



**LATIN AMERICAN PARTNERS**

**Environmental, Social and Governance  
Policy**

**2022**

## **Investment Philosophy**

LAP is a fund manager with extensive experience in private equity investing and private debt financing in Latin America. Through our focus on infrastructure and selected other sectors, such as energy, transportation, telecommunications, natural resources, water & sanitation, and social infrastructure, among others, we aim to provide attractive long-term risk-adjusted returns to investors while transforming local economies and livelihoods by investing in companies with strong sustainable business models through optimized capital structures.

We seek to partner with mostly medium-sized companies, with responsible owners, experienced management teams, promising growth potential, and strong social and environmental credentials. LAP fosters development of entrepreneurs and local businessmen by providing them with long-term capital, promotion of best practices (ESG, corporate governance, financial reporting, etc.), and access to additional funding sources through investors and other institutions active in the region. LAP has a private equity approach to all its investments regardless of investment instrument and a hands-on approach in actively managing them.

ESG is at the core of our investment philosophy and has been for many years. LAP has a long-standing tradition of incorporating ESG considerations to the decision-making of the funds under its management and having the proper internal capabilities to do so, having implemented its first environmental and social management system (ESMS) in 2008. LAP believes that the consideration of ESG factors is essential in assessing investment opportunities and developing businesses that are commercially sustainable and profitable over the long term.

LAP is firmly committed to working under principles that follow ESG guidelines for responsible investing.

## **Definitions**

ESG: Environmental, Social and Governance

ESMS: environmental and social management system

IFC: International Finance Corporation, part of the World Bank

LAP: LAP Latin American Partners LLC

UN PRI: launched in 2006, the UN Principles for Responsible Investment (PRI) is an international organization that works to promote the incorporation of ESG factors into investment decision-making.

## **Responsible Investments**

This Policy is based on UN PRI's six principles for responsible investments:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

### **Criteria; ESG Factors**

LAP shall consider risks, impacts and opportunities related to environmental, social and governance factors, including but not limited to:

Environmental: pollution, natural resource use, waste management, water consumption, biodiversity impacts, carbon emissions, climate change, land use.

Social: health and safety, job creation, working conditions, training, equal opportunity, impacts on local communities, labor around supply chain.

Governance: board structure and diversity, ethical conduct, risk management, disclosure and transparency, shareholder rights, stakeholder engagement, internal controls, values and culture.

### **Scope and Approach**

LAP's ESG policy covers every investment fund managed by LAP.

Regardless of the specific investment mandate by any LAP-managed fund and the asset class (investment instrument), ESG factors are considered throughout the investment cycle alongside financial and commercial considerations - from screening and due diligence through ownership and portfolio management.

The firm has in-house professionals with appropriate background and experience overseeing the application of the ESG policy and relies on specialized external consultants where appropriate to assess, manage and mitigate ESG aspects. LAP's hands-on portfolio management approach ensures that these topics are appropriately known not only to LAP's ESG team but also throughout senior management and the investment team. Our asset management approach allows us to develop close relationships with partners and managements, cultivating a more favorable approach to appropriate ESG management in addition to asserting contractual rights and duties.

The implementation of the ESG policy considers leading ESG guidelines and standards applicable to asset managers operating in emerging markets relevant for LAP, such as the IFC's

environmental and social performance standards (PS), among others. All of LAP's funds to-date have formally committed to applying the IFC's PS.

### **Implementation**

LAP's ESG policy is implemented through fund-specific ESMSs defining a set of guidelines, practices, and procedures to be followed by LAP as manager of such fund. Every LAP-managed fund will carry out its investment activities with appropriate considerations for the environmental, social, health, safety and labor aspects related to the activities it finances.

The ESMS details the workflow that will be followed for investments under consideration or made by the fund. The guiding principle of the ESMS is that investee projects and companies shall fully comply with specific set of ESG standards or policies (such as IFC's PS), as well as applicable laws and regulations. Key elements of the ESMS include the following:

- A guiding policy
- Roles, responsibilities, and training requirements for the fund manager, including ability to work productively with ESG experts and outside consultants
- Eligibility (including exclusion list), screening, and categorization of each potential investment according to its complexity of ESG aspects, based on specific guidelines (category A, category B or category C)
- Appropriate requirements for due diligence, action plans, mitigation, or remediation as appropriate according to the assessment, or rejection of a potential investment.
- Ongoing monitoring of ESG aspects and compliance with plans
- Reporting requirements, both from the investee companies to the fund and from the fund to its investors.

As mentioned, ESMS covers the entire investment cycle by any LAP-managed fund: sourcing, due diligence, monitoring, and active management of investments.

In most cases, funds managed by LAP contract third party experts to perform the environmental and social due diligence and, in certain cases, to monitor the investment during the holding period.

LAP avoids certain sectors and/or specific investment opportunities because of the ESG risk profile of those activities or products/services offered, and/or because of the lack of fit with our investment philosophy. Each fund managed by LAP clearly outlines those exclusions. In addition, we seek to avoid investments for which we believe the ESG challenges may exceed our and/or the prospective company's capacity to assess, monitor or enforce compliance with our ESG standards.

Every investment presentation to a fund's Investment Committee throughout the investment process includes the integration of ESG, sustainability and/or development impact topics and risks, and recommendations on how to effectively manage them.

### **Reporting and Review**

LAP monitors and reports progress of this ESG Policy annually through PRI's reporting framework. Each LAP-managed fund privately reports to its investors annually based on the requirements set by each fund-specific ESMS.

This ESG Policy is subject to review by LAP's senior management every two years, or as deemed necessary, to reflect substantial changes to implementation methodologies, adjustments to global improvement of requirements for UN PRI signatories, or as a result of a change of LAP's investment philosophy, business model and/or organization.