

PROCESS

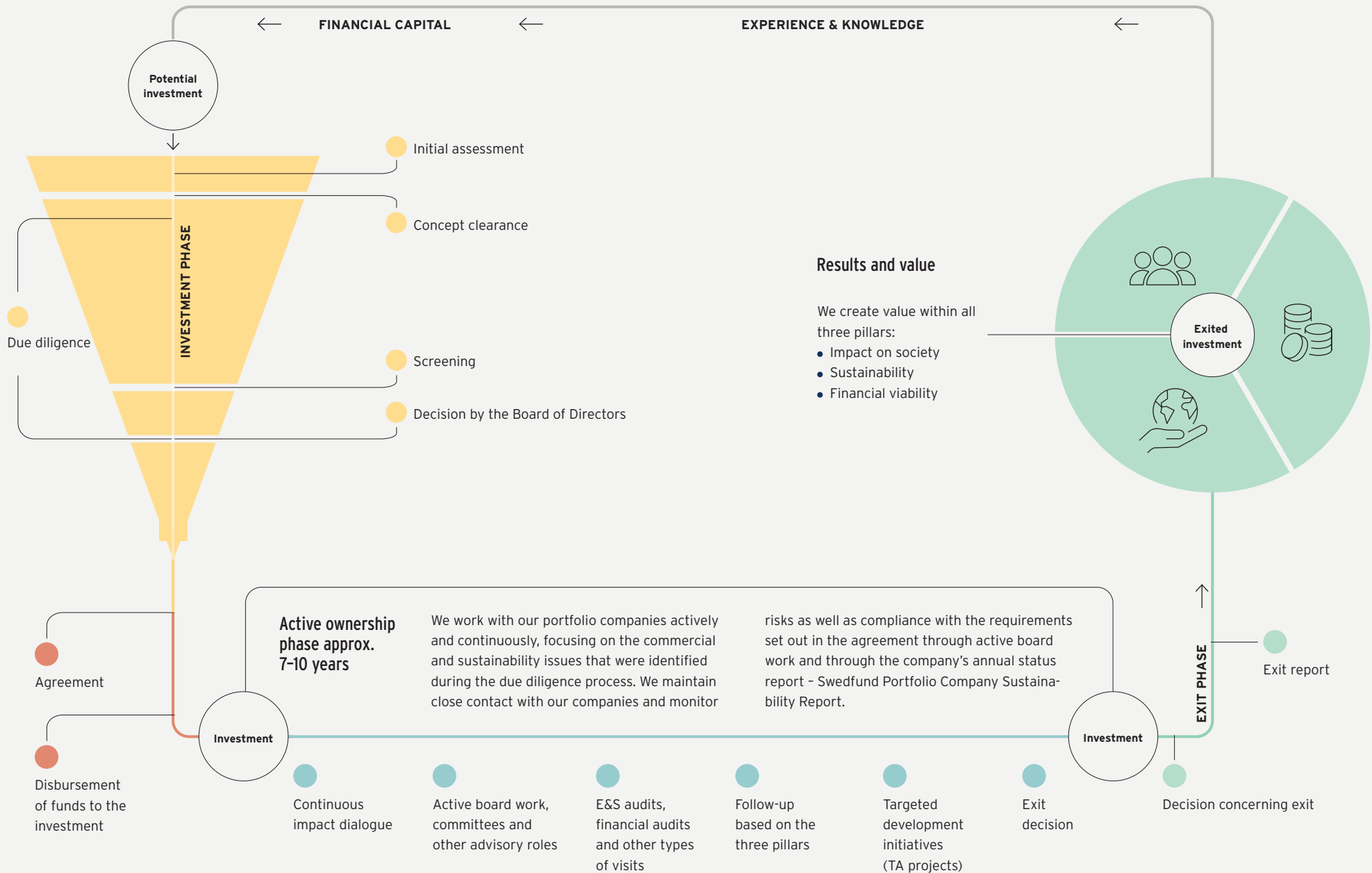
A thorough investment process



Wind farm in Marsabit County, Kenya.

We invest in private businesses, financial institutions and funds by providing direct and indirect loans and equity to create jobs with decent working conditions and improve access to socially important products and services such as renewable energy, food and healthcare. We have developed an investment process that enables us to succeed in our challenging mission.

INVESTING IN DEVELOPING COUNTRIES is associated with major risks, particularly financial risks. We endeavour to manage these risks through a comprehensive investment process. We work strategically to build a pipeline and select the investments that we believe have the most potential. Regional offices play an important role in identifying potential investments. In the case of investments that are in line with our investment strategy and criteria, a more in-depth analysis is conducted. The investment organisation, working alongside experts in ESG, law, business integrity and impact, conduct a thorough analysis. Business plans, investment partners, sustainability (environment, working conditions, anti-corruption and human rights) and societal impacts are all analysed. The analysis is then reviewed by Swedfund's Investment Committee and approved or rejected in a final step by the Board of Directors, or directly by the Investment Committee if it falls within the investment mandate granted by the Board. Each investment is considered to have the prerequisites to achieve the goals set in our three pillars: impact on society, sustainability and financial viability. The model on the right is described in more detail on the next pages.



The investment process in practice

Our thorough investment process follows the same phases regardless of sector, instrument or whether the investment is made directly or indirectly. Below is a description of the process and each phase.

Investment phase

Prior to investment decision

INITIAL ASSESSMENT

Swedfund works actively with various investment needs, not least with our regional offices. A wide variety of investment proposals are evaluated every year. The initial assessment examines whether the proposal is consistent with our investment strategy and criteria, and how the investment can contribute to Swedfund's mission objectives and the Sustainable Development Goals. We carry out an overall evaluation of the country, the company and its business plan and strategic partners, and our potential role. In every investment, our role must be additional, which means that we provide resources which are crucial to the development of the investment that would otherwise not have been available.

CONCEPT CLEARANCE

After initial assessment, the investment team draws up a proposed decision, "concept clearance", which is then presented to Swedfund's Investment Committee. The Investment Committee consists of the management team and has both an advisory and decision-making role. Together with the investment team, key opportunities and the greatest risks associated with the investment which must be analysed

during the due diligence process are identified and discussed.

DUE DILIGENCE

If a decision is made to proceed, the investment proposal will continue on to the due diligence phase. A thorough analysis of the company is initiated. Examples of areas analysed include business idea, business model, market, financial history and forecast, investment calculation, partners, legal aspects, expected impact on society, as well as sustainability risks and impacts, including the environment, working conditions, human rights, tax, risk of corruption, gender equality and climate issues. During the due diligence phase, the investment team meets representatives of different areas of the company to gain a deeper understanding of the company, its processes and routines, and the documents that have been shared with us. We enlist the help of our regional offices that possess local expertise and knowledge. If necessary, external expertise is used to examine specific issues. Before the meeting, the company will be asked to complete a comprehensive questionnaire on environmental, social and corporate governance. The due diligence process forms the basis for decision-making, including the required and contractual ESG

Action Plan (ESGAP), which describes the changes that the company needs to make in order to live up to Swedfund's sustainability requirements.

SCREENING

When the due diligence process is concluded, a screening meeting takes place, during which the Investment Committee will decide whether the investment meets our requirements and whether it should be presented to the Board of Directors. If the investment is not approved at this stage, it may be because new information came to light during the due diligence process. It is not uncommon for new questions to be raised, which the team then examines in the final stage of the due diligence process.

DECISION BY THE BOARD OF DIRECTORS

After passing the screening process, the proposal is presented to the Board, which will then make a decision. In some cases, the Investment Committee may reach a decision if it falls within the investment mandate granted by the Board of Directors. If the investment is approved, an agreement will be negotiated. The investment agreement also includes requirements regarding sustainability and reporting.

Active ownership phase

Ongoing work and follow-up

Once the agreement has been signed and the money disbursed, the work initiated earlier during the investment phase continues. We work actively and continuously with our portfolio companies, focusing on commercial, risk and sustainability issues identified during the due diligence phase. The regional offices play an important role in the continuous follow-up.

During the period in which we are shareholders of or lenders to a company or fund, usually seven to ten years, we maintain ongoing dialogue and close contact with the portfolio companies to follow up on risks and results, goal attainment and contractual conditions. This is done through visits, active board work and dialogue, as well as through the company's annual status reports (Swedfund Portfolio Company

Sustainability Report). Both internal audits and third party audits are conducted. In connection with fund investments, we can have direct contact with the underlying holdings of the funds, for example through visits, analyses, initiatives within ESG and impact supported by TA funds*, and through their reports.

Investment managers are responsible for following up and ensuring that the companies comply with the contracted conditions, relevant parts of our policies and ESGAP. Within a three-year period from the date of disbursement, companies must achieve Swedfund's strategic sustainability goals. To help companies attain these goals, we can allocate funds in the form of technical assistance, which can for example be used for training or consultancy.

Exit phase

Results, learning and experience

Swedfund is a long-term development finance institution, not a permanent owner. We exit an investment either by selling our shares, the loan being repaid or conclusion of the fund.

The exit phase generally starts when Swedfund considers the goals established for the investment to be achieved or when we cease to be 'additional'. Selling equity in the markets in which we operate can be a difficult and protracted process. Ahead of the exit process, the portfolio company is analysed on the basis of Swedfund's three pillars, and an assessment is made as to whether further initiatives are necessary.

An exit report is prepared for each exit, where we analyse the achieved results, what we have learned and what relevant knowledge and experiences we can bring with us into future investments. The report must also clearly describe how the investment has lived up to Swedfund's requirements and contributed to the objectives adopted at the time of the investment.

***Funds for Technical Assistance (TA)**

Read more on page 80.

Special Operations

Some of Swedfund's investments may sometimes require extra time or measures. There can be several underlying causes as to why a portfolio company does not perform as planned, such as poor market development, war and conflict, difficult divestment or liquidation situations or other aspects related to a company's governance. To support the portfolio companies in such situations, we have the Special Operations function. In Special Operations, we spend extra time on the investment or use other methods than usual for a limited period of time to help reverse the development. A decision to move an investment from the investment organisation to Special Operations is made by the Investment Committee.

For companies in Special Operations, it can be an advantage to receive extra support in areas where the challenges exist, such as financing, strategy or ESG issues. For Swedfund, the move to Special Operations can be advantageous as a different team can shed new light on the investment and the assessment of risks and opportunities, as well as providing the investment dedicated time to deal with the situation that has arisen.

