

Overview of investment procedures; integration of E&S risk in investment decision

The investment procedure of the Fund comprises the following general steps, as summarised in the PPM:

Step 1: The Investment Advisor identifies new investment opportunities, carries out basic industry research and monitors regional stock markets.

Step 2: Each relevant investment opportunity is presented to the Investment Advisor's screening committee (the "Screening Committee") which either recommends next steps or rejects the opportunity.

Step 3: The Investment Advisor undertakes preliminary due diligence to assess the investment's operations, finances and management team and identify the returns potential.

Step 4: The Screening Committee agrees a formal investment proposal which is approved and prepared for submission to the Investment Committee. The Screening Committee will meet for this purpose as detailed at section 7.

Step 5: The formal investment proposal is submitted to the Investment Committee for consideration and as relevant, approval. The Investment Committee will meet for this purpose as detailed at section 7.

Step 6: The Investment Advisor undertakes external due diligence. The Fund is required by EBRD and IFC in the EBRD's Environmental Procedures for Private Equity Funds document (attached as Schedule B) and the IFC Environmental and Social Covenant, Representations and SEMS Plan document (attached as Schedule C) to fulfil certain obligations in relation to social and environmental due diligence. These obligations are set out in more detail at sections 6.2 and 6.3.

Step 7: The Investment Advisor pursuant to the Investment Advisory Agreement carries out integrity and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) checks. See the verification of identity requirements at section 6.4.

Step 8: The Screening Committee, in light of the external due diligence and AML/CFT checks, considers the investment proposal and as relevant approves it for submission to the Investment Committee. The Screening Committee will meet for this purpose as detailed at section 7.

Step 9: The investment proposal is submitted together with the related due diligence reports to the Investment Committee for consideration and as relevant, approval. The Investment Committee will meet for this purpose as detailed at section 7.

Step 10: If approved by the Investment Committee, the investment proposal is submitted by the Investment Advisor to the General Partner as part of an Investment Memorandum as required by the Investment Advisory Agreement. The Investment Memorandum should include:

- (a) balance sheet and profit and loss data projections;
- (b) a comprehensive analysis of cash flow;
- (c) sources of finance;
- (d) tax and analysis of significant risks and opportunities involved with the proposed investment;

- (e) proposed timing for the proposed investment;
- (f) an estimate of costs involved in the proposed investment, and
- (g) a reasonably advanced term sheet (clause 2.5 of the Investment Advisory Agreement).

Step 11: The General Partner will obtain an opinion of legal counsel when making an investment directly by the Fund or via an investment holding company where:

- (a) the General Partner is making an investment in a portfolio company in a particular jurisdiction for the first time;
- (b) the General Partner is making an investment in a portfolio company in a particular jurisdiction where the General Partner has actual knowledge that the rules of that particular jurisdiction have changed so as to have the effect that the Limited Partners of the Fund may either:
 - (i) cease to have limited liability in the Fund;
 - (ii) be recognised as being permanently established in that jurisdiction for any purpose; or
 - (iii) be obliged to make any tax filings in that jurisdiction; or
- (c) the General Partner has been requested by the Investor Advisory Board to obtain a legal opinion of the relevant legal counsel of the jurisdiction in question that the Limited Partners of the Fund will not be affected by the investment in such manner set out in (i) to (iii) above (clause 2.22 LPA).

Step 12: The General Partner makes an investment decision and completes the investment as relevant.

Step 13: In connection with making each investment, the General Partner will seek to obtain agreement from portfolio companies to allow EBRD and IFC to meet the management team of the portfolio companies (clause 7 of the IFC Agreement and clause 8 of the EBRD Agreement).

Step 14: In connection with making each investment, the General Partner will seek to obtain agreement from portfolio companies to allow EBRD and IFC to visit their premises and access books of account and other records in order to be able to meet their respective policy guidelines (clause 11 of the IFC and EBRD Agreements).

Step 15: The General Partner ensures that each investment holding company is incorporated in a jurisdiction which is:

- (a) listed by the OECD as a jurisdiction that has substantially implemented the internationally agreed tax standard, and
- (b) not listed by the FATF as a non-cooperative country or territory (clause 2.22 LPA).

Step 16: The General Partner, with input provided by the Investment Advisor (pursuant to clause 2.6 of the Investment Advisory Agreement) will seek to ensure that appropriate standards of corporate governance are put in place at the portfolio company within a reasonable time after the initial investment is made in such portfolio company. Examples include the following:

- (a) introducing regular board meetings;
- (b) appointing an audit committee;

- (c) drawing up a code of ethical business behaviour; and
- (d) ensuring compliance with the Organisation for Economic Co-operation and Development (OECD) Corporate Governance Principles (clause 7.1 U) LPA).

6.2 EBRD Environmental due-diligence

The General Partner through the Investment Advisor is required to produce an Environmental Due Diligence report (a sample Environmental Due Diligence Report can be found at Annex 7 of Schedule B) covering:

- (a) whether the investment company is engaged in activities listed in the Combined EBRD/IFC Environmental and Social Exclusion List attached as Schedule D;
- (b) the category of environmental risk using the EBRD's Environmental Risk Categorisation List (available on the EBRD's official website at www.ebrd.com) of the investment, being either:
 - (i) I (low risk): where the environmental impact is likely to be negligible;
 - (ii) II (intermediate risk): where the environmental impacts can be readily identified but where standard preventative and/or remedial measures can be made by the investee; or
 - (iii) III (high risk): where there may be highly significant, negative and/or long term environmental impacts and liabilities which are difficult to determine at this stage;
- (c) an investigation on the following regarding the investee's environmental and employment performance:
 - (i) the status of environmental, health, safety and sanitary and labour standards compliance of the investee (if applicable);
 - (ii) whether there is potential for any environmental, labour or community issues associated with the investment;
 - (iii) whether the investment will require an Environmental Impact Assessment ("EIA") under the national law of the country where the investment is being made. Note that investments in "Category A" projects as listed at Annex 3 of Schedule B will require an EIA to be undertaken in any event regardless of whether required by national law or not. If an EIA is required one should be undertaken. A sample EIA report can be found at Annex 4 of Schedule B; and
 - (iv) whether it is necessary to conduct an environmental audit report or other appropriate environmental investigations. Note that investments falling under section 6.2 (b)(ii) and 6.2 (b)(iii) will require an environmental audit. If a report is required one should be undertaken. A sample environmental audit report can be found at Annex 6 of Schedule B;
- (d) a risk control strategy which may include the following:
 - (i) requiring the investee company to give environmental covenants to the Fund such as regulatory compliance, site clean up covenants, adoption of an environmental action plan and/or an environmental management system or other environmental improvement measures;
 - (ii) requiring state indemnification of environmental liabilities;
 - (iii) provides for revised financing; and
 - (iv) requirements for environmental performance monitoring.

6.3 IFC Social and Environmental Due Diligence

The General Partner, based upon input from the Investment Advisor, is required to ensure that investments made by the Fund comply with IFC's Environmental and Social Covenants details of which can be found at Schedule C. As part of this obligation:

- (a) Dorian Macovei of the Investment Advisor has been appointed "SEMS Officer" to be responsible for the administration and oversight of the S&E Management System; and
- (b) the Investment Advisor will implement the "SEMS Plan", a copy of which can be found at Annex 1 of Schedule C before the first drawdown of Preferred Capital Commitment for investments.

6.4 Verification of Identity

The Fund Administrator will on behalf of the General Partner confirm the identity of investors before they are admitted as limited partners of the Fund.

6.5 The Investment Advisor will furthermore:

- (a) confirm the integrity of individuals and key institutions associated with potential portfolio companies (including directors, senior management, principal shareholders and any suppliers or customers able to exercise significant influence), as well as of those institutions and individuals who might be the potential buyers of the Fund's interest in a portfolio company; and
- (b) seek to prevent the Fund or any portfolio company from being involved in any money laundering or tax evasion scheme, fraud or other criminal, terrorist, or corrupt activity (clause 24.18 LPA),

By

- (c) consulting Schedule E and obtaining the items listed at "what we require" under the heading of the relevant individual or entity, e.g. if confirming the identity of a company not listed on a recognised stock exchange (i.e. heading 4), the Investment Advisor will need to obtain the documentation listed at 4 (a) to 4 (f) of Schedule E.

6.6 In furtherance of international best practices for AMUCFT, the Investment Advisor will institute various other measures pursuant to clause 7.2 of the LPA, including appointing an AML/CFT officer, reporting suspicious transactions to authorities and providing AML/CFT training to its staff, as relevant.