & Tanzania	LMI	USD	Hold Coy Debt	Existing client	Expand MSME lending	Institutions and management	Screened
Leasing	2	DR Congo	LI	USD	Subordinated debt	Relationship with regional office	Affordability of power	VC energy investor and management	Screened
Fintech	2	Ghana	LMI	Local	Senior Equity	Existing client	Expansion of digital lending / remittance / transaction services	Institutions and individuals, management	Screened
Working capital financing	4	South Africa	UMI	Local	Subordinated debt	Existing client	Expansion of MSME lending	Private equity investors and management	Screened
Leasing	4	Uganda	LI	USD	Hold Coy Debt	Existing client	Empowerment of micro-entrepreneurs via small asset ownership	Institutions and management	Screened
TOTAL	18								

Figure LXXV: Category 2A - Screened Transactions – Watchlist (Positive but 12-24 month deferred capital need)

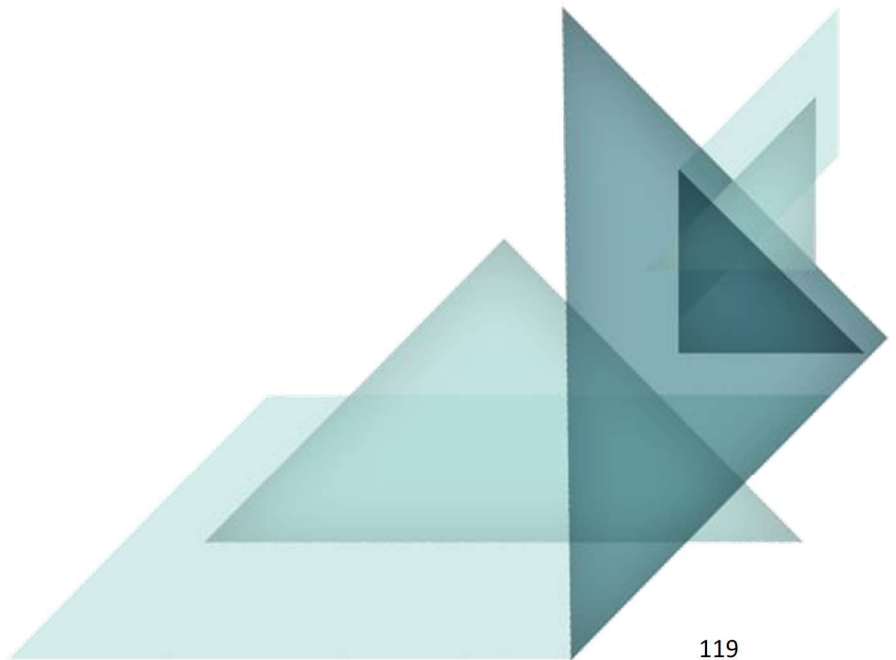
Institution Type	Amount (USD M)	Country	WB Income Index	Currency	Transaction Type	Background	Impact	Ownership	Comment
MFB	4	Côte d'Ivoire	LMI	Local	Tier 2 Capital	Long Term firm relations	Expansion of MSME lending	Global MFB + local bank, DFI, MIV	Screened. Reassess after deploying equity from 2020 shareholder contribution
NBFI	5	Ghana	LMI	Local	AT1C	Prior discussions	Expansion MSME lending	Global MFB, DFIs, local bank	Screened. Possible capital need in 2021 driven by new regulatory cap. requirement for S&Ls
Fintech	5	Nigeria	LMI	USD	Subordinated Debt	Referral from advisor	Expansion of payments platform services, fintech services	Management/ founders and VC investors	Assess ability to set up and deploy via new structured finance vehicle (SPV)
MFB	7	Nigeria, Zambia	LMI	USD	Hold Coy Debt	Prior client (M&A, advisory)	Expansion of MSME financing	Asian MFB owns majority of both Nigeria and Zambia subsidiaries	Assess progress on turnaround in Nigeria and scale up in Zambia
Leasing	5	South Africa	UMI	Local	Senior Equity	Referral from advisor	Expansion of SME Leasing	CEO/ Individuals (60%), SA	Screened. Further due diligence on capital structure

							(minibuses / taxis)	Institutional PE (40%)	
HoldCo – NBFI/MFB	8	Regional / Nigeria	LMI	USD	Tier 2 Capital	Prior discussions	Expansion of MSME lending	HoldCo: Private, listed on London Stock Exchange Affiliates: 100% owned by HoldCo	Screened. Capital need in 2021 driven by accelerated growth and/or bank transformations in selected subsidiaries
HoldCo – NBFI/MFB	6	Regional / Burkina Faso	LI	EUR	Hold Coy Debt	Long Term firm relations	Expansion MSME lending	Regional MFB, Private equity, DFI	Screened. Reassess after review of strategic goals and financing routes. 2020 / early 2021 focus on operational management
Bank	6	Mozam-Bique	LI	Local	Tier 2 Capital	Existing Client	Expansion of SME lending	Group + international s/holders	Screened. Need driven by near-term inability to raise full capital needs from local markets
NBFI	5	Nigeria	LMI	Local	AT1C	Met at conference	Expansion MSME lending	NGO, but transforming to bank	Screened. Need driven by incremental capital requirements for national MFB license
TOTAL	51								

Figure LXXVI: Category 2B - Screened Transactions – Watchlist (Further Investee Progress Required)

Institution Type	Amount (USD M)	Country	WB Income Index	Currency	Transaction Type	Background	Impact	Ownership	Comment
Working capital financing	3	South Africa	UMI	Local	Senior Equity	Prior discussions	Expansion of SME Factoring book	Private equity investors and management	Screened. Reassess based on growth in loan book via new debt financing
MFB	4	Nigeria	LMI	Local	AT1C	Prior discussions	Expansion MSME lending	Global MFB + local bank, DFI, MIV	Screened. Reassess after planned 2020 capital injections from shareholders
MFB	3	Nigeria	LMI	USD	Hold Coy Debt	Existing Client	Injection of capital into bank entity providing inclusive consumer finance	Institutions and management	Screened. Requires common equity prior to considering hybrid structures
MFB	3	Nigeria	LMI	USD	Hold Coy Debt	Existing Client	Housing finance and MSME finance	Founders	Monitor evolution of portfolio and social performance
TOTAL	13								

11. Structure of the Fund, the Manager and Corporate Issues



Structure of the Fund and the Manager

Jurisdiction Move - Germany

Verdant Capital is in the process of moving the Fund's country of incorporation out of Mauritius, to Germany. The Manager has taken this decision, in consultation with the anchor investors EIB and KfW, in response to the European Commission's decision of 7 May 2020 to include Mauritius on its list of "High Risk Third Countries", as relied upon by the judgement of recent findings on deficiencies in terms of financial sector transparency from the Financial Action Task Force (the "**FATF**").

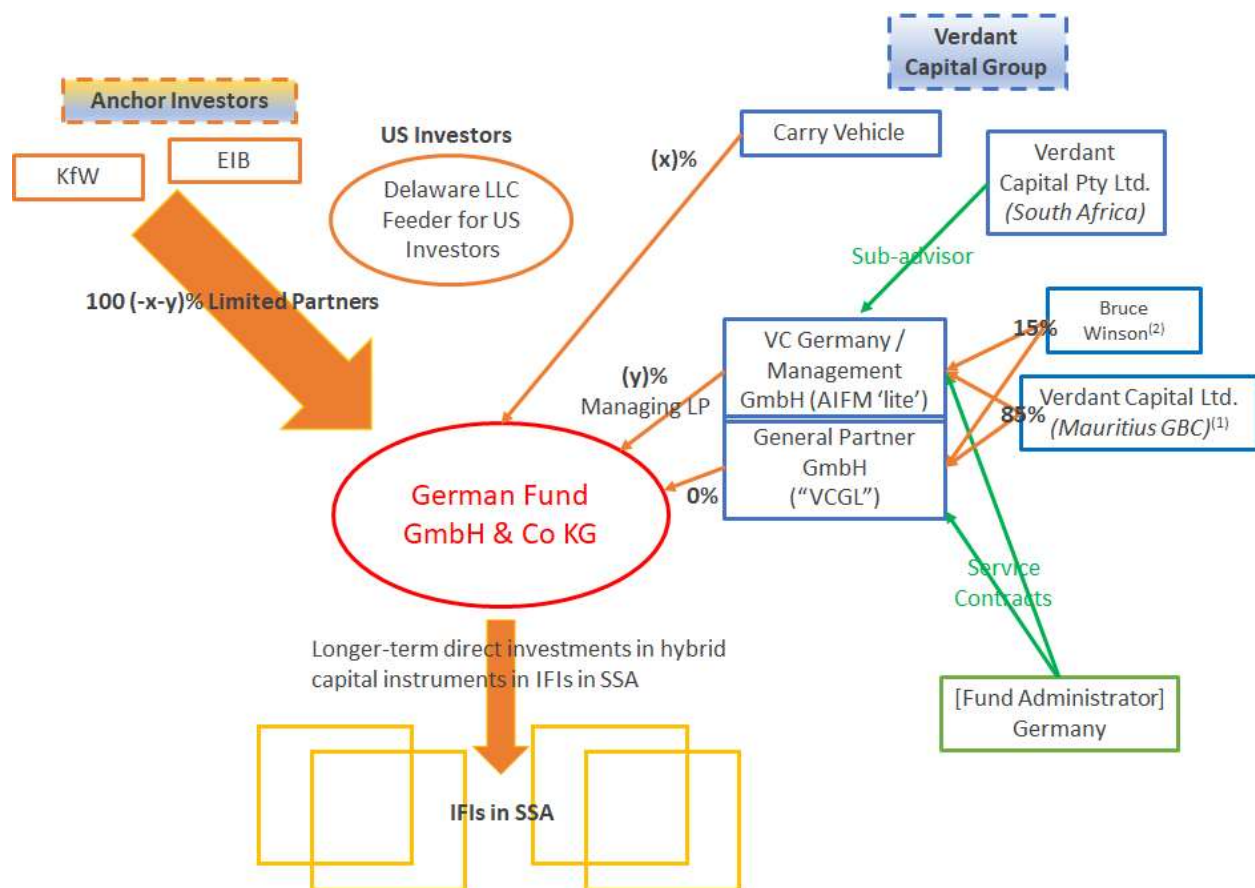
Based on the advice received to date from our German advisors we expect the structure to be as set out in Figure LXXVII below. A presentation of the proposed German structure is also located in the virtual data room. The expected German fund structure is that of an **KG-GmbH limited liability company**, with the key structuring points and regulatory requirements as follows:

- The expected structure of the Fund domiciled in Germany would be a GmbH & Co. limited partnership - the "**KG**" - with the General Partner/ Manager being an **GmbH**;
- There will be another, parallel GmbH called the Management Company ("**ManCo**") that will be registered with the German financial regulatory authority ("**BaFin**") and which will be registered as a sub-threshold Alternative Investment Fund Manager ("**AIFM**") according to Germany's investment code for investment management (the "**KAGB**");
- The Fund, or Alternative Investment Fund (or "**AIF**") will be considered a collective investment vehicle, and specifically designated under the KAGB as an so-called "**special AIF**", which is defined as an AIF whereby shares or units can only be acquired by so-called professional or semi-professional investors, as further defined under the KAGB;
- **The key criteria to qualify as a sub-threshold AIFM in Germany** is to either have (i) Fund AUM of less than EUR 500 million without the employment of leverage in the Fund structure and with the Fund closed for redemption within the first five years, or (ii) Fund AUM of less than EUR 100 million with the employment of leverage in the structure.⁴⁶; and
- The principal benefits of this sub-threshold designation are faster and less costly licensing and registration to set-up the Fund, as well as a lower regulatory burden. The principal drawback is the absence of any marketing passports to market this German AIF throughout Europe.

As is currently the situation in Mauritius, the Firm will work professional advisors in Germany, especially the Fund Administrator in order to choose a main relationship bank in Germany. Proposals have been received from professional advisors (fund administrators and lawyers), but no final appointments have been made yet. The auditor is likely to remain BDO, given that BDO audits other Verdant Capital entities.

⁴⁶ The Alternative Investment Fund Managers Directive ("**AIFMD**") is a European Union regulation that applies to alternative investment fund vehicles, implemented in the EU in 2013 in order to better regulate such investments that were largely unsupervised prior to the 2008-09 global financial crisis. The AIFMD aims to protect investors as well as reduce some of the systemic risk that these types of funds can pose to the EU economy and financial system.

Figure LXXVII: Proposed Structure of the Fund and the Manager in Germany



(1) Administered by Dale International Trust Company (Mauritius). A Mauritius "Global Business Company" are companies incorporated for the purpose of doing business outside of Mauritius, and are governed by the Financial Services Act 2007

(2) Bruce Winson is a U.S. National who has already invested in a 15% stake in the GP currently set-up in Mauritius and will also invest as an LP. Mr. Winson will own the same shareholding in the Manager in Germany.

Verdan Capital Limited shall be the 85% shareholder of the Manager and the GP. Verdan Capital is owned 100% by staff. The current ownership structure, considering unvested shares of staff as well as vested, is that Edmund Higenbottam, Managing Director, and founder of the Firm owns approximately 90% of the company and other staff own approximately 10%. It is expected that over the coming years, the shareholding of other staff members will increase, as team members are allocated shares as part of their annual bonuses. The shareholding by staff is a critical component of the culture of the Firm, generating alignment of interests between staff and the Firm, aiding long-term staff retention, and perhaps above all promoting a sense of ownership of the staff in the day-to-day work of the Firm and its vision.

Verdan Capital Limited is incorporated as a company holding a Category 1 Global Business Company ("**GBC**") licence in Mauritius. Verdan Capital Limited is also regulated by the Financial Services Board of South Africa as an foreign Financial Services Provider. The majority (two) of the board of Verdan Capital are independent non-executive directors. Currently, the only executive director on the board is Edmund Higenbottam. Upon First Closing, Verdan Capital will also set up a remuneration committee and an audit committee. These functions will be set up as appropriate for the fund structure to be established in Germany.

On July 22, 2019, Verdan Capital and Bruce Winson executed a detailed term sheet pursuant to which, Mr. Winson would make a new investment into the Manager in return for a 15% equity stake, and an investment in the Fund. This investment was completed in April 2020. The balance of the shares in the Manager continue to be held by

Verdant Capital Limited. The ownership structure in the Manager to be set up in Germany will remain the same as is currently for that in Mauritius.

The Board of the Manager will have at least two members and shall be chaired by a senior independent director. The board of the Manager shall appoint an Investment Committee and it shall receive investment recommendations from the Investment Committee. The Investment Committee shall have five members, the four independent members are discussed below.

The Manager will have a service contract with **Verdant Capital (Pty) Ltd.**, a company incorporated in South Africa that will be the entity employing the South Africa-based employees to provide support in terms of the core investment functions.

The Manager and the Limited Partners will enter into a Limited Partnership Agreement ("**LPA**") to constitute the Fund. As noted above, the Firm is currently in process of evaluating Fund Administrators for the Fund structure set up in Germany. The Fund will be a tax pass-through structure.

The Fund shall establish an **Advisory Committee** which shall meet twice a year, or more frequently if required, to review, consider and resolve on such limited matters as provided in the Limited Partnership Agreement but will at no time participate in the management of the Fund. The Advisory Committee will include representatives of the largest Limited Partners (i.e., those with an individual commitment of 20% or more of the Fund's committed capital) and other representatives elected by the smaller Limited Partners (Smaller LPs together representing at least 20% in the Fund shall elect one Advisory Committee member).

Between the investment team managing the Fund, and the advisory arm of Verdant Capital, there will be a **Chinese wall**. The team working on the management of the Fund will work in a physically segregated office space. Clients of the advisory business may be introduced to the Manager as potential investees for the Fund. However, investees of the Fund shall not be permitted to be introduced to the advisory arm of the business as potential clients. Following First Closing, Verdant Capital's advisory business shall be restricted from all advisory activity in terms of hybrid capital for Inclusive Financial Institutions. All said investment opportunities identified by Verdant Capital shall be referred directly to the Manager. Any issues of potential or perceived conflict of interest shall be referred to the Advisory Committee to adjudicate.

Manager

The management and control of the business of the Fund will remain with the General Partner and Manager acting through its board. The Board will comprise a minimum of two directors, with at least one German resident director.

The Manager will ensure that the Fund is managed in accordance with the Limited Partnership Agreement.

With respect to conducting its responsibilities, the Manager shall formally adopt, via Board approval, the following:

- the BaFin rules applicable for AIFMs making credit investments;
- the Financial Intelligence Centre Act ("**FICA**") 38 of 2001 rules for South Africa pertaining to KYC;
- the Code of Ethics and Standards of Professional Conduct of the CFA Institute;
- the CFA Institute Asset Manager Code;
- the International Private Equity and Venture Capital Valuation ("**IPEV**") Guidelines;
- the EIB and IFC exclusion lists; and

- the Institutional Limited Partnership Association (“ILPA”) Private Equity Principles.

Investment Committee

The Investment Committee will make Investment recommendations to the Manager and divestment process through regular meetings which will be convened by the Manager or the IC’s Chairperson when required. It will also review the Fund’s pipeline of investments.

The Investment Committee will consist of five members. The Chairperson shall be an independent person.

In addition to **Edmund Higenbottam**, the four other members of the Investment Committee shall be:

- Chris Low**, an Oxford-educated chartered accountant, will bring the Fund operating experience from an over 20-year career at Standard Chartered, including as CEO in the bank’s entities in South Africa and India, as well as in senior roles for the bank in Kenya and South Korea. More recently, he served for five years as CEO of Letshego Group, a leading pan-African microfinance group with subsidiaries in 11 countries. During his tenure, Chris created and executed the strategy to expand Letshego’s inclusive finance activities throughout the Continent, both organically and through acquisition. As such, Chris brings extensive recent knowledge on the operating environment in the many African markets as well as key regulator relationships. Chris also has experience at Arthur Anderson, Goldman Sachs, National Bank of Kuwait, and Diamond Bank. He now principally serves on boards and performs senior advisory roles with focus inclusive financial institutions, including fintechs, with a focus on emerging markets, and specifically Africa. Institutions he is recently or currently advising include the CDC (UK DFI), DFID (UK) FINCA International, I&M Bank (Kenya), and ClickPesa. Chris Low will also perform the role Senior Advisor and Head of Operational Excellence for the Fund.
- Bruce Winson**, the co-founder and senior partner of Anson Funds, an equity hedge fund launched in 2003, with offices in Dallas and Toronto. As co-founder of Anson Funds, he also has experience growing a fund management business from the outset. Originally from Southern Africa (youth spent in Zambia and Zimbabwe), he currently lives in Texas, and maintains a keen interest in investing in Africa. From 2010 to 2016 he also managed a dedicated Africa fund under the Anson banner. Bruce brings to the IC significant capital market perspectives, as well as knowledge on global macro themes, such as expected outlook in global interest rates, exchange rates and trade policies. Bruce also brings the perspectives of successfully launching and growing a fund management business. As discussed above Bruce Winson is also making an investment in the Fund and has made a minority equity investment in the Manager.
- Sari Nikka**, who has made her career in international finance. She has previously served as the Chief Executive Officer of Norsad Finance Limited (“Norsad”) that is a regional DFI offering medium to long-term risk capital to mid-market growth companies across the Southern Africa region. Prior to working for Norsad, she was the Programme Director (Finn partnership) and Senior Investment Manager for Finnfund, which is the Finnish DFI and professional impact investor investing in responsible and profitable businesses in developing countries. She also served as a Project Finance Advisor for Finnvera Plc (Finland), which is a specialised financing company that promotes Finnish exports to emerging markets and developing countries. Ms Nikka has served on various Boards and Board Committees of companies and investment funds investing in Africa, Asia, Latin America, and Eastern Europe. She has a range of experience from project finance, senior debt instruments, mezzanine, and equity investments, as well as financing solutions for microfinance institutions and commercial banks. She now principally serves on boards and performs senior advisory roles with focus emerging markets-focused funds and financial institutions, including Absa Bank Botswana and the Africa Guarantee Fund.
- Kanako Sekine**, who was the Managing Director, Portfolio, of the European Bank for Reconstruction and Development (EBRD) until 2018. Her team monitored the management of the Bank’s portfolio of debt and equity. Ms Sekine first joined the EBRD in 1993 and for 15 years enjoyed a career within the Financial Institutions team, heading the Bank’s in-house fund of private equity funds and co-investment programme. Between 2008-10, Ms Sekine left the EBRD to live and work in Moscow, working both as managing director of the Russian

investment bank Troika Dialog Group and as chief operating officer of their investment arm, Troika Capital Partners. She re-joined the EBRD in early 2011. She left in 2018. Ms Sekine’s career in finance began in 1984 when she worked as an analyst in corporate finance with Smith Barney, Harris Upham & Co in New York. She went on to work in their M&A advisory and financing department for top-tier US money managers investing in the emerging markets in the early 1990s. She now principally serves on boards and performs senior advisory roles with focus emerging markets-focused funds and financial institutions, currently including a Guernsey-based PE fund focusing on financial services and technology in Russia and Central and Eastern Europe, as well as a Kyrgyz commercial bank. Ms Sekine graduated from Hitotsubashi University in Tokyo and was awarded an MBA degree from Harvard Business School. She has a CFA designation.

The quorum for all meetings of the Investment Committee shall be four members. All decisions will be taken by at least a majority in favour of no less than two votes, i.e., 4 vs. 1 or 3 vs. 1 (if not unanimous).

The Investment Committee shall have a two-step approval process for any investment or divestment decision. The details of this process are set out in details in **Section 12: Summary of Terms**.

The Advisory Committee

The Fund shall establish an Advisory Committee, comprising of three to five members, a majority of whom shall be representatives of the Limited Partners. It will elect, at each meeting, a Chairperson amongst the members of the Committee. Decisions of the Advisory Committee will be taken by a simple majority of the members. The Committee will have a number of tasks, details of which are set out in **Section 12: Summary of Terms**. This Committee will have, amongst others, the responsibility of ensuring that the Fund adheres to the reporting requirements on corporate governance in accordance with best practice as well as review and approve the asset valuations for inclusion in semi-annual and annual financial statements, as prepared by the Manager.

Fundraising Status

The fundraising strategy is in the First Closing to focus mainly on the larger and most impact oriented DFIs. The anchor investors have agreed that there shall be a two-year window between the First Closing and the Final Closing. Following the First Closing, the focus shall be more on smaller DFIs and on private sector impact investors, and a limited number of especially African commercial investors (i.e., South Suez or Alexandre Forbes). Following the First Closing, and to allow maximum benefit of the two-year period, the Manager expects a “Second Closing” mid-way between the First Closing and the Final Closing.

The Firm has extensive experience working with DFIs and other impact investors and has used this experience, and these relationships to drive the fund-raising process.

The Fund has also appointed two agents based in the U.S. in order to help raise a small amount of capital (projected less than USD 5 million), principally from high net individuals (“**HNWI**”) there. The Hybrid Fund already has a USD 2 million in commitments from two US HNWIs that will be leveraged to further “open up” or “crowd in” this investment class into Africa. These agents are CommonGood Capital⁴⁷ and Kenwood Advisors, Inc.⁴⁸

The fundraising, for First Closing, has been principally headed by the Fund’s senior management team, Edmund Higenbottam and Patrick Ball. Other members of the team, such as MacDonald Gomo and Farai Masendeke, have also contributed.

While the Manager has strong visibility of investor support for the Second Closing and Final Closing, the Firm has specific scenarios for its planned cost structure in its business plan in the event of a smaller Final Closing. These

⁴⁷ <https://www.commongoodcap.com/>

⁴⁸ <http://kenwoodadvisors.com/contact/>

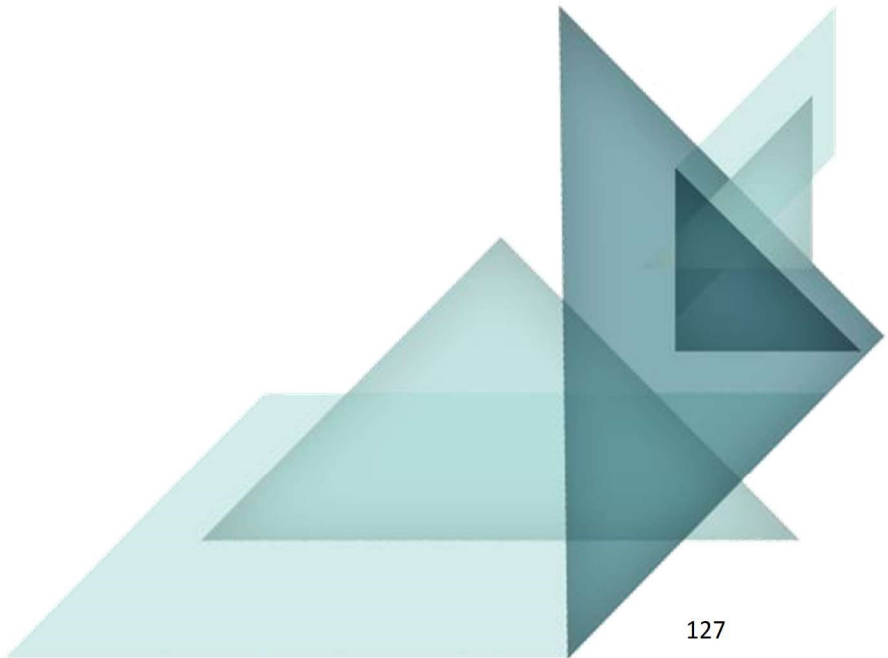
scenarios are demonstrated in the full Fund model that is located in the virtual data room. The Manager is commercially sustainable at the smallest sized Final Closing scenario which is less than the minimum First Closing amount of USD 40 million (please refer to Figure LXX: in **Section 9: Fund Model, Cash Returns and Exits**).

Figure LXXVIII: Expected Commitments

Investor	Potential Commitment (USD)			Total Fund Size	Status	% Commitment Of Total Fund Size
	First Closing	Second Closing	Third Closing			
General Partner ⁴⁹	2 000 000	200 000	400 000	2 600 000	-	3.25%
KfW	36 000 000	-	-	36 000 000	CIP	45.00%
EIB	9 000 000	4 000 000	4 000 000	16 000 000	CIP	21.25%
IFU	7 000 000	-	-	8 000 000	Advancing	8.75%
US HNWI clients	3 000 000	3 000 000	3 000 000	9 000 000	DD	11.25%
DFC	-	20 000 000	-	20 000 000	WIP	25.00%
AfDB	-	10 000 000	-	10 000 000	WIP	12.50%
OeEB	-	10 000 000	-	10 000 000	WIP	12.50%
Obviam	-	10 000 000	-	10 000 000	WIP	12.50%
Norfund	-	8 000 000	-	8 000 000	WIP	10.00%
FSD Africa	-	5 000 000	-	5 000 000	WIP	6.25%
Cenairth	-	5 000 000	-	5 000 000	WIP	6.25%
Triodos	-	5 000 000	-	5 000 000	WIP	6.25%
Swedfund	-	5 000 000	-	5 000 000	WIP	6.25%
Shell Foundation	-	4 000 000	-	4 000 000	WIP	5.00%
PIC	-	-	10 000 000	10 000 000	WIP	12.50%
Kuramo	-	-	10 000 000	10 000 000	WIP	12.50%
BDC	-	-	10 000 000	10 000 000	WIP	12.50%
FISEA+	-	-	5 000 000	5 000 000	WIP	6.25%
Calvert Impact	-	-	5 000 000	5 000 000	WIP	6.25%
Alexandre Forbes	-	-	4 000 000	4 000 000	WIP	5.00%
GLS	-	5 000 000	-	5 000 000	WIP	6.25%
Total	57 000 000	94 200 000	51 400 000	202 600 000		253.25%
Target	40 000 000	20 000 000	20 000 000	80 000 000		

⁴⁹ Includes capital commitment from Bruce Winson

12.Summary of Terms



Summary of Terms

A summary of the key terms for the Fund are set out below. Any investment in the Fund will be solely on the basis of the limited partnership agreement or the constitutional documents of the Fund, as may be amended and/or restated from time to time (the “**Limited Partnership Agreement**”) and a subscription agreement in relation to any entity constituting the Fund (the “**Subscription Agreement**”) (together the “**Fund Documents**”) and not on this document. This Memorandum is qualified in its entirety by reference to the Limited Partnership Agreement and the Subscription Agreement, copies of which will be made available upon request and should be reviewed prior to subscribing for Interests in the Fund. In the event that the description in or terms of this Memorandum are inconsistent with or contrary to the Limited Partnership Agreement, or the Subscription Agreement, the terms of the Limited Partnership Agreement and/or the Subscription Agreement (as applicable) shall prevail. Information discussed in this Memorandum may pertain to matters addressed in the Limited Partnership Agreement which is subject to change pursuant to properly adopted amendments to the Limited Partnership Agreement.

As noted in **Section 11: Structure of the Fund, the Manager and Corporate Issues**, Verdant Capital is in the process of moving the Fund’s country of incorporation out of Mauritius, to Germany. The Term Sheet will be aligned with the corresponding requirements for the German jurisdiction at the appropriate time and then immediately made available to interested and qualified investors.

Figure LXXIX: Fund – Term Sheet

Administrator	<ul style="list-style-type: none"> ▪ [Vistra (Germany) GmbH].
Advisory Committee	<ul style="list-style-type: none"> ▪ Advisory Committee with up to five members. ▪ LPs with a 20% investment in the Fund (by committed capital) shall have the right to appoint a member of the Advisory Committee. ▪ Smaller LPs together representing at least 20% in the Fund to elect one Advisory Committee member. ▪ Voting rights per capita (one member one vote). ▪ It will, at each meeting, elect a Chairperson amongst the members of the Advisory Committee. Decisions of the Advisory Committee will be taken by a simple majority of the members. ▪ The Advisory Committee will have a number of tasks, the main ones being: <ul style="list-style-type: none"> – Approve any change to the Fund strategy and restrictions; – Review implementation of Fund strategy; – Advising on any potential or perceived conflict of interest; – Advising on any required exceptions to Fund mandate; – To determine the asset valuations principles for inclusion in semi-annual and annual financial statements; – Monitor the progress of the Fund’s investment portfolio; – To deal with any conflict of interest (perceived or actual); – To establish rules to prevent and to mitigate the risk of situations giving rise to possible conflict of interest among Limited Partners, the Manager, the Investment Advisor, and the employees, directors or Affiliates of the Limited Partners, the Manager, and the Investment Adviser; – To approve any transaction with employees of the Manager or its Affiliates and other service providers (affiliated with the Manager); – To approve any transactions with Affiliates of the Manager; and – To approve any co-investments with the Manager, an Investment Adviser or their respective Affiliates.
Affiliates	<p>Affiliates means:</p> <ol style="list-style-type: none"> a) any person or company that beneficially owns, directly or indirectly, 20% or more of the ordinary share capital of an entity or exercises or controls, directly or indirectly, 20% or more of the voting power of an entity; b) any person or company controlled by a person who meets one or both of the descriptions given under (a);

	<ul style="list-style-type: none"> c) any company, 20% or more of whose ordinary share capital is beneficially owned, directly, or indirectly, by an entity, and any company, in which an entity exercises or controls, directly or indirectly, 20% or more of the voting power; <ul style="list-style-type: none"> ▪ any director or officer of such entity;
Anti-Money Laundering Covenants on Investees	<ul style="list-style-type: none"> ▪ Minimum anti-money laundering standards as per international best practice, aligned with EIB and KfW standards, and as per German and South African law.
Auditors	<ul style="list-style-type: none"> ▪ BDO.
Borrowings	<ul style="list-style-type: none"> ▪ The Fund has the right to borrow up to the lower of: <ul style="list-style-type: none"> i. 10% of Total Commitments; and ii. 100% of undrawn capital commitments on the date that such borrowing facilities are obtained.
Broken Deal Costs	<ul style="list-style-type: none"> ▪ All broken deal costs (including due diligence costs), whether or not such acquisition, financing, hedging, disposal, or Borrowing Facility is completed will be borne by the Fund up to 1.0% of Total Commitments. In excess of 1.0% of Total Commitments, any further broken deal costs will be shared equally between the Fund and the Manager. The Fund shall make available a detailed list of all broken deal costs to Limited Partners upon request.
Capital Commitment	<ul style="list-style-type: none"> ▪ Upon the Manager accepting an investor in the Fund pursuant to the terms of a subscription agreement, the investor (including the Manager and/or its affiliates with regards to their capital commitments for Interests) agrees to make a capital commitment (“Capital Commitment”) to the Fund.
Clawback and Escrow	<ul style="list-style-type: none"> ▪ Upon termination of the Partnership or upon the removal of the General Partner, the General Partner shall be required to return to the Partnership any amount of: <ul style="list-style-type: none"> i. Carried Interest distribution which the General Partner has received in excess of the amount distributable to the General Partner; or ii. General Partner Profit Split/Carried Interest distribution, as certified by the auditors of the Partnership.
Closings	<ul style="list-style-type: none"> ▪ The first closing (the “First Closing”) will occur as soon as practicable after subscriptions have been received for subscriptions of USD 40 million (or lesser amount as may be decided by the Manager in its sole discretion. ▪ For a period of 24 months after the First Closing, an additional closing or closings (the “Final Closing”), may be held as necessary to admit additional Limited Partners.
Co-investment policy	<ul style="list-style-type: none"> ▪ As a general rule, the Manager may offer co-investment opportunities to all investors pro-rata to their share in the Fund, offering same co-investment rights on the same terms and conditions and at the same time. However, in the event it is not practical to offer such co-investment opportunities to all investors due to the size and nature of investments, the Manager may, subject to the approval of the Advisory Committee, offer such co-investment opportunities to some investors only.
Counterparty Size	<ul style="list-style-type: none"> ▪ Based on the targeted investment amount and the targeted position in the capital structure the Manager expects the majority of investments will be into institutions in the following total assets size range of USD 40 to 150 million.
Defaulting Investors	<ul style="list-style-type: none"> ▪ If a Limited Partner fails to contribute any portion of its Capital Commitment within 10 business days after such contribution is due, the Manager may initiate procedures to declare such investor to be in default in accordance with the provisions of the Limited Partnership Agreement.
Distributions	<ul style="list-style-type: none"> ▪ Investment proceeds available for distribution by the Fund (“Investment Proceeds”) will consist of cash proceeds returned by investee institutions realised on the disposition of the investments, net of expenses relating to such disposal, and cash dividends or interest realised on the Fund’s investments. ▪ Distributions will be made, within 30 days of receipt of Investment Proceeds, However, in the event it is an income Investment Proceeds (dividends derived from investments), the Manager may, at its discretion, defer distribution to the end of the quarter. Distributions will be made following an order of priority as described below: <ul style="list-style-type: none"> a) first, 100.0% to the Limited Partners, in proportion to their capital contribution until the cumulative amount distributed pursuant to this clause is equal to their respective capital contributions; b) next, 100.0% to the Limited Partners, in proportion to their capital contribution, until all Limited Partners have been paid a cumulative return equal to 8.0% per

	<p>annum, on all amounts referred to in (a) and on all Portfolio Investments previously realised at a loss (determined in each case from the date of drawdown of the relevant capital contributions) (the “preferred return”) compounded annually;</p> <p>c) next, 100.0% to an affiliate of the General Partner (the “Carry Vehicle”), in proportion to their capital contribution, until such holders have received a catch-up equal to 25.0% of the preferred return;</p> <p>d) thereafter, (a) 80.0% to the Limited Partners, in proportion to their capital contributions, and (b) 20.0% to the Carry Vehicle (together with sums distributed in (c) this is the “carried interest”).</p> <ul style="list-style-type: none"> ▪ All distributions will be made in accordance with the applicable laws in Germany.
Documentation	<ul style="list-style-type: none"> ▪ Governing law: laws of Federal Republic of Germany. ▪ Subscription agreement: based broadly on the standard of the Institutional Limited Partners Association (“ILPA”).
Drawdowns	<ul style="list-style-type: none"> ▪ Capital Commitments will be drawn down by the Manager from the Limited Partners of the Fund on a pro rata basis, as needed to make investments and to pay the Fund’s liabilities and expenses with not less than 10 business days’ prior written notice.
Equalisation Payments	<ul style="list-style-type: none"> ▪ Shall apply to each Subsequent Investor and to each Existing Investor who has increased its Capital Commitment and Capital Commitments have been drawn down from Existing Investors on or after the First Closing Date.
ESG Covenants on Investees	<ul style="list-style-type: none"> ▪ ESG due diligence based on Verdant Capital’s ESG template and CERISE SPI4 social performance audit tool. ▪ Financial inclusion mandate. ▪ Investee companies must accept SMART Campaign Client Production Principles (now covered under the “Universal Standards Social Performance Management”.)
Excuse/Opt-Out Rights	<ul style="list-style-type: none"> ▪ An Investor may be excused from its obligation to make a capital contribution: <ul style="list-style-type: none"> – If previously agreed in writing by the General Partner; or – If, in the reasonable opinion of the General Partner, or on the basis of an opinion of counsel for such Excused Investor delivered to the General Partner within 5 Business Days after the issue of a Drawdown Notice
Exclusions	<ul style="list-style-type: none"> ▪ Based on the exclusion lists of the EIB and IFC.
Financial Inclusion Mandate	<ul style="list-style-type: none"> ▪ At disbursement, investee companies must have a minimum proportion of their gross loan book exposed to loans supporting financial inclusion (“Eligible Loans”), for example: <ul style="list-style-type: none"> – Microfinance; – SME-finance / “missing middle”; – Rural and agricultural development; – Social infrastructure; – Access to education; – Access to health; – Housing finance; – Small-scale asset finance (i.e., lease-to-own motorbikes or agricultural equipment); – Climate change abatement; – Renewable energy financing (i.e., solar home systems, mini-grids, kits financed via PAYGO plans, with special focus on rural and un-connected populations) – Water, sanitation and (“WASH”) financing (i.e., micro-franchising) – SME-focused receivables financing (i.e., factoring, supply chain financing) – Social and professional mobility; and – Target demographics. ▪ Investee companies with less than USD 100 million in total assets must have at least 50.00% of their gross loan portfolio comprising of Eligible Loans. ▪ Investee companies with more than USD 100 million in total assets must have at least 33.333% of their gross loan portfolio comprising of Eligible Loans. ▪ These thresholds may be amended with the agreement of the Advisory Committee. ▪ Investee companies must have an alignment of vision and strategy in terms of Financial Inclusion objectives for the future.

Fund Expenses	<ul style="list-style-type: none"> ▪ The Fund will pay all other expenses directly relating to its own operations to the extent that they have not been reimbursed by portfolio companies. These expenses include: <ul style="list-style-type: none"> – External services such as legal, auditing, tax, accounting, insurance etc. – Expenses relating to the Investment Committee, Advisory Committee and Board; – Expenses relating to investments but not reimbursed by portfolio companies (travel expenses, consultants for due diligence etc).
General Partner	<ul style="list-style-type: none"> ▪ GmbH to be incorporated in Germany. The Board will consist of a minimum of two members, with a minimum of one German resident director. It will meet two-to-four times a year.
Governance Rights with respect to Investee Companies	<ul style="list-style-type: none"> ▪ For Additional Tier 1 Capital and more equity-like transactions, for example bank holding company debt, there will be Board observer rights attached to the investment. ▪ Covenants for specific investments. ▪ Step-in rights in default scenario, or in the event of covenant breach.
Indemnification	<ul style="list-style-type: none"> ▪ The Manager, its equity holders, board members, members of the different committees and Limited Partners represented on the board and committees and their respective officers, directors, agents, and representatives will be indemnified and exculpated by the Fund to the fullest extent permissible by law for any actions taken in good faith to promote the best interests of the Fund, provided that such action was not the result of gross negligence, wilful misconduct or fraud.
Investment Advisor	<ul style="list-style-type: none"> ▪ Verdant Capital (Pty) Ltd. ▪ Incorporated in the Republic of South Africa.
Investment Committee	<ul style="list-style-type: none"> ▪ An Investment Committee shall be established by the Board. The Committee will elect an independent Chairperson. ▪ The Committee will recommend to the Manager all investment and divestment process through regular meetings which will be convened by the Manager or the Committee's Chairperson when required. It will also review the Fund's pipeline of investments. ▪ Quorum shall be four members. All decisions will be taken by at least a majority in favour of no less than two votes, i.e., 4 vs 1 or 3 vs 1. ▪ The Investment Committee shall have a two-step approval process for any investment or divestment decision. <ol style="list-style-type: none"> Pre-clearance – The Manager will present an investment memorandum ("the Investment Memorandum", also known as the "Pre-Clearance Note") to the Investment Committee once it has completed all negotiations with the institution. The Investment Memorandum will provide a full description of the institution, its shareholders, its controls, its business model and loan origination cycle, its loan portfolio, social performance, the business and regulatory environment in which it operates and the investment risk. The Investment Committee will then provide a 'GO or NO GO' recommendation. A 'GO' recommendation will be equivalent to an "in-principle" approval, subject to due diligence. Such a recommendation will authorise the Manager to proceed with all the due diligence process (legal, financial, commercial, and technical), subject to the maximum agreed costs. The Investment Committee may consult with legal counsel and other advisors selected by it and the fees and expenses of such counsel and advisors selected by a majority of the members of the Investment Committee shall be met by the prospective investee institution. Final Approval – Once the Manager has signed off on the due diligence and additional issues raised by the due diligence and the legal documentation (the sale and purchase agreement, shareholders agreement and any other relevant documents) have been agreed upon, the Manager shall come back to the Investment Committee with a final recommendation. The Investment Committee will recommend a final GO recommendation to the Manager. The Board will make the final decision on the proposed investment and execute the relevant documentation. The Manager will then call monies from the investors to finance such investment.

Investment Committee (Members)	<ul style="list-style-type: none"> ▪ Edmund Higenbottam - Managing Director of Verdant Capital (UK national, South African permanent resident). ▪ Chris Low - 20-year veteran of Standard Chartered, in Africa and Asia, and former CEO of pan-African inclusive finance group, Letshego. Now principally serves on boards and performs senior advisory roles with focus on IFIs in emerging markets, with emphasis on Africa. (UK nationality, residing in Kenya). ▪ Bruce Winson - co-founder of Anson Funds, a leading North American equity hedge fund. Bruce has also made an minority equity investment in the Manager and will invest as an LP in the Fund. (US nationality, originally from Southern Africa). ▪ Sari Nikka – international financier who most recently served as CEO of the Southern African DFI Norsad Finance and before that held senior investment roles at FinnFund. Now serves on boards and performs senior advisory roles for emerging markets financial institutions, principally focused on Africa (Finnish nationality with Mauritian residency). ▪ Kanako Sekine - international financier who worked for the EBRD for 15 years until 2018 and now serves on boards and performs senior advisory roles for emerging markets-focused funds and financial institutions (Japanese nationality).
Investment Guidelines and Restrictions	<ul style="list-style-type: none"> ▪ The Fund will invest in line with its objective, but the following restrictions will apply at <u>Final Closing</u>: <ul style="list-style-type: none"> i. up to 15.0% of committed capital may be invested into any single portfolio company; ii. up to 20.0% of committed capital in any one target country (after making proportional allocations for regional players); iii. up to 10.0% of committed capital on open exposure to any single currency without hedging; and iv. up to 30.0% of committed capital on open currency exposure on an aggregate portfolio basis. ▪ The following restrictions shall apply at <u>First Closing</u>: <ul style="list-style-type: none"> i. Single country limit is 25.0% (or USD 16 million whichever is lower); ii. Single investment limit is 20.0% (or USD 12 million whichever is lower); iii. Single currency limit is 15.0% (or USD 8 million whichever is lower); and iv. Aggregate currency open exposure limit is 30%. ▪ These restrictions may also be overruled with the specific authorisation of the General Partner upon recommendation of the Advisory Committee. ▪ There shall be specific exclusions as regards environmental and social risks, in line with the EIB and IFC exclusion lists.
Investment Objective	<ul style="list-style-type: none"> ▪ The Fund will invest in hybrid capital instruments in Inclusive Financial Institutions in the Target Region.
Investment Period	<ul style="list-style-type: none"> ▪ The Investment Period will be five years; that is the fifth anniversary of the last day of the month in which the First Closing Date occurs, with the possibility of a one-year extension subject to the approval of the Board upon recommendation of the Advisory Committee. After the end of the Investment Period, the Fund will not make new portfolio investments, but, for the avoidance of doubt may: <ul style="list-style-type: none"> i. complete portfolio investments in respect of which letters of intent or term sheets have been entered into as at the end of the Investment Period; ii. for a period not to exceed two years following the date the investment was made, make follow-on investments in existing portfolio companies in an aggregate amount up to 15.0% of total Capital Commitments, and iii. continue to draw down Capital Commitments to pay the Fund's liabilities and expenses.
Investment Strategy	<ul style="list-style-type: none"> ▪ Investment in hybrid regulatory capital – Lower Tier 2 Capital and AT1C - for banks and microfinance banks. ▪ Subordinated debt and preferred equity for non-bank (credit only) financial institutions.
Investors Participating in Subsequent Closings	<ul style="list-style-type: none"> ▪ If additional investors are admitted to the Fund after the First Closing, such investors will contribute to the Fund an amount equal to the sum of: <ul style="list-style-type: none"> i. Their pro-rata share of all drawn down commitments of investors admitted in prior closings; plus

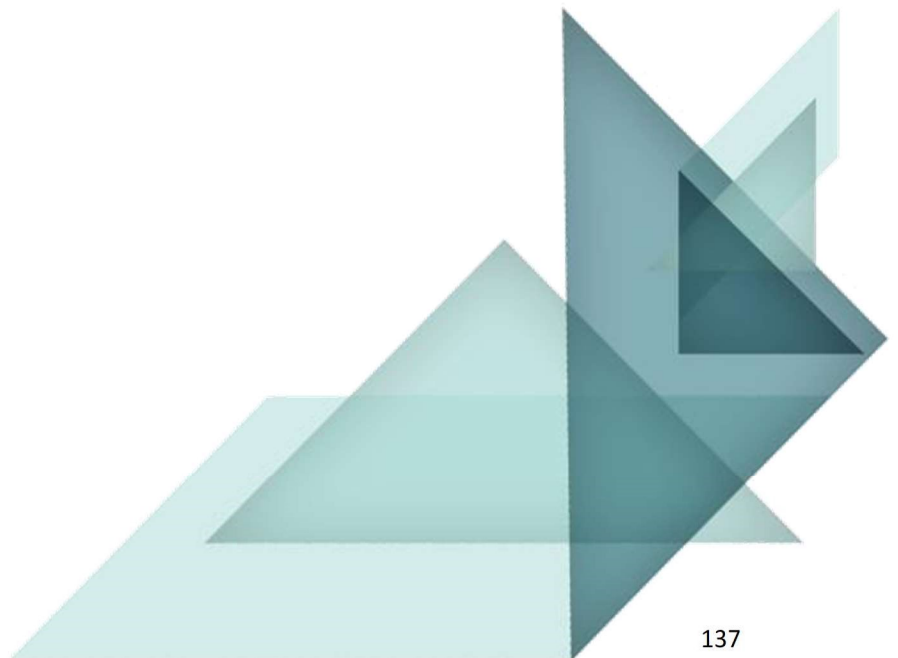
	<ul style="list-style-type: none"> ii. An additional contribution equal to a rate of 8% per annum from the date(s) of such previous contributions (as adjusted in good faith by the Manager for any previous distributions made previously by admitted Limited Partners). ▪ The amount contributed by the additional investors (other than amounts attributable to the Management Fee (as defined below) and the additional contribution thereon, which will be paid over to the Manager) generally will be refunded to the previously admitted Limited Partners in proportion to their respective funded capital commitments and, other than the additional amounts, will be added back to such Limited Partners' unfunded capital commitments and may be drawn down again by the Fund. ▪ For the sake of clarity, additional investors will not include any existing Limited Partners participating in the Subsequent Closing.
Key Person Event	<ul style="list-style-type: none"> ▪ Edmund Higenbottam is the primary designated Key Person. A Key Person Event (also known as a "suspension event", as described below) shall be deemed to have occurred if at any time prior to the expiration of the Investment Period, Mr. Higenbottam: <ul style="list-style-type: none"> i. ceases to act as principal of the Fund; or ii. ceases to allocate the agreed proportion of time to the Fund, being 60% ▪ Patrick Ball and Chris Low are the designated secondary Key Persons. The departure of both these secondary key persons, without replacement, is also considered Key Person Event. ▪ In the event that both Messrs Ball and Low leave the employment of the Fund and their departure is not cured by an agreed replacement, as per the procedure outlined below, a suspension event applies, the same as with the primary designated Key Person. The Manager shall, within 10 calendar days of the occurrence of a Key Person Event, inform Limited Partners, the Advisory Committee, and the Investment Committee of such Key Person Event. From the date a Key Person Event occurs, the Fund will enter into suspension mode and will not be permitted to make further investments other than in (i) existing investments, (ii) investments in which the Fund had an existing legal commitment as of the date on which the Fund entered into the suspension mode, and (iii) any other investments with the consent of a 75% majority of the Advisory Committee, until such time as the Key Person Event has been cured. ▪ Within six months from the date the Advisory Committee has been informed of a Key Person Event, the Manager may propose to the Advisory Committee actions that could be taken to remedy same, including nominating one or more individuals employed by the Manager or any of its Associates as a replacement for the employee who has caused a Key Person Event. The Advisory Committee will be responsible for approving the remedial actions and ensuring that the Manager does implement same. ▪ Upon the approval of the remedial actions proposed by the Manager with a two-thirds majority, the Key Person Event shall immediately cease to apply. ▪ In the case of a Key Person Event which continues un-remedied for six months from the date the Advisory Committee has been informed, not less than 75% of Limited Partners (other than Defaulting Limited Partners) may vote to terminate the Investment Period.
Legal Counsel	<ul style="list-style-type: none"> ▪ [TBC]
Management Fee	<ul style="list-style-type: none"> ▪ The Manager will receive a management fee, payable quarterly in advance, of 2.000% per annum of committed capital during the Investment Period. ▪ Thereafter, the management fee will be 2.000% of the aggregate cost of investments less costs of any investments sold or written off. ▪ At an initial fund size of USD 40 million (committed capital) the Management Fee shall be 2.250%, reducing to 2.125% at a fund size of USD 50 million and to 2.000% at all fund sizes of USD 60 million and above.
Manager	<ul style="list-style-type: none"> ▪ GmbH to be incorporated in Germany. ▪ The Manager will have overall responsibility for the management and control of the Fund's business. It will delegate some of its powers to the Investment Committee. ▪ The Board will consist of a minimum of two, with a minimum of one German resident director. It will meet two-to-four times a year.
Manager's Commitment	<ul style="list-style-type: none"> ▪ 2.0% (including the management team).

Manager's Expenses	<ul style="list-style-type: none"> ▪ The Manager will bear all expenses relating to the management of the Fund; that is normal overhead expenses such as wages and salaries of its employees, rent, major utilities and so on.
Meetings	<ul style="list-style-type: none"> ▪ A meeting of investors will be held annually to provide Limited Partners with the opportunity to review and discuss with the Manager the Fund's investment activities and portfolio.
Minimum Commitment	<ul style="list-style-type: none"> ▪ The minimum commitment of an investor will be USD 250 000 although the Manager reserves the right to accept commitments of lesser amounts.
Other Investments	<ul style="list-style-type: none"> ▪ Until the Fund has invested 75% of its Committed Capital, the Manager and its Affiliates will not organise another investment company with investment policies similar to those of the Fund unless the consent of the Advisory Committee is obtained.
Other Permitted Investment Structures	<ul style="list-style-type: none"> ▪ Perpetual preference shares for the insurance sector (with call option, conversion, and force-to-market rights, similar to AT1C). ▪ Mezzanine tranche for an SPV to acquire captive or semi-captive renewable energy assets, or housing finance assets. ▪ Debt funding to established fintech companies with a similar risk-return profile to the other investees in the Fund. ▪ Aggregate exposure to other permitted investment structures subject to a cap (25% of portfolio at final closing, or 10% per category).
Pre-operational Expenses	<ul style="list-style-type: none"> ▪ Pre-operational expenses borne by the Manager for the establishment of the Fund (the lower of (i) actual pre-operational expenses and USD 500 000) will be payable by the Fund. Pre-operational expenses borne by the Manager in excess of the above will not be refunded. However, in the event that the Fund size increases to above USD 67 million following a second close, the Fund shall be responsible for the lower of (i) actual preliminary costs and expenses or (ii) 0.75% of the total capital contributions.
Qualifying Investments	<ul style="list-style-type: none"> ▪ Lower Tier 2 Capital. ▪ Subordinated or hybrid debt invested in financial institutions not subject to central bank regulation, i.e., non-deposit taking, but subject to other financial supervision. ▪ Additional Tier 1 Capital (non-Common Equity Tier 1 capital). ▪ Bank or financial institution holding company debt. ▪ Private instruments, or anchor investments in pre-listed instruments. ▪ Other permitted investment structures (see above).
Removal for Cause	<ul style="list-style-type: none"> ▪ Cause shall cover the GP, Investment Advisor, and investment management team. ▪ Definition of cause shall include criminal wrong-doing, fraud, gross negligence, breach of law, non-cured key person event, insolvency, change of control, serious and unremedied breach of the LPA. ▪ Removal for cause is subject to simple majority vote of the LPs. ▪ In the event of removal for cause the GP shall forfeit all unpaid and accrued carried interest and management fees.
Reports	<ul style="list-style-type: none"> ▪ The Fund will provide each of its investor with: <ul style="list-style-type: none"> a) audited financial statements once per year no later than three months after the year end; b) a quarterly investment report (four times per year) within 45 days of the quarter end. The reports shall contain a narrative, social performance measurement and financial update on investment and divestments of the Fund during the period, together with a general overview of the economic environment and financial sectors of the Target Region; and c) a summary valuation report on portfolio companies twice per year (usually together with the audited financial statements (within three months of the year-end) and the unaudited half yearly financial statements (within 45 days of the half-year)). d) However, in the event that there is a substantial change in the value of one investment at the end of a given quarter, the Manager may review the value of this investment in the quarterly investment report even if it is not a quarter where a valuation exercise has been carried out.

Risk Factors and Potential Conflicts of Interest	<ul style="list-style-type: none"> An investment in the Fund involves significant risks and potential conflicts of interest, certain of which are described in Section 13: Risk Factors and Additional Information to Investors. Each prospective investor should carefully consider and evaluate such risks and conflicts prior to an investment in the Fund.
Target Fund Size	<ul style="list-style-type: none"> The Fund has a target capitalization of USD 80 million. The maximum capitalization of the Fund is USD 100 million.
Target Number of Transactions	<ul style="list-style-type: none"> Targeting approximately 10 investments.
Target Region	<ul style="list-style-type: none"> Sub-Saharan Africa and the Indian Ocean Islands.
Target Return	<ul style="list-style-type: none"> 10.0-13.0% USD for Lower Tier 2 Capital and subordinated debt investments. 12.0-15.0% USD for investments in Additional Tier 1 Capital, preference equity and bank holding company debt; plus, upside sharing. Premium for local currency calculated based on covered interest rate parity and secondary benchmarks (including: (i) long-term historical performance, (ii) relative interest rates and long-term inflation and (iii) other key macro-economic leading indicators). Annual pay-out to LPs of coupon/preference dividend received (net of management fee).
Target Transaction Size	<ul style="list-style-type: none"> USD 4 to 12 million, excluding any co-investment. Initial disbursement may be less than USD 4 million if a multi-tranche investment is anticipated. Average of USD 8 million.
Targeted Impact	<ul style="list-style-type: none"> Financial sector broadening (financial inclusion). Financial sector deepening (increased capitalisation). Blended finance impact by “crowding-in” additional private sector capital (i.e., additional regulatory capital to crowd-in senior debt from local and international investors). Capital markets development (i.e., bringing hybrid capital structures to markets where there is limited experience to date).
Tax Considerations	<ul style="list-style-type: none"> The Fund shall be a tax pass-through structure. Certain other tax considerations are described in more detail in Section 13: Risk Factors and Additional Information to Investors. Each prospective investor is urged to consult its own tax adviser as to the tax consequences of an investment in the Fund.
Team	<ul style="list-style-type: none"> Edmund Higenbottam (Managing Director) (60%+ time allocation). Patrick Ball (Director) (100% time allocation). Chris Low (Senior Advisor – Operational Excellence). Ik Izedonmwun (Director, Country for Head Nigeria) (50% time allocation). Imran Patel (Director, Country Head for DRC) (50% time allocation). Kwabena Appenteng (Vice President, Country Head for Ghana) (50% time allocation). MacDonald Gomo (Associate) (100% time allocation). Farai Masendeke (Senior Analyst) (100% time allocation). Rumbidzae Sithole (Analyst) (100% time allocation). Naa Ayorkor Buxton-Tetteh (Analyst) (100% time allocation) At First Closing, there will be one Analyst and one Senior Analyst / Associate.
Term of Fund	<ul style="list-style-type: none"> The Fund will expire twelve years from the date of the First Closing. It may however be extended by two further periods of one year each, subject to the prior consent of 75.0% of the Limited Partners.
The Fund	<ul style="list-style-type: none"> Verdant Capital Hybrid Fund LP, a KG-GmbH limited liability company operating on a tax pass-through basis under the laws of the Federal Republic of Germany. The Fund will be registered as an AIF according to Germany’s investment code for investment management (the “KAGB”). It will further be considered a collective investment vehicle, and specifically designated under the KAGB as an so-called “special AIF”, which is defined as an AIF whereby shares or units can only be acquired by so-called professional or semi-professional investors, as further defined under the KAGB.
Total Commitment	<ul style="list-style-type: none"> The aggregate amount of all of the Capital Commitments of the LPs from time to time.

Transaction Fees	<ul style="list-style-type: none"> ▪ Transaction Fees related to the Fund's investment (if any) shall be deducted from the management fees.
Transfer of Interests	<ul style="list-style-type: none"> ▪ Investors will be able to transfer their interest in the Fund only with the approval from the Manager (which consent shall not be unreasonably withheld).
Valuation	<ul style="list-style-type: none"> ▪ The valuation of the Fund's investments will be carried out semi-annually by the Manager and approved by the Advisory Committee. ▪ The valuation will be consistent with IFRS and European Venture Capital Association ("EVCA") guidelines and will be performed in accordance with the International Private Equity and Venture Capital ("IPEV") Valuation Guideline.
Without Cause Removal	<ul style="list-style-type: none"> ▪ After the second anniversary of the Final Closing. ▪ Requiring 66.667% of LP commitments. ▪ Management fee compensation (one year's management fee).

13. Risk Factors and Additional Information to Investors



Risk Factors and Additional Information to Investors

An investment in the Fund involves some degree of risk and should therefore be undertaken by prospective investors capable of evaluating the risks of an investment in the Fund and bearing the risks such an investment represents. Prospective investors should carefully consider the following factors, in addition to the matters set forth elsewhere in this Document, prior to investing in the Fund. The following is not a complete list of all risks involved in connection with an investment in the Fund. There can be no assurance that the Fund will be able to achieve its investment objectives or that the Limited Partners will receive the return of the principal amount invested or a return on their capital. Prospective investors should also note that the information contained in this Document has not been prepared, reviewed, or confirmed by any independent expert or financial auditor.

Nature of Investment

An investment in the Fund requires a long-term commitment, with no guarantee of return. There may be little return on capital to the Limited Partners in the initial years. Moreover, since the Fund will make only a limited number of investments and since such Investments may involve a high degree of risk, poor performance by a few of the investments could severely affect the total returns to the Limited Partners.

Distributions

There can be no assurance that the investments of the Fund will be profitable and that cash from its operations will be available for distribution to the Limited Partners. Although certain investments by the Fund may generate income (including income from dividends, interest payments), the return on capital and the realisation of gains will occur only upon the partial or complete disposal of an investment by the Fund. While these events may occur at any time, it is generally expected that such disposals and exits will occur post the Investment Period.

Restrictions on Transfer and Withdrawal

There is currently no public market for the interest in the Fund, and no public market is expected to develop during the life of the Fund. The interests have not been and will not be registered under the securities laws of any jurisdiction. In addition, the interests are not transferrable except with the written authorisation of the Manager (which consent shall not be unreasonably withheld). Accordingly, Limited Partners may not be able to liquidate their investment in the Fund prior to the end of the Fund's life.

Availability of Investment Opportunities

Although the Manager believes that significant investment opportunities currently exist in the Target Region, there can be no guarantee that the Manager will be able to identify and complete a sufficient number of opportunities to allow the Fund to be fully invested.

Use of Proceeds

As at the date of this Document, the Fund has not selected the investments that it will make but has worked on a pipeline. No assurance can be given that the Fund will be successful in concluding the investments in its pipeline, or that if such investments are made, the objectives of the Fund will be achieved.

Risks on disposal of Investments

Upon the disposal of an investment in an investee company, the Fund may be required to make representations about the business and financial affairs of the investee company similar to those made in connection with the disposal of any business or may be responsible for the contents of disclosure documents under applicable securities laws. The Fund may also be required to indemnify the buyers of such investment or underwriters to the extent that

any such representations or disclosure documents turn out to be incorrect, inaccurate, or misleading. These arrangements may result in contingent liabilities, which may ultimately have to be funded by the Limited Partners.

Financial Institutions

Certain investee companies will not be regulated as banks by the Central Bank in their markets of operation. Inclusive Financial Institutions by their nature may include financial institutions with a shorter operating history than traditional banks.

Fixed Investment Return

While the investment return for most investments will be contractually fixed, the ultimate return to investors shall depend on the timely payments of interest and principal by the investee institution.

Subordination

The investments of the Fund shall be subordinated to senior debt and customer deposits of the investee institution. As such, in the event of a credit issue or financial distress on the part of an investee institution the Fund shall be repaid after such senior investors. The instruments the Fund will invest in will not qualify for deposit insurance in their markets of operation.

Distributions in Kind

Although, the Fund intends to make its distributions in cash, it may, under certain circumstances, make distributions in kind which could consist of securities for which there is no readily available public market.

Reliance on Management of Investee Institutions

While the Manager will endeavour to invest in institutions or companies with proven operating management in place, there can be no assurance that such management will continue to operate successfully. Although the Manager will monitor closely the performance of each investment as well as represent the Fund on the different boards and committees, the Fund will rely upon management to operate the investee companies on a day-to-day basis.

Target Country Political and Economic Factors

The political, social, and economic stability of the Target Region varies from time to time and from country to country. Investments in the Target region will be exposed to possible changes in the economic or political policies. Such changes would be beyond the control of the Fund and may adversely impact on the investments of the Fund. The target region is less stable politically and economically than other regions of the World which have more mature economies.

Currency Risk

Investors will fund their commitments to the Fund through capital calls in US Dollars. Moreover, any distribution made by the Fund will also be in US Dollars. Generally, the Fund's investments would be made in the local currency of the investee institution whilst all income received by the Fund will be in foreign currencies. The market rate of exchange between currencies is determined either by the forces of demand and supply in the foreign exchange markets or government intervention or a mix of the two. There is therefore a risk of the local currency towards the US Dollars.

Director Involvement in Investee Institutions

In certain circumstances the Fund shall appoint a director to an investee institution. Membership on the board of directors of a company can result in being named as a defendant in litigation. Typically, portfolio companies will have insurance to protect directors and officers, but this insurance may be inadequate.

Risks of Dilution

Investors admitted at subsequent closings will participate in existing investments of the Fund, diluting the interest of existing investors therein. Although such new investors will contribute their pro-rata share of previously-made capital drawdowns and a specified amount of interest, there can be no assurance that this payment will reflect the fair value of the Fund's existing investments at the time such additional investors are admitted.

Investment and Repatriation Restrictions

Foreign investment in companies of the Target Region may be restricted or controlled to varying degrees. These restrictions may at times limit or preclude foreign investment. Investments or divestments in these Target Countries may require government's approval. While in some instances such approvals are routinely granted, in others approval may be more difficult to obtain and may be granted only subject to certain conditions.

Accounting, Disclosure and Regulatory Standards

Accounting, financial, and other reporting standards in the countries of the Target Region might not be equivalent to those in the developed countries. Differences may arise in areas such as valuation of properties and other assets, accounting for depreciation, deferred taxation, inventory obsolescence, contingent liabilities, and foreign exchange transactions.

Manager's Carried Interest

The existence of the Manager's carried interest may create an incentive for the Manager to make riskier or more speculative investments than it would otherwise make in the absence of such an arrangement.

Other Obligations of the Manager's Team

Edmund Higenbottam, Managing Director, and a key person, will continue to allocate part of his time to the other activities of Verdant Capital, as well as to the Fund. Members of the Manager's may also have management responsibilities for other funds in the future. Also, as a result of existing investments or activities, the members of the management team may from time to time acquire confidential information that they will not be able to use for the benefit of the Fund.

Overall Investment Risks

An investment in securities issued by the Fund involves a high degree of risk. Prior to investing in the Fund, prospective investors should carefully consider all the information set forth in this PPM and should evaluate all risk factors which, individually or in the aggregate, could have a material adverse effect on the Fund and its investments and the Fund's ability to repay both the principal and the target returns to holders of the securities. As a result of these risk factors, as well as other risks inherent in any investment, there can be no assurance that the Fund will meet its investment objectives or will otherwise be able to carry out its investment program successfully or return any or all of either the distributions to holders of the securities.

Economic Risks

In many target countries, information on the economies is often contradictory or incomplete. Inflation rates have decreased dramatically but remain high compared to more developed economies. In several target countries, large sections of the workforce remain under-employed or unemployed. Continued unemployment could hinder the

ability of various governments to keep control of expenditure and fiscal deficits. In addition, a banking crisis combined with government deficits and/or increased inflation has the potential to cause a rapid decline in the value of the currency in target countries. Such devaluation could have a negative impact on the Fund's performance.

Market institutions have not yet developed in such a way as to allocate resources efficiently among firms. At the micro-economic level, the success of economic reforms in target countries is also difficult to evaluate. Price controls are largely absent, but many firms are squeezed between rising costs of inputs and weak demand for their products.

Management in many enterprises continues to resist economic reform and the full transition to a market-based economy. Enterprises continue to operate under inefficient management structures with little accountability. Capital and advanced technology are in short supply. While basic bankruptcy laws are evolving, there is insufficient experience in many countries to assure that such laws will permit the orderly liquidation of inefficient companies.

Impact of COVID-19 Pandemic

The impact from the unprecedented occurrence of the COVID-19 pandemic has created economic dislocation in African economies, as elsewhere globally, that has created a specific set of risk considerations for financial institutions. The risks created are similar for traditional banking institutions as well for the types of Inclusive Financial Institutions that the Fund is targeting for investment.

These risks include increased credit risks, including from the potentially increased incidence of suspended payments (i.e., debt moratorium measures).

There is also heightened risk of operational risk, specifically due to the fact that finance, credit (i.e., loan officers), and risk management teams for IFIs may be reduced in number and / or the ability to physically visit clients. Furthermore, information systems and home office procedures may weaken the process of closing accounts and internal control environments, especially for IFIs that may not have fully implemented cloud-based MIS / core banking systems with appropriately configured and functioning software plug-ins APIs (i.e., "Application Programming Interfaces"). Relatedly, due to increased reliance upon and time spent online, the risks of fraud and cyber security breaches may also be enhanced.

Lastly, liquidity risk is heightened during this pandemic period given concerns of business continuity and capacity constraints, and the ability of IFIs to access funding either from deposits or from local and international lenders given their potentially more risk averse perception of IFIs.

Ancillary accounting concerns to the aforementioned risks for regulated IFIs include the impact on IFIs of assessment of valuation and fair values, as well as goodwill impairment tests for cash-generating units that were already close to impairment thresholds, and finally the impacts on demand deposit withdrawal and loan early prepayment assumptions.

Foreign Currency, Exchange Rate and Market Risks

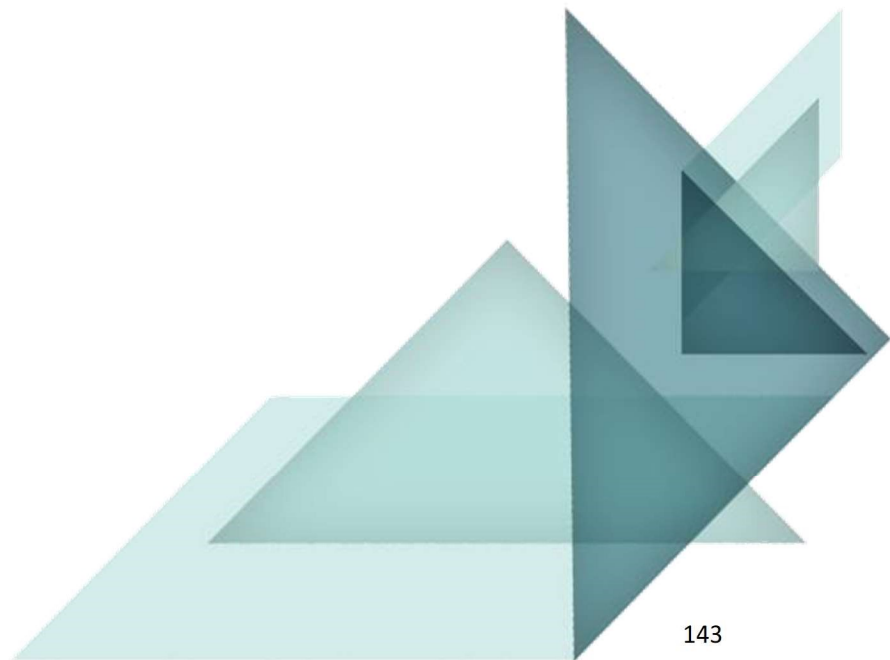
Many investments in investee institutions, and much of the income and gains received by the Fund, will be denominated in foreign currencies. Changes in foreign currency exchange rates may affect the value of securities in the Fund portfolio. Governmental policies in some countries may result in artificially pegged exchange rates that may distort the results of and returns on Fund investments in such countries. Moreover, the Fund will incur costs in connection with conversions between various currencies. As per the investment strategy of the Fund, the Fund will actively manage currency risk through hedging, maximum thresholds applied on open exposure and pricing, but shall not attempt to hedge all currency risks over the long-term.

Tax Treatment

The tax treatment for the Fund of its investments or of the investment in the Fund by Limited Partners may become less favourable, for example as a result of the choice of the Fund's jurisdiction in the Federal Republic of Germany.

THE ABOVE LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OF THE RISKS INVOLVED IN AN INVESTMENT IN THE FUND. PROSPECTIVE INVESTORS SHOULD READ THIS PRIVATE PLACEMENT MEMORANDUM IN ITS ENTIRETY AND CONSULT WITH THEIR OWN ADVISORS BEFORE DECIDING TO ACQUIRE INTEREST IN THE FUND.

Appendix I: Regulatory Framework in Sub-Saharan Africa



Regulatory Framework in Sub-Saharan Africa

Many regulators are implementing Basel II and Basel III standards selectively, and often choosing only to implement selected aspects of these two accords. In many cases, the implementation of selected aspects of the accords is done in concurrence rather than sequentially and often taking a “gradual” approach in order to allow for a smooth transition and to ensure (especially) local banking institutions build the requisite capacity to operate in the Basel environment. The IMF often provides Technical Assistance. For some countries – such as Kenya and Ghana - there is more recent push to adopt the provisions in order to better position themselves as regional financial hubs. However, most regulatory regimes in Sub-Saharan Africa are still principally based on Basel I or at the early stages of adopting or implementing Basel II / III.

Reference to and evaluation of “full” versus “partial” implementation is principally based on the status of implementing three core pillars of the Basel II / III⁵⁰. Additionally, in the case of evaluating Basel III implementation, the evaluation is principally based on which key components have been implemented in terms of the stricter requirements for the quality and quantity of regulator capital, leverage ratio and liquidity measures (i.e., the Net Stable Funding Ratio and Liquidity Coverage Ratio).

Figure LXXX: 20 Largest Economies in Sub-Saharan Africa – Basel II & III Implementation & Timelines

Country	MFIs permitted to take deposits ⁽¹⁾	Nominal GDP (USD Billions)	Basel II	Basel II - Implementation Timeline	Basel III	Basel III - Implementation Timeline
Nigeria	Yes	444.9	Yes	n/m	No	n/a ⁽⁴⁾
South Africa	No	371.3	Yes	n/m	Yes (2013-19)	n/m
Kenya	Yes	109.2	Yes, partial	Implemented Standard Approach	Yes, partial	Currently implementing ⁽²⁾
Ethiopia	Yes	105.0	No	None	No	None
Angola	Yes	92.2	Yes, partial	n/a	Yes, partial	n/a
Ghana	Yes	68.3	Yes, partial	Currently implementing ⁽²⁾	Yes, partial	Currently implementing ⁽²⁾
Tanzania	Yes	61.0	Yes, partial	Currently implementing ⁽²⁾	Yes, partial	Currently implementing ⁽²⁾
DR of Congo	Yes	48.5	Yes, partial	Currently implementing ⁽⁵⁾	Yes, partial	Currently implementing ⁽⁵⁾
Côte d'Ivoire ⁽⁶⁾	Yes	45.3	No	2018-22 (5-year phasing period)	No	2018-22 (5-year phasing period)
Cameroon ⁽⁷⁾	Yes	39.2	No	2020-23	No	2020-23
Uganda	Yes	33.6	Yes, partial	n/a	Yes, partial⁽³⁾	2017 onwards ⁽²⁾
Senegal ⁽⁶⁾	Yes	25.3	No	2018-22 (5-year phasing period)	No	2018-22 (5-year phasing period)
Zambia	Yes	24.6	Yes, partial⁽⁸⁾	None	No	None ⁽⁸⁾
Zimbabwe	Yes	22.3	Yes	n/m	Yes, partial	n/a ⁽⁹⁾
Botswana	Yes ⁽¹⁰⁾	19.7	Yes	n/a	No	None

⁵⁰ The three pillars of Basel II and III are (i) minimum capital, (ii) supervisory review process, and (iii) market discipline.

Mali ⁽⁶⁾	Yes	17.8	No	2018-22 (5-year phasing period)	No	2018-22 (5-year phasing period)
Gabon ⁽⁷⁾	Yes	16.7	No	2020-23	No	2020-23
Mozambique	Yes	15.3	Yes	n/a	No	None
Burkina Faso ⁽⁶⁾	Yes	14.9	No	2018-22 (5-year phasing period)	No	2018-22 (5-year phasing period)
Mauritius	Yes	14.8	Yes	n/a	Yes	n/a

(1) Subject to prudential regulations.

(2) Some not all provisions. In many cases, the countries will only implement major aspects of the accord and have not announced specific timeline or intention to fully implement.

(3) Comprehensively adopted guidelines on capital conservation

(4) No timeline set. Central bank has announced phased approach but not yet set timeline.

(5) The Congolese Central Bank ("BCC") adopted regulations on minimum capital requirements, stricter definitions of capital, and the strengthening of risk measurement and controls in 2019 that were aligned with Basel II and Basel III standards. The BCC provided banks a phased time period adoption and compliance, which was further extended until 2022 (vs. 2021 originally) due to the impact of Covid-19.

(6) As part of the West African Economic and Monetary Union ("UEMOA") region, these countries are supervised by the Central Bank of West African States (Banque Centrale des États de l'Afrique de l'Ouest, or "BCEAO").

(7) As part of the Economic and Monetary Community of Central Africa ("CEMAC") region, these countries are supervised by the Bank of Central African States (Banque des États de l'Afrique Centrale, "BEAC"). BEAC adopted this roadmap for implementation in September 2019, which will be accompanied by IMF technical assistance.

(8) Zambia has been working on implementing Basel II since 2013. There remain challenges to fully implementing all three pillars tailored to the country's circumstances. The work is ongoing (most foreign banks already operate on Basel II/III standards). The original timeline for implementing Basel III was 2021. There is no recent announcement of updated implementation plans for any aspects of Basel III standards by the central bank, though there has been recommendations of such from the IMF.

(9) In 2019, the Reserve Bank of Zimbabwe reported that Basel III cannot be fully implemented despite the commitment of its supervisors due to "...challenges the financial institutions face in implementing the requirements."

(10) Special permission and licensing required to be obtained from MFI regulator.

Sources: BMI Research, The Global Economic Governance Programme, S&P Capital IQ, Alliance For Financial Inclusion (AFI, Aug 2018 implementation survey), Central Bank websites. 2019 GDP data from the IMF.

Figure LXXXI: Regulatory Overview

The following table provides an overview of relevant regulatory frameworks and guidelines as it pertains to investing in IFIs in several key African countries, i.e., minimum capital requirements, permissible activities for MFIs and NBFIs (specifically, deposit mobilization capabilities), as well as a snapshot of the overall banking and MFI / NBFI market structure (i.e., number of key players, sector concentration, categorization/tiering, etc.).

Country	Regulatory Overview
Angola	<ul style="list-style-type: none"> ▪ Central Bank: Banco Nacional de Angola (“BNA”). ▪ Two principal types of regulatory institutions: (i) banking and financial institutions i.e. banks and deposit-taking MFIs, and (ii) NBFIs, i.e. exchange offices and non-deposit-taking microcredit entities, also regulated by the BNA. Payment services entities and asset management/investment companies are under the jurisdiction of Capital Markets Commission. ▪ The minimum regulatory capital for banking financial institutions is AOA 7.5 billion (USD 11.3 million). ▪ Branches of overseas banking institutions considering operating in Angola require authorisation from the BNA.
Botswana	<ul style="list-style-type: none"> ▪ Central Bank: Bank of Botswana. ▪ As of 2017, five banks held 89.5% of total banking assets. ▪ The minimum prudential capital adequacy ratio for banks is 15% with statutory minimum start-up capital of P5 million (USD 443,000). ▪ NBFIs are separately regulated and supervised by the Non-Bank Financial Institutions Regulatory Authority (“NBFIIRA”). As of 2017, there were 324 “non-bank lenders”, of which 214 were micro lenders. There also are 3 pure mobile money operators. ▪ MFIs are principally lenders, needing special regulatory approval to obtain deposit-taking license. Currently, there is only one deposit taking MFI operating. ▪ The minimum capital adequacy ratio for MFIs are 5%.
Burkina Faso	<ul style="list-style-type: none"> ▪ Central Bank: Banque Centrale des États de l’Afrique de l’Ouest, (“BCEAO”), or the Central Bank of West African States, for the 8 countries of the of the West African Economic and Monetary Union (“UEMOA”) region. ▪ 4 banks control approx. 65% of total banking assets, with 13 total banks of significance. ▪ Banking sector supervision and prudential control is principally conducted by the UEMOA Banking Commission, in coordination with the BCEAO. ▪ MFI authorizations are supervised by the country’s Ministry of Finance in combination with the regional Banking Commission, as with other countries in the UEMOA region. All MFIs in the region are licensed under the region-wide MFI law first adopted in 2010. ▪ 153 licensed microfinance entities; MFIs are permitted to take deposits. ▪ For the UEMOA region, there are interest rate caps applied to both banks (reduced from 18% to 15% in 2014) and MFIs (reduced from 27% to 24% in 2014).
Cameroon	<ul style="list-style-type: none"> ▪ Central Bank: Banque des États de l’Afrique Centrale (“BEAC”), or the Bank of Central African States, for the 6 countries of the Economic and Monetary Community of Central Africa (“CEMAC”) region. ▪ The financial institutions sector includes: (i) credit institutions (banks and financial institutions) and MFIs, which are principally under the supervision of the Central African regional Banking Commission (“COBAC”). ▪ There are 15 commercial banks and almost 600 licensed MFIs at last count, though many have been closed down in recent years due to liquidity challenges and incidences of fraud and non-compliance. The two main telco companies, Orange and MTN, are the largest mobile money operators. ▪ MFIs are categories as follows: <u>Category 1</u>: collect savings and loans for its members (i.e., cooperatives, associations, credit unions); <u>Category 2</u>: accepts deposits and lend them on to third parties; <u>Category 3</u>: non-deposit taking MFIs, making loans only. ▪ Minimum regulatory capital for MFIs in <u>Category 2</u> are FCFA 50 million (USD 90 000); in <u>Category 3</u> is FCFA 25 million (USD 45 000), and there is no stipulated capital for <u>Category 1</u> MFIs. ▪ In the CEMAC region, there are interest rate caps on both commercial banks and MFIs, but the cap is specific by types of loans and a calculation of average rates (including fees) over the preceding 6 months. Actual caps for the CEMAC are at the discretion and published by the “conseil national du crédit” in each member country.
Côte d'Ivoire	<ul style="list-style-type: none"> ▪ Central Bank: Banque Centrale des États de l’Afrique de l’Ouest, (“BCEAO”), or the Central Bank of West African States, for the 8 countries of the of the West African Economic and Monetary Union (“UEMOA”) region ▪ There are approx. 20 commercial banks with top 8 banks holding over 60% of total bank assets. ▪ BCEAO minimum CAR for banks is currently 8.625% moving to 11.5% by 2022 under Basel III. ▪ Approx. 70-80 MFIs, mostly small savings and credit cooperatives, but with a few larger microfinance banks owned by international MFI networks (i.e. Advans, Baobab, COFINA). Deposit-taking is permitted by MFIs.

	<ul style="list-style-type: none"> ▪ MFI authorizations are managed by the country's Ministry of Finance in combination with the regional Banking Commission, as with other countries in the UEMOA region. All MFIs in the region are licensed under the region-wide MFI law first adopted in 2010. ▪ For the UEMOA region, there are interest rate caps applied to both banks (reduced from 18% to 15% in 2014) and MFIs (reduced from 27% to 24% in 2014).
DR Congo	<ul style="list-style-type: none"> ▪ Central Bank: Banque Centrale du Congo ("BCC"). ▪ Approx. 17 banks currently, with the five largest banks holding approx. 60% of total banking assets. Several banks have either gone defunct or been acquired. ▪ The minimum regulatory capital for banks was increased to USD 50 M in 2019, with some banks expected to "downgrade". ▪ There 18 licensed MFIs and approx. 79 licensed savings and credit cooperatives, and 4 mobile money operators. ▪ In terms of categorization: <u>Level 1</u> MFIs are very small credit-only institutions, <u>Level 2</u> are larger credit-only MFIs, and <u>Level 3</u> are deposit taking MFIs. ▪ Minimum regulatory capital for <u>Level 1</u> MFIs are USD 15 000; for <u>Level 2</u> MFIs are USD 50 000 and for <u>Level 3</u> MFIs are USD 100 000.
Ethiopia	<ul style="list-style-type: none"> ▪ Central Bank: National Bank of Ethiopia ("NBE"). ▪ Highly concentrated banking sector, with 70% of total bank assets owned by the state-downed bank (Commercial Bank of Ethiopia). 18 total banks, with a minimum regulatory CAR threshold of 8%. ▪ There are 37 licensed MFIs, regulated by the NBE. The Association of Ethiopian MFIs ("AEMFI") is a non-for-profit, established by the NBE, to assist MFIs via advocacy, training, research and monitoring. . ▪ MFIs permitted to take deposits. ▪ The minimum regulatory capital for microfinance institutions is ETB 10 million (USD 265 000). ▪ The financial sector still remains constrained by tight state controls, with commercial banks and MFIs remaining closed to foreign investment (only leasing companies permit investment); All banks, insurance companies and MFIs are fully owned by Ethiopians. ▪ There have been some signs of opening since 2019, with a bill passed to allow the country's diaspora o buy shares in local banks and start lending businesses. In 2019, the NBE also announced that MFIs would be allowed to upgrade into full-fledged banks, setting out eligibility criteria and transformation guidelines.
Gabon	<ul style="list-style-type: none"> ▪ Central Bank: Banque des États de l'Afrique Centrale ("BEAC"), or the Bank of Central African States, for the 6 countries of the Economic and Monetary Community of Central Africa ("CEMAC") region. ▪ There are 8 commercial banks, 16 licenced MFIs and 3 mobile money operators in the country. There are a larger number of unregulated MFIs, but the Ministry of the Economy has worked the past several years to close and freeze non-complying institutions. ▪ MFIs are categories as follows: <u>Category 1</u>: collect savings and loans for its members (i.e., cooperatives, associations, credit unions); <u>Category 2</u>: accepts deposits and lend them on to third parties; <u>Category 3</u>: non-deposit taking MFIs, making loans only . ▪ Minimum regulatory capital for MFIs in <u>Category 2</u> are FCFA 50 million (USD 90 000); in <u>Category 3</u> is FCFA 25 million (USD 45 000), and there is no stipulated capital for <u>Category 1</u> MFIs. ▪ In the CEMAC region, there are interest rate caps on both commercial banks and MFIs, but the cap is specific by types of loans and a calculation of average rates (including fees) over the preceding 6 months. Actual caps for the CEMAC are at the discretion and published by the "conseil national du crédit" in each member country. Gabon is competing with Cameroon for the status of principal regional financial centre for the CEMAC.
Ghana	<ul style="list-style-type: none"> ▪ Central Bank: Bank of Ghana ("BoG"). ▪ The number of banks is currently 23, down from 34 in 2018, largely resulting from BoG's directive to increase minimum capital requirements from GHS 120 million (USD 21 million) to GHS 400 million (~USD 69 million) by end of 2018. Out of the 11 banks exiting the market, three were assessed as insolvent by the BoG and had licenses revoked, while the other six existed or merged with other banks for variety of reasons, including those related to the new requirement. The minimum prudential CAR for banks is 10%, in addition to a minimum 3% "capital buffer". ▪ The BoG also regulates the microfinance sector, with the level of regulation depends on the categorisation of the microfinance sector. The non-profit Microfinance and Small Loans Centre ("MASLOC") and the Ghana Microfinance Institutions Network ("GHAMFIN") support with industry oversight. <ul style="list-style-type: none"> – <u>Tier 1</u>: Rural and Community Banks (RCBs), Finance Houses and Savings & Loan (S&Ls) companies. These institutions collect deposits and are regulated under the Banking Act (2004). – <u>Tier 2</u>: Susu companies and Credit Unions collecting deposits and regulated under the NBFI Act (2008). – <u>Tier 3 and 4</u>: Non-deposit taking, regulated under the NBFI Act (2008).

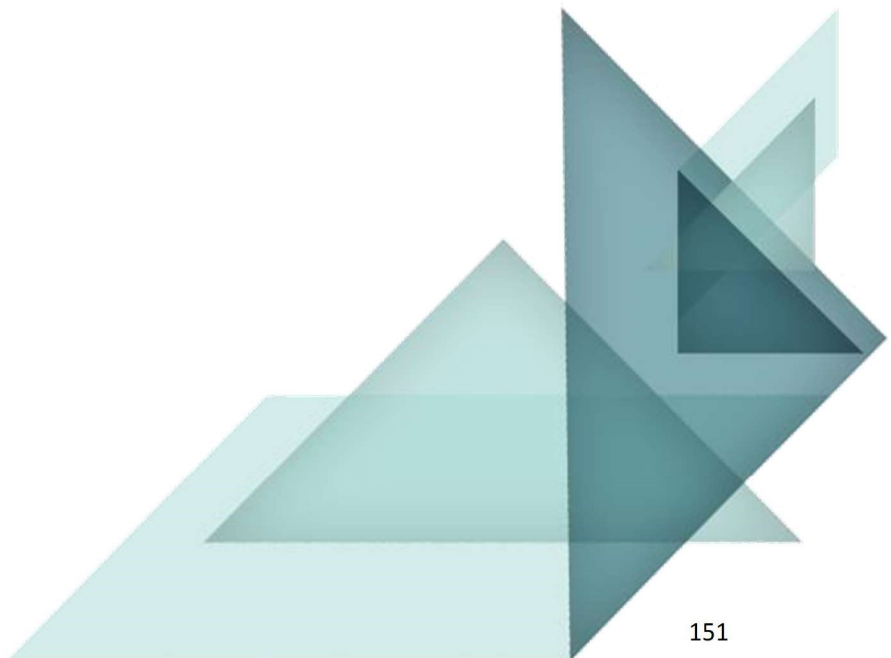
	<ul style="list-style-type: none"> ▪ The minimum regulatory capital is GHS 2 million (USD 344 000) for both deposit-taking and non-deposit taking MFIs; GHS 15 million (USD 2.5 million) for S&Ls; GHS 1 million (USD 172 000) for RCBs. ▪ Currently, there are 144 RCBs, 25 S&Ls and 137 deposit-taking “microfinance” companies, 537 credit unions and 31 non-deposit taking “microcredit” companies (source: GHAMFIN). ▪ There has been similar push by the by the BoG crack down on unregulated and non-compliant MFIs/NBFIs in recent years, in the name of protecting the financial sector stability and especially depositors who may be subject to aggressive practices of these smaller financial institutions. ▪ Minimum capital requirements either have increased (i.e., for microfinance and microcredit companies, RCBs) or are expected to increase (i.e., for S&Ls by 2021). Also, in May 2019, the BoG revoked the licences of nearly 350 microfinance and 40 microcredit companies.
Kenya	<ul style="list-style-type: none"> ▪ Central Bank: Bank of Kenya (“CBK”). ▪ Diverse set of financial players active in MSME credit provision in Kenya, including: 42 commercial banks (Tier 1/2/3), 13 microfinance banks, 160+ SACCOs (cooperative model), 40+ Credit-only MFIs, emerging “nano-lenders” (independent mobile money operators like Branch, Tala but also through banks), as well as insurers, remittance providers, FX bureaus. ▪ With 40+ banks and a population of 53 million, Kenya is one of the more fragmented banking markets in Africa. This factor has led to a degree of consolidation in recent years, with 8 bank mergers/acquisitions since 2014, with 5 notable transactions in 2019 alone. ▪ There are specifically two categories of MFIs: (i) Microfinance Banks (“MFBs”) and (ii) “Credit only” MFIs. <ul style="list-style-type: none"> – MFBs are regulated by the CBK under the Microfinance Act (2006) and the Microfinance (Deposit Taking Institutions) Regulations (2008). The minimum regulatory capital is KSh 20 million (USD 185 000) for a community MFB and KSh 60 million (USD million) for a nationwide MFB (USD 555 000). – “Credit only” MFIs are supervised by the Ministry of Finance and not through the Microfinance Act. The regulatory requirements are minimal, and with no minimum capital requirements. There are drafted new regulations and discussion of a “self-regulatory” structure with possible licensing requirements, under the member-based Association of MFIs in Kenya (“AMFIK”) in association with the Ministry since at least 2016, but nothing has been formally launched yet. There is no formal update on when the regulatory framework may formalize (or any discussion on minimum capital requirements). ▪ The key recent sector development was the 2016 introduction of interest rate caps, ordering banks to limit lending rates to 4% above the key reference Central Bank Rate (“CBR”). There was also a pricing floor imposed on deposit rates, at 70% times the CBR. These restrictions were not placed on regulated MFIs, despite speculation. After local and international pressure (i.e., IMF) and evidence of the negative impact on credit transmission, the caps were repealed in 2019.
Lesotho	<ul style="list-style-type: none"> ▪ Central Bank: Central Bank of Lesotho. ▪ 4 licensed banks: 2 local and 2 foreign (SA Banks: Nedbank and Standard Bank) ▪ 16 licensed microfinance institutions, with 1 licensed credit bureau. ▪ MFIs are split into Tiers: <u>Tier 1</u> (deposit-taking); <u>Tier 2</u> (credit only and has issued a debt instrument on a public exchange or has LSL 10 million/USD 974 000 or more in assets); <u>Tier 3</u> (credit only institutions).
Mali	<ul style="list-style-type: none"> ▪ Central Bank: Banque Centrale des États de l’Afrique de l’Ouest, (“BCEAO”), or the Central Bank of West African States, for the 8 countries of the of the West African Economic and Monetary Union (“UEMOA”) region. ▪ The financial sector consists of 14 commercial banks, 3 non-bank credit institutions, and approximately 120 deposit-taking MFIs, mainly smaller savings, and credit cooperatives (a common MFI business model in Francophone West Africa). ▪ Banking sector supervision and prudential control is principally conducted by the UEMOA Banking Commission, in coordination with the BCEAO. ▪ MFI authorizations are supervised by the country’s local Ministry of Finance, in combination with the regional Banking Commission, as with other countries in the UEMOA region. All MFIs in the region are licensed under the region-wide MFI law first adopted in 2010. ▪ Deposit-taking is permitted by MFIs. For the UEMOA region, there are interest rate caps applied to both banks (reduced from 18% to 15% in 2014) and MFIs (reduced from 27% to 24% in 2014).
Mauritius	<ul style="list-style-type: none"> ▪ Central Bank: Bank of Mauritius (“BoM”). ▪ The Mauritian banking market consisted of 20 commercial banks, including 9 locally owned, and remains concentrated with the 2 largest banks holding approx. 40% share of assets. There are also 6 non-bank deposit-taking institutions with licenses under the BoM, mainly focused on leasing, housing finance and insurance. ▪ Other microfinance-related activities are found under the non-bank financial institutions (non-deposit taking), that are regulated and supervised by the Financial Services Commission (“FSC”). ▪ There is a network of over 150 deposit-taking savings and credit cooperatives providing microfinance activities, overseen, and coordinated directly by the government “Cooperatives Division”.

Mozambique	<ul style="list-style-type: none"> ▪ Central Bank: Banco de Moçambique. ▪ The regulated financial includes 19 commercial banks, 9 micro-banks, 24 exchange bureaus, 3 mobile money service providers, 21 insurance companies and several pension funds. There are 4 savings and credit cooperatives and 69 specialized MFIs. MFIs are permitted to take deposits. ▪ The Banking sector is concentrated with the 5 largest holding 80%+ of total assets. ▪ There two principal Acts pertaining to institutions that perform microfinance-related activities, both under the purvey of the central bank: the “Credit Institutions and Financials Companies Law” 1999 and the “Regulation on Microfinance” (2004). ▪ There are different minimum capital requirements, last updated 2017, for banks and the different types of financial institutions. The most relevant are for: (i) banks (MZN 1.7 billion or USD 23 million), (ii) micro-banks that offer savings and credit (MZN 5 million or USD 68 500), and (iii) leasing companies (MZN 25 million or USD 342 000).
Namibia	<ul style="list-style-type: none"> ▪ Central Bank: Bank of Namibia. ▪ There are 7 commercial banks and 1 branch of a foreign bank, with 4 banks holding over 90% of bank assets. ▪ MSME is activated through banks but also through non-bank financial institutions, which are regulated and supervised by a separate body, the Namibia Financial Institutions Supervisory Authority (“NAMFISA”). There are over 300 such registered micro-lenders, and these MFIs are not permitted to take deposits.
Nigeria	<ul style="list-style-type: none"> ▪ Central Bank: Central Bank of Nigeria (“CBN”). ▪ Currently 22 commercial banks in Nigeria, down significantly from 89 in 2005 as a result of the CBN’s efforts to clean up the sector via increased capital requirements, audits, and other reforms intended to encourage consolidation. ▪ As per the MFI regulatory framework established by the CBN in 2005 (revised in 2011 with guidelines issued 2013), there are 4 types of MFI licenses granted – Unit (Tier 1/T1 v Tier 2/T2) , State, and National, each with different minimum capital requirements. <ul style="list-style-type: none"> – <u>T1 Unit MFI</u>: NGN 100 million (USD 274 000) by April 2020, NGN 200 million (USD 548 000) by April 2021. – <u>T2 Unit MFI</u>: NGN 35 million (USD 99 000) by April 2020, NGN 50 million (USD 137 000) by April 2021. – <u>State MFI</u>: NGN 1 billion (USD 2.7 million). – <u>National MFI</u>: NGN 5 billion (USD 13.6 million). ▪ The CBN has increased minimum capital requirements for all these MFI regulatory levels in recent years in an effort to both clean up and strengthen the sector. ▪ There remain a larger number of microfinance banks across the categories, at over 800. However, only 8 have national coverage, collectively accounting for over 38% of the microfinance sector deposit and loan base. Considering this and the 200+ million, financial inclusion rates remain low.
Senegal	<ul style="list-style-type: none"> ▪ Central Bank: Banque Centrale des États de l’Afrique de l’Ouest, (“BCEAO”), or the Central Bank of West African States, for the 8 countries of the of the West African Economic and Monetary Union (“UEMOA”) region. ▪ The financial sector consists of 28 credit institutions, including 24 commercial banks and 4 financial institutions, 19 insurance companies, and 208 MFIs, most of which are small savings and credit cooperatives. There are a few larger cooperatives (<i>crédit mutuels</i>), and a few larger MFIs owned by international MFI networks (i.e., Baobab, COFINA). ▪ Banking sector supervision and prudential control is principally conducted by the UEMOA Banking Commission, in coordination with the BCEAO. ▪ MFI authorizations are supervised by the country’s Ministry of Economy and Finance, in combination with the regional Banking Commission, as with other countries in the UEMOA region. All MFIs in the region are licensed under the region-wide MFI law first adopted in 2010. ▪ Deposit-taking is permitted by MFIs. For the UEMOA region, there are interest rate caps applied to both banks (reduced from 18% to 15% in 2014) and MFIs (reduced from 27% to 24% in 2014).
South Africa	<ul style="list-style-type: none"> ▪ Central Bank: South Africa Reserve Bank (“SARB”). ▪ Remains highly concentrated banking sector, with the 5 major banks still holding 80%+ of bank assets, out of 10 local, 7 foreign, 3 mutual and 2 cooperative banks alongside nearly 50 branch/rep. offices of foreign banks. ▪ Credit provision governed by National Credit Act (“NCA”/2005), supervising those registered as a “development credit provider.” (non-deposit taking) <ul style="list-style-type: none"> – The NCA applies to all MFIs all retail/consumer driven credit providers and credit bureaus. – The “National Credit Regulator” enforces the NCA. – The NCA caps interest rates at max of SA Repo Rate (“RR”) plus a margin, varying based on the type of loan, i.e., mortgage vs. unsecured credit vs. developmental credit agreements (“DCAs”). “Small business loans” fall under DCA and are currently RR + 27% margin.

	<ul style="list-style-type: none"> – NCA also governs fair lending practices in SA with list of consumer rights including free/plain-language credit agreements, over-indebtedness / debt counselling, non-discrimination, data exchange rights, consumer recourse mechanisms (via the National Consumer Tribunal). ▪ Credit provision is also governed by Acts related to consumer protection + financial intelligence + insurance provision, enforced by the national “Financial Services Board.” ▪ Some MFIs have formed a self-regulatory body, the SA SME Finance Association (“SASFA”), having published a “code of conduct” promoting transparent and responsible lending in the unregulated SME finance sector.
Tanzania	<ul style="list-style-type: none"> ▪ Central Bank: Bank of Tanzania (“BoT”). ▪ There are 61 institutions under the BoT’s supervision: 39 commercial banks, 7 community banks, 2 national DFIs, 5 MFBs banks, 1 mortgage refinance company, 3 leasing companies, and 2 representative offices of foreign banks. There is banking concentration, with the 5 largest accounting for approx. 60% of assets. ▪ At the lower end of the market, there are over 5 000 smaller NGOs and SACCOs, supervised by the Cooperative Development Commission in accordance with the Cooperative Societies Act of 2013. ▪ In 2018 the BoT publicly gave notice of new regulations for various categories of MFIs (the Microfinance Act, 2018). The regulations were finally issued in 3 sub-regulations, referencing and clarifying the original Act. ▪ The regulations that there shall be <u>four tiers</u> of MFIs: <u>Tier 1</u> (banks and microfinance banks), <u>Tier 2</u> (credit only), <u>Tier 3</u> (SACCOs) and <u>Tier 4</u> (community microfinance groups). There will be advisory and supervision support provided to the industry by the Tanzania Association of Microfinance Institutions (“TAMFI”). ▪ MFIs originally had up to 31 October 2020 to comply with the regulatory regime and obtain the appropriate license; the deadline has been extended until 2021 (exact tbd) due to Covid-19 impact. ▪ The minimum regulatory capital requirements now differs per tiers: <u>Tier 1</u>: TZS 5 billion (USD 2.1 million) <u>Tier 2</u>: TZS 20 million (USD 8 700), <u>Tier 3</u>: TZS 10 million (USD 4 300).
Uganda	<ul style="list-style-type: none"> ▪ Central Bank: Bank of Uganda (“BoU”). ▪ There are four tiers of financial institutions covering the entire sector, with the first three tiers regulated/supervised by the BoU: <ul style="list-style-type: none"> – <u>Tier 1</u>: commercial banks, minimum capital UGX 25 billion (USD 6.8 million). – <u>Tier 2</u>: credit establishments, minimum capital UGX 1 billion (USD 272 000). – <u>Tier 3</u>: deposit-taking MFIs (“MDIs”), minimum capital UGX 500 million (USD 136 000). ▪ Amongst the first 3 tiers, there are currently 26 commercial banks, 5 credit institutions and 4 licenced MDIs. There are also 7 licensed mobile money providers and 2 licensed credit bureaus. ▪ <u>Tier 4</u> is the non-bank sector, including credit unions and other MFIs. These are under the supervision of the Uganda Microfinance Regulatory Authority (“UMRA”), and do not accept deposits from the public. These number in the hundreds. ▪ The Association of Microfinance Institutions of Uganda (“AMFIU”) is an member-owned umbrella organisation of MFIs with 125 members as of 2019 providing support to the sector.
Zambia	<ul style="list-style-type: none"> ▪ Central Bank: Bank of Zambia (“BoZ”). ▪ The Financial sector relevant to MSME lending comprises 19 banks, 32 MFIs and 7 leasing companies, 2 building societies, 1 savings and credit bank, and 1 licensed bureau, all under the supervision of the BoZ via the Bank and Financial Services Act (1994). ▪ The banking sector remain particularly concentrated with foreign-owned banks, owning 80%+ of assets. ▪ MFIs are permitted to collect customer deposits. The minimum regulatory capital for a deposit-taking MFI is ZMK 2.5 million (USD 120 000) and for a non-deposit taking MFI is ZMK 100 000 (USD 4 800).
Zimbabwe	<ul style="list-style-type: none"> ▪ Central Bank: Reserve Bank of Zimbabwe. ▪ The Financial sector comprises 21 banks, 209 credit-only MFIs and 8 deposit-taking MFIs, all under the supervision of the Reserve Bank. ▪ The legal framework is well structured, with a separate Banking Act and Microfinance Act. ▪ MFIs are permitted to take deposits. The minimum regulatory capital for a deposit taking MFI is USD 5 million and for a credit-only MFI is USD 25 000 (both in ZWD equivalent). ▪ The Microfinance Act was amended in 2019, extending license validity periods for both types of MFIs and clarifying permissible business types. Capital requirements were not changed. The amendments were in unison with an initiative to create a collateral registry and “encouragement” by the government for sector consolidation in order to “enhance” the performance of MFIs in the sector.

Source: BMI Research, Capital Resources, S&P Capital IQ, Global Legal Insights, Making Finance Work for Africa, The Global Economy, Central Bank and MFI regulatory websites

Appendix II: IPOs in Inclusive Financial Institution Sector



IPOs in Inclusive Financial Institution Sector

In the last 12 years there has only been nearly 30 IPOs in the inclusive financial services sector in the whole of SSA. More recently, the COVID-19 impact (as well as other parallel events such the crash in oil prices and Brexit) has dampened any momentum for IPO listings in Africa as with globally. As one example, pan African lender Bayport Management as well as Nigerian payments business Interswitch each announced in early 2020 delays to their IPO plans.

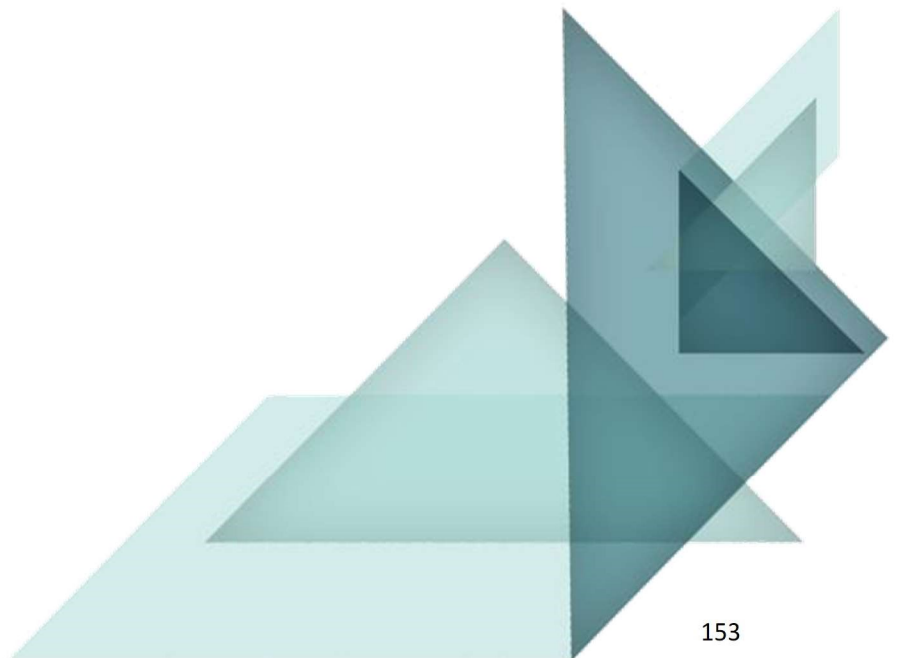
A key lesson is that transaction sizes of USD 30 million or more are required to generate reasonable aftermarket liquidity. The investment by the Fund may be a critical step in an institution “scaling-up” and being more attractive to the IPO market.

Figure LXXXII: IPOs in Inclusive Financial Institution Sector

Date	Status	Institution	Country	Sub-Sector	Transaction Value (USD M)	Average Daily Trading Value (USD M)
Jun-20	Closed	FDH Bank Plc	Malawi	Diversified Banks	18.5	-
Dec-20	Withdrawn	Bayport Management	South Africa (Pan African)	Consumer Finance	80.0	-
Oct-19	Withdrawn	African Export-Import Bank	Egypt (Pan African)	DFI	250.0	-
Nov-18	Closed	African Banking Corporation of Botswana	Botswana	Diversified Banks	33.7	0.003
Oct-18	Closed	Oragroup SA	Togo	Diversified Banks	97.0	0.098
Aug-18	Withdrawn	Energy Commercial Bank	Ghana	Diversified Banks	68.0	-
Dec-17	Closed	Ecobank Cote d'Ivoire	Cote d'Ivoire	Diversified Bank	78.3	0.002
Aug-17	Closed	Letshego Holdings Namibia	Namibia	Consumer Finance / Diversified	13.4	0.001
Feb-17	Closed	I&M Bank (Rwanda)	Rwanda	Regional Banks	10.8	-
Aug-16	Closed	Access Bank (Ghana)	Ghana	Diversified Banks	6.8	0.003
Jul-16	Closed	Société Ivoirienne de Banque	Côte d'Ivoire	Diversified Banks	43.8	0.070
Jun-16	Closed	MyBucks	Luxembourg	Consumer Finance	15.2	0.004
Nov-15	Closed	GetBucks Microfinance Bank Limited	Zimbabwe	Consumer Finance	3.2	-
Jul-15	Closed	Mucoba Bank	Tanzania	Regional Banks	2.3	0.001
Jun-15	Closed	Yetu Microfinance	Tanzania	Consumer Finance	1.4	0.001
Feb-15	Closed	Mwalimu Commercial Bank	Tanzania	Diversified Banks	12.3	-
Oct-14	Closed	Bank of Africa-Senegal	Senegal	Diversified Banks	11.1	0.019
Oct-14	Closed	Mkombozi Commercial Bank	Tanzania	Regional Banks	2.2	0.001
Aug-14	Closed	Madison Financial Services	Zambia	Insurance / MFI	10.1	0.002
Aug-13	Closed	Omoluabi Mortgage Bank	Nigeria	Mortgage Finance	10.0	0.002
Aug-13	Closed	Maendeleo Bank	Tanzania	Diversified Banks	2.5	-
Apr-13	Closed	Capricorn Investment Group	Namibia	Diversified Banks	38.7	0.100
May-12	Closed	Transaction Capital	South Africa	Consumer Finance	83.2	0.273
Jun-11	Closed	Bank of Kigali	Rwanda	Diversified Banks	63.0	-
Jan-10	Closed	Bank of Africa - Côte d'Ivoire	Côte d'Ivoire	Diversified Banks	6.0	0.024
Mar-09	Closed	CRDB Bank	Tanzania	Diversified Banks	14.2	0.130
Oct-08	Closed	The Co-operative Bank of Kenya	Kenya	Diversified Banks	69.2	0.254
Sep-08	Closed	UT Bank	Ghana	Diversified Banks	23.7	0.001
Sep-08	Closed	Zambia National Commercial Bank	Zambia	Diversified Banks	31.1	0.827
Jul-08	Closed	National Microfinance Bank	Tanzania	Diversified Banks	50.6	0.004
May-08	Closed	DCB Commercial Bank	Tanzania	Diversified Banks	4.4	0.002
Jun-07	Closed	Finbond Group	South Africa	Consumer Finance	20.6	0.041

Source: S&P Capital IQ, SNL

Appendix III: Exclusion Lists



EIB Exclusion List

The MFIs may neither directly nor indirectly engage in any excluded activities (“**Excluded Activities**”), nor provide loans to Final Beneficiaries whose business is substantially part of the following fields being classified as Excluded Activities:

- Production or activities involving forced labour or child labour;
- Production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements;
- Production of or trade in weapons and munitions (any investment associated with weapons and munitions, including sporting firearms, defence systems, military installations, military equipment including uniforms, and the training and physical support of military personnel);
- Trade in wildlife or wildlife products regulated under CITES;
- Production or use of or trade in hazardous materials such as radioactive materials, unbounded asbestos fibres, products containing PCB’s and chemicals subject to international phase-outs or bans;
- Any investment associated with the handling or treatment of toxic waste;
- Commercial logging operations or the purchase of logging equipment for use in a primary forest or forest areas with a high biodiversity value, nor any other activities that lead to substantial clear cutting of such forests.
- Production of or trade in pharmaceuticals subject to international phase-outs or bans;
- Production of or trade in pesticides or herbicides subject to international phase-outs or bans;
- Production of or trade in ozone depleting substances subject to international phase out;
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length;
- Production of substances and products containing asbestos;
- Mining companies using mercury;
- Gambling (including gaming, games of chance, casinos etc.);
- Tobacco and alcoholic beverages (at any stage from growing to retailing);
- Real estate (except for commercial and industrial real estate to be made available through long leases);
- Pornography;
- Domestic Housing;
- Public Administration;
- Social Welfare;
- Professional and Trade Bodies, Trades Unions, etc; and
- Production or trade in any product or activity deemed illegal under host country laws or regulations or intentional conventions and agreements.

Source: EIB, latest available.

IFC Exclusion List

The IFC Exclusion List defines the types of projects that IFC **does not** finance. This list is the following:

- 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 bans, such as pharmaceuticals, pesticides or herbicides, ozone depleting substances, PCB’s, wildlife, or products regulated under CITES.
- Production or trade in weapons and munitions⁽¹⁾.
- Production or trade in alcoholic beverages (excluding beer and wine)⁽¹⁾.
- Production or trade in tobacco⁽¹⁾.
- Gambling, casinos, and equivalent enterprises⁽¹⁾.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibres. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

A reasonableness test will be applied when the activities of the project company would have a significant development impact, but circumstances of the country require adjustment to the Exclusion List.

All financial intermediaries (FIs), except those engaged in activities specified below, must apply the following exclusions, in addition to IFC's Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labour⁽²⁾ or harmful child labour⁽³⁾.
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.

When investing in **microfinance** activities, FIs will apply the following items in addition to the IFC Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labour⁽²⁾ or harmful child labour⁽³⁾.
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

Trade finance projects, given the nature of the transactions, FIs will apply the following items in addition to the IFC Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labour⁽²⁾ or harmful child labour⁽³⁾.

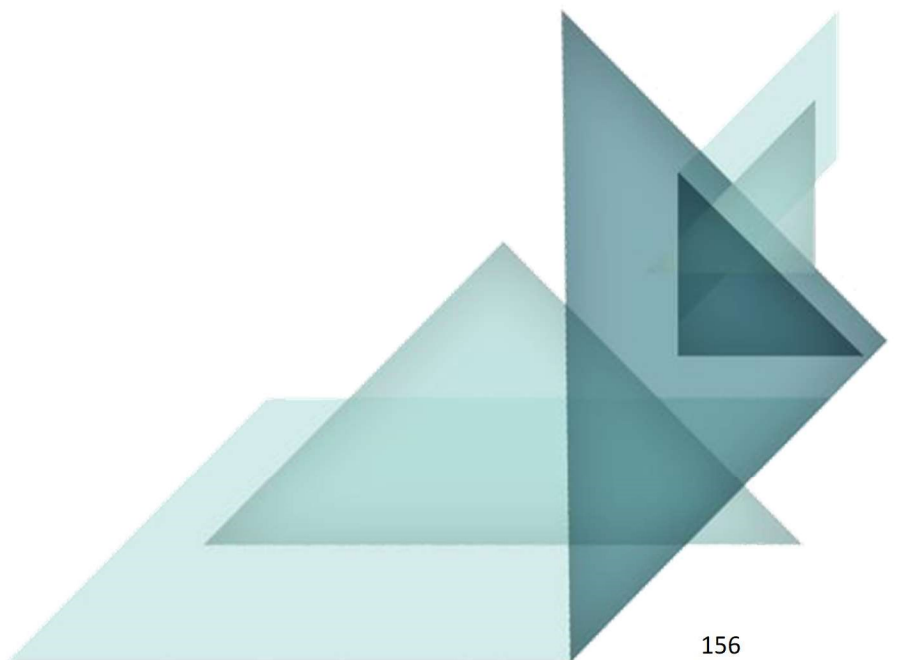
(1) *This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.*

(2) *Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.*

(3) *Harmful child labour means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.*

Source: IFC Website, section on Sustainability and "ESG Resources for Companies."

Appendix IV: Accounting, Valuation and Reporting



Accounting, Valuation and Reporting

Figure LXXXIII: Accounting Valuation and Reporting

Funds Internal Accounting	<ul style="list-style-type: none"> ▪ Internal accounting will be outsourced to the Fund Administrator. ▪ The Fund operates under the IFRS accounting principles.
Reporting	<ul style="list-style-type: none"> ▪ The Fund will provide each investor with: <ul style="list-style-type: none"> – Audited financial statements once per year and no later than three months after the year-end; – A quarterly investment report (four times a year) within 45 days of the quarter end. The reports shall contain a narrative and financial update on investment and divestments of the Fund during the period, together with a general overview of the economic environment of the Target Region; and – A summary valuation report on investments twice per year (usually together with the audited financial statements (within three months of the year end) and the unaudited half yearly financial statements (within 45 days of the half year)). – However, in the event that there is a substantial change in the value of one investment at the end of a quarter, the Manager may review the value of this investment in the quarterly investment report even if it is not a quarter where a valuation exercise has been carried out.
Valuation Procedure	<ul style="list-style-type: none"> ▪ The valuation will be consistent with IFRS and European Venture Capital Association (“EVCA”) guidelines and will be performed in accordance with the International Private Equity and Venture Capital (“IPEV”) Valuation Guideline. ▪ The valuation of the Fund’s investments will be carried out semi-annually by the Manager and approved by the Advisory Committee. The end of year valuation shall be audited by the external auditors.
Non-Financial Information	<ul style="list-style-type: none"> ▪ This will form part of the legal documentation with the portfolio company who will have a duty to report any such event within a certain timeframe and same shall be communicated to the LPs within 5 days of receiving the information from the Investee company.
Internal Audit Function	<ul style="list-style-type: none"> ▪ Shall be implemented in-line with international best practice and statutory requirements in Germany.
ESG / Social Performance	<ul style="list-style-type: none"> ▪ This component of the reporting is critical given the mission of the Fund and is discussed in an earlier sections.

Figure LXXXIV: Accounting treatment

Financial assets	Description	Accounting under IFRS 9
Subordinated debt provider	<ul style="list-style-type: none"> 6-year coupon loan with option to call back after 4 years Provide financing to non-deposit-taking IFIs, such as MFIs . No option to convert to equity. 	<ul style="list-style-type: none"> Loan receivable - to assess business model for the classification of the financial asset. If solely held for collecting cash flows - to be accounted at amortised cost. Since the loan has a call option, this is a derivative - If separately identifiable, the derivative should be fair valued through P&L.
Basel II & Basel III T2C (Tier 2 Capital)	<ul style="list-style-type: none"> 7-year coupon loan with option to call back after 5 years - cash payment. No option to convert to equity. 	<ul style="list-style-type: none"> Loan receivable - to assess business model for the classification of the financial asset. If solely held for collecting cash flows - to be accounted at amortised cost. Since the loan has a call option, this is a derivative - If separately identifiable, the derivative should be fair valued through P&L.
Hold coy debt	<ul style="list-style-type: none"> 6-year structurally subordinated coupon loan with call option - cash payment. No option to convert to equity. 	<ul style="list-style-type: none"> Loan receivable - to assess business model for the classification of the financial asset. If solely held for collecting cash flows - to be accounted at amortised cost. Since the loan has a call option, this is a derivative - If separately identifiable, the derivative should be fair valued through P&L.
Basel II - AT1C (Additional Tier 1 Capital)	<ul style="list-style-type: none"> Perpetual maturity. Call option at 5 years. Convertible to ordinary shares at year 5 if not called. Force to market option at year 5 or 6. Combination of cash pay and accrued in initial three years. 	<ul style="list-style-type: none"> To be accounted as FVOCI.

Appendix V: Glossary

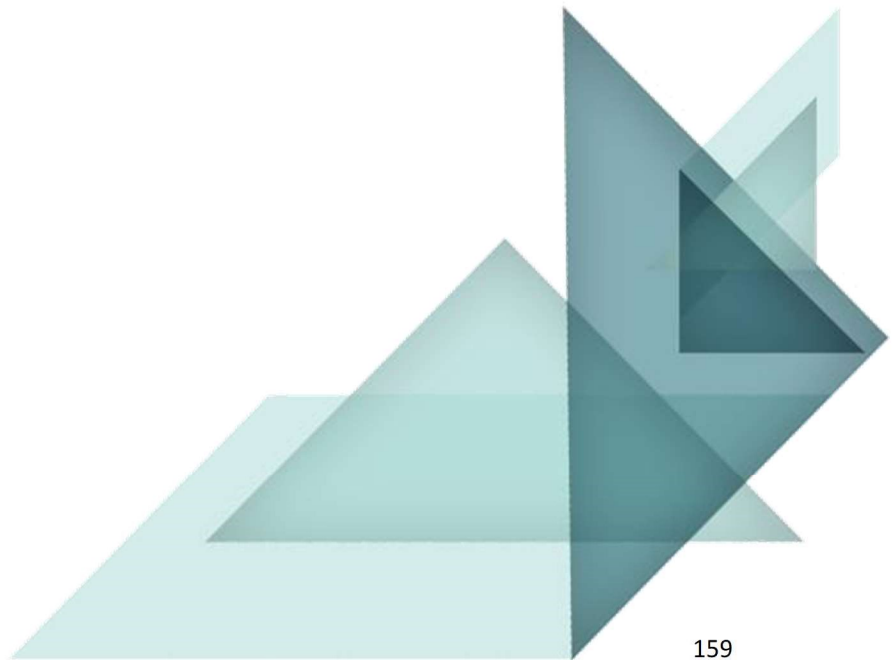


Figure LXXXV: Glossary

Abbreviation	Full Form
AC	Advisory Committee
Administrator	The person acting as the administrator of the Fund, which in this case is [Vistra (Germany) GmbH]
AfCFTA	African Continental Free Trade Area agreement
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AML	Anti-Money Laundering
API	Application Program Interface
AT1C	Additional Tier 1 Capital
AUM	Assets Under Management
BaFin	Federal Financial Supervisory Authority of Germany
BB-BEE	Broad-based Black Economic Empowerment
BBS	Botswana Building Society
BCEAO	The Central Bank of West African States
BEAC	The Bank of Central African States
BoB	Bank of Botswana
BoP	The Bottom of the Pyramid
BSc	Bachelor of Science
BWP	Botswana Pula
CAR	Capital Adequacy Ratio
Carry Vehicle	An affiliate of the General Partner entitled to receive carried interest from the Fund
CBS	Core Banking System
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CEMAC	The Economic and Monetary Community of Central Africa
CFA	Chartered Financial Analyst
CFC	Controlled Foreign Company, as defined in the republic of Mauritius
CFT	Combating the Financing of Terrorism
CFO	Chief Financial Officer
CGAP	The Consultative Group to Assist the Poor, a global partnership of more than 30 leading development organisations that works to advance the lives of poor people through financial inclusion
CIP	Clearance-in-Principle
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CP	Condition Precedent
CPI	Consumer Price Index
CV	Curriculum Vitae
CPP	Client Protection Principles
CRS	Common Reporting Standard, as developed and defined by the Organisation for Economic Co-operation and Development, or “OECD”
CSR	Corporate Social Responsibility
CwA	The G20 Compact with Africa, initiated under the German G20 Presidency to promote private investment in Africa
DD	Due Diligence
DFC	Development Finance Corporation
DFI	Development Finance Institution
DRC	Democratic Republic of Congo
EIB	European Investment Bank
e-MFP	European Microfinance Platform
EMPEA	Emerging Markets Private Equity Association
ESG	Environmental Social and Governance

EUR	Euro
EVCA	European Venture Capital Association
FATF	Financial Action Task Force also known by its French name, Groupe d'Action Financière, is an intergovernmental organisation founded in 1989 on the initiative of the G7 to develop policies to combat money laundering
FI	Financial Institution
Final Closing	The last date for admission of investors in the Fund no later than 12 months from the First Closing
First Closing	The date of admission of the first investors in the Fund
FoF	Fund of Funds
FATCA	Foreign Account Tax Compliance Act, a 2010 U.S. federal law pertaining to disclosure of information by non-U.S. foreign financial institutions on their customers with regards to indications of a connection to the U.S.
FDI	Foreign Direct Investment
FICA	The Financial Intelligence Centre Act of South Africa
Fintech	Financial Technology Companies
Firm	Verdant Capital Limited, also referred to throughout the PPM as “Verdant Capital”
FSC	The Financial Services Commission of Mauritius
FSCA	The Financial Sector Conduct Authority
FSP	Financial Services Provider
Fund	Verdant Capital Hybrid Fund LP
FVOCI	Fair Value through Other Comprehensive Income, one of three classification categories for financial assets under IFRS 9 that is applicable to debt instruments.
FX	Foreign exchange
GBC	Global Business Company
GDP	Gross Domestic Product
General Partner, or GP	GmbH to be incorporated in Germany.
GHS	Ghana Cedi
GIIN	The Global Impact Investing Network, a global impact investment network and membership organisation.
HNWI	High Net Worth Individual
IC	Investment committee
IFC	International Finance Corporation
IFIs	Inclusive Financial Institutions
IFRS	International Financial Reporting Standards
IGA	Intergovernmental Agreement
ILPA	The Institutional Limited Partnership Association
IM	Information Memorandum
IMF	International Monetary Fund
Investment Proceeds	Cash proceeds returned to the Fund by investee institutions companies realised on the disposition of the investments, net of expenses relating to such disposal, and cash dividends or interest realised on the Fund’s investments (interest and preference share dividends derived from investments)
IPEV	The International Private Equity and Venture Capital Valuation
IPO	Initial Public Offering
KAGB	German Investment Code for Investment management, fully known as the “Kapitalanlagegesetzbuch”
KES	Kenyan Shilling
KfW	KfW Entwicklungsbank, the German DFI
KYC	Know Your Client
LI	Low Income, according to the World Bank Income Index definitions
LIBOR	London Interbank Offered Rate
LMI	Lower Middle Income, according to the World Bank Income Index definitions
LP	Limited Partner

LPA	Limited Partnership Agreement of the Fund
M&A	Mergers & Acquisitions
MAIN	The Microfinance African Institution Network
Manager	Means a person appointed to originate and manage investments of the Fund and will be a GmbH to be incorporated in Germany.
ManCo	German limited liability company set up to serve the role of a capital management company (or “KVG”) that will be registered with BaFin as a “sub-threshold” AFIM in order to serve as the role of the GP or Manager in the overall Fund Structure to be set up in Germany
Memorandum	Means this Private Placement Memorandum
MENA	Middle East and North Africa
MFI	Microfinance institution, herein used a general term for an Inclusive Financial Institution
MFB	Microfinance Bank
MFW4A	Making Finance Work for Africa
MIS	Management Information systems
MIV	Microfinance Investment Vehicle
MIX	Microfinance Information Exchange
MRA	The Mauritian Revenue Authority
MSMEs	Micro, Small and Medium-Sized Enterprises
n/a	Not applicable
NBFI	Non-Banking Financial Institution
NDA	Non-Disclosure Agreement
NED	Non-Executive Director
Norsad	Norsad Finance Limited, the DFI focusing on Southern Africa
OECD	Organisation for Economic Co-operation and Development
P/B	Price-to-book ratio
P/E	Price-to-earnings ratio
PAIF	The Symbiotics Private Asset Impact Fund
PAR	Portfolio at Risk, with “PAR30” referring to Portfolio at Risk which means the percentage of the gross loan portfolio for all open loans that is overdue by more than 30 days
PCN	Pre-Clearance Note
PE	Private Equity
PPM	Means this Private Placement Memorandum
PRI	UN Principles for Responsible Investment
RFF	The Responsible Finance Forum
RWA	Risk Weighted Assets
SDGs	United Nations Sustainable Development Goals
S&P	Standard & Poor’s
SA-NCC	South African-Nigeria Chamber of Commerce
SAVCA	Southern Africa Venture Capital and Private Equity Association
SME	Small and Medium-sized Enterprise
SPI4	Social performance assessment tool, designed by CERISE and Social Performance Task Force to measure implementation of the Universal Standards for Social Performance Management, including the Smart Campaign Client Protection Principles
SPTF	The Social Performance Task Force, a global membership organisation that works to advance social performance management (SPM) for the impact investment industry worldwide
SPV	Special Purpose Vehicle
SRI	Socially Responsible Investor
SSA	Sub-Saharan Africa
TA/TAF	Technical Assistance / Technical Assistance Facility
T1C	Tier 1 Capital
T2C	Tier 2 Capital
T-bill	Treasury bill
TMT	Technology, Media & Telecommunications

UBO	Ultimate Beneficiary Owner
UEMOA	The West African Economic and Monetary Union
UK	United Kingdom
UMI	Upper Middle Income, according to the World Bank Income Index definitions
U.S.	United States
USAID	United States Agency for International Development
USD	United States Dollar
Verdant Capital	Verdant Capital Limited, also referred to throughout the PPM as the “Firm”
VAT	Value Added Tax
WASH	Water, Sanitation and Hygiene
XAF	Central African Franc currency, the currency of the six independent states in Central Africa: Central African Republic, Chad, Republic of the Congo, Equatorial Guinea and Gabon
XDS	Xpert Decision Systems
XOF	West African Franc currency, the currency of eight independent states in West Africa: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo
ZAR	South African Rand