

TÇX



Environmental & Social Guidelines

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1. Introduction

This document in its approved version will serve as the Environmental & Social ('E&S') Guidelines of TCX N.V. ('TCX' or 'the Fund') from the date of its approval until replaced by a new approved version. The E&S Guidelines complement the Fund's Investment Guidelines and Risk Charter as approved by the shareholders of TCX. These documents stipulate that TCX shall apply minimum E&S standards to its counterparties, which are defined in these E&S Guidelines.

1.1. Request for change or addition

The institutions performing the governance of this document include:

- TCX's Fund Manager and statutory director (TCX Investment Management Company BV – 'TIM') responsible for the overall portfolio and risk management of the Fund, and its back-office functions including Fund administration and valuation;
- The Fund's Risk Management Committee ('RISKCO'), responsible for policy and day-to-day matters relating to risk and asset and liability management;
- The Fund's Supervisory Board ('Supervisory Board' or 'SB'), responsible for overseeing the above.

This document is reviewed at least on a bi-annual basis, or earlier if needed. Any SB or RISKCO member can initiate an interim request for change.

1.2. Approval or proposed amendments

Change requests on the E&S Guidelines require the approval of RISKCO and the Supervisory Board.

1.3. Administration of updates

TIM is responsible for the administration of approved updates and the prompt dissemination of newly approved versions to the relevant operational partners of the Fund, as well as placement on the Fund's systems (including the Fund's website accessible to shareholders and the internal operational document management system, Sharepoint).

2. Objective

TCX's mission is to hedge the currency and interest rate risks of investors and borrowers in illiquid emerging and frontier markets, thereby contributing to more sustainable development in those markets.

Due to its developmental mission and an investor base with a similar focus on sustainable development, the desire to encourage economic development in a sustainable manner is an important consideration in TCX's Primary Investment decision-making process. Consequently, TCX strives to meet high environmental and social (E&S) standards when fulfilling its role and the objective of this policy is to ensure that TCX will only enter into Primary Investments that support sustainable business practices. This policy objective furthermore seeks to protect the reputation of TCX and – through their involvement with TCX – that of its investors.

This policy is tailored to the indirect nature of TCX's business: there is no E&S risk in the derivatives themselves, only in the underlying business activities supported with the hedge. TCX provides hedging services to DFIs, MIVs commercial banks, or non-bank financial institutions for the purpose of hedging the funding they provide to the emerging market borrower (Primary Investments), in which case TCX has no relation with the end-client that should adhere to the E&S standards. Our counterparty is the one that assesses the end-client and requires certain E&S standards from it. As such, TCX's policy only applies to Primary Investments and focuses on assessing whether our counterparties have appropriate E&S management systems in place. TCX may also enter into a hedging relationship with an emerging market end-borrower directly, in which case there is a direct relationship with the end-client who is exposed to potential E&S risks. This is separately highlighted in the policy.

3. Policy overview

This policy aims to outline a clear and linear process to provide all the elements necessary for the fund to take an informed decision on whether the potential counterparty meets TCX's E&S requirements and therefore is eligible to have access to the fund's services. The process is divided in four main phases:

- Ensure compliance with the TCX Exclusion List (Paragraph 4);
- Assess the counterparty activity's level of risk (Paragraph 5); indeed, TCX is expected to analyze each counterparty's area of operations to identify potential E&S-related risks;
- Set the standards that the counterparty is expected to apply (Paragraph 6) to mitigate such risks in an effective way;
- Complete the evaluation of the counterparty's existing E&S risk management system (Paragraph 7) referring to the applicable standards.

While TCX could normally provide its services to a wide range of counterparties, the policy presents a standard procedure that then can slightly differ depending on the different type of organization (Paragraph 8). Indeed, TCX provides its Primary Investments to:

- i. development finance institutions such as multilateral development banks or asset managers' funds which are or aim to become shareholders in TCX;
- ii. development finance institution's assignees meaning mostly funds invested in by TCX's shareholders;
- iii. financial and non-financial institutions which can for example be operating companies, corporates, microfinance institutions, private equity funds or specific project companies. These institutions will be shareholders' direct clients for which a shareholder acts as their sponsor;
- iv. commercial network banks;
- v. financial or non-financial institutions which are not related to any shareholder in TCX.

4. Exclusion List

As clearly stated in the TCX Investors Agreement, the Fund will not make Primary Investments for the purpose of hedging projects that are on the Exclusion List. TCX will always need to ensure this is adhered to, irrespective of the type of counterparty. Counterparties are required to confirm to TCX that the underlying loans are not related to projects on the Exclusion List or in case of non-FIs that the counterparty is not involved in any activities on the Exclusion List. The standard implementation is via an ongoing, counterparty-wide representation in the ISDA. For certain types of counterparties deviating implementation procedures apply. If a counterparty has an existing Exclusion List in place that is substantially the same as that of TCX, this can be accepted as reference list.

5. E&S Risk Assessment

TCX faces different levels of E&S risks arising from the wide range of industry sectors where its counterparties' clients operate in. Indeed, clients of TCX's counterparties operate in very different sectors and they could face significant risks that need to be mitigated efficiently. To address the diversity of such potential risks, TCX's risk assessment aims to classify counterparties' investment portfolios or in case of non-FIs their own operations in three levels of E&S risk: high, medium and low.

For financial institutions this assessment will be conducted by analyzing the sector split of the counterparty's investment portfolio, and classify it accordingly:

- Counterparties whose investment volume in high risk sectors exceed 20% of its portfolio are classified as high risk;
- Counterparties whose investment volume in high risk sectors is between 0 - 20% of its total portfolio are classified medium risk;
- Only counterparties whose operations are exclusively in low risk sectors are considered low risk.

For non-financial institution, the assessment will begin with the identification of its sector of activities. As most non-financial institutions have a single sector of activities, the on-line list available on the World Bank website (link below) will serve for this scope and will allow the risk classification.

The table below summarizes the sector classification that is applied to the counterparty's portfolio, and a more detailed list is available on: <https://firstforsustainability.org/risk-management/risk-categorization-table/>

Risk Levels	Activity Sectors
High	Sectors with potential significant adverse impact on the environmental or local communities: Mining, oil & gas, infrastructure, energy, large-scale agriculture, hazardous waste or chemicals
Medium	Sectors with potential limited adverse impact on the environmental or local communities: Manufacturing, telecom (not infrastructure), small-scale agriculture, SME financing
Low	Sectors with minimal or no adverse impact on the environmental or local communities Microfinance, consumer finance, ICT, education

6. Applicable E&S Standards

Through this methodology TCX aims to link each counterparty's E&S risk assessment to the respective applicable standards. TCX works on the basis that such standards can effectively mitigate the risk arising from the counterparty's operations. TCX has selected IFC Performance Standards as the most adapt to mitigate E&S risks arising from investments in high-risk activities. For medium and low risk activities instead, TCX will refer to the applicable local regulation of the underlying client (labor law and environmental principles in particular) as benchmark. The table below summarizes applicable standards based on the counterparty's risk levels.

Risk Levels	Applicable Standards for Counterparties' Investments
High	IFC Performance Standards
Medium	IFC Performance Standards for high risk activities and Local regulation for medium risk activities
Low	Local regulation

7. *E&S Policy Assessment*

Non-compliance with applicable standards means that a potential counterparty will be refused access to TCX's services for Primary Investments, until the standards are fully adopted through an adequate E&S policy.

For financial institutions, based on the findings of the counterparty's risk assessment, TCX will evaluate the existing E&S policy to verify that the applicable standards are adopted, and – if needed – assess the capacity of the counterparty to implement it.

For non-financial institution, due to the potential complexity of the analysis, an external consultant will be hired to conduct the assessment.

- The absence of an E&S policy will cause TCX to halt the onboarding process;
- The non-adoption of the applicable E&S standards will cause TCX to halt the onboarding process;

The adoption of applicable standards within a comprehensive E&S policy will allow TCX to approve the counterparty and move on in the onboarding process.

8. *Procedural Specificities based on Counterparty's type*

As mentioned in the paragraph 3, for few types of counterparty, the applicable procedure differs. Differences are meant to address the specificities of the relationship with different types of counterparties and to ensure alignment with TCX's investor in case of a relationship supported by them.

The standard procedure is the one to on-board development finance institution or funds as TCX shareholders; this procedure requires an ongoing, institution-wide Exclusion List representation, an E&S risk assessment and evaluation of the counterparty's existing E&S policy to lead to its approval or refusal. For the other three counterparty's types TCX procedure will have the following specificities:

- For Assignees as well as other parties that have a direct relationship (equity or debt) with an Investor and there for which parties the Investors willing to sponsor the counterparty towards TCX the following applies. Since the Investor's E&S policy has already been approved by TCX, alignment is sought with the Investor's E&S requirements and duplication of work is avoided. The requirement for an ongoing Exclusion List representation still applies, but the way in which this is formulated (e.g. entity-wide or on a look-through basis) will be aligned with that of the Investor. An E&S Risk Assessment is required, but no evaluation of the E&S policy is conducted. The client will instead need an ongoing representation in the ISDA to confirm its compliance with the E&S requirements of the Investor.
- For Network Banks the relationship often starts for hedging or trading purposes, and only with some banks opportunities for Primary Investments arise over time. The timing of application of this E&S policy is therefore shifted and E&S clearance needs to be obtained prior to entry into Primary Investments before the transaction can classify as such. It is furthermore acknowledged that these types of banks typically have a wide scale operation across many countries globally. Therefore, institution-wide representations or policies are generally not realistic to expect, neither is it market-standard to obtain legally binding representations as part of an ISDA on such matters. At the same time, particular attention is required in working with network banks as TCX puts its reputation (and the one of its shareholders) at-risk as these counterparties are more often engaged in high-risk activities. The following deviations are therefore defined: (i) Instead of an ongoing counterparty-wide exclusion list representation, a confirmation is required for every individual Primary Investment, to be received by email from

the counterparty. (ii) The E&S risk assessment will be conducted on the sectors of the targeted Primary Investments, which will ensure TCX applies the relevant risk categorization as the Primary Investments are generally related to higher risk project finance activities. (iii) the Equator Principles are applied as applicable standard for high risk activities, since this is the market standard among commercial banks for project finance.

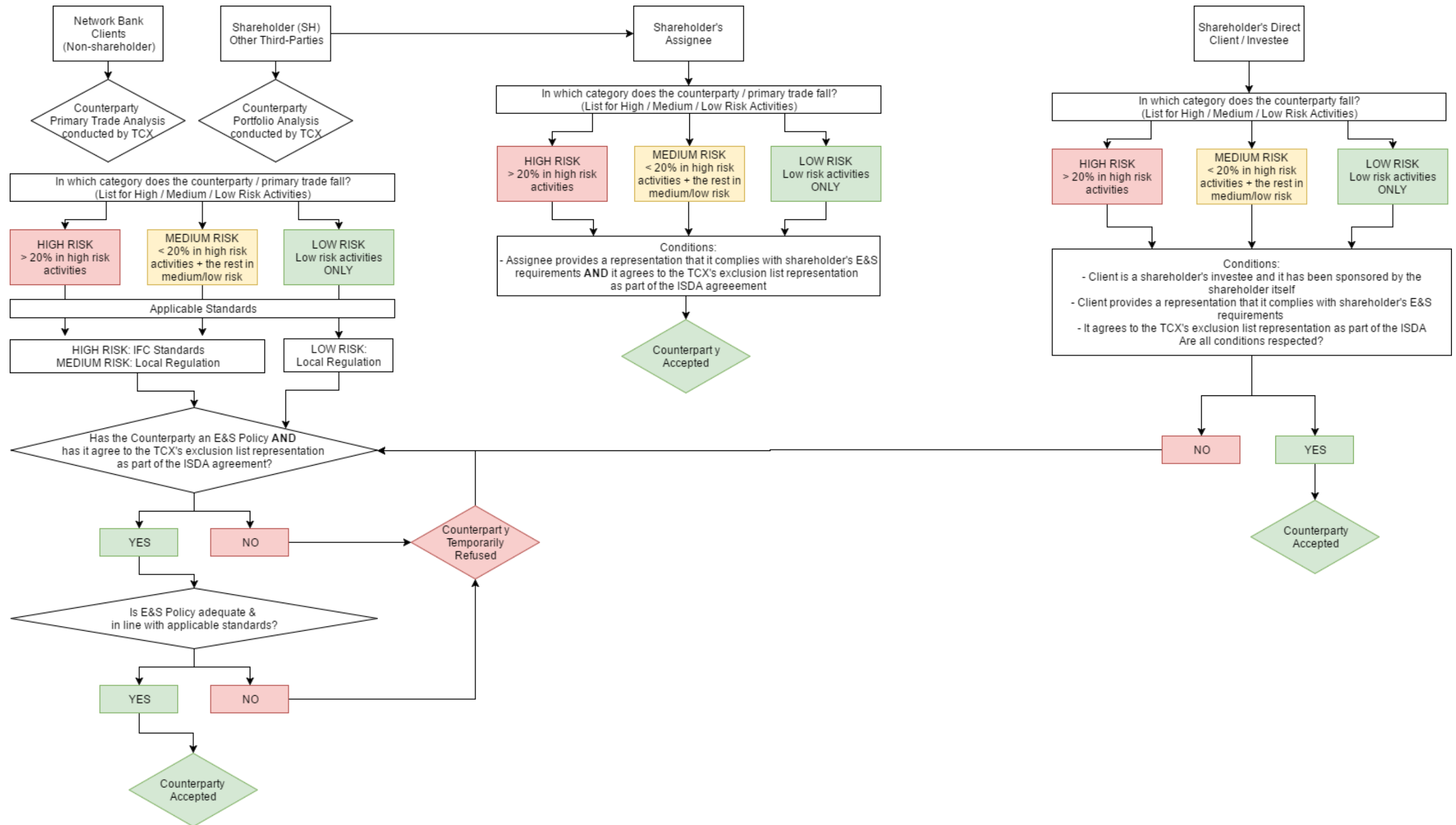
9. *Implementation*

The implementation of the E&S guidelines will be part of the on-boarding process for new counterparties and therefore included in the risk analysis presented in RISKCO.

Counterparties' relationship officers/managers will conduct the analysis for financial institutions or engage with a consultant for an analysis of non-financial institutions, and present conclusions to RISKCO. TCX Operations will review the analysis and provide feedback when necessary. For Network Banks the analysis will be conducted by TIM Operations, because the process is disconnected from the initial onboarding and relationship management lies with the Trading team.

In order for all the teams involved to have the necessary competences to conduct the different analysis' steps, TCX will organize specific in-house trainings on E&S standards and policies.

10. Process Flow Chart



Annex: Exclusion List

TCX will not make Primary Investments for the purpose of hedging the following projects:

- 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/herbicides, ozone depleting substances, PCBs, 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 it can be demonstrated that the radioactive source is trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. 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.
- Production or activities involving harmful or exploitative forms of forced labor² or harmful child labor.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.

For microfinance projects, the following items will apply in addition to the above:

- 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.

1 This does not apply to companies who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a company's primary operations.

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

3 Harmful child labor 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