



Social Impact Report Year 1

International Housing Solutions Social Impact Report 2016

July 2016

CONTENTS	
1) MANAGING DIRECTOR OVERVIEW	
	Organisational Summary
	Commitment to Social Value
2) SOCIAL PURPOSE AND CONTEXT	
	The challenge: Africa's housing demand
	How we achieve impact
3) WHO BENEFITS?	
4) ACTIVITIES AND OPERATIONS	
	Activities
	Outcomes for Fund II
5) STAKEHOLDERS	
6) EVIDENCING SOCIAL VALUE	
7) OTHER ISSUES: CHALLENGES POSED BY NEGATIVE EXTERNALITIES	



Figure 1: Unskilled people supported by IHS to obtain training and equipment to learn to make bricks for low income construction



1. MANAGING DIRECTOR OVERVIEW

In a world where population is soaring and sustainable housing development can't keep up, International Housing Solutions (IHS) is helping thousands of African families get the housing they deserve: safe, affordable, and environmentally-efficient.

We aim to fill the gap between supply and demand for housing, specifically serving the “missing middle” households. And what makes us different is our laser-like focus on affordable housing, giving us unrivalled expertise and experience compared to other organisations in Africa.

We are very proud to have been the first investment managers in South Africa to focus on affordable energy-efficient housing, and are still the leaders today. We are demonstrating that private equity funds focused on affordable and green housing can be an effective means to leverage the power of the investment community has to deliver positive financial, social and environmental outcomes.

Since 2008, IHS has raised \$477 million of capital from an impressive group of institutional investors, and with its three funds under management, has been able to leverage this equity into strong tangible results, which include:

- 18,086 units completed or under construction – impacting the real economy through a direct and indirect multiplier effect
- Providing safe and affordable housing for about 65,000 low- to middle- income South Africans; for purchase (10,457 units) and for rent (6,000 units)
- Creating jobs – short term and in perpetuity for on-going operation and maintenance, primarily for unskilled, previously disadvantaged men and women in the communities where the projects are located
- 49 projects closed to date which support a number of well-vetted, approved developer partners, doing repeat business with a number of the developers
- Stimulating the financial sector with the provision of project level debt and end-user mortgage finance
- Creating a greener future by committing to at least 25% green housing units in IHS Fund II; which includes measuring, analysing and reporting on water, energy, and CO2 savings.

As affordable and green housing backlogs continue to increase exponentially across the African continent, the need for additional investment is becoming increasingly urgent.

To this end, IHS is hoping to raise additional capital for its IHS Fund II (needs to be closed by January 2017), including green units designed to improve the efficient use of energy, water and building materials in our developments, to be an even stronger catalyst for positive change.

We look forward to our membership within the Social Stock Exchange as recognition of our efforts to date, and vision going forwards, in improving housing stock and livelihoods in Africa.

Organisational Summary

What we do

IHS is a private affordable housing investment manager. We raise institutional capital and invest it in the development or renovation of affordable housing in Sub-Saharan Africa, both for-sale and for-rent, affordable to the fast growing low to middle income market in South Africa and other target Sub-Saharan countries. IHS is owned by MMA Capital Management LLC, a publicly-listed US affordable housing and renewable energy investment manager (formerly MuniMae). As such, we are under the corporate governance of this major US shareholder, and are therefore governed by their rigorous policies and procedures, including their code of ethics and principles of business integrity to combat issues such as bribery and corruption.

To date, our investments have resulted in the production of about 18,000 homes. In our current Fund, IHS Fund II, we have raised capital specifically for the purpose of "greening" a portion of the homes produced. Based on capital raised to date, we have committed to 5,060 green homes (25%). We have so far closed six projects in Fund II (five green home projects).

Our IHS headquarters are located in Johannesburg, South Africa and all but 4 of our 31 employees are based in South Africa. Our primary countries of operation are South Africa, followed by Namibia and Botswana (we expect about 15% units developed in Fund II will be outside South Africa). The Fund has targeted these countries based on careful analysis of their economic strengths, demographic characteristics, and stable political and legal environments. All of the countries weathered the recent recession with minimal disruption and have stable, business-friendly governments. Other Sub-Saharan countries may be chosen as investment destinations on an opportunistic basis to the extent that attractive risk-adjusted returns are identified.



Figure 2: Focus Markets



IHS is responsible for sourcing and analysing investments, executing on investment decisions, monitoring and advising the fund's investments, and eventually exiting from its investments prior to the end of the relevant fund.

We make investments primarily in residential properties – new developments, conversion and straight acquisition – that are targeted at filling the gap between supply and demand for housing serving the “missing middle” households.

Typical IHS target householders – social and financial profile:

Our units are aimed at South Africa's “missing middle”: on low to middle-income, between R3,500-R20,000 per month in South Africa, and \$300-\$1,800 per month in other countries. The average salary in South Africa is R17,422 per month.

While we report rigorously on the affordability of our units (based on their rent and sales prices), further information on the income profile of our buyers/renters would help to further quantify the affordability impact we are having in the various communities we serve. To this end, we are looking to work with the Social Stock Exchange to define the relevant information we should obtain (i.e. first-time homebuyers, family income, family members, information relating to transportation and education), which will provide for more transparency and better analysis. We expect to begin reporting this information in the new year.

In addition to conventional development projects, the fund may invest in specialised properties, such as housing for faculty and students at universities, or work with employers to create employee housing near employment centres.

Housing units are sold upon completion or rented out and sold at a later point, depending on market conditions. We ensure every project we fund and design includes an outside recreational area, space to dry laundry, and security measures (e.g. controlled access). On some projects, there are also crèches, schools, clinics, religious facilities, recreation and parks, etc. built nearby; this is not funded by IHS, but is the initiative of the developer, or e.g. enabled by sponsorship from a corporation or bank. We are also working with the government to utilise the various housing subsidies that have been provided, such as the Financial Linked Subsidy Program (FLISP) in several of our projects.

Who we are

Our senior management team:



Michael Falcone

Mike is the Executive Chairman and has 30 years' experience in real estate and finance. He is CEO and President of MMA Capital Management LLC ("MMA"), which has been the shareholder of IHS since 2005. He is responsible for all aspects of the general management of MMA, focusing on strategic planning, risk management, business development, and oversight of the performance of the Company.



Cathal Conaty

Cathal serves as a Managing Director responsible for Portfolio Management and Fund Administration. Mr. Conaty is also founder and president of the Mathari Children's Fund, a street children program caring for and educating impoverished children in Mathari, Kenya.



Rob Wesselo

Rob is a Managing Director responsible for South Africa Operations at International Housing Solutions. He is responsible for sourcing investments, structuring and negotiating deals with developers and managing the operations of IHS in South Africa.



Solly Mboweni

Solly is Head of Housing Operations, with direct responsibility for the activities of the Deal Team and the Asset Management Team.



Nikki Blane

Nikki is Chief Financial Officer for IHS, responsible for accounting, treasury, corporate services, budgeting and financial reporting for the company.



Soula Proxenos

Soula is a Managing Director at IHS and is a member of the Investment Committee. She is responsible for Capital Raising and Investor Relations. Ms. Proxenos also serves on the board of Tahirih Justice Center and her expertise is in facilitating access for the poor through financial products.



Our six Advisory Committee members belong to the following organisations (we have not included names of members due to time constraints):

- KfW, Germany
- WDB Investment Holdings, South Africa
- Eskom Pension & Provident Fund, South Africa
- International Finance Corporation, USA
- International Finance Corporation, USA
- National Housing Finance Corporation, South Africa

In addition to the members of the senior management team above, we employ **25** people in the following organisational areas:

Deal Oversight & Due Diligence 4 People	Asset Management 7 People	Finance & Administration 7 People	Legal 4 People	Portfolio Management & ESG 3 People
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In 2015, we established IHS Property Management (PM) to take responsibility for the daily operation of our funds' rental properties. This was not done exclusively as a profit venture, but because we understand that no one manages assets as well as those that own them. IHS PM manages the costs and quality of service to a much higher standard than an external organisations have done in our experience.

Commitment to Social Value

Our social purpose is enabling affordable housing for a substantial yet overlooked slice of the African population, and producing these homes in a way which supports the South African economy, and earns our investors a socially responsible return on their investment.

Our developments improve the social and economic strength of low-to-moderate income households in a number of ways:

- **Affordability** – by increasing the supply of affordable homes. More affordable mortgage payments or rent frees up capital for other uses such as food, health care, education, etc. Green homes reduce costs of energy and water too. In South Africa, almost all those whose income qualifies them for an IHS unit will be able to get a mortgage with affordable repayments, and so we do not need to have a special finance facility/incentive to enable discounted mortgages.
- **Wealth creation** – all IHS for-sale buyers have security of tenure through ownership – all have clear title to their property bringing all the legal rights and benefits accorded by ownership. This allows people to take their first steps toward wealth creation, and ownership also brings a stronger sense of community.
- **Entrepreneurship/SME opportunities** – an economy's prosperity is highly dependent on a dynamic entrepreneurship sector. This is true across all stages of development.



And social value is built into the way we interact with all our stakeholders, from how we treat our employees, to those in our supply chain.

Affordable homes

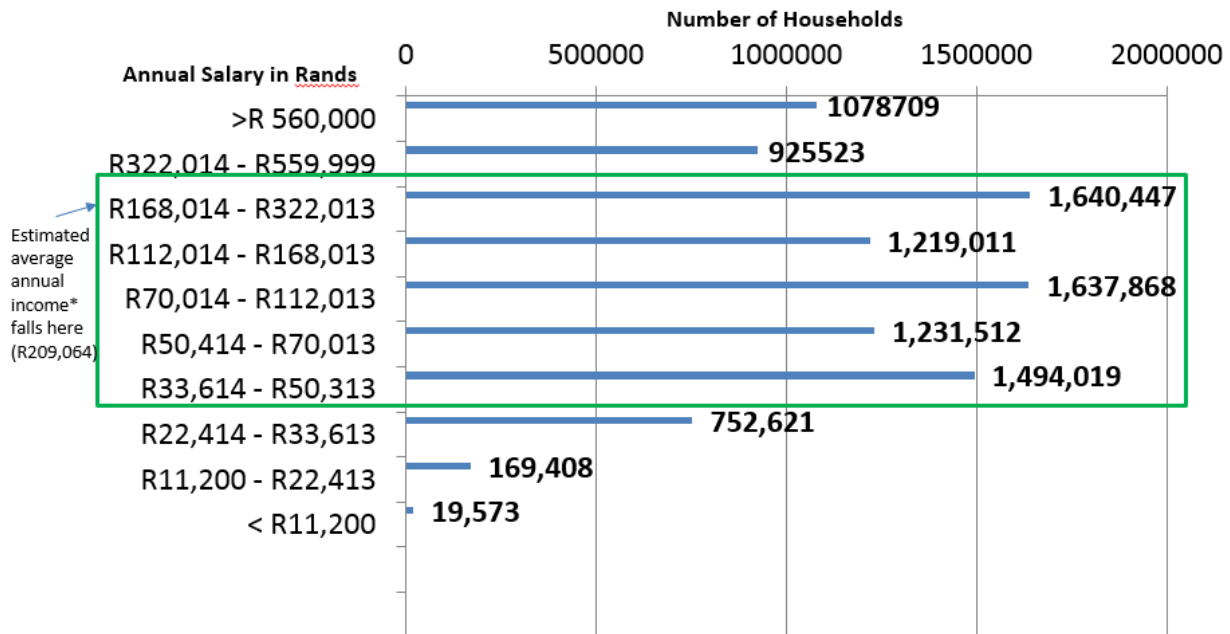
We are not trying to be the cheapest provider of homes in our market, but trying to contribute to solving the housing crisis by providing quality homes in very strong locations, close to good schools, employment, transport, etc., and trying to make them green too.

‘Affordable’ reflects the percentage of units that qualify as affordable housing for sale and rent in SA based on the current Financial Sector Charter guidelines; over 80% of our properties achieve this definition by being affordable to those earning below R20,000 each month (i.e. R240,000 per year).

Average price of small home in SA (Housing report, ABSA Bank)	Average price of IHS units in Fund II – Closed Deals as of 30 June, 2016	Difference (for comparable size)
R933,000	R500,000	46% cheaper

Monthly income needed to qualify for bond to buy units (based on current mortgage rates/terms)	Monthly income needed to qualify to rent units	South African average income (per month) (Source: Stat SA)
R15,039	R16,666	R17,422

Affordability in South Africa



Source: Canback Global Income Distribution Database - 2014

TOTAL NUMBER OF URBAN HOUSEHOLDS = 10,172,992
IHS TARGET MARKET – R42,000 – 240,000 PER YEAR = 7,222,857 HOUSEHOLDS

Figure 3: IHS' target market. This is another way of demonstrating that our properties are priced to be affordable to those on low- to middle-income.

* For the purposes of the diagram, the South African average income per month figure has been extrapolated. (Monthly income figure sourced from Stat SA; all other data in diagram is from Canback Global Income Distribution Database 2014.)

Green homes

'Green homes' are those which meet the IFC EDGE standard of 20% savings in water and energy (carbon and electricity) compared to a typical home of the same size; we aim not just to build the homes, but also measure and market the savings extensively – to help customers understand the benefits and create further demand for green housing in Africa. This is explored further throughout this report.

Communicating social and environmental impacts

IHS has developed a number of ways to communicate with our stakeholders. We believe a strong corporate governance structure ensures accountability and adherence to the strategy and mission of IHS.

We communicate our social impact to stakeholders in different ways. And to report this requires the use of tools for the on-going monitoring, measuring, analysis and reporting of our impacts (see information on our Social and Environmental Management System in the Activities and Operations section). These tools evidence our strong commitment to quantify our impact, as well as to use the information to improve our processes and procedures when deemed appropriate. While section 5 provides full details on how we engage the groups on our social purpose, here is a summary:

- We issue extensive **quarterly Investor Reports** which include the progress and performance of the investments and strategies of the funds. This is accompanied by a quarterly conference call to address progress, challenges, issues, etc.
- **Quarterly ESG Monitoring Report** for each closed project in IHS Fund II; **AGM/Advisory Committee Meeting** in South Africa with all investors and advisory committee members.
- The Asset Managers of IHS **regularly meet** with the developers during the construction period; and with property management team for rental.
- We engage with communities as part of our developer's **pre-project planning** process.
- We meet generally **weekly with the Green Building Council** of South Africa as they certify our green homes meet the EDGE standard.
- We engage with our **developers via quarterly written confirmation** that they are still in compliance with our ESG policies and procedures (part of our Social and Environmental Management System).
- Once we have occupants living in the Fund II properties, we also **plan to survey their satisfaction**, as well as **supply them with water/energy consumption data**.



Rob Wesselo, Managing Director





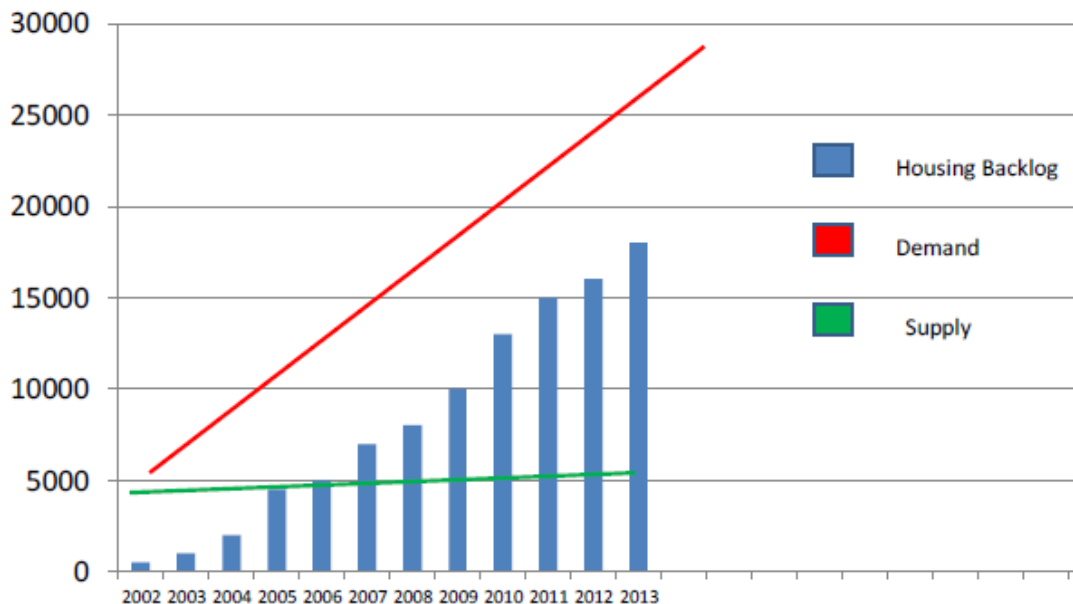
2. SOCIAL PURPOSE AND CONTEXT

The challenge: Africa's housing demand

Supplying homes

Africa will add 800 million people to its urban population between 2010 and 2050 (according to UN-Habitat). That translates into hundreds of millions of homes. And while homes are being built, this is being done at huge environmental cost, and not at a fast enough rate.

The supply of housing that is affordable to the growing urban population is woefully inadequate, and the crises in housing supply are obvious; all forces need to be rallied to overcome these crises. The supply-demand situation is similar across all the countries we operate in. The graph is for Windhoek, Namibia, a city with a very similar macroeconomic climate to the other cities/countries in which we operate (including cities in South Africa, where the majority of our units are built).



Source: Bank of Namibia, Namibian Statistics Agency, IMF Calculation

Figure 4: Housing supply, demand and backlog in Windhoek, Namibia

If these people aren't living in energy-efficient housing, this growth will be a disaster for the global climate. Right now, there is almost no demand for green housing in the affordable market, because people aren't aware of the benefits and assume they are unaffordable. And since there is no demand, there is no supply.

Green homes are not being built in the affordable market because:

- There is limited demand due to unclear benefits and perception of high costs.
- Private finance is waiting until demand is proven.
- Catalytic and commercial investors haven't joined forces.
- No large scale demonstration projects.

The housing backlog in South Africa is 2.3 million units, with only about 100,000 units built each year.

This is Africa's one time opportunity to focus the building boom on developing sustainable homes fit for the future. And, considering over 18% of global electricity is used for heating, cooling and lighting homes, these new homes need to be much more energy efficient than has been the case to date.

IHS Fund II's mandate is to create a market - both supply and demand - for affordable green houses in Africa. Through its prior Funds, IHS has delivered about 18,000 affordable homes and it aims to double that using the current Fund.

Impacting positively on the environment

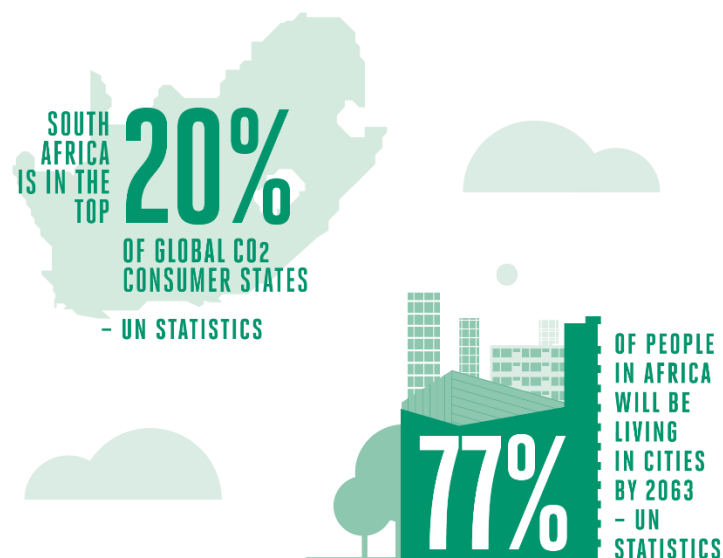


Figure 5: Infographic from the Green Building Council of South Africa

The provision of green units increases affordability, as low income households typically pay over 15% of their disposable income on utility bills.

When we talk about 'green homes', we are talking about those which achieve the IFC EDGE green building certification, i.e. they must achieve minimum of 20% savings in water, energy and embedded energy in materials compared to the average home in South Africa.

Area	Projected savings for IHS green homes (per home per year)	Total projected savings for IHS green homes (5,060 homes)
Water (kL)	55	278,300
Electricity (kWh)	1320	6,679,000
CO2 emissions (t)	1.2	6,178

Due to time constraints, we have been unable to obtain reliable water/energy consumption figures for the average South African household, for comparison with that of an IHS green home. In next year's report, we aim to do thorough analysis and be able to report this comparison.

Green homes provide an opportunity to significantly reduce water and energy usage, at a relatively low marginal cost, with the ability to reduce their consumption of energy to less than half of what a conventional building does, at relatively little cost.

Energy efficient improvements reduce the long-term operating costs of subsidised multi-family buildings. This helps to stabilise the portfolios of affordable housing providers, preserve the affordable rental housing stock, and protect tenants from instability.

The potential of channelling investments into housing, such as ours, provides the double benefit of reducing energy consumption and contributing to employment in the construction industry. In the UK, the Federation of ALMOs (NFA), in their joint submission to the Comprehensive Spending Review, provide some useful analysis and strong evidence of the positive economic outcomes generated from investment in housing, including:

- supporting economic recovery
- supporting strong and stable families and ending child poverty
- improving health outcomes
- driving up the competitiveness and productivity of an economy
- raising educational achievement
- reducing crime and anti-social behaviour
- helping to create a greener future by tackling carbon emissions and supporting the creation of green jobs.

The targeted committed equity of R2 billion for South Africa and \$85 million for Sub-Saharan Africa will mobilise private and public sector financing for environmentally sustainable, affordable housing for sale and rent in target countries. The Fund has the unique ability to shape resilient cities of the future by influencing the design (green aspects) and growth plan, which can support sustainable urbanisation through:

- Water supply
- Reduced strain on current electricity grids
- Roads
- Schools, hospitals, transportation.

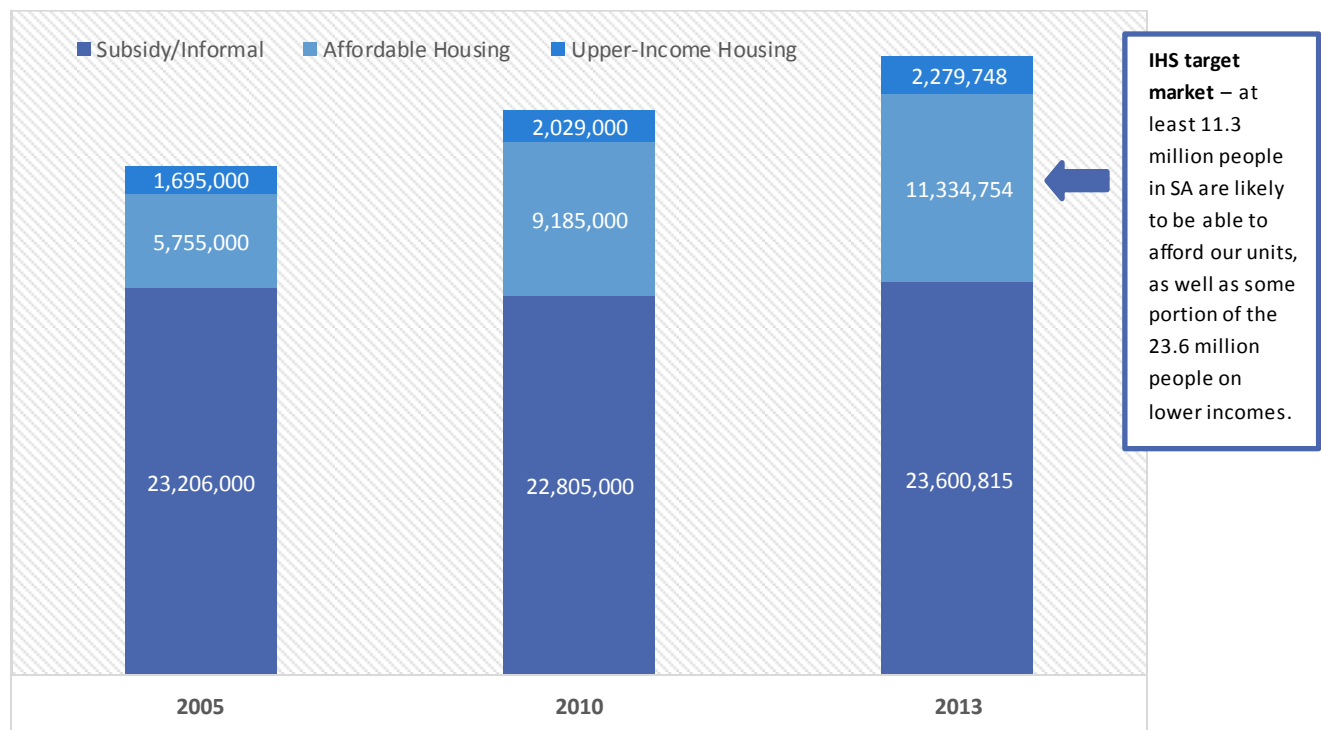
Size of the opportunity in South Africa and target countries

The good news is that the private sector can be encouraged to resolve parts of the housing crisis described above. However, for the private sector to operate efficiently in the construction of housing, there needs to be a robust mortgage market; and for there to be robust mortgage markets, lenders need to know there is stock for their customers to purchase.

Many countries are locked into this negative cycle where the only functional housing market is at the high end, leaving government with the need to support all other households – even those who can afford to pay for housing – or face the burgeoning of informal housing. It is IHS’s position that by providing affordable homes to households that can afford to pay for their housing, it relieves government to spend effort and money on supporting the poorest households.

There is much opportunity in Africa because:

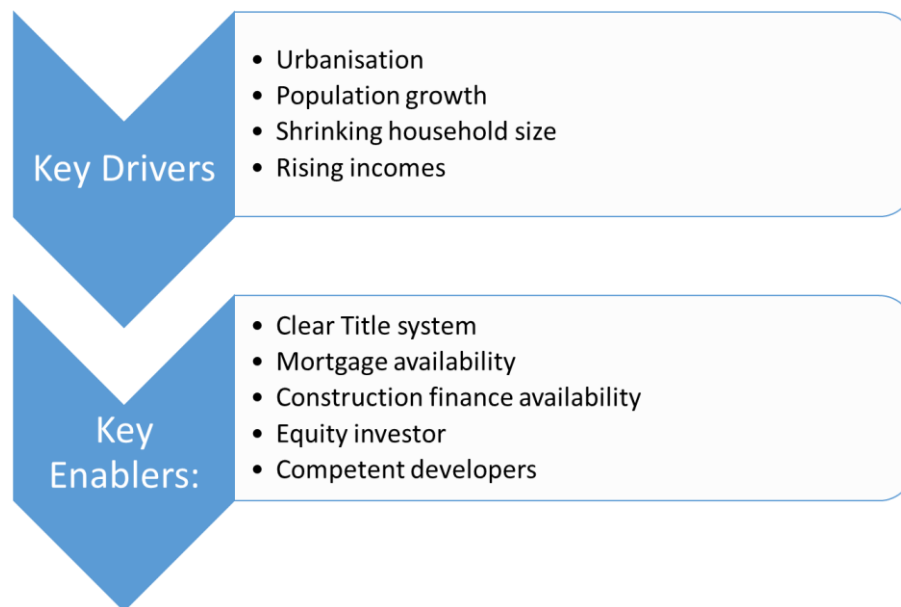
- Six of the thirteen fastest growing economies in the world are in Africa (World Bank Global Economic Prospects).
- Economic growth creates a fast-expanding customer base who can afford to pay for housing – the graph below shows the growth in number of adults in South Africa by income group:



Using the *Centre for Affordable Housing Finance in Africa's 2015 Yearbook* (dated October 2015) and other data, the following table below reflects the current housing backlogs in selected countries:

Country	Affordable Housing Need	Annual Delivery	Outcome
South Africa	610,000 units in our market segment alone	40,000 units across all segments	Net need growing
Ghana	2 million units	50,000 units	Net need growing
Botswana	29,000 homes over 7 years	378 homes in latest year recorded	Net need growing
Mauritius	20,000 units	About 500 units	Net need growing
Namibia	100,000 units	Low – plenty of plans but low delivery	Net need growing

Figure 6: Housing backlogs in Sub-Saharan countries (Source: African Housing Finance Yearbook 2015)

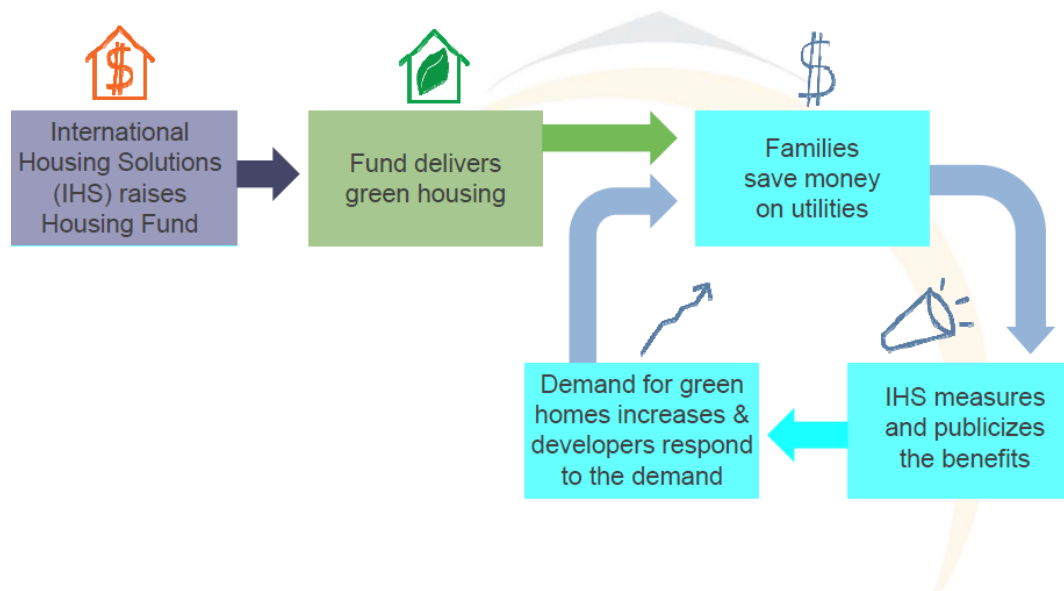


At 32% of household expenditure, housing, water, electricity, gas and other fuels is by far the largest expenditure group for South African households (according to Statistics South Africa's most recent report in 2010/11). Between 2008 and 2014, electricity prices have risen by more than 170%. And there are a number of signs that this is set to increase further still (e.g. in an attempt to recover rising operating costs, the National Energy Regulator of SA (NERSA) for 2015/16 has approved a 12.69% tariff increase).

And this is also against the backdrop that ESKOM, South Africa's electricity public utility, is already unable to meet electricity demand today, with population growth and lifestyle changes, let alone in future.

The same prognosis can be given to future water supply, as South Africa is already battling with severe water shortages. Given the circumstances, overall utility bills are expected to further increase and exacerbate the burden on particularly lower income households.

How we achieve impact



The mission of the IHS Fund is to invest in the development of affordable housing units in Africa that have an explicit positive impact on the environment. Our key goals are to:

- Mobilise private and public sector financing for environmentally sustainable green housing for sale and for rent in our target countries
- Create jobs
- Provide quantifiable savings in electricity, water and CO2 consumption for green units, and use these as a catalyst for further green building
- Improve transparency of environmentally sustainable finance outcomes
- Regularly report on performance and progress of underlying investments

The specific competencies of our organisation, and the people that make it, serve as the foundation for our ability to deliver on these goals:

- A track record of successful housing investments in South Africa
- Relationships with strong local partners and access to deal flow



- Relationships with the major financial institutions operating in the target countries
- A focus on housing and a deep understanding of housing demand in the lower and middle - income segments of the housing market of the target countries
- Expertise in structuring and managing housing development joint ventures in market segments where institutional investors often lack experience
- Well established and highly skilled team based in Johannesburg, South Africa, with proven execution capability
- Discipline in underwriting markets and credit risks
- Long-term fiduciary management of institutional investments in workforce housing
- A deep knowledge of the region
- A culture of service, innovation and integrity

Our rigorous procedures give us oversight on how our projects are performing against our key social and environmental objectives, ensuring we know the extent to which our social purpose is being fulfilled.

3. WHO BENEFITS?

Beneficiary	How they benefit	How we measure this
Shareholders and investors of the Fund	By taking part in the generation of quantifiable social and/or environmental impact, with the potential for attractive risk-adjusted returns on their investment.	<p>We have 9 investors, with an average projected return of 20-22% prior to taxes for Fund II.</p> <p>We have not been able to compare this return to competing funds, as the only other similar fund in South Africa does not post any details on their returns.</p>
Employees (IHS and indirectly)	<p>Creation of jobs for a significant number of people in countries where investments are made – both direct and indirect.</p> <p>Direct job creation: IHS and IHS Property Management.</p> <p>Indirect job creation: through development of units for sale, and operation and management of rental units. For the latter, these jobs are permanent roles for ongoing maintenance of rental properties (e.g. managers, maintenance staff, gardeners, etc.).</p>	<p>Direct: 31 people are employed by IHS, and there are 112 IHS property management staff.</p> <p>We employ a diverse workforce, including 109 (76%) who are “previously disadvantaged” (i.e. from black and minority ethnic communities).</p> <p>IHS spent R165 k on training in 2015, and R153 K (93%) was provided to previously disadvantaged employees.</p> <p>IHS has Level 6 BEE certification (Broad-based Black Economic Empowerment). This is an initiative launched by the South African Government, to address the restrictions that exist within the country for Black individuals to participate fairly in the economy.</p> <p>Indirect: Through development and rental, we indirectly create or maintain employment for 853 people; 82% are previously disadvantaged.</p> <p>IHS provides benefits to the rental staff (16 people) as they are employed by IHS Property Management.</p> <p>We also estimate jobs in perpetuity over the 10 year life of the Fund:</p> <ul style="list-style-type: none"> • For construction and development, we estimate 50,000 person years of

		<p>employment.</p> <ul style="list-style-type: none"> • For rental, we estimate 53,000 person years of employment over the life of the fund • ...Meaning we estimate 100,000 person years of employment will be created over the life of the fund.
Developers	<p>The biggest constraint faced by developers of affordable and/or green housing is a lack of equity. Through this fund, developers can implement housing projects that would be impossible without it.</p> <p>IHS also brings an institutional-level ESG focus that enables developers to learn and implement a higher standard of operation.</p> <p>As a knock-on impact of IHS funding, the Developers are able to employ/sub-contract to other organisations, also creating jobs.</p> <p>Also, our green homes enable the exploration of alternative green technologies, which Developers may struggle to get exposure to if not involved in our projects.</p>	<p>We work with 20 Developers, many of whom we choose to work with repeatedly.</p> <p>These Developers employ a combined total of about 2,000 people, but additionally employ a much larger number of sub-contractors during the construction phase of the projects. Approximately 70% of the workers on our development (construction) projects are sub-contractors.</p> <p>Each quarter, developers have to supply written confirmation that they are in accordance with our environmental and social policies.</p> <p>We carry out quarterly audits of projects during the construction phase to confirm projects comply with our social and environmental policy and Environmental Management Plan. It is the developers' role to procure materials and supplies in accordance with this governance.</p> <p>JV partners provide a wide range of training to their staff, particularly to unskilled labour; we aim to obtain metrics on this going forward in our interviews.</p> <p>The fund's committed equity is leveraged by 2-3 times in the overall project costs which includes all the construction materials, green building technologies, professional services.</p>
Local financial institutions	<p>We create opportunities for banks to finance project level debt, as well as to provide mortgage loans to home buyers.</p>	<p>We believe that a majority of the home buyers take out a mortgage.</p> <p>We will track and report on the amount of project level debt for each investment.</p>

		We will attempt to gather more information on the details of mortgages being originated on IHS units that are sold.
People in the communities	<p>Communities benefit from the creation of much-needed affordable housing and associated facilities.</p> <p>The building of homes (and maintenance of rental units) also creates significant economic impacts, including increasing local purchasing power, creating jobs, and adding new tax revenues.</p>	<p>R1.5bn (81%) of our first fund’s investments are in low income areas.</p> <p>An average of 85% of the workforce is local to each project.</p> <p>80% of units meet Financial Sector Charter (low income) requirements in South Africa.</p>
People living in the units – both owners and tenants	<p>Alongside affordable places to live, our developments enable people to feel safe, and access schools, places for recreation, health facilities and places to worship. All of this is what makes a liveable community.</p> <p>As well, as an estimated 15% of income goes to paying utilities, the occupants of green homes also benefit from reduced consumption, ultimately saving them money.</p>	<p>Our Fund I homes accommodate around 65,000 people (assuming 4 people per unit). As we are just taking delivery of our first Fund II properties, we do not yet have occupants there.</p> <p>The average price of IHS units in Fund II will be R720,000, 30% cheaper than the South African average for a house of the same size. (The current average price of closed deal IHS units is significantly below this, at R500,000, 46% cheaper than the average South African house of a similar size.)</p> <p>Secure access is essential in South Africa, and we focus strongly on this in addition to providing recreational outdoor space and other amenities.</p> <p>We strategically situate our developments close to areas of employment and in proximity to shopping and transport.</p> <p>All of our projects are within 10 Km of schools All of our projects are within 15km of healthcare facilities</p> <p>In a University of Cape Town survey of Fund I residents, the overwhelming majority (72%) felt</p>

		<p>their lives had improved. We will survey Fund II occupants when units are occupied.</p> <p>Once units are occupied, we plan to provide information on the benchmark usage of water and electricity to consumers, so they can see how their consumption compares with other people in the project.</p>
<p>Environment</p>	<p>In our green homes, the benefit will be 20% reductions in water and energy use (electricity and energy embodied in building materials) compared to other homes of a similar size.</p>	<p>At least 5,060 homes will be IFC EDGE-certified green homes (around 25% of the homes we will build in Fund II).</p> <p>These homes have to show a projected 20% savings across water and energy (electricity and energy embodied in building materials), before we will release the money for the project.</p> <p>We will generate baselines for measurement of water and energy use through the IFC EDGE tool.</p> <p>Once all 5,060 green units are built, we expect a total of:</p> <ul style="list-style-type: none"> • Water savings of 278,300 kl per year • Electricity savings of 6,679,000 kWh per year • CO2 savings of 6,178 t/per year <p>We will report actual savings calculated for water and energy for each green project (per unit, annually, over life of project).</p>

4. ACTIVITIES AND OPERATIONS

We have a number of inputs which are enablers of us delivering the affordable, green housing that is our social purpose:

- Committed fund equity of R 2bn for SA, and \$85mn for Sub-Saharan Africa from credible investors from a diverse, reputable group of LPs (pension funds, DFIs, Impact Investors)
- Strong management team, averaging over 25 years’ experience, and have been together for 5+ years.
- Experienced wider team with diverse backgrounds and skills: legal, finance, banking, accounting, property management, asset management, ESG
- Successful track record in predecessor funds
- Strong financial sector and legal/regulatory framework in target countries for affordable housing

Activities

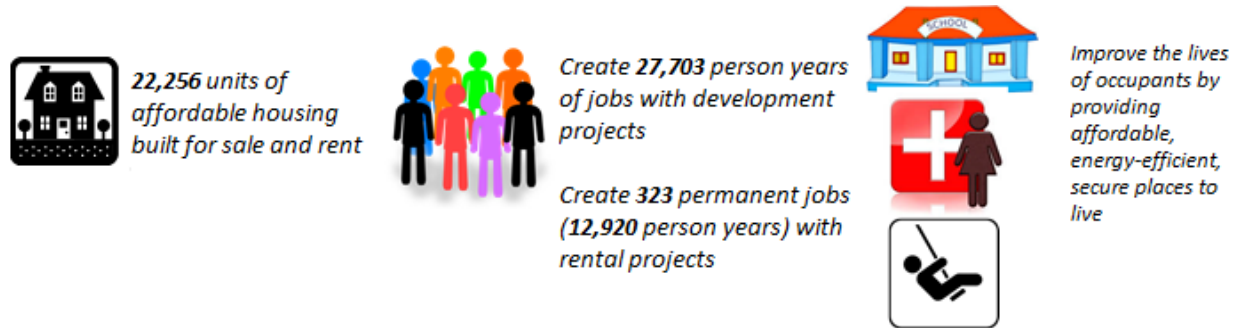
These inputs enable us to deliver our social purpose by completing the following activities. We have chosen to put the spotlight on some of the processes we use.

Beneficiaries	Activity	Processes
Investors	Risk mitigation	<ul style="list-style-type: none"> • Strong due diligence, covering market, planning, design, environmental, developer track record, operating costs. See ‘Spotlight on risk mitigation: SEMS’ below.
People living in units, developers	Creating affordable housing	<ul style="list-style-type: none"> • Work with a strong group of developers, whom we have selected based on our previous experience with them. • 80% of wood used is FSC-certified • Develop green housing. See ‘Spotlight on green homes’ below.
Environment, people living in units	Creating green housing	<ul style="list-style-type: none"> • Using the IFC EGDE tool.
Communities	Maintaining rented units	<ul style="list-style-type: none"> • Affiliated property management by IHS Property Management ensures strong focus on standards.
Local financial institutions	Selling on units	<ul style="list-style-type: none"> • The construction and mortgage debt is funded by local banks

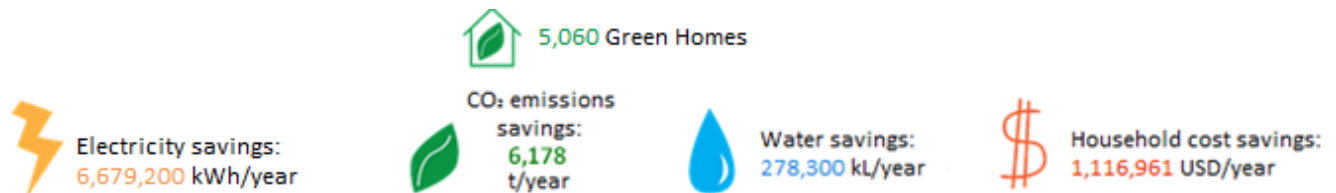
Outcomes for Fund II

The expected outputs from the above mentioned inputs/activities clearly demonstrate the link between the Fund investments and the targeted social/environmental outcomes, including:

- Projected IRR of around 20% for commercial investors
- Development of an estimated 22,256 units which fit affordability criteria



- Development of at least 5,060 affordable green units. The 5,060 units will achieve:



- IHS established as a leader in the innovative use of private equity to lead change to greener housing
- Education to ensure consumers are maximising the green technologies effectively

There are also a number of longer term positive outcomes expected. Many of the jobs created by the Fund will be in perpetuity (rental enterprises, home improvements, etc.). The green units are likely to generate higher resale values due to the improved affordability. Moreover, this investment opportunity can be a catalyst for banks to target the green building market with new products, and there is a strong potential for capital market development (securitisation, covered bonds, etc.) backed by green assets as is happening in some markets now. We are confident that the expertise and experience of our IHS team qualifies us to lead the direction of our activities and investments, and be agile in our marketplace.



Spotlight on risk mitigation: SEMS

To make responsible investment decisions, IHS has adopted a structured approach to managing environmental, social and governance (ESG) risks and opportunities, alongside traditional financial and business performance considerations. We call this approach our Social and Environmental Management System (SEMS), and we quantify and communicate this information periodically. This will be updated as needed, but at least on an annual basis.

Incorporating ESG criteria into our investment decisions promotes growth that is socially inclusive and environmentally sustainable. These criteria are a powerful tool for identifying risks, reducing development costs and improving project sustainability, thus benefitting affected communities and helping to preserve the environment.

The SEMS was designed with an overarching view to meeting the expectations and requirements of various investors or Limited Partners (LPs) (including but not limited to DFIs, pension funds, private institutions, impact investors, foundations, and universities). The basis for this policy is the International Finance Corporation's Performance Standards on Social and Environmental Sustainability (IFC Performance Standards) and the associated World/Bank IFC Environmental, Health and Safety (EHS) Guidelines. Also used are the UN Principles for Responsible Investment.

In addition to meeting LP requirements, IHS is convinced of the strong business case for SEMS; a comprehensive plan and policy will support sound business decisions and contribute positively to the risk-adjusted returns of its investments by:

- Ensuring business integrity for IHS and its investments
- Supporting strong risk management through its governance, due diligence assessments and ongoing monitoring and reporting
- Bringing innovation and new technologies to the markets in which it operates
- Creating cost savings in environmental or energy efficiencies, and potentially also from better employee relations
- Providing competitive advantage in the marketplace

The SEMS was tailored specifically to the asset class and specific funds that are managed by IHS, which are focused on affordable green housing. These procedures and policies are based on investments in real estate transactions; we do not make investments in companies. In order for such a policy to be relevant, it must also be pragmatic and cost effective. As this is a dynamic and changing environment, IHS will continuously review and amend its SEMS plan and will update its policies and manual as necessary.

The rigor of the SEMS and rigorous underwriting process is demonstrated in that we have reviewed over 800 investments and selected just 49.



Spotlight on green homes

The process by which we develop green homes

EDGE, an acronym for Excellence in Design for Greater Efficiencies, is an innovation of the International Finance Corporation (IFC) and has been brought to South Africa in a ground breaking partnership with the Green Building Council South Africa and supported by IHS.

To achieve the EDGE standard, buildings must achieve minimum savings of 20% energy, water and embodied energy in materials compared to the average home of a comparable size. This involves using technologies such as solar hot water, low-flow faucets, LEDs, etc.

IHS was the pioneer in using the EDGE tool for residential, affordable housing in South Africa and closed the first residential real estate transaction using this technology. Please see details of this case study at the end of this section; we will endeavour to develop more case studies as the number of green projects grows.

How EDGE works (continued overleaf):

The EDGE certification process consists of two stages:

Design (Preliminary) Certification – when details of the project are entered into the EDGE software and green options are selected. The project must reach the EDGE standard of a 20% improvement in energy, water, and embodied energy in materials as measured against current standard building regulations. When achieved, the project is registered for certification.

As Built (EDGE) Certification – during the certification process, documentation is submitted by the client and reviewed by EDGE-trained auditors at the design and construction stages, this includes a site audit. Projects that meet the EDGE standard receive a certificate confirming predicted performance.



How EDGE works (continued):

THE EDGE CERTIFICATION PROCESS:



1. DESIGN

Enter your building parameters and choose technical solutions to view the advantages of building green. Create an account and begin designing within minutes.

2. ACHIEVE

Reach the EDGE standard when 20% efficiency is met in energy, water, and embodied energy in materials. EDGE calculates your utility savings and reduced carbon footprint.

3. CERTIFY

For a small investment, obtain EDGE certification and increase the marketability of your building project.

Figure 7: Diagram from Green Building Council of South Africa's brochure on the EDGE tool

Managing, measuring and reporting on the performance of green homes

We are looking forward to beginning tracking the environmental performance of our Fund II green homes (as we are just taking delivery of our first phases, we do not yet have consumption data). A third party provider will collect and calculate the data, and then IHS will analyse it using the system we have already developed. For example, the system will use the monthly consumption data collected, and compare this to the baseline for a comparable home, and then calculate the estimated savings in money, electricity, and water usage (per time period).

Outcomes

These green homes will enable savings for people living in the units. At present, approximately 25% of the Fund is projected to be invested into green housing (5,060 units in a total of 22,000 Fund II units produced; all green units are in South Africa). This percentage is aligned to the ambitions of current investors, and we aim to increase the proportion of green housing as far as new commitments of investor capital allow in the future. Through our SSX membership, we are hopeful we can increase this figure and increase its green impact.

Case study: Ravenswood's green homes (continued overleaf):



The Ravenswood development is a green project, which consists of 188 sectional title 2 bed units. The site is situated on Trichardts Road in Ravenswood, Boksburg, Ekurhuleni, Gauteng Province, South Africa. The site is a centrally located, has an infill site with easy access to the N12, the R21, OR Tambo International Airport, Boksburg and Benoni. There are a range of amenities within a 5 km radius, including:




- The East Rand Mall
- A large variety of value, as well as automobile, related retail, and various primary and high schools.
- The development of a hospital is planned on the corner of Rondebult and Ravenswood roads.

IHS is currently invested in the immediate area (Jackalberry Close project - 252 units). The Ravenswood development will be a secure, sectional title complex with adequate parking and amenities, such as a clubhouse, pool and open green areas. The apartments will consist of 2 and 3 storey walk-ups, and will be finished to a higher specification than Jackalberry Close.

Case study (continued):

Project Summary

Deal Consideration	Detail
Purchase Price	R107m (Incl. VAT)
Equity Contribution	R38.5m
Delivery Date	July 2016
Number of Units	188 Units
Developer	RPP Developments (Construction: Dalmar)
Expected IRR	19.4% (green)
Expected Multiple	2.4 (green)
IC Approval date	2 October 2014

PREDICTED SAVINGS		TECHNICAL SOLUTIONS
	33% Higher Energy Efficiency	Roof insulation; reduced window to wall ratio; solar hot water collectors; and smart meters.
	32% Higher Water Efficiency	Low-flow showerheads; low-flow faucets; and dual-flush water closets.
	56% Less Embodied Energy in Materials	Solid dense concrete blocks for internal and walls; corrugated zinc sheets for roofs; and precast RC planks and joist system for floor slabs.

Total project results

Savings (ZAR/Year/188 units) 587 462

- Energy (KwH/Year) 249 288
- Water (KI/Year) 10 340
- Embodied Energy (MJ) 22 033 929

5. STAKEHOLDERS

As an investment manager of private equity funds focused solely on the provision of affordable housing in Africa, IHS has relatively few stakeholders who have a direct interest in our business activities. We have identified the below groups, along with some of our wider stakeholders too.

IHS's Stakeholder Universe



Primary stakeholder groups	Description and how we engage
Shareholders	<ul style="list-style-type: none"> Chairman of the Board is designated to receive any communications from stockholders that are directed to the Board. The Governance Committee is responsible for identifying, screening and recommending candidates to the Board for Board membership. This group meets not less than twice as year, and as matters arise. The Board are engaged via meetings at least three times a year, and any Director can suggest items for inclusion, and welcome senior

	<p>management to attend.</p> <ul style="list-style-type: none"> • Independent directors will meet in executive sessions at least twice a year • Please see section 5.1 for more detail on our extensive shareholder governance and communications
Investors	<ul style="list-style-type: none"> • The ultimate financial enablers of affordable housing in Africa to help address the continent’s housing crisis. Regular investor (and advisory committee) disclosure is a central mechanism by which we ensure we remain on track to deliver our impacts. • Throughout their investment, we issue them quarterly progress reports covering economic, social and environmental metrics, and they have the opportunity to respond to the findings during the associated quarterly calls.
IHS Property Management (PM)	<ul style="list-style-type: none"> • This team supply property management services for the rental properties owned by the funds. • In the next year, we will also engage with IHS PM employees with regard to the DFI-funded training/education program we are developing with the Green Building Council of South Africa. This will enable the property management team to educate the consumers better on how to make the most of their green homes.
IHS employees	<p>The board:</p> <ul style="list-style-type: none"> • Seeks members from diverse professional and personal backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. <p>Wider IHS employees:</p> <ul style="list-style-type: none"> • We engage with our whole team via a monthly staff meeting (including one annually led by the Executive Chairman), and more frequently for specific departments.
Wider stakeholder groups:	<i>Have an important indirect interest and are of critical support to our operations</i>
Trade Associations and Development Finance Institutions (DFIs)	<ul style="list-style-type: none"> • Most significantly, this includes Green Building Council of South Africa in the development and expansion of our green units. We meet with them at least once each week as they certify our green homes meet the EDGE certification, and we discuss building design with them.
Developers	<ul style="list-style-type: none"> • We partner with respected developers to increase access for individuals and families to high quality affordable homes, creating

	<p>a significant and positive social, environmental and economic impact.</p> <ul style="list-style-type: none"> • We engage via quarterly written confirmation from developer partners/property managers that they are still in compliance with key ESG policies and procedures, as detailed in the IHS Social and Environmental Management System in place. • We also carry out face-to-face interviews with full time and contract staff to ensure compliance with developers’ worker policies and health & safety standards. • We will also engage developers through the extensive training/education program we are developing with the Green Building Council of South Africa, on how to maximise green technologies in the design and construction of units. This training will be in place by the end of 2016. • We will carry out an annual survey (by our ESG Officer) which will include talking directly to construction workers (full time and contract staff) to validate the developer’s compliance with the key ESG policies (grievance mechanism, hours, pay, protection equipment provided, etc.). • We have Corporate Social Responsibility initiatives to support entrepreneurship, education, training, etc. to give a number of people potential job opportunities.
<p>Professional service providers, e. g. external lawyers, accounting firms, consultants, and fund administration firms</p>	<ul style="list-style-type: none"> • Across the funds that we manage, we cooperate closely with legal advisors, auditors, consultants and fund administration firms, both in fund set-up and in on-going operations. We view close interaction with these firms as key to strong quality controls.
<p>Industry peers</p>	<ul style="list-style-type: none"> • We have very few competitors, but maintain close contact with firms operating in our industry, such as banks, REITS, contractors, etc. Communicating with these organisations enables us to remain competitive, and we are open to future best practice-sharing opportunities as they arise.
<p>Communities</p>	<ul style="list-style-type: none"> • We engage with communities mainly through the Developers. There are South African regulations in place requiring community participation in the up-front planning process before a development can begin construction. It is also part of the municipality approval needed before a project can start. • The Environmental Management Plan and Health & Safety Specifications for each project are monitored by the Environmental

	Officer of the developer, and community issues are a part of those documents.
People living in units	<ul style="list-style-type: none"> • We will collect periodic feedback from occupants of units to gain social and economic information, determine level of satisfaction with housing, qualify impact on health and education, and provide feedback to management that can be incorporated into corporate strategies/processes going forward. (In a University of Cape Town survey of IHS residents in Fund I units, the overwhelming majority (72%) felt their lives had improved.) • We will also engage those occupants in green homes by reporting data of their actual water and energy usage, to allow consumers to adjust their behaviour in regards to consumption. • Consumers will also be engaged by the DFI-funded training/education program we are developing with the Green Building Council of South Africa, to help them maximise the green technologies they have in their homes to obtain the highest savings. This training will be in place by the end of 2016.

Spotlight on investor engagement

We interact with our direct primary stakeholder group as below:

1. **Extensive Quarterly** Investor Report which includes the progress and performance of the investments and strategies of the funds:
 - Fund financial statements (unaudited)
 - Capital call and distribution history
 - Realised deals and returns to date
 - Asset level review, including an overview of each investment, financial summary, social impact indicators, and performance metrics specific to each investment type Pipeline of deals
 - Review of macroeconomic and microeconomic factors specific to the regions in which the Fund invests
2. **Quarterly** conference call with investors and Advisory Committee to go through the Quarterly Investor Report and address progress, challenges, issues, etc.
3. **Quarterly** ESG Monitoring Report for each active project in IHS Fund II. The key purposes of this report are:
 - Review and confirmation that key policies and procedures as described in the latest IHS Social & Environmental Management System (SEMS) Plan and Policy Manual are being adhered to
 - Ensure that key information provided in Social and Environmental Due Diligence Report (SEDD) is still accurate

- Provide quantitative data and information that will be reported to LPs of IHS Fund II as agreed
- Provide useful information on quantifying the impact of the Fund for use on our website as well as other internal and external communications

For each **closed** project, this ESG monitoring report includes information on:

- the number of units (including type of project and whether they are green units)
- location of project, projected sales and rental prices
- income needed to qualify to rent or own the units (affordability gauge)
- Projected savings in electricity, water and CO2 for each home – and then revisit and provide actual figures once the units are constructed and occupied
- Projected IRRs at project and fund level
- Employment created
- Renewed quarterly written confirmation from developer partners/property managers that they are still in compliance with key ESG policies and procedures as detailed in the IHS Social and Environmental Management System in place.
- Status of any remedial corrective actions being monitored, until they are resolved. These are actions which come out of the Social and Environmental Due Diligence Report (SEDD) completed for each project, before it is closed. The ESG Officer must sign off before being finalised.

4. **Annual** Audited Financial Statements for the Fund
5. **Annual** AGM/Advisory Committee Meeting in South Africa with all investors and advisory committee members.
6. Adherence to the Social and Environmental Management System Framework and Policy Manual. This will be updated as needed, but at least on an **annual** basis.

6. EVIDENCING SOCIAL VALUE

Based on the opportunities outlined in the report, IHS is confident that it can identify and close the number of environmentally sustainable affordable housing projects with the explicit expectation of measurable positive social and environmental impacts.

Here are the projected key targets of the fund:

Stakeholder/beneficiary group	Outcome	Indicator (for Fund II)	Result Achieved so far	Target (cumulative outcome target for life of Fund II, 2024)
Investors	Socially and environmentally responsible return on investment.	% IRR	N/a	Remain around 20%
IHS Property Management (PM)	Creation of jobs (management, leasing, accounting, maintenance, gardening, cleaning and security), regardless of ethnicity.	Permanent jobs created	15	323
Communities	Developer partners create a significant number of job with the development of the units (management, professional, technical and unskilled).	Cumulative number of staff employed in construction (number of years of jobs created during construction of units)	837	27,703
People living in units	Low to middle income families are able to rent/buy a home.	Number of homes built (for sale and rent) % properties affordable to those earning below R20,000 per month ¹	1630 committed 80%	16,488 for-sale units 5,768 rental units Remain around 80%
Environment	Support of a greener future by measuring and reporting on the	Number of green homes	1150 committed	5060 homes

¹Based on the current Financial Sector Charter guidelines

	<p>actual savings in water and carbon for all green units.</p> <p>Pioneering and leading the change to green affordable housing in South Africa and possibly other target countries.</p>	<p>built (i.e. meeting IFC EDGE tool certification)</p> <p>Monetary savings from water and energy efficiency measures from the baseline, per unit/per year</p>	<p>(23% towards green homes target, and 72% of the units built so far are green)</p> <p>Predicted savings = R3,172 per unit</p>	<p>Projected savings = R31,720 per unit (over 10 years).</p>
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Future plans

With the additional capital IHS seeks to raise for the Fund, it would expect to be able to expand the EDGE tool and greening of units both within and potentially outside of South Africa, and achieve the indicators in the table.

7. OTHER ISSUES: CHALLENGES POSED BY EXTERNALITIES

Below is a summary of some of the potential challenges we are aware of in delivering our social and environmental impact goals:

- Our ability to raise the targeted amount of capital for the Fund in the requisite timeframe.
- Macroeconomic environment (i.e. interest rates, inflation, unemployment and slowdown in consumer demand).
- Ability to source attractive debt financing at the project level.
- Availability and attractive terms of end-user finance (mortgage loans).
- Municipal approval process can be onerous.
- Adequate bulk services (electricity, water, sewage) to sustain the proposed developments.
- Capacity and expertise of developer partners to complete projects on time and on budget.

- **Supply chain operations, particularly in relation to pollution and worker conditions:**

Pollution generated through the building of the units: IHS developments are driven by South African building standards; these standards are high for an emerging market country. This translates into each project that we carry out needing to have a rigorous environmental management plan, and health and safety plan, put in place by the Developers, to ensure pollution of all types is kept to a minimum. Through our Asset Management Team, we ensure that we review the Developer's activities regularly at steering meetings (e.g. weekly or monthly, depending on the stage of the project).

Another possible negative externality is that of conditions in our supply chain, e.g. child or slave labour. At the beginning of every project, we screen all our developers by asking them to complete an Environmental and Social Due Diligence Report; they must then confirm the report content is still applicable quarterly thereafter.

For our social impact success, none of the above situations can deteriorate without significantly affecting our ability to deliver our social and environmental impact in our target countries.

- **Geographical influence on corporate governance**

While we operate in Sub-Saharan Africa, we are under the corporate governance of our US shareholder, MMA Capital Management. As such, we are governed by their rigorous US policies and procedures, as well as local laws in Africa. MMA's management affects all areas of our operations, including:

- How we make Board and management decisions (MMA's Corporate Governance Guidelines)
- How we audit our processes (via our Audit Committee and their Charter);
- How we compensate (via the Compensation Committee and their Charter)



- How we do business ethically (through our ‘Code of Ethics and Principles of Business Integrity’). Below, we have focused specifically on our approach to anti-bribery and corruption, and how this then feeds into our overall compliance processes.

Spotlight on anti-bribery and corruption

IHS acknowledges that our geography requires us to have a rigorous approach to ensuring we do not tolerate any bribery and corruption. As such, IHS has a comprehensive Anti-Bribery Program in place, as outlined below; please note, as with all other governance mentioned above, IHS is under the corporate governance of MMA, and is governed by their rigorous US policies and procedures, as well as local laws.

All excerpts below are from ‘MMA Capital Management and International Housing Solutions FCPA/Anti-Bribery Compliance Program document’. The full document is available by request from IHS.

“I. Our policy

MMA Capital Management, LLC (“MMA”) and International Housing Solutions, S.à.r.l. (“IHS”) are committed to maintaining the highest level of professional and ethical standards across all of our business activity. The MMA/IHS FCPA/Anti-Bribery Compliance Program (the “Program”), reaffirms this commitment and applies to all MMA and IHS directors, officers, and employees (“Employees”), as well as consultants, representatives, agents, brokers or other intermediaries (“Consultants”) acting on behalf of MMA or IHS.

These standards can only be attained and maintained through the actions and conduct of all Employees and Consultants of MMA and IHS. It is the obligation of each Employee and Consultant to conduct himself/herself in a manner to ensure the maintenance of these standards.

MMA and IHS employees must also be mindful that they are subject to the Code of Ethics and Principles of Business Integrity.

Compliance with the law does not comprise our entire ethical responsibility. We must protect our reputation for honesty and integrity in all of our actions.

II. The FCPA and other Anti-Bribery Laws

Corruption erodes confidence in the marketplace, undermines civil society and distorts economic and social development. MMA and IHS are committed to conducting its activities free from the illegal and improper influence of bribery and to promoting anti-corruption awareness among our Employees, Consultants, joint venture partners, and other business associates throughout the world.

Requirements of the Foreign Corrupt Practice Act

The Foreign Corrupt Practices Act of 1977, as amended (the “FCPA”), applies to U.S. persons and companies, and to any stockholder, officer, director, employee, or agent acting on behalf of a U.S. company. The FCPA also may apply to the actions taken by a U.S. company’s joint venture partners, wherever they are located.

The FCPA anti-bribery provisions make it illegal under U.S. law for subject companies and individuals to utilize the “instrumentalities of U.S. commerce” – such as the mails, phone lines, or internet or to take any action while within the United States, in furtherance of a payment or an offer, promise, or an authorization to make a payment, or to provide anything of value, directly or indirectly to a non-U.S. government official, political party or candidate to influence his or her official actions or to induce such official to use his or her influence in order to assist the company to obtain or retain business, to direct business to any person or to secure an improper advantage. The FCPA further prohibits knowingly engaging in the prohibited conduct through a third party, such as a Consultant, joint venture partner, or other business associate.

[...]

B. Other Anti-Bribery Laws

Many jurisdictions in which MMA and IHS do business have anti-bribery laws applicable to our activities involving those jurisdictions (“Anti-Bribery Laws”). More broadly, all member countries of the OECD have agreed to abide by the OECD Convention on Combating Bribery of Foreign Government Officials in International Business Transactions (the “OECD Convention”).

We are committed to compliance with Anti-Bribery Laws wherever we do business and require our Employees or Consultants to understand and respect their legal obligations in this regard. Before engaging in business in a new jurisdiction, to the extent MMA or IHS deems necessary, we will obtain a legal opinion explaining the Anti-Bribery Laws of the jurisdiction and its application to MMA/IHS, its Employees and Consultants.”

Our Anti-Bribery Program includes guidelines on business entertainment and gifts and clearly states that ‘although customs and practices may differ across the many jurisdictions in which we operate, the conduct of our Employees and Consultants must comply with both local restrictions and the terms of this Program and are judged based on a global standard. *Local custom is not a justification for violations of this Program.*’

The Program clearly states its applicability to all those associated with IHS:

- Employees must maintain ethical business practices; report violations; and sign an Acknowledgment Statement annually to confirm compliance to the Program.
- Consultants must certify their willingness to comply, and all undergo a due diligence review before working with IHS.
- Joint Venture Partners and Business Associates similarly ‘must not pay, offer, promise, or authorize the payment of money or anything of value, directly or indirectly, to any Government Official, for the purpose of influencing any act or decision of such Government Official in favor of MMA/IHS, or inducing such Government Official to do or omit to do any act in violation of his or its lawful duty in order to obtain or retain business, direct business to any person, or to secure an improper advantage to MMA/IHS...’. As with consultants, IHS carries out due diligence with any party prior to entering into a joint venture.

This Anti-Bribery Program is supported by tight internal controls on accuracy of financial records, and there is a designated IHS Compliance Officer in South Africa, Maureen Komakech, who oversees the program, responds to any internal/external inquiries, and investigates any potential violations. Severe penalties may apply to any individual or company found to be in violation with the Program or any anti-bribery law.

How we ensure compliance throughout our activities (including construction planning and rental portfolio)

In regards to our investments, compliance with environmental laws, health & safety regulations (including worker rights) and anti-bribery and corruption standards is mandatory for all of our projects. Internally, we obtain and review documentation pertaining to these areas, starting at the initial review of the project, which continues until the project exits from the Fund. Whilst South Africa is an emerging market, its regulations and codes in regards to planning, development and construction of residential real estate are very comprehensive, and would compare to best practices in many developed countries. The regulations for anti-bribery/money-laundering are also very stringent for investments and rental units. The key regulatory documents that form the foundation of these guidelines are:

1. National Building Regulations and Building Standards Act No. 103 of 1977 (as amended).
2. Republic of South Africa – Department of Labour – Occupational Health & Safety Act 1993 – Construction Regulations, February 2014.
3. South African National Standard (SANS) 10400-XA:2011 – Construction Standards – Energy Efficiency and Energy Uses in the Built Environment.
4. The Joint Building Contracts Committee (JBCC) – Principal Building Contract – Revised March 2014. This documents how developers must execute tenders and procurement, to ensure fair and non-corrupt practices, as well as regulations on worker rights for full-time and contract employees working on the sites. The document sets out clear, balanced and enforceable procedures, rights and obligations which, when competently managed and administered, protect the employer, contractor and subcontractors alike.
5. The Financial Intelligence Centre Act (38 of 2001) (the FICA), is the anti-bribery/money laundering legislation. Sections 21 and 22 of FICA, and the Regulations thereto, require all South African Financial Institutions to ensure that they have correct details for all of their customers by establishing and verifying certain customer details. These sections of FICA, which directly relate to our ability to close an investment transaction, have come to be known as Know-Your-Customer, abbreviated to "KYC". KYC is considered to be the cornerstone in money-laundering control. This means our developers and any tenants of our units will be required to provide us with proof of identity, physical address and income tax number(s) (if issued) in order for us to validate their information, and other required documentation.

These and other documents are used throughout the life of the investment to ensure compliance, as noted in the table overleaf.

INITIAL ASSESSMENT (PRE INVESTMENT COMMITTEE)	DUE DILIGENCE (INVESTMENT COMMITTEE)	ASSET MANAGEMENT (UNTIL EXIT FROM THE FUND)
<ol style="list-style-type: none"> 1. Initial Assessment is provided to potential developer partner, and they must provide all the documents and support evidence required on that. 2. Developer confirms that their organisation and the project conform to guidelines 1-4 (on previous page). 3. Record of Decision (ROD) from relevant municipality details the approved land rights, usage, and whether an Environmental Impact Assessment (EIA) Report is required. 4. Current planning status – must have required environmental approval from provincial government and required zoning approvals. 5. Technical Assessment Report is prepared for projects that are likely to move to the Investment Committee, and are reviewed and discussed by Investment Committee. 	<ol style="list-style-type: none"> 1. Various due diligence checklists are provided to developer (depending on type of project) for provision of proper documentation. 2. Obtain Environmental Management Plan for project. 3. Obtain Health & Safety Specifications for project. 4. Executed JBCC (guideline 4 above). 5. Review of EIA Report and supporting reports if required in ROD. 6. Social and Environmental Due Diligence (SEDD) Report completed for project. 7. FICA documents obtained (guideline 5 above). 8. Grievance Mechanism Policy obtained. 9. HR Policy Manual obtained. 10. Investment Committee Pack prepared for each project detailing compliance with key areas discussed here; Investment Committee will review and approve/decline the project, with minutes of the meeting prepared for each project with any Conditions Precedents for closing. 	<ol style="list-style-type: none"> 1. Steering Committee Meetings held during construction period to ensure on-going compliance with guidelines 1-4 above. 2. Budget for project is provided at start of project, updated annually and monitored in Steering Committee meetings. 3. Quarterly ESG Monitoring Report obtains confirmation from developer that they are in compliance with key policies/procedures. Any remedial action/correction noted in the SEDD is monitored and reported on until resolved. 4. Application and other FICA documents obtained for all potential leases and approved by leasing agents. Lease will be signed by all tenants. 5. Rental payments are done electronically; no cash is accepted at the rental site. 6. Annual audited financial statements required for all projects.

Our governance processes in practice:

At IHS, we are aware of one instance where our anti-bribery/money laundering due diligence has uncovered negative information. Five years ago, when researching a potential developer partner, we uncovered allegations that they had previously bribed the government to win a tender. The allegations were never proven, though we did not pursue the deal any further at that stage, due to the risks.



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IHS is a registered Financial Services Provider – Registration number 35579