GROWTH. CONTINUITY.

MICROVEST ANNUAL REPORT 2016

MICROVEST
PURPOSEFUL INVESTING

"INSTITUTIONS LIKE MICROVEST, WITH MORE THAN A DECADE OF EXPERIENCE, ARE IN A UNIQUE POSITION TO DEPLOY CAPITAL WHERE OTHERS FAIL OR RETREAT."

In the West, the rise of populism, protectionism, and attacks on globalization have dominated the news. The elections in the Netherlands and in France provided a welcome counterpoint to Brexit and the American withdrawal from free trade — but one only needs to look at Hungary or Poland to see continuing signs of a world turning increasingly inwards.

Economic growth and resilience are key parts of the puzzle to address the socio-economic challenges, both abroad and domestically. Sustained global growth, however, will ultimately be fueled by the emerging markets in which we operate. Globally, thought-leaders and entrepreneurs alike are experimenting with practical ways to create lasting social and economic systems and re-imagine capitalism that works for all levels of society. To affect that systemic change, responsible asset managers like MicroVest must act as catalysts to deliver the required scale. We also must ensure that the financial institutions we invest in promote respect towards their communities, advance social justice and demonstrate ethical business behaviors.

As such, at MicroVest we believe that an unwavering commitment to providing an investment product that satisfies the risk and return criteria of sophisticated investors, and aligns with our values, provides the fuel to generate long-term viability for society and planet alike.

It is clear that the private sector has not only the obligation, but the resources and mandate to step up as traditional actors such as development finance groups face budgetary crises. Proposed cuts to some of the most impactful US agencies, OPIC and USAID among them, should only reinforce the urgency of this call to action for private capital. Institutions like MicroVest,

with more than a decade of experience, are in a unique position to deploy capital where others fail or retreat. In the absence of governmental and multi-lateral agencies, we see it as crucial that responsible asset managers like MicroVest continue to scale and play a larger role in addressing the current imbalance.

At the Board of Directors of MicroVest it is our goal to continue to be the trailblazer for impactful asset management with a clear mandate for risk-adjusted returns and social impact. We welcome all the players in the market to join the discussion to further build a marketplace that addresses the lack of financial inclusion while providing meaningful returns to investors. The quest for frameworks, definitions and better metrics is absolutely necessary, but we can never lose sight that these challenges exist today and meaningful solutions can and should also be implemented now. The responsible investment market is at a turning point with a new generation of wealth owners taking the helm. MicroVest invites those reading this letter to join us in building the world we envision.

W. Bowman Cutter
Chairman

"MICROVEST'S DUE DILIGENCE PROCESS REMAINS HIGHLY FOCUSED ON DISCERNING WHICH ENTITIES AND TEAMS MANIFEST A COMMITMENT TO REAL GOVERNANCE AND TRANSPARENCY."

In early 2017, a member of the finance team walked into my office and excitedly told me that we had passed a significant milestone: MicroVest had passed $1bn in disbursements since starting in 2004. Aside from the scale of financing provided to impact financial institutions, we are pleased to note that these investments have had very low write-offs.[1] MicroVest achieved this balance of volume and quality through a continuous process of improvements. This has been true again this year.

In addition to the economic activity and employment creation generated at the end-client, we are increasingly aware that your investments have an important secondary impact with these impact financial institutions. One of our typical financial institutions may have a portfolio of $50mm and employ three

[1] 0.54% annualized write offs from 01/2004 to 06/2017 across all private debt portfolios of private funds managed directly by MicroVest, calculated as average annual ratio of loans written off as a percentage of cost basis of debt portfolios outstanding at the date of write off; 1.26% of total equity investment portfolio written off from 01/2004 to 06/2017

to four hundred people — loan officers, middle managers, and senior managers. Of course, each of these individuals enjoys the economic benefits of employment, training and the career development opportunities that any impact financial institution offers. But, what MicroVest thinks is most important is the spread of good governance. Employees at MicroVest-financed institutions experience first-hand improvements in governance. Over the years, we have seen alumni of our partner institutions transfer governance best practices to other financial institutions, in turn helping to maximize impact, stimulate growth and increase enterprise values at these new entities. As many of our investors remind us, well governed institutions are the bedrock of social justice and sustainable economic development at home and in our core markets.

MicroVest's due diligence process remains highly focused on discerning which entities and teams manifest a commitment to real governance and transparency.

Long before achieving this disbursement milestone, we had charted a new direction for the future of MicroVest. As our legacy Private Equity vehicles roll off, the future of MicroVest rests with our Private Credit business. We have focused our investment team on this core debt business; we appointed John Beckham as Chief Investment Officer to further build out scalable processes and procedures as we accelerate the growth of our funds under management. This spring, we took measures to make the investment team more efficient while expanding career opportunities within the company by creating two sub-groups — Underwriting and Generation. The division of these two fundamental tasks allows for greater specialization by sectors and geographic region. It puts us in a better position to scale faster, adjust to market developments more quickly, and foster stronger accountability within the team. As reflected in the significant debt pipeline our team has built, I am confident this change will add impact for years to come.

One of the challenges that a world class impact asset manager faces as it scales is attracting and keeping committed talent. I mentioned earlier in this letter that part of our impact has been to create meaningful and fulfilling employment at impact financial institutions the world over. However, I believe we're also providing such opportunities in the asset management business here at home. If impact investing is going to meet its potential, it needs professional, top quality asset managers to attract the best talent. Two years ago, we set out to improve talent retention, training and to release the team's dynamic energy. Our new HR manager tells me that our intentional retention ratios offer strong support for the argument that we are meeting the "talent" challenge. I would like to recognize the MicroVest employees who live our mission every day, occasionally suffering shake downs early in the morning by corrupt airport staff and spending long days traveling back roads on due diligence.

We remain grateful to our board and advisors for their steady guidance and leadership as we steer through the challenges of the markets. They continue to maintain the balance of MicroVest as a firm with a "Strong Commercial Sail and Deep Social Ballast."

Looking ahead, there is cause for excitement. Reaching $2bn in disbursements could happen quickly. Many institutional capital allocators recognize the significant value proposition in impact investing, particularly as they get a deeper understanding of why our sector has demonstrated relatively low correlation. MicroVest's experience, constant focus on improving our team and our processes, and breadth of relationships with impact financial institutions worldwide, place us in a strong position to continue this scaling.

Gil Crawford
CEO of MicroVest Capital, LLC

AN EPIC MILESTONE

DISBURSING $1 BILLION TO CLIENTS AROUND THE WORLD

One of MicroVest's first deals in 2004 was a 1-year, $500,000 loan to a Peruvian microfinance group with roughly $9mm in assets at the time and a strict focus on serving the underbanked in the rural areas of Huancayo. With continued funding from MicroVest, entities such as this have been able to scale their outreach to a national level and professionalize their organization, while retaining their commitment to their target customer group. A year ago, this same institution was in the market talking with lenders about a $40mm facility, as their assets had grown to over $500mm serving more than 200,000 loan clients. For 80,000 of their clients, this was the first time they had ever accessed the formal financial system. Even more exciting than the absolute growth is the fact that the rates charged to end clients have fallen significantly. When we first entered Peru many Microfinance Institutions were offering their clients interest rates in the mid-40% range, since then competition has cut rates in half.

> WHILE WELL-KNOWN TO THE SPACE, ONE CANNOT STRESS ENOUGH THE QUALITY OF THE ASSETS MICROVEST UNDERWRITES.

Many of MicroVest's early investors believed in us over the objections of their advisors. Most of these early investors remain with MicroVest today. Their money enabled a 2011 investment in Grama Vidiyal[1] in India, allowing that bank to grow their gross loan portfolio by 669% and demonstrate an expertise in banking the underbanked. This expertise is what led to a subsequent sale of Grama Vidiyal to a larger institution in 2016. MicroVest's deep understanding of the catalytic power of capital and of the local markets is evident in the example above and elsewhere: MicroVest directed investment to Liberia as other investors waited to see how the country would respond to the 2015 Ebola crisis. Across MicroVest's portfolio, entrepreneurs are using investment dollars, not grant money, to invest in a sustainable financial economy.

Having investor trust has catalyzed economic development overseas and supported growth at MicroVest.

While well-known to the space, one cannot stress enough the quality of the assets MicroVest underwrites. The LIFIs in MicroVest's portfolio have an average write-off rate (of average Gross Loan Portfolio) of 1.5%.[2] In the relatively few instances where one of our portfolio LIFIs has defaulted on its debt obligations, MicroVest has, on average, recovered over 75% of the amount it has lent.[3] This is not only a strong indicator of the robustness of the assets, but also of the flexibility that these types of assets can offer.

Looking forward, it is clear that the need for the type of investments provided by MicroVest will not decrease. The IFC estimates the finance gap for micro-entrepreneurs to be around $460bn and $1.2 trillion for formal SMEs. To address this need, the company hopes to see products emerge that can serve these needs while remaining true to MicroVest's impact focus. We also believe that Wall Street broker-dealers and independent advisors are in a unique position to propel the growth of this field by opening their platforms for these kinds of investments.

1 Please reference the full disclaimer at the end of this document regarding specific portfolio examples.

2 Aggregate of MV portfolio as of Dec. 2016

3 Average recovery rate on defaulted debt investments from 03/2011 to 03/2016 across all funds directly managed by MicroVest, calculated as the amount written off as a percentage of the original loan amount.

A HIGHLIGHT OF OUR INVESTMENT ACTIVITY

FUNDACION ESPOIR

Espoir[1] is an NGO and microfinance institution (MFI) founded in 1992 that provides village banking and individual working capital loans to people with low economic resources in urban-marginal and rural areas in Ecuador. As part of their holistic approach to support entrepreneurs in all parts of their lives, Espoir offers free and reduced-cost healthcare, health education, business training, and education related to human development, gender issues and natural risk management. Headquartered in Quito, it operates in 6 provinces of Ecuador and has 13 branch offices. Espoir is a self-sustainable entity and, as of today, has a gross loan portfolio of USD 41.5mm, with 42,488 clients. MicroVest has provided capital to Espoir since 2013.

MicroVest has dedicated itself to the mission of being prudent stewards of capital for some of the most sophisticated investors the world over. MicroVest has been fortunate to have the opportunity to work with both the Silicon Valley Community Foundation and with RS Group, two very different but equally innovative and committed investors. We share below some of their thoughts on Impact Investing.

RS Group is one of the leading family offices in Asia with a dedicated impact focus, founded on belief in the potential for change through social entrepreneurship. Established by its principal, Annie Chen, RS Group is a mid-sized Hong Kong-based family office with a mission to create a paradigm shift in people's values and priorities so that economic growth will support, instead of jeopardize, human development and environmental sustainability. Five full-time local staff and three international strategic advisors manage RS Group's portfolio of investments and philanthropic activities.

Q: What are the motives behind your investments in impact products?

RS Group's Chair, Annie Chen, was the main driver for our push to invest in impact products. Annie's motive to address income disparity and over concentration of wealth came about during the financial crisis of 2008, when she felt that financial wealth should be used in a way that creates positive impact not just for a few individuals, but for many. Annie also realized that even if one's intention was not to do harm, most of us continue to contribute to a system that is inherently inequitable and damaging not only to people, but also to the environment.

Annie decided to repurpose her investments to make them more sustainable and impactful, with the goal that all of RS Group's capital allocations support its mission of contributing to sustainable development. At RS Group this means: "investing for impact – investing in the future we want to create." As a result of that strategic decision, RS Group reallocated its portfolio over five years into various investments for impact across asset classes, not only for the measured impact the investees were creating, but also as a way to build the market.

Q: How have you seen the markets evolve?

When RS Group began its impact journey, opportunities were hard to come by in Hong Kong, and the group had to look abroad for both advisor and investment products. Today we see more local interest for impact products from investors and providers alike, as well as a wider range of product offerings, especially SRI type products which are now more readily available, particularly from banks with an international offering.

In equities and fixed income, we see a reasonable number of funds in the SRI space with track record and credibility. Even though they tend to be managed outside of Asia, many of the investment universes cover Asian stocks and fixed income issuers. However, from an overall product availability perspective, Asia still lags Europe and the US with gaps in the ecosystem and a smaller market in general.

For more targeted investments, it is still difficult to find desirable products, especially specific theme-based private equity or impact funds focusing on Asia.

In addition, words like "impact" or "sustainable" can still throw conversations off mainly because there is no well-defined, mutually understood definition or way to talk about impact. That this deficiency can still halt discussion shows how important common language is. Ultimately, a deeper conversation about intentionality and how it relates to financial returns is necessary. Furthermore, the idea of integrating impact into investment strategies is still developing, and managers may not categorize themselves as impact managers even though their investment opportunities may fit into our impact criteria. From a high-level perspective, we are still seeing a "chicken and egg" issue with demand and supply, with a clear need to break out of this cycle.

Q: What is on your wish list for future impact products?

Being one of a few Asian impact investors, we would love to see more local availability of impact products. We see this as one of the first steps to further grow the space in our region. Unfortunately, it is currently still difficult to access impact products without international banking ties. Like many other investors, we would also like to be able to invest more locally (place based), with products from experienced fund managers that have a track record. Independent from location, we would want a wider range of products in all asset classes, e.g. in absolute return strategies such as hedge funds.

Key impact performance indicators and incentive structures tied to them is another thing that we would welcome in the industry. We see this as the next natural step, similar to carry on the financial side, as we have seen products in the market that demonstrate impact solely for marketing purposes. The key to achieving both of these in Asia would be for there to be more genuinely committed organizations and people for impact generation.

SILICON VALLEY community foundation®

Silicon Valley Community Foundation (SVCF) advances innovative philanthropic solutions to challenging problems. Since SVCF was formed in 2007, it has become the largest community foundation in the world, with more than $8 billion in assets under management to support charitable causes. SVCF partners with families, individuals and corporations to manage and facilitate their philanthropy, and connects donors' interests to the most pressing needs, whether in Silicon Valley or around the globe. Through its community impact and discretionary grantmaking programs, SVCF serves residents of San Mateo and Santa Clara counties. As a comprehensive center for philanthropy, SVCF shapes critical public policy issues, partners with nonprofit groups and institutions advancing the best ideas and directs resources swiftly and strategically toward timely needs.

Q: What are the motives behind your investments in impact products?

As a community foundation, our donors and nonprofits with funds at SVCF want responsible investment options that promote sustainable global growth, inclusive economies and responsible corporate governance. This, plus growing donor interest in initiating impact investments, is the motive behind SVCF making impact investments across a variety of strategies, vehicles and geographies.

Q: How have you seen the markets evolve?

Over the past 10 years the Foundation has witnessed a long gradual increase in the overall ecosystem of impact investing. However, in the last 12 months, there has been a noticeable uptick in the number of product offerings, intermediaries, donor inquiries, invitations to join platforms and invitations to partner. We are clearly past the early innovation and experimentation phase, well into the infrastructure building phase, and moving into the market building phase. This is evident in resource allocation by larger investment firms, specialization by intermediaries, acquisitions, product growth, growing investor awareness, and initial standardization, particularly in terminology (finally!).

Q: What is on your wish list for future impact products?

- Professionally managed, commingled pool for investing in a diversified portfolio of Community Development Financial Institutions (CDFIs).
- An easier and safer way to invest surplus liquidity into CDFIs and other community development-oriented entities and projects.
- Social impact bonds ("pay for success") offerings based on track record of success, and with standardized terms if at all possible.
- Products based on a clear definition and delineation of effective ESG integration methods.

Q: How has the community foundation viewed impact investing as an alternative to traditional grantmaking?

We view impact investing as a tool to amplify grantmaking goals, not as an alternative to grantmaking. We seek to use grant capital for charitable needs that can only be funded by grants, and to use impact capital for opportunities where a debt or equity investment is the best form of capital to accomplish the desired impact, leverage and/or scale.

BOARD OF DIRECTORS

As of July 2017

W. Bowman Cutter
Chair
The Roosevelt Institute

Gerhard Pries
Vice-Chair
Sarona Asset Management Inc.

Zachary Bishop
D. A. Davidson & Co.

Ronald Cordes
Chair of Compensation Committee
Cordes Foundation

Gil Crawford
MicroVest Capital Management, LLC

J. Alex Hartzler
WCI Partners, LP

James A. Torrey
Chair Goverance & Nominating Committee
The Torrey Funds (ret.)

William Unger
Partner Emeritus for Mayfield Fund

Dar Vanderbeck
CARE USA

Kim Williams
Chair Audit & Finance Committee
Wellington Management Co., LLP (ret.)

This document is for informational purposes only and is neither an offer to sell nor a solicitation of an offer to purchase an interest in any of the funds described herein (the "Funds"). Any such offer or solicitation will be made only by means of the relevant Fund's Confidential Private Offering Memorandum, which contains a description of the significant risks involved in such investment. Prospective investors should request a copy of the relevant Memorandum and review all offering materials carefully prior to making an investment in any of the Funds. There can be no guarantee that investment objectives will be obtained. Any investment in MicroVest is speculative, involves a high degree of risk and is illiquid. An investor in MicroVest could lose all, a significant portion or some amount of its investment. MicroVest's performance is subject to volatility. In addition, the fees and expenses may offset profits. There is no secondary market for investors' interests and none is expected to develop. There are restrictions on withdrawing and transferring interests from MicroVest. In making an investment decision, you must rely on your own examination of MicroVest and the terms of the offering. You should not construe the contents of the enclosed materials as legal, tax, investment or other advice.

Any examples of specific investments discussed herein are included merely to illustrate the investment process and strategies which previously have been utilized by MicroVest. The investments discussed herein do not represent all of MicroVest's investments as of any particular date. A MicroVest portfolio will typically contain a larger number of investments than the examples set forth and accordingly, the examples are not meant to represent or be construed as indicative of the overall composition, number of investments or diversification of a MicroVest portfolio. There is no guarantee that similar investment opportunities will be available in the future or that any such investments will be profitable. Information (specifically MFI profiles and aggregate social metrics) included in this report is based on materials that are privately conveyed to MicroVest and have not been independently verified. A complete overview of MicroVest's portfolio can be obtained via email at investor@microvestfund.com.

MICROVEST
PURPOSEFUL INVESTING

7315 Wisconsin Avenue, Suite 300W | Bethesda, MD 20814 | USA | www.microvestfund.com