

IFC Fund Governance Progression Matrix for Funds

(Integrating Environmental, Social, and
Governance Issues)



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IFC Fund Governance

Progression Matrix for Funds

(Integrating Environmental, Social, and Governance Issues)

PARAMETER

LEVEL 1 : <i>Understanding the need to professionalize the fund</i>	+	LEVEL 2 : <i>First concrete steps toward best practices</i>	+	LEVEL 3 : <i>Implementation of best practices</i>	+	LEVEL 4 : <i>Leadership</i>
A. Commitment to Fund (& Investee Company Corporate) Governance						
1. The basic formalities of good governance pertaining to the fund are in place and are articulated in the fund's constitutional documents and internal guidelines and procedures. 2. The investors have established a set of principles to guide the investment process. Accordingly, the fund undertakes efforts to assess and improve the corporate governance of its portfolio investee companies. 3. The Fund Manager establishes a written code of professional conduct.		1. Same, and the Fund Manager expresses the fund's commitment to good governance in the form of an established statement. 2. Same, and the Fund Manager has a written agreement with the investor covering a long-term philosophy and approach to corporate governance in portfolio companies. 3. Same, and the Fund Manager rigorously follows and enforces the code of conduct, and periodically discloses to investors its practices in adherence to its code of professional conduct.		1. Same. 2. Same, and the Fund Manager establishes and adheres to relevant internal guidelines on how environmental, social and governance (ESG) factors are effectively integrated into investment decision making. The Fund Manager follows the IFC Environmental and Social Performance Standards (E&S Performance Standards) and has adopted written policies that address, at a minimum, compliance with E&S law and regulation. 3. Same, and the Fund Manager benchmarks its code of conduct to best practices and moves towards full compliance.		1. Same, and the fund follows recognized international best practices/principles of fund governance, (e.g., the International Corporate Governance Network (ICGN) Model Mandate Initiative, the Institutional Limited Partners Association (ILPA) Principles), and is publicly recognized as an international leader in fund governance. Designated/ dedicated fund officer serves as secretary. 2. Same, and the Fund Manager follows recognized international best practices/principles of ESG, (e.g., as the Development Finance Institutions (DFI) Corporate Governance Development Framework (DFI CG Framework)) and establishes a policy on Sustainable Investing. 3. Same, and organization culture has embedded ESG awareness and the fund follows recognized international best practices / principles, (e.g., as articulated in frameworks such as Principles for Responsible Investment (PRI), the CFA Institute Asset Manager Code of Professional Conduct.)

PARAMETER

LEVEL 1 : Understanding the need to professionalize the fund	+	LEVEL 2 : First concrete steps toward best practices	+	LEVEL 3 : Implementation of best practices	+	LEVEL 4 : Leadership
B. Structure and Functioning of the Fund Governing Bodies (Fund Manager / General Partner, Advisory Committee and Investment Committee ¹)						
1. The Fund Manager acknowledges that it acts as a fiduciary on behalf of the investors, and exercises and/or is contracted to exercise a duty of care (reasonable skill and care and monitoring counterparties on an ongoing basis) and duty of loyalty (act in good faith). 2. The Fund Manager has established and maintains a conflicts of interest (COI) policy which the Fund Manager periodically reviews and attests to the investors its sufficiency. 3. Any changes to the fund's terms or investment agreements (e.g. Partnership Agreements) require the approval of a super-majority of the investors. 4. The Fund Manager has formed an Investment Committee to review and approve all investment proposals that is comprised of staff from the fund manager and/or General Partner. 5. The fund establishes a LPAC to enable investors to advise and oversee the Fund Manager.		1. Same, and key man provisions of relevant fund documents allow investors to suspend the investment period upon its triggering cause and any changes to key man provisions are only valid upon approval of the Limited Partners Advisory Committee (LPAC) or a majority of the limited partners (LPs). 2. Same, and the Fund Manager presents COI to the LPAC or LPs and discloses the identity of any investors that may have a potential COI and seek prior approval (from the LPAC) for any conflicted transactions. In case of such transactions, conflicted investors are recused from voting on the concerned investment. 3. Same, and any suspension or termination of the commitment period requires a supermajority vote of two thirds and any removal of the Fund Manager or dissolution of the fund requires a 3/4 vote. 4. Same, and each core investor has the right to designate the composition of the investment committee, but NOT appoint representatives. 5. Same, and the LPAC is comprised of investors only. LPAC members have sufficient time and commitment to serve on the LPAC.		1. Same, and each LP has veto rights to change in key man provisions. 2. Same, and the LPAC establishes a special committee to review COI issues. 3. Same. 4. Same, and the Investment Committee has at least one independent member, and members of the investment committee are explicitly indemnified and held harmless, to the extent permissible under applicable law and regulations. 5. Same and LPAC members are explicitly indemnified and held harmless to the extent permissible under applicable law and regulations.		1. Same. 2. Same. 3. Same. 4. Same, and Investment Committee trained on investees' industry E&S risk issues, which are a periodic agenda item. 5. Same, and the LPAC meeting formation, conduct, voting and record keeping are in line with best practices, including submission of formal invitations to the LPs noting meeting schedule, invitees and objectives; clear record of LPs from each fund and replacement LPs; provision of a standing LPAC meeting agenda and calendar; establishment of voting thresholds and protocols; advice to each LPAC member of expense reimbursement procedures for meetings.

¹ Note that **this Matrix** does not contain a section on the structure and functioning of the board of directors as in other IFC CG paradigms because the primary model contemplated here is a limited partnership and the relationships between the limited partners and the general partner or fund manager. If the fund under considerations is an LLC or other corporate structure, use the board section of another relevant paradigm to evaluate a board accordingly.

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C. Control Environment						
1. The fund has an appropriate system of internal controls commensurate with its organization. 2. The fund has an adequate assurance process. 3. The fund adequately manages risk at the fund level. 4. The fund's policies, practices and matters of regulatory compliance meet all standards established by applicable law and regulations.		1. Same, and the fund's policies and procedures address IFC's related policies.² 2. Same. 3. Same, and the breadth of risks managed is adequate to achieving strategy.³ The Fund Manager also monitors and assesses investee companies' risks. 4. Same, and the fund has developed and is in compliance with a responsible Investment Policy and Code of Ethics.		1. Same. 2. Same, and the fund has an established independent internal audit function or third-party verification. 3. Same, and (a) adequate disclosure of risks and how they have been managed; and (b) the Fund Manager has a process to adequately identify, assess and monitor risks (including ESG risks) and impacts of current or potential investments. 4. Same, and the fund has a dedicated Compliance Officer, a Comprehensive Compliance Policy and a comprehensive annually-reviewed Compliance Program, with mechanisms to report wrongdoing and misconduct.		1. Same, and internal controls are designed in accordance with highest international standards, including but not limited to IIA, COSO, ISO 31000, 19600, 37001, and 27001. 2. Same, and the fund has an internal audit function that is independent, objective, risk-based, and has unlimited scope of activity, functioning according to the Institute of Internal Auditors relevant promulgations. 3. Same, and (a) the risk management system is designed in accordance to international best practices of risk management, such as the COSO 2004 ERM Framework or AS/NZS ISO 31000: 2009; and (b) the Fund Manager monitors/assesses ESG using the DFI CG Framework and IFC E&S Performance Standards. 4. Same, and an annual compliance scorecard is developed and reviewed by the Advisory Committee and the compliance function and policies are developed in accordance with international best practices, such as (a) the Society of Corporate Compliance and Ethics; (b) the Compliance Certification Board; and (c) the Basel Committee on Banking Supervision.

² Guidelines related to: (a) diversification parameters; (b) geographic limitations; (c) limits on the Fund's borrowings and guarantees; (d) confirmation as to investors' limited liability and pass through tax treatment; (e) policy in relation to temporary investments; (f) confirmation of the Fund's policy in respect of bridge investments; and (g) any other appropriate investment restrictions.

³ Include but are not limited to (a) concentration risk at fund level; (b) foreign exchange risk at fund level; (c) leverage risk at fund and portfolio company levels; (d) realization risk, i.e., change in exit environment, at fund and portfolio company levels; (e) strategy risk, i.e., change in, or divergence from, investment strategy, at portfolio company level; (f) reputation risk at portfolio company level; and (g) extra-financial risks, including environmental, social and governance risks, at fund and portfolio company level.

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D. Transparency and Disclosure						
1. The fund complies with all disclosure requirements under applicable law, regulations and listing rules (fair disclosure). Investors and financial analysts are treated equally regarding information disclosure. 2. All fees, i.e., transaction, financing, monitoring, management, redemption, (including all fees charged to the fund or any portfolio company by the general partner), etc. are disclosed.		1. Same, and the fund prepares annual financial statements in accordance with International Financial Reporting Standards (IFRS) and have an annual audit by an independent reputable auditor in accordance with International Standards on Auditing (ISA). 2. Same, and the Fund Manager also provides estimates of quarterly projections on capital calls and distributions.		1. Same, and the fund provides quarterly reports on: (a) fund results,⁴ and (b) portfolio company reports, including relevant ESG/sustainability reports (following minimum national requirement) on portfolio companies. 2. Same, and ongoing disclosures include immediate disclosure of any: (a) inquiries by regulatory agencies; (b) material contingent liability; (c) breach of any fund legal documentation; (d) formation of listed entities; (e) sale of ownership in the management company; (f) formation of other investment vehicles; and (g) all material related-party transactions.		1. Same, disclosure policy in place and its disclosure standards are within the CFA Institute's Asset Manager Code of Professional Conduct, ILPA Principles Standardized Reporting. 2. Same, and including adequate disclosures on risk appetite, risks faced and relevant mitigation and in cases where more than one fund (managed by the same investment adviser) co-invest in the same investment vehicle, expenses are allocated fairly across all of the funds.

⁴ Containing at a minimum: (a) P&L statements that show year-to-date results and changes from the prior quarter; (b) schedule of fund-level leverage, including commitments and outstanding balances on subscription financing lines or other credit facilities of the fund; (c) information on material changes in investments and expenses; (d) management commentary on changes during the quarter; (e) any changes in valuations accompanied by relevant explanations; and (f) a schedule of general partner expenses.

PARAMETER

LEVEL 1 : Understanding the need to professionalize the fund



LEVEL 2 : First concrete steps toward best practices



LEVEL 3 : Implementation of best practices



LEVEL 4 : Leadership

E. Treatment of Limited Partners / Asset Owners / Investors

1. All investors are provided with adequate notice and agenda of all investors meetings and permitted to participate and vote at the meetings and any changes to the investment agreement, (e.g., Limited Partnership Agreement), require a super-majority of 3/4.

2. The alignment of interests between the investors and the Fund Manager is adjusted in favor of the investor vis-à-vis the management fees, operational costs, placement fees, transaction fees, catch-up arrangements, etc. Investors are provided with accurate and timely information regarding the number of shares of all classes held by controllers and affiliates (ownership concentration).

1. Same, and at the annual meeting investors are afforded the right to review annual accounts, appoint the auditor and verify any 'key men' appointments to (as well as the frequency of attendance, participation, and voting of 'key men' at the Investment Committee.

2. Same, and (a) carried interest is calculated on the base of net profits and on an after-tax basis; (b) any claw backs are fully and timely repaid; (c) management fees are based on reasonable operating expenses and salaries; and (d) the Fund Manager has a substantial equity interest in the fund and it is contributed in cash as opposed to through the waiver of management fees.

1. Same.

2. Same, and (a) no carry is taken on current income or recapitalizations until the full amount of invested capital is realized on the investment; (b) the claw back period extends beyond the term of the fund, including liquidation and any provision for investor giveback of distributions; (c) during the formation of the fund, the investors are given a fee model used as a guide to analyze and set fees, and the management fee encompasses all normal operations to include, at a minimum, overhead, compensation, travel, deal sourcing and other G & A expenses (and any placement agent fees are borne entirely by the Fund Manager); and (d) the Fund Manager is restricted from transferring its real or economic interest in the fund and is not allowed to co-invest in underlying deals unless such investments are made on a pro-rata basis under pre-disclosed co-investment agreements.

1. Same, and investor voting is done by the investor or its designated agent and the annual investor meeting is conducted in accordance with best practices. For instance, it is preferred that the investor or its designated client exercises the voting rights. Less preferred methods are the fund manager may (a) exercise of any voting rights in accordance with the investor's expressed voting guidelines; or (b) procure the exercise of all voting rights on the investor's behalf, in accordance with guidelines approved by the investor, so long as (i) the investor reserves the right to rescind the authority upon reasonable notice, and (ii) the fund manager has in place adequate policies to manage any conflicts of interest in relation to voting matters and reports at least quarterly on all votes.

2. Same.

PARAMETER

LEVEL 1 : Understanding the need to professionalize the fund



LEVEL 2 : First concrete steps toward best practices



LEVEL 3 : Implementation of best practices



LEVEL 4 : Leadership

F. Governance Stakeholder Engagement – External Communication Mechanism

1. Fund addresses compliance with E&S law and regulations for stakeholder engagement.

1. Fund has assigned responsibility to review external E&S communications.

1. Fund has a dedicated External Communications Mechanism (ECM) to (a) receive and register external communications from the public; (b) screen and assess the issues raised and determine how to address them; (c) provide, track, and document responses, if any; and (d) adjust its management systems, as appropriate.
2. There is a written procedure outlining how external E&S communications are handled.
3. Fund keeps track of communications by type and severity/risk.
4. External E&S inquiries are reported to senior management and LPAC.

1. Fund proactively seeks to meet with stakeholders to solicit and discuss feedback about its policies and procedures as well as concerns about fund projects within which fund has invested.

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