



SUSTAINABILITY AGENDA  
**ENVIRONMENTAL,  
SOCIAL AND  
GOVERNANCE  
POLICY**



**FS Impact Finance**  
Investing today for a better tomorrow



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

## 1. BACKGROUND

Frankfurt School Financial Services GmbH and its subsidiaries, branding under **FS Impact Finance** (hereafter also referred to as FSIF) primarily manages socially responsible investment funds or financing mechanisms supporting, amongst others, microfinance, small and medium sized enterprises, rural and agricultural finance, and energy efficiency loans, as well as financing mechanisms in support of the **Sustainable Development Goals** of the United Nations.



### 1.1. Business Focus on Sustainability

FSIF promotes long-term sustainable economic growth and aims to improve the social and environmental conditions prevailing in its target investment countries through stable funding. FSIF provides financial access either directly to beneficiaries or through partner institutions in developing countries, but it is also active in start-up and micro, small and medium enterprise financing in Germany and plans to further expand its activities in both, the developed as well as the developing world.

The principal objective of FSIF is to build diversified fund portfolios, manage sustainable financing mechanisms or, give advice in order to do so, depending on the mandate. FSIF seeks to achieve its objective by following clearly defined standard operating procedures, a comprehensive risk strategy along with a diversification of low, standard and high-risk investments.

Partner institutions are commercial banks, microfinance banks, microcredit institutions, or specialized financial institutions in developing countries, as well as any other kind of institution that contributes to the implementation of the FSIF's mission.

FSIF will manage funds and financing mechanisms using, among others, the following instruments: term deposits; loans (senior, subordinated, syndicated) and credit lines; guarantees and letters of credit; direct equity investments; grants; corporate bonds; and listed equities.

The terms and conditions of the financial instruments will depend on the mandate of the underlying finance mechanisms, the individual risk profile of the mandate or finance mechanism, the market conditions, and the risk profile of the beneficiary or partner institution.

## 1.2. Organisational Focus on Sustainability on FSIF Company Level

Our Sustainability Agenda (ESG Policy) sets a defined framework and determines the necessary actions to achieve its goals in the relevant sustainability areas (e.g. environment, social, governance, hence: fair business practices). The relevant areas are defined below in this document. For areas where FSIF has already specific guidelines or standard operating procedures, reference is made to the same.

This Policy applies to Frankfurt School Financial Services GmbH and all its subsidiaries. The company procedures comprise an implemented structure of policies, organization, planning and implementation, monitoring, reviewing and auditing.

## 2. FSIF - MISSION AND VISION STATEMENT

### OUR GUIDING PRINCIPLES



#### Vision

Our vision is to drive positive societal change through impactful investments.



#### Mission

Our mission is to foster and facilitate money flows from public and private sources in order to design and implement innovative concepts to help address today's challenges. We build bridges between responsible investors that are looking for positive impact on people and our planet in addition to seeking financial return, and meaningful investment opportunities addressing the United Nations Sustainable Development Goals, with a focus on emerging and developing countries.



#### Strategy

Our strategy is to be a dynamic and outcome-oriented finance provider with a unique access to a network of academic, advisory and investment professionals, with a focus on outside-the-box, custom-made and complex solutions.



#### Values

Our corporate values are based on integrity, responsibility and creativity: integrity by basing our actions on being honest and having strong moral principles; responsibility by being accountable for and transparent about our actions; creativity by combining our diverse experiences and cultural backgrounds with our imagination and original ideas to create new business approaches.

### 3. SUSTAINABILITY RISKS

FSIF maintains a holistic view on all risks including sustainability risks by integrating these aspects in the its management risk framework.

Taking into account the guidance notice of the German financial regulator on dealing with sustainability risks (BaFin 20.12.2019, latest version 13.01.2020), environmental, social, governance (ESG) relevance and resulting risks must be considered accordingly.

As part of the annual risk inventory, or ad-hoc if necessary, FSIF examines sustainability risks within seven risk categories: counterparty risk; market price risk; liquidity risk; operational risks; legal and compliance risks; reputational risk; and general business risks.

If individual risks belonging to these seven categories are classified as high risk from a sustainability perspective, FSIF identifies risk mitigation measures to be implemented. As the overall business of FSIF deals with impact investing and sustainability issues, the sustainability risk is generally considered to be limited.

Furthermore, FSIF analyses sustainability risk as part of the development of each new product. The first-time consideration of the examination of sustainability risks as part of the 2020 annual risk inventory and as part of the 2020 new product process did not reveal any high sustainability risks. We expect this to remain the case also in 2021-22.



## 4. FSIF AS PART OF FRANKFURT SCHOOL OF FINANCE & MANAGEMENT GROUP

### 4.1. Sustainable Campus Offices

As its only property used for mixed purposes (offices and university) in Germany, Frankfurt School's campus has been awarded the platinum seal by the German sustainable building council (DGNB). To receive this award, a building had to meet the highest standards not only regarding its eco-balance and the responsible use of resources, but also concerning indoor air quality, design for all and thermic comfort. With its solar panels and wind turbine on the roof, the gas-powered combined heat and power unit below ground and the electric vehicle charging station on the premises, the campus fulfils all requirements. Beehives for four bee colonies were installed on the northern roof terrace.

In case of a possible future relocation of FSIF offices, FSIF management will include sustainability building parameters in its relocation decision.

### 4.2. Frankfurt Declaration

Current global challenges, such as climate change and the progress of digitalization, need innovative and solution-oriented action. Therefore, it is crucial to transform the financial system to a more sustainable system worldwide.

The Frankfurt Declaration is a voluntary commitment which attests the signatories' intent to take action to define a framework for a sustainable financial sector. It aims to mobilize market participants and hence a sustainable financial market infrastructure. Frankfurt School was one of the first signatories to the declaration.

### 4.3. Green & Sustainable Finance Cluster

The Cluster is an initiative emerging from the fusion of the Accelerating Sustainable Finance Initiative (Deutsche Börse) and the Green Finance Cluster Frankfurt (Hessian Ministry of Economics). The Cluster, launched in April 2018, aims at bundling activities in the field of sustainable finance to achieve greater use of financial market expertise in the area of sustainability. Its primary ambition is to formulate and implement solid approaches to fostering the sustainability of national and international financial markets. The Cluster is located at the campus of Frankfurt School and co-managed by the head of the Frankfurt School – UNEP Collaborating Centre for Climate & Sustainable Energy Finance.

### 4.4. UN Global Compact

Since March 2018, Frankfurt School officially supports the “Global Compact” of the United Nations. The network between businesses and the United Nations supports a more social and sustainable globalisation. Frankfurt School proclaims to support the ten principles of the Global Compact. This includes to comply and support human rights, labour rights, environment protection and anti-corruption measures. Frankfurt School commits to report on progress.

## 5. DIVERSITY MANAGEMENT

### 5.1. Definition of Diversity and Inclusion for FS Impact Finance

The diversity of our employees with their different skills and talents opens up **opportunities for innovative and creative solutions**.

The implementation of the Diversity Policy in our organisation stipulates a working environment that is **free of prejudice**. It enables each employee to be truly who they are, and to be outspoken and at ease.

All our employees are valued - regardless of their



gender and gender identity,



nationality or ethnic origin,



religion, belief or conviction,



physical or mental ability,



age,



sexual orientation and identity.

The recognition and promotion of these diverse potentials reflects our society, our values as a sustainable company and drives our organisation forward.

### 5.2. Organisational Culture

We cherish a climate of **acceptance** and **mutual trust**. This has a **positive impact** on how we operate as a team, as well as our reputation in business relationships and with customers, both in Germany and in other countries around the world.

We create the conditions for managers and employees to recognise, share and live these values. Managers and supervisors have a special obligation in this respect.

## 5.3. Procedures and processes

### Application of Languages

To prevent inclusion barriers, common company language for policies and procedures as well as deemed appropriate all internal company meetings is the English language. FSIF maintains a separate language policy in this respect.

### Human Resources Process

In our human resources processes we are committed to actively promote diversity,

- starting from recruitment where we strive to hire future employees that are as diverse as the societies we live and operate in;
- through to salary adjustments and promotions which are purely based on merit and potential, evaluated in an objective manner during regular reviews with superiors;
- as well as professional development where we encourage each employee to apply for trainings and career development opportunities that are solely assessed against their needs, skills and experience.

Our managers and supervisors ensure that these processes reflect the diverse skills and talents of all employees and our performance standards.

### Further Measures

Employees are encouraged to propose measures to broaden the diversity culture within FSIF to the senior management. Management explicitly welcomes such proposals and will jointly with selected colleagues review them for implementation with the involvement of other employees.

## 6. FSIF STAKEHOLDER DUE DILIGENCE

### 6.1. Operational Know-Your-Customer Processes

FSIF carefully performs due diligence processes on all its business partners, customers and counterparties to be on-boarded in FSIF-managed products. Transparency of ownership structures (beneficial owner disclosures) as well as good governance structures at stakeholder level are subject of the due diligence process. FSIF has defined risk parameters for its due diligence. On-boarding and continuation of business relationship with a deemed high-risk stakeholder from a compliance perspective requires explicit FSIF management approval.

## 6.2. Criteria for Stakeholder Relationship

### International Finance Corporation Performance Standards

FSIF aligns itself to the performance standards of the International Finance Corporation. As these eight standards (Risk Management / Labour / Resource Efficiency / Community / Land Resettlement / Biodiversity / Indigenous People / Cultural Heritage) are much broader than the focus of FSIF's business model, FSIF takes the main considerations of the IFC Performance Standards into account for decision making and action, to the extent applicable and possible.

Encountered red flags in dealing with stakeholders relevant to the IFC Performance Standards are to be escalated to the FSIF management for discussion and decision how to handle the relationship with such stakeholder.

### International Labour Organization Conventions

Given that FSIF is operating with its products in countries in which it has a strong exposure to the informal, often labour-intensive economy, FSIF seeks to ensure that stakeholders adhere to all International Labour Organization conventions. While countries might have their own labour laws, FSIF will seek that all partner companies adhere to the aforementioned standards.

## 7. FSIF GOVERNANCE STRUCTURE

In line with para. 25(a) KWG (German regulatory requirement), FSIF maintains a proper business organization, as FSIF is defined as a financial services institution in accordance with section 1 (1) and (1a) of the KWG.

This includes structural and procedural organisational regulations with a clear delineation of areas of responsibility. The elements of good business organisation and rules of procedure are of particular importance to FSIF. Our management is committed to responsible and transparent corporate governance and control, which is geared to the long-term success of FSIF. This aspiration is reflected in our efforts to create value for the customer, operational excellence and financial performance.

### 7.1. Decision and Meeting Culture

Responsibilities of the FSIF management are clearly defined. The members of our senior management team have the appropriate balance of skills, experience and knowledge to fulfil their respective duties and responsibilities.

FSIF has established a transparent sharing of information and meeting culture. Team meetings incl. management participation are held frequently, periodically or ad-hoc as deemed appropriate.

## 7.2. Information Sharing with the Shareholder

FSIF management updates and reports to its shareholder (management of Frankfurt School of Finance & Management) regularly through both, formal and informal meetings, and by providing written information, such as business, risk, compliance and audit reports.

## 8. FSIF COMPLAINTS MANAGEMENT PROCESS (INTERNAL AND EXTERNAL)

### 8.1. FSIF Whistleblower System (Internal)

Diversity and inclusion as well as high business ethics are given top priority at FSIF; hence any violation or concerns should be immediately brought to the attention of any member of the senior management team, including the managing director. Furthermore, for perceived unethical behaviour experienced by staff, all employees have the right and possibility to utilise and contact an external, independent whistleblower contact person via our whistleblowing-hotline.

The contact person is also the entry point for any integrity issue to be addressed (e.g. harassment or bullying, kickbacks and unusual gifts, criminal offence, unauthorised use of company funds, assets or equipment, fraud and corruption, any wrongdoing).

The concept of the internal whistleblowing system is published and available for all staff on the intranet.

### 8.2. Complaints (External)

Complaints from existing or former customers are dealt with appropriately and promptly in accordance with a standard procedure and all remedies are documented. Complaints received must always be submitted to the compliance office without delay. The process is entered in a separately managed complaints register. The compliance office issues a statement on the complaint and forwards it to the management for decision or action. The decision is then immediately communicated to the customer.



## 9. FSIF HUMAN RESOURCES MANAGEMENT

### Remuneration Policy

The compensation system of FSIF is designed in such a way that incentives for managers and employees to take disproportionately high risks are avoided and the compensation system does not create a conflict of interest with the monitoring function of the control units. Focus is the sustainability of our companies and to avoid above mentioned risks.

The principles governing the FSIF compensation system cover both, the compensation system for management and for employees. Their appropriateness is reviewed and adjusted if necessary, at least once a year by the management and the shareholder of FSIF.

FSIF applies an “equal pay for equal function” principle.

FSIF combines fixed compensation components and variable compensation (bonus) in the remuneration of our managers and employees. The structure and weighting of the components take into account the tasks and performance of managers and employees on the one hand and the interests of FSIF on the other.

The fixed remuneration component represents the main focus of the remuneration and is designed in such a way that a dependency on variable remuneration is excluded. The fixed compensation component is deemed appropriate in internal and external comparison. The personal and professional development of the employees is taken into account.

### Training, Empowerment, Growth Development

In order to strengthen a sustainable performance culture within our team, FSIF management commits to collective and individual catered training modules for its staff, providing empowerment and growth opportunities within the organisation. Development modules include professional and management trainings incl. ESG-related topics.

## 10. FSIF NEW PRODUCT PROCESS

FSIF has adopted a formal new product process. This process is applied to assess various risk aspects including in particular sustainability risks in the areas of new markets, new products and new distribution channels used by FSIF for the first time.

When deciding whether business activities in new products or on new markets are involved, the risk controlling function is involved as well as internal audit and compliance functions.

The market launch is approved by the management and the risk manager.

## 11. ESG -DISCLOSURE OF ESG / SUSTAINABILITY INFORMATION ON FSIF COMPANY LEVEL

### 11.1. FSIF webpage

FSIF publishes mandatory ESG and sustainability information according to the prevailing regulatory environments as well as additional information as deemed appropriate by FSIF management.

### 11.2. FSIF Annual Sustainability Report

FSIF endeavours to provide for the first time an annual report detailing ESG assessments for the business year 2021 in 2022. This non-mandatory report is intended to be made available to interested stakeholders as well on the company webpage.



## 12. FSIF BUSINESS ORGANIZATION



### **Paperless Office**

FSIF operates where possible in a paperless environment. All internal operation and procedures are to be managed paperless utilising IT-cloud solutions.



### **Mobile Work**

FSIF encourages flexible work utilising the Frankfurt School Campus as well as mobile work. In accordance with its business continuity management framework, the entire team is equipped with the necessary infrastructure. Sustainable results are achieved by reducing work travel, containing operational risks, providing resilience, increasing employee satisfaction and enhanced work life balance.



### **Virtual Communication**

Given the IT-infrastructure above, FSIF management encourages to hold meeting (internal, team, client meetings) where deemed appropriate via virtual solutions in order to reduce travel impacts.



### **Job Ticket**

FSIF provides subsidies for the use of public transportation in its headquarter location in Frankfurt, as an incentive for its staff to use public transportation for commuting instead of private cars.



### **Promotion of Safety and Health at Work**

FSIF management promotes all relevant aspects of health and safety in its working environment; as an example, FSIF offers its staff trainings for “First Aid Responder” qualification.