



# MICROVEST

## SOCIAL IMPACT REPORT 2016

## YEAR IN REVIEW

MicroVest is a proud Impact Investor. Our often-recited mantra is that we provide risk-adjusted returns to our investors because of our social mission, not despite it. Tracking our financial returns for our investors follows widely accepted industry practices. On the other hand, demonstrating our social impact is often not as straightforward. For this year's Social Impact Report, we hope to share some more qualitative background to the quantitative metrics our investors receive on a regular basis. As discussed below, we have a high degree of conviction in our mission and we don't expect it to change. We do, however, believe that our impact measurement will continue to evolve, as it has done in the past. We hope that you will consider partnering with the team at MicroVest over the coming years so we can continue this very vital aspect of our work.

There is a significant opportunity for impact investing to target some of our world's most pressing problems while providing risk-adjusted returns to investors. At MicroVest our focus remains on providing capital to the underbanked in emerging markets. As we enter our 14th year of deploying capital we continue to stay true to our founding mission. The current uncertain macro environment has only heightened the confidence we have in our mission. We were founded with the belief that a sustainably and ethically oriented financial infrastructure is absolutely vital for the continued development of emerging market economies. We refer you to our website to an issue brief written by our Director of Investments, Andreas Eichin, for a more detailed description of how we believe well-run financial institutions will continue to play an important role in financial infrastructure development.

## DIFFERENT ROADS TO IMPACT – SELECTION VS. NURTURING

A somewhat simplistic stratification of the impact market would be to look at approaches in two categories. In one category, Impact Investors seek to create impactful companies where they previously did not exist, or to transform companies into newly-impactful entities. In the second category are Impact Investors who identify and help grow the companies that they believe have a proven ability to make lasting change. We fall into the latter category, but absolutely respect, support and applaud investors in the former category.

Our skillset lies in due diligence; country, credit and character analysis are our strengths, which we use to construct diversified and de-risked portfolios for our investors. We look for financial firms that have discovered how to do business the right way. Once we identify these companies, run by innovative leaders that share our goal of providing capital to the underbanked, we look to prudently facilitate this growth. Our impact approach is to find really well-run institutions and then provide them the capital to maintain their growth.

As part of this strategy we analyze and collect financial and social metrics before we invest and on a quarterly basis after investment. Our focus on social analysis is what provides our investing edge. In times of economic uncertainty, we continue to believe that those companies that score higher from a Social Impact perspective can provide the best risk-adjusted return. Good business is good business, bull market or not.

The results of this assessment are enriched by our investment team's extensive due diligence visit and are refreshed with the latest information from regular

monitoring visits after capital has been deployed. Our team benefits from the opportunity to see these groups in action, meeting with the management teams of some of the best-run microfinance institutions in the world. They not only spend time with loan officers at different branches but with clients as well.

As part of MicroVest's extensive due diligence, Investment Officers analyze every LIFI's social impact across four main categories in order to ensure ethical behavior at the institution. The size of the squares represent the relative weights attributed to each category.



## LEAN METRICS – FINDING THE RIGHT PROXY INDICATORS

The metrics we report to investors are derived from IRIS standards and continue to involve close collaboration with the institutions where we place capital. We are ever mindful of the reporting burden that many of these hard-working, lean institutions have, and we work with the goal of achieving industry-wide consistency. For example, MicroVest continues to work with the Social Performance Task Force. We believe the metrics that we track, metrics that form a large part of our due diligence, provide an effective proxy for tracking the development impact of our investments as well as for their financial performance. Additionally, we were also fortunate to receive GIIIRs ratings from our industry colleagues at B Lab for two of our funds, providing investors with an independent third party ratings on the impact generated by our funds.

The last few months alone have been testament to the value of our companies. We saw the successful acquisition of one of our companies in India by a larger bank, no doubt impressed by the compelling business model. We see an African holding company we just invested in written up in the Economist for their ability to use mobile phones to further provide capital to the underbanked. Annapurna, as highlighted on page 4, became SMART Campaign certified in April 2016, an objective seal of confidence that a financial institution is doing everything it can to treat its clients well and protect them from harm.

## TRUE IMPACT

Impact Investing is now a mainstream movement, with demonstrated efficacy on the asset and liability side of the equation. True change in our markets will only be achieved with scale. We believe scale will be achieved when pension funds and insurance companies bring their investable capital to bear. We are starting to see that supply of capital appear, and that that capital requires institutional investor-ready vehicles. There is no doubt that many of these institutional investors will focus first and foremost on financial return metrics. We do not fear this, our ability to deliver that return will only continue as long as our focus on the social remains unwavering.

## COUNTRY PROFILE: COTE D'IVOIRE



"We recently invested in an SME financial institution in Cote d'Ivoire. After a devastating period of civil strife ending in 2011, Cote d'Ivoire is rapidly returning to political stability and economic growth. While on due diligence, in meetings with the institution's staff and clients, it became clear that they were all part of something much bigger than themselves – rebuilding an entire country, one small business at a time. But building anything takes capital – and the lack of capital is the critical constraint that this institution is solving, all while setting high standards for ethical business practices, transparency and good governance. The emerging story of Cote d'Ivoire, this institution, and the clients we all ultimately serve, is a story in which we are proud to play a small part."

– Nathan Horst, Investment Manager, Africa Region



## COMPANY PROFILE: ANNAPURNA

Annapurna Microfinance is a regulated non-banking financial institution which seeks to empower poor women and help them achieve economic security for their households. Founded by an NGO in 2009, Annapurna was spun out of the NGO's original savings groups for women. As a standalone MFI, there were more opportunities for growth of the microfinance operations in the region.

Seeking to grow microfinance operations in areas with little exposure to the formal financial system, Annapurna provides livelihood support through technical assistance to strengthen entrepreneurial skills for the individuals and business they are underwriting. Today, AMPL operates in 7 states in India, reaching nearly 626k individuals through a network of 176 branches.

"MicroVest is impressed by the management team's experience in the state of Odisha and great initiative to increase opportunities for low-income women. This type of commitment is something that we believe is one of the main pillars of a socially responsible business. These practices provide the foundation for significant growth in the coming years."

– Radhika Batra, Investment Officer, Eurasia Region

Annapurna was recently awarded the Smart Campaign Certification, an independent distinction given to MFIs that prioritize client protection through building lasting relationships, increasing retention and reducing financial risk. Through improving client protection practices, AMPL contributes to the goal of a more responsible, stable and client focused industry.



*financing livelihood*



## MICROVEST PORTFOLIO: AGGREGATE

The MicroVest aggregate portfolio includes direct investments across all funds under management and from advisory activities. 2015 closed with 85 institutions across 35 countries. Despite emerging markets experiencing a difficult year, we are pleased with the steady improvement in the outreach metrics fueled by the great work that is done at our portfolio companies. With their help, we have indirectly served more end borrowers than ever this year, helping to include them in the formal financial sector. Despite the difficult year, our portfolio companies have continued to grow, broadening our reach for the coming years.

	Dec. 2013	Dec. 2014	Dec. 2015	Y/Y Change
Total Number of Institutions Financed (at year end)	71	89	85	-4%
Number of Direct Countries (at year end)	38	39	35	-10%
<b>LIFI Portfolio Metrics - Weighted</b>				
# of institutions reporting*	68	78	76	
Gross Portfolio* *	297,217,662	241,422,301	283,603,398	17%
Annual Port. Growth	32.2%	26.5%	26.4%	0%
PAR>30 /Gross Loan Portfolio	4.0%	4.5%	5.4%	19%
Portfolio Yield (YTD annualized)	28.0%	25.1%	24.1%	-4%
Op. Exp./ Avg. Port.	18.0%	16.2%	13.0%	-20%
Write-offs/Average Gross Loan Portfolio (TTM)	1.5%	1.3%	1.8%	40%
Deposit taking	62.1%	53.3%	50.7%	-5%

<b>Outreach Indicators- Weighted</b>				
# Active Borrowers	188,901	198,775	268,690	35%
Avg. Loan Size (US\$)	9,720	10,351	8,299	-20%
Avg. Loan Size as % of Per Cap GDP	221.4%	233.6%	172.5%	-26%
% Women Clients	52.3%	55.3%	62.0%	12%
% Productive Loans	79.1%	75.2%	73.0%	-3%

The tables below break out social outreach indicators between MFIs and SMEs in the portfolio.

MFIs	Dec. 2013	Dec. 2014	Dec. 2015	Y/Y Change
# of institutions	56	60	56	-7%
# Active Borrowers	192,954	221,441	332,715	50%
Avg. Loan Size (US\$)	2,019	1,746	1,298	-26%
Avg. Loan Size as % of Per Cap GDP	57.7%	52.4%	47.7%	-9%
% Women Clients	57.9%	60.5%	71.1%	18%
% Productive Loans	83.8%	79.3%	77.8%	-2%

<b>SMEs</b>				
# of institutions	12	18	20	11%
# Active Borrowers	186,351	153,087	138,834	-9%
Avg. Loan Size (US\$)	27,590	31,201	25,843	-17%
Avg. Loan Size as % of Per Cap GDP	466.1%	1039.3%	604.9%	-42%
% Women Clients	11.6%	24.6%	20.4%	-17%
% Productive Loans	46.6%	68.5%	64.1%	-6%

\* Excludes institutions designated as “Other” that do not fall into the MFI or SME categories

\*\*Excludes investments made in holding companies

## Disclosure Information

The portfolio company figures presented within this document have been provided by the respective companies to MicroVest or to the MIX as of December 31, 2015. This information is not independently verified, is subject to change and includes estimates. The statistics are calculated in local currency terms before being converted to USD. Statistics are weighted by portfolio exposure and exclude any company that did not report that metric.

Fund level statistics in this report may vary slightly from quarterly investor reports as the December 31, 2015 company financials are used with December 31, 2015 portfolio exposure.

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.

To avoid skewing calculations, one of the holding companies that provides financing for small and very small businesses around the world, is excluded from the weighted average calculations of certain performance metrics.

