

TaS WASH and Waste Fund

A scheme under Zero Poverty Ventures India Funds
Category II Alternative Investment Fund

080-28436577

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TaS WASH and Waste Fund RISK MANAGEMENT POLICY

Version 1

Approved by the Board of Directors of Yunus Social Business Fund Bengaluru Private Limited (Investment Manager of TaS WASH and Waste Fund) on 06th February 2025



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1. OVERVIEW OF THE FUND AND PURPOSE

The **TaS WASH and Waste Fund** (‘the Fund’) is registered as a Category II Alternative Investment Fund (‘AIF’) with the Securities and Exchange Board of India (‘SEBI’) under Registration No: IN/AIF2/23-24/1377. The Fund is a scheme of **Zero Poverty Ventures India Funds**, established as a trust under the Indian Trusts Act, 1882, and governed by the SEBI (Alternative Investment Fund) Regulations, 2012 (‘AIF Regulations’).

The Fund is managed and sponsored by **Yunus Social Business Fund Bengaluru Private Limited** (‘Sponsor’ or ‘Investment Manager’ or YSBFB). **Axis Trustee Services Limited** serves as the Trustee. The Fund focuses on investing in Small and Medium Enterprises (‘SMEs’) in India’s **WASH and Waste Sectors**, including drinking water, sanitation, hygiene, and solid waste management, with a mission to generate social and environmental impact alongside financial returns.

2. PURPOSE OF THE POLICY

This Risk Management Policy establishes a structured approach to identify, assess, manage, and monitor risks associated with the TaS WASH and Waste Fund (‘the Fund’). The policy aims to protect investor interests, ensure regulatory compliance, and support the Fund’s dual objectives of achieving financial returns and driving social and environmental impact.

3. SCOPE

This policy applies to all operational, financial, regulatory, and investment activities of the Fund. It covers risks related to governance, investments, compliance, external environments, and stakeholder engagement, and applies to all entities involved in managing or operating the Fund, including the Sponsor, Investment Manager (YSBFB), and Trustee.

4. CATEGORIES OF RISKS AND MITIGATION STRATEGIES

a) CREDIT RISK

As a debt-focused Alternative Investment Fund (AIF), the TaS WASH and Waste Fund is inherently exposed to credit risk, which arises when investee companies fail to fulfill their financial obligations, such as the timely repayment of principal or interest. Such defaults or delays can adversely affect the Fund’s returns and overall financial stability. Credit risk is particularly significant in debt-focused investments where repayment heavily depends on the financial health, cash flow, and operational success of investee companies.



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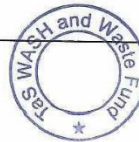
This risk is heightened in sectors like WASH and Waste, where investee companies often operate in fragmented markets, face unpredictable revenue streams, and may have limited access to traditional financing.

Mitigation Strategies:

- i) **Comprehensive Credit Assessments:** The Fund will conduct detailed credit evaluations of potential investees to ensure financial soundness. This includes analyzing financial ratios (e.g., debt-to-equity, interest coverage), assessing business forecasts like revenue projections and market potential, and evaluating repayment capacity through historical records and outstanding liabilities.
- ii) **Collateral Agreements for Security:** To safeguard against defaults, the Fund will require investees to provide collateral agreements. These may include fixed assets (e.g., property or machinery), receivables pledged as future cash flows, or personal guarantees from promoters. Collateral adequacy will be periodically revalued to ensure it remains sufficient relative to the outstanding debt.
- iii) **Risk-Based Pricing Models:** The Fund will implement dynamic pricing strategies tailored to the credit risk of borrowers. Higher-risk borrowers may be charged increased interest rates or fees, while repayment schedules and loan terms will be adjusted based on individual risk profiles, ensuring proportional returns for perceived risks.
- iv) **Ongoing Monitoring and Early Warning Systems:** After investment, the Fund will establish a robust monitoring framework. This includes regular financial reporting (e.g., quarterly statements) and early warning systems to detect signs of financial distress, such as declining revenues or increased operational costs, enabling proactive intervention.
- v) **Diversification and Loan Covenants:** The Fund will reduce exposure to single entities by diversifying investments across sub-sectors, geographies, and borrower profiles within the WASH and Waste sectors. Protective loan covenants, such as maintaining debt-service coverage ratios (DSCRs) or restricting additional borrowing, will be included to enforce financial discipline among investees.

b) LIQUIDITY RISKS

Liquidity risk arises from the inherent nature of debt investments, which are often illiquid and may not have an active secondary market. This lack of marketability can make it difficult to exit investments quickly, particularly in situations requiring urgent capital reallocation or



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during adverse market conditions. The illiquid nature of such assets can pose significant challenges in maintaining the desired cash flow and flexibility for the Fund.

Mitigation Strategies:

To address liquidity risks effectively, the Fund implements the following strategies:

- i) **Diversify Maturities Across Debt Instruments:** By strategically spreading out the maturities of debt instruments, the Fund ensures a steady inflow of liquidity over time. This diversification reduces the likelihood of liquidity shortfalls by aligning the timing of investment maturities with the Fund's cash flow requirements.
- ii) **Liquidity Buffers:** Establish access to short-term credit lines for temporary liquidity support during redemption pressure.
- iii) **Regular Cash Flow Projections:** Monitor cash flow requirements and align investment timelines with liquidity needs.

c) INTEREST RATE RISK

Interest rate risk refers to the impact of changes in market interest rates on the value and returns of debt instruments held by a debt fund. When interest rates rise, the prices of existing fixed-rate debt instruments typically fall, as newer issues offer higher yields, making older bonds less attractive. Conversely, falling interest rates increase the value of existing fixed-rate instruments. This risk is especially significant for funds with long-duration assets or concentrated exposure to fixed-rate instruments.

Mitigation Strategies:

- i) **Portfolio Diversification:** Balance fixed and floating-rate instruments, if needed, diversify across maturities, and spread investments across sectors to reduce rate sensitivity and ensure stability.
- ii) **Duration Management:** Align portfolio duration with rate expectations—shorten duration during rate hikes and lengthen during rate cuts—while using staggered maturities for balance.

d) REGULATORY AND COMPLIANCE RISK

Regulatory and compliance risk arises when a debt fund fails to adhere to regulations set by SEBI (Securities and Exchange Board of India) or other applicable laws. Non-compliance can lead to penalties, legal action, or reputational damage, which may undermine investor



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confidence and the fund's long-term viability. This risk is heightened by the dynamic nature of regulatory frameworks, requiring funds to constantly adapt and align their operations.

Mitigation Strategies:

- i) **Internal and External Compliance Teams:** The compliance function is managed collaboratively through internal resources and an outsourced professional firm. The internal compliance team ensures day-to-day adherence to policies and practices, while the external firm provides specialized expertise, periodic reviews, and updates on regulatory changes. This dual approach ensures a robust compliance framework that addresses operational and strategic regulatory requirements effectively.
- ii) **Appointment of a Compliance Officer:** A dedicated Compliance Officer is appointed to oversee and take ultimate responsibility for compliance. This officer ensures that both internal teams and external consultants work in harmony, aligning efforts to maintain adherence to SEBI regulations and other applicable laws. The Compliance Officer serves as a single point of accountability and ensures timely reporting and resolution of compliance issues.
- iii) **Proactive Monitoring:** The fund shall implement systems and procedures to actively monitor changes in the regulatory landscape. A system shall be in place for promptly incorporating new regulations or amendments into the fund's operational and governance policies.

e) INFLATION RISK

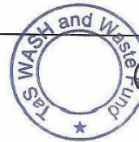
Inflation risk refers to the erosion of the purchasing power of fixed-income returns due to rising inflation, reducing the real value of the returns. This risk is particularly relevant for debt portfolios that rely on fixed-rate instruments, as their nominal returns remain unchanged despite increases in inflation.

Mitigation Strategies:

- i) **Risk-Adjusted Returns:** The fund shall prioritize achieving inflation-adjusted returns by selecting instruments that offer a yield premium over inflation benchmarks. This includes allocating funds to higher-yielding assets while maintaining the risk appetite of the portfolio.

f) MARKET AND ECONOMIC RISK

Market and economic risk refers to the potential impact of adverse macroeconomic conditions, such as economic downturns, inflationary pressures, or volatility in financial



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markets, on the performance of debt investments. These risks arise from broader factors, such as geopolitical instability, monetary policy changes, or sector-specific disruptions, which can lead to declines in asset value, reduced liquidity, and lower investment returns.

Mitigation Strategies:

- i) **Macroeconomic Monitoring:** Regularly review key economic indicators, such as GDP growth, inflation, and interest rates. Regular review on these trends will guide informed investment decisions.
- ii) **Geographic Diversification:** Reduce dependency on any single region or market ensuring alignment with the fund's risk appetite and mandate.
- iii) **Dynamic Investment Strategies:** Adjust strategies in response to economic and market changes. Scenario analysis and stress testing will guide timely portfolio adjustments.

g) OPERATIONAL RISK

Operational risk refers to the potential for losses arising from inadequate or failed internal processes, systems, human errors, or external events. These risks can disrupt day-to-day operations, impact investment decisions, and compromise the fund's ability to meet its objectives.

Mitigation Strategies:

- i) **Standard Operating Procedures (SOPs):** Develop clear workflows for critical operations and decision-making.
- ii) **Automation Tools:** Use advanced technology to minimize manual errors and improve operational efficiency.
- iii) **Employee Training:** Regularly update employees on operational best practices and evolving industry standards.

h) VALUATION RISK

Valuation risk arises from the difficulty in accurately determining the fair value of debt instruments, especially those in private or illiquid markets. This risk can lead to mispricing of portfolio assets, impacting investor confidence, regulatory compliance, and overall fund performance.



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Mitigation Strategies:

- i) **Third-Party Valuations:** The fund shall engage independent valuation experts to provide fair and unbiased assessments of portfolio assets. The valuation policy will be documented and regularly reviewed to ensure transparency and compliance with regulatory requirements.
- ii) **Standardized Methodologies:** Valuation of debt instruments shall be conducted using globally accepted frameworks, such as discounted cash flow (DCF) models, comparable market pricing, or other recognized methodologies.
- iii) **Periodic Reassessments:** Valuations will be reviewed regularly to reflect current market conditions, macroeconomic trends, and borrower performance. This includes updating assumptions used in valuation models, such as discount rates, expected cash flows, and credit ratings. Periodic reassessments will help the fund respond to market dynamics and maintain accurate NAV (Net Asset Value) calculations.

i) EVENT-SPECIFIC RISKS

Event-specific risks refer to the potential for significant disruptions or losses caused by unforeseen events, such as natural disasters, pandemics, geopolitical crises, or other force majeure occurrences. These risks can impact the fund's operations, portfolio performance, and overall market stability.

Mitigation Strategies:

- i) **Business Continuity Plans:** Establish and regularly update contingency plans for operational disruptions.
- ii) **Stakeholder Communication Plans :** Develop and regularly update communication strategies for engaging with stakeholders, including investors, regulators, and employees, during adverse events. Transparent and timely updates can help maintain trust and confidence.
- iii) **Risk Diversification:** Spread investments across geographies to reduce the impact of localized or sector-specific events. Diversification ensures that a single event does not disproportionately affect the portfolio.
- iv) **Regulatory Engagement:** Maintain proactive engagement with regulators and industry bodies to stay informed about regulatory guidance or relief measures during crisis events. This ensures compliance and allows the fund to benefit from any temporary provisions.



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5. REPORTING AND DISCLOSURES

In accordance with the AIF regulations, the Fund will undertake the following reporting/disclosures to the investors/ SEBI:

- a) Disclosure of risk management information to the investors periodically;
- b) Provide to the investors, at least on an annual basis (within 180 days from the year-end), material risks (some of which are listed below) and how they are managed:
 - i) Concentration risk at the fund level;
 - ii) Leverage risk at fund and investee entity levels;
 - iii) Realization risk (i.e. change in exit environment) at fund and investee company levels;
 - iv) Strategy risk (i.e. change in or divergence from business strategy) at the investee company level; and
 - v) Extra-financial risks, including environmental, social and corporate governance risks at fund and investee company level; etc.
- c) Provide (as and when required basis) information for systematic risk purposes including the identification, analysis, and mitigation of systematic risks to SEBI.

6. REVIEW OF POLICY

The Fund will regularly review its policies and procedures to ensure compliance with regulatory requirements and to align with best practices in risk management. This review will be conducted on an annual basis and will include an assessment of the effectiveness of current strategies and the identification of areas for improvement. Stakeholder feedback will be incorporated to ensure that the policies remain relevant and effective in addressing emerging risks and challenges.

