



WATERCREDIT

Impact Policy

November 28, 2022



WaterCredit Impact Policy

PURPOSE AND SCOPE

The WaterCredit, LLC (“WaterCredit”) Impact Policy (the “policy”) presents the policies under which WaterCredit integrates impact into the investment life cycle to ensure WaterCredit-managed investment funds maximize impact for water and sanitation alongside other portfolio considerations, such as financial return, risk, and geographic allocations.

IMPACT OBJECTIVES

WaterCredit-managed funds invest in financial institutions, enterprises, and infrastructure in emerging markets, delivering access to safe water and sanitation to low-income communities while offering an attractive risk-return profile to investors. WaterCredit investments accelerate water and sanitation access within target markets, contributing directly to Sustainable Development Goal (“SDGs”) 6: clean water and sanitation.

WaterCredit allocates all capital towards solutions to the global water crisis with a focus on three impact areas:

- **Access: SDG6.1 and 6.2 (universal access to safely managed water and sanitation)** Access to safe, reliable water and sanitation is a human right. But globally, 2 billion people lack safely managed drinking water, and 3.6 billion people lack safely managed sanitation.
- **Quality: SDG6.3 (improve water quality)** Closely tied to safe access to water and sanitation is the issue of water quality. In emerging markets, the majority of municipal and industrial wastewater is discharged untreated, leading to severe pollution which in turn compromises safe water access.
- **Scarcity: SDG6.4 (address water scarcity)** Demand for water is increasing from cities, agriculture, and industry, while supply is becoming more unreliable due to climate change. 71% of the global population lives in areas with moderate to severe water scarcity at least one month of the year.

WaterCredit investments must address at least one of these impact areas. These investments then lead to multifold, positive impact for families, communities, and the environment. The evidence base for water and sanitation indicates outcomes linked to improving health, increasing gender equity, increasing economic productivity, and increasing resilience.

IMPACT MANAGEMENT PRINCIPLES

Consistent with the organization's objective, WaterCredit follows a common set of impact management principles. These guide its activities to ensure rigorous commitment to the goal of universal access to safe water and sanitation.

Evidence Backed Strategies

A broad base of evidence exists for the impact of access to safe water and sanitation across many disciplines, including medicine, public health, economics, and anthropology. WaterCredit takes as a starting point the knowledge generated through third-party research, including peer-reviewed journals, program evaluation studies, and sector reports. Because of this deep evidence base, WaterCredit can:

- credibly make assumptions about the impact of improved access to safe water and sanitation on people's lives;
- identify the highest-impact investible interventions in the water and sanitation sector; and
- use publicly available data and information wherever possible, avoiding duplication of existing research and responsibly managing WaterCredit's resources.

WaterCredit is committed to reviewing and synthesizing this evidence regularly to integrate new findings, even when they test prior assumptions.

Industry Standards

Wherever possible, WaterCredit aligns with relevant industry standards for impact management. This provides clarity and comparability for WaterCredit's investors, and ease of reporting for WaterCredit's investees. These industry standards and best practices include:

- Operating Principles for Impact Management;
- IRIS+; and
- Impact Management Norms developed through the Impact Management Project and Impact Frontiers.

Integration into Investment Life Cycle

Impact considerations are integrated into every stage of the investment life cycle. WaterCredit's approach aligns with the IFC's Operating Principles for Impact Management, as outlined below.

Principle 1: Define strategic impact objective(s) consistent with the investment strategy

Prior to launching any new investment strategy, WaterCredit considers: 1) how the strategy contributes to the goal of universal access to safe water and sanitation; 2) the evidence base for the strategy; and 3) how the strategy compares to other opportunities that WaterCredit could consider. This process ensures that each fund

aligns with the organizational mission and is an effective use of WaterCredit's resources.

Principle 2: Manage strategic impact on a portfolio basis

WaterCredit manages impact at a portfolio level and sets fund-level targets for social return. Decision-making for portfolio construction incorporates both financial and social returns, and portfolio management includes ongoing monitoring of both. (The Impact Framework document for each fund describes its impact goals and key performance indicators.)

WaterCredit's process to manage impact at the portfolio level includes evaluating the impact of the portfolio, structuring the investments to facilitate impact, and monitoring the impact at the individual investment and portfolio levels. Reporting on social performance consistently includes one key performance indicator (KPI), shared across every fund—the number of people reached with access to water and/or sanitation. However, in addition to this KPI, WaterCredit assesses the social return of fund portfolios across multiple dimensions of impact, recognizing that each investment may have a different impact profile and therefore contribute to different kinds of social performance. (Refer to Principle 4 for more about this social impact rating.)

Each member of the investment management team is responsible for integrating impact into the investment process; this is reflected in annual performance reviews. In addition, the staff incentive system incorporates company performance, including measures of both financial return and impact, to determine employee incentive payments.

Principle 3: Establish the investor's contribution to the achievement of impact

Global investment in water and sanitation must triple to achieve SDG6, and increasing private investment is essential. WaterCredit's mission is to accelerate private capital investments in the sector, both through our own assets under management and by demonstrating that water and sanitation is a viable investment opportunity. Therefore, every investment represents an opportunity to contribute to impact experienced by the individual end-clients of that company, and also an opportunity to contribute to systems change in unleashing private capital markets for SDG6.

At the individual investment level, WaterCredit considers its contribution to each investment's projected impact based on the impact score described in the Principle 4 below. Every investment is scored for the level of investor contribution as part of the comprehensive impact scoring process, although a high contribution score is not required of every deal. This "Acceleration" section of the impact score includes objective indicators to identify the level of investor contribution for each individual deal.

Principle 4: Assess the expected impact of each investment, based on a systematic approach

WaterCredit's investment process incorporates impact at each stage. During the screening stage, WaterCredit evaluates the potential investee as a fit for the fund's impact profile, and develops initial impact projections (e.g., number of people reached). During due diligence, WaterCredit evaluates each potential deal across multiple dimensions of impact to assess its fit with the fund's impact objective, determine final impact projections, and produce an overall impact score. WaterCredit calculates this score by rating the investment across five main dimensions.

- Scale: How many people will the investment reach?
 - This includes the total potential for scale and the projected people reached with access to water and sanitation.
- Quality: What type of water and sanitation impact, and other related outcomes, does the investment support?
 - This includes an assessment of the different types of benefits from the specific water and sanitation facilities financed, for example, benefits to health, well-being, and labor savings, and climate resilience.
- Who does the investment reach?
 - This includes an assessment of gender, income levels, relative poverty levels, climate vulnerability, and relative need for water and sanitation in the operating regions.
 - It may also include an assessment of the watershed and other natural resources that could benefit.
- Will the investment accelerate the market solution for water and sanitation access?
 - This includes an analysis of the investees' potential for growth, the additionality of the WC investment, and the level of non-financial support that will contribute to impact.
- What is the risk that impact will not occur as intended?
 - This includes elements of historical performance and uncertainty that could negatively affect one of the above dimensions.

WaterCredit evaluates the impact projections and score for each potential investment alongside the broader risk/return profile, including but not limited to financial return, credit risk, country risk, and Environmental, Social, and Governance (ESG) risk. The impact projections and score directly inform investment terms, such as investment amount and tenor, as well as the final investment decision.

Assess, monitor, and manage the potential risks of negative effects of each investment

WaterCredit undertakes ESG analysis of every potential investment. This analysis identifies key risk areas, including the environment, employees, and clients. Through this process, WaterCredit may set ESG-related improvement requirements for

potential investees either as milestones of the investment or as conditions precedent to the investment. For more information, refer to WaterCredit's ESG Policy.

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

Social impact targets are incorporated into investment agreements or other investment documentation. WaterCredit monitors investment performance against social impact targets, using quarterly reporting of financial, operational, and social indicators via standardized reporting templates. Early detection of challenges and shortfalls enables timely corrective action to maximize social impact.

WaterCredit also manages impact at the portfolio level. Quarterly reporting includes assessments of the portfolio progress against impact targets and aggregate social performance of the portfolio.

In addition to self-reported quarterly updates, WaterCredit has the right to visit, inspect, and evaluate investees as needed, to confirm the accuracy of reported information. For a sample of the portfolio, WaterCredit verifies self-reported data by conducting end-client surveys. These surveys verify that the water and/or sanitation improvement was completed, gather end-client feedback, and test ex-ante assumptions about outcomes.

If an investee does not demonstrate the use of investment proceeds for water and sanitation impact as agreed, WaterCredit works with the investee to improve results and has the option to enforce the covenants of the investment agreement when necessary.

WaterCredit produces quarterly reports for investors and fund dashboards for internal review that assess both financial and social performance. Indicators align with IRIS+ standards.

Conduct exits considering the effect on sustained impact

The investee's continued commitment to water and sanitation and their track record of social and environmental performance are important considerations in the decision to extend or offer a new investment, or to terminate the relationship with an investee.

Review, document, and improve processes based on achievements and lessons learned

At maturity, WaterCredit reviews the social performance of each investment. This review examines outcomes relative to targets, making use of survey results where available. In addition to this more formal assessment, the Investment Management team reviews policies and tools annually and incorporates learning and feedback as part of this process.

POLICY IMPLEMENTATION

At WaterCredit, each investment professional is individually responsible for the integration of impact into the investment process. This responsibility is not outsourced. The policy establishes the standard practices of WaterCredit, and all staff are required to adhere to the policy.

The Director, Impact & ESG, Chief Investment Officer, and President, together with the Investment Committee, monitor staff adherence to the policies. In particular, adherence to the policy is ensured when new deals are underwritten and approved, and during portfolio monitoring on a quarterly and annual basis, when specific analyses in accordance with the policy are required. In addition, WaterCredit undergoes verification of its practices with its disclosure statement to the Operating Principles for Impact Management, which forms the bulk of the policy. On a regular and ongoing basis, WaterCredit is committed to providing training to its investment and compliance staff to ensure effective implementation of the impact management system.

POLICY MAINTENANCE

The policy is a dynamic, growing, and evolving document that reflects industry best practices. The WaterCredit Investment Committee is responsible for reviewing and adopting this policy no less than annually, as well as reviewing and approving any interim changes.
