



MICROVEST

SOCIAL IMPACT REPORT 2017

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As part of our mission, MicroVest's funds are designed to seek both financial and social returns. For MicroVest this means the promotion of financial inclusion around the globe as one of the pieces of the puzzle to poverty alleviation. This year, we look at the impact we are having through more in-depth research from peers in the field, as well as through the lens of the UN Sustainable Development Goals.

INTRODUCTION TO OUTCOMES VS. OUTPUTS MANAGEMENT:

An output is an extrinsic result that is part of the business operation cycle. In the Microfinance universe, this may look like the dollar amount of loans disbursed in a reporting period or the total number of female clients served by a Microfinance Institution ("MFI"). The intrinsic approach, outcome management, goes beyond the figures and deeply investigates the impact of the product to the end customers, including family income, job creation, education, housing and health. As social impact investing upholds its dual mandate to provide both meaningful financial return and positive change, both outputs and outcomes are important tools to guide asset manager efforts in achieving the underlying mission.

CHALLENGES:

Outcome data is not passively maintained. On the contrary, there are many challenges in obtaining a statistically meaningful outcome, such as getting long-term cooperation from all stakeholders, finding resources to support the program and underwriting a unified data collection methodology. As it can be a daunting endeavor, this management tool has not been widely implemented and remains in the early adoption stages. We hope that the work some groups are doing in this field will both make outcome measurement easier for others and push the entire industry in that direction. We would like to highlight the BBVA Microfinance Foundation as a group that is fully engaged in outcome measurement and has an extensive data set that supports the hypothesis that microfinance does create developmental impact.

BBVA MICROFINANCE FOUNDATION:



BBVA Microfinance Foundation ("BBVAMF") is a non-profit entity whose mission is to "promote sustainable and inclusive economic and social development for vulnerable people through Responsible Productive Finance." Six microfinance institutions make up the BBVA Microfinance Group (the "Group" or "BBVAMFG"). The aim of the BBVAMF is to accompany its institutions' clients over time with a proprietary methodology - Responsible Productive Finance - designed to raise their standard of living with financial services, advice and training. Clients are at the center of everything that BBVAMF does; which remains true to its mission to reduce poverty and inequality, and bring fresh ways of thinking to the microfinance sector.

Through working to achieve its mission, BBVAMF is one of the few organizations to produce outcome data. In 2012, BBVAMF set up an impact assessment team that is fully dedicated to creating both qualitative and quantitative social outcome data for their MFIs, two of which MicroVest currently works with: Microserfin (Panama) and Emprende Microfinanzas (Chile). Over this decade, BBVAMF has signed off on more than \$8.2 billion in loans to vulnerable entrepreneurs (2007-2016), and has become a philanthropic institution with one of the greatest social impacts in Latin America, the first operator with proprietary methodology in the region, and one with 1.8 million clients.

MICROSERFIN:

Soluciones de Microfinanzas S.A. ("Microserfin"), part of BBVAMFG, is one of the leading microfinance entities in Panama. With a strong corporate governance culture, Microserfin works to improve the living standards of low-income entrepreneurs and their families by providing credit and advisory support. These products and services help meet the agricultural, housing and entrepreneurial needs of its clients through 11 offices (Dec. 31, 2016) throughout Panama. Aside from its range of products, Microserfin manages programs for productive housing, rural communities and financial literacy training for refugees. MicroVest has proudly partnered with Microserfin since 2013.



OUTCOME RESULTS:

The BBVAMF Group study on Microserfin and its other members showed encouraging results, indicating that microfinance is making a meaningful difference for the microbusinesses, and as a result the lives of the entrepreneurs and their families. With the realities of daily life, funds are often comingled and investing in the underlying business generally leads to improved family income and improvements in other areas of life. Education and housing improvements are modest, but steady; after 2 years, 8.5% of clients improve their housing conditions, and 2.4% improve their education.¹

In fact, there seems to be a direct relationship between the length of client banking relationship and the net income of microenterprises. In other words, the longer the client remains with BBVAMF Group's institutions, the higher the monthly per capita net income assigned to each family member.¹ BBVAMF understands that these outcomes are the result of multiple factors and does not solely attribute the cause of these changes to itself, but it does consider systematically measuring detailed outcomes to be the most effective means for ensuring compliance with its mission and for converting it into an actionable purpose.¹ Many of the MFIs we are proud to lend to consider their impact to be generational, and not always easily trackable in short-term time series. Still, we believe the impact is there and will continue to support groups actively measuring and quantifying that impact.

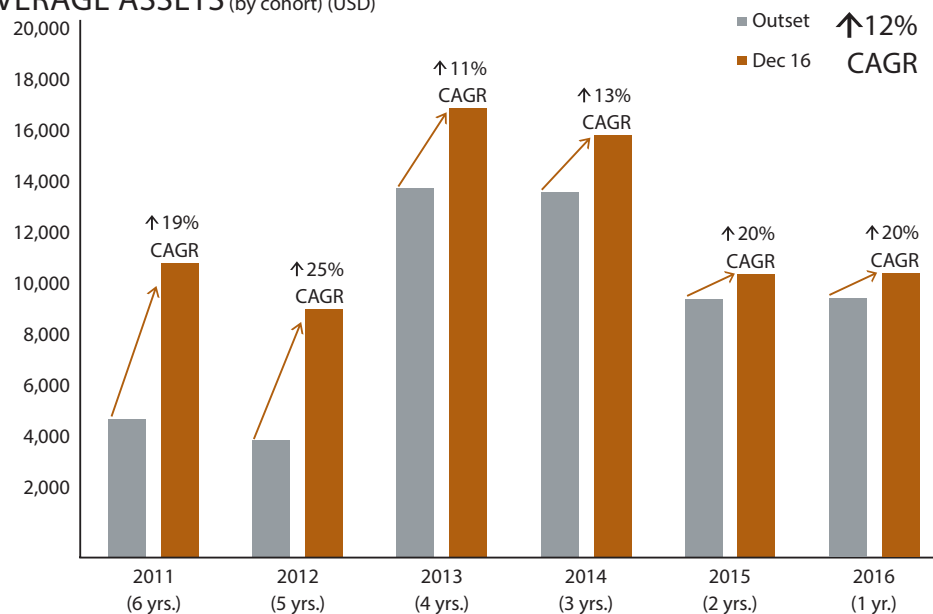


MICROSERFIN'S RESULTS:

Similar to other members of the BBVAMF Group, Microserfin's client cohorts, on average, show positive trends in asset growth. In total, average assets have increased from \$13,946 in 2015 to \$15,460 in 2016.

The results differ by each microenterprise sector (Services, Trade (Wholesale & Retail), Production/Transformation, Agriculture), but microentrepreneurs' businesses report sustained growth over time in terms of assets and net incomes for all the cohorts analyzed. Through 2016 Microserfin's clients posted compound annual growth rates (CAGR) of 12% in assets and 4% in net incomes (Note: CPI was 1.5% and the economy was growing at 5.4%).

AVERAGE ASSETS (by cohort) (USD)

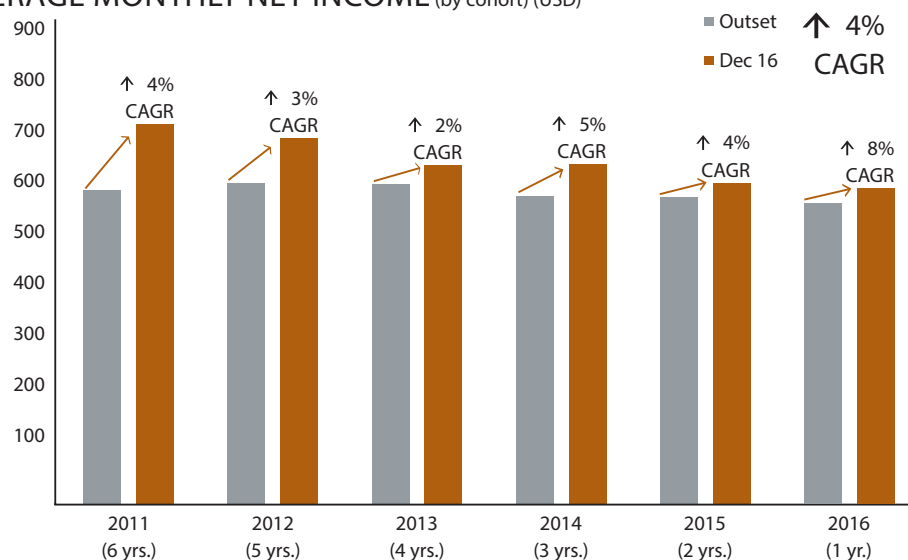


Source: Microserfin. BBVAMF calculations.

MICROSERFIN'S RESULTS CONTINUED:

With the growth in assets outpacing that of net incomes, this supports the idea that these microentrepreneurs tend to accumulate and reinvest assets. This trend shows wealth being created and highlights the positive relation between the period during which they have access to financial services and their progress.¹ These outcomes are even more pronounced in the Group data set, with average assets and average monthly net incomes growing at 26% and 18% respectively, while holding true with higher growth of average assets than that of net incomes.

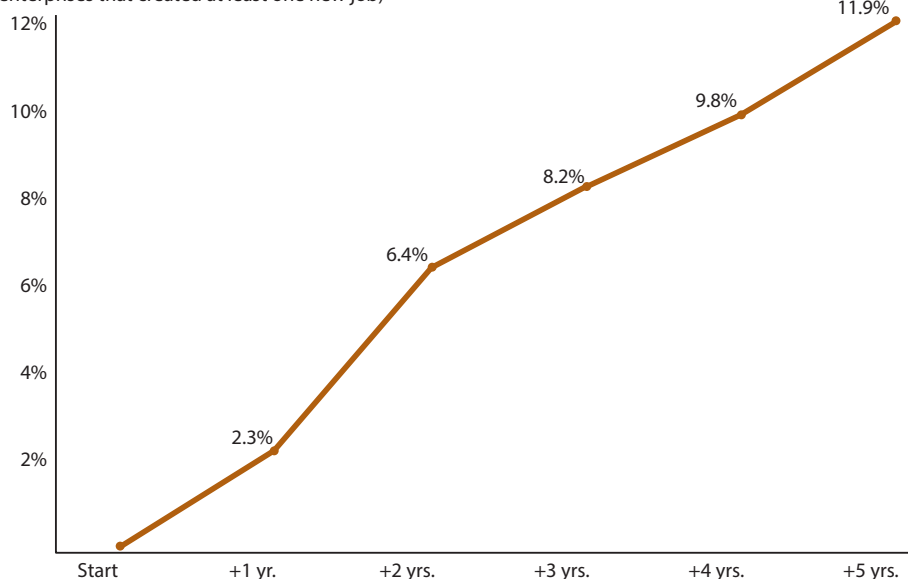
AVERAGE MONTHLY NET INCOME (by cohort) (USD)



Source: Microserfin. BBVAMF calculations.

Many businesses working with MFIs only have one employee (86% at Group level), which is particularly true for the most vulnerable clients (91% for poor clients). However there are some positive job creation trends. The Microserfin results are positive with 6.4% of all clients managing to create at least one new job in the community after two years of working with the MFI.¹ The BBVAMF Group aggregate results are similarly positive.

JOB CREATION (avg. by year)
(% of enterprises that created at least one new job)



Source: Microserfin. BBVAMF calculations.

CONCLUSIONS:

BBVAMF has been able to draw conclusions from the economic and social performance of its client base over time which suggests that its activity is having a positive social impact. The progress that many of the BBVAMF Group clients are experiencing can by no means solely be attributed to microfinance, but the trends are encouraging and indicate that micro-lending can be a tool for poverty alleviation.

Measuring outcomes rather than outputs is cumbersome and time-consuming work. Not all organizations are able to invest in the data collection and analysis, but BBVAMFG is one such group. Hopefully their commitment can push the entire industry towards measuring outcomes instead of simply outputs. MicroVest, like many lenders, falls short in this regard, but our commitment is to continue to work with groups like BBVAMFG as well as the Social Performance Task Force to track outputs. We hope our investors hold us to this commitment, and we hope these investors join us, where possible, as we continually improve to collect the right data, data that helps these impactful companies continue their vital roles.

As we begin our own push towards truly measuring outcomes, our outputs will have to suffice. For now, we think they are reasonable proxies, and the results of the BBVAMF studies only renew our commitment to our work. We do believe that offering a link to formal financial institutions to those who have previously been excluded can have a positive impact on their lives. At the very least microfinance offers those at the base of the pyramid access to the services many in the developed world take for granted.



SUSTAINABLE DEVELOPMENT GOALS:

MicroVest has engaged with several stakeholders over the last two years to examine the work we do in the context of the United Nations Sustainable Development Goals (SDGs). Our belief, and one shared by many in our field (see the excellent SDG work done by CGAP for example) is that inclusive finance is a key component of hitting many of the 17 goals. We believe three of the SDGs apply directly to our work: SDGs #8 (Decent Work and Economic Growth), #5 (Gender Equality) and #1 (No Poverty).

HOW MICROVEST WORKS ON THE SDGs: #8

It appears clear that the work we and others in our industry are doing, will be key to achieving Goal #8, Decent Work and Economic Growth. Achieving substantive employment opportunities for all men and women will undoubtedly require Small and Medium Enterprises (“SME”) to continue to drive new job creation. MicroVest’s portfolio currently includes as heavy a focus on both SME Finance and Microfinance. As we have previously written (see MicroVest’s 2016 piece [“The Impact of Microfinance”](#)), our mission involves the continued growth and improvement of a sustainable financial infrastructure in the countries where we operate. We believe our work has impact on an individual basis, as evidenced by the 12.3 million borrowers we reached last year through our 86 portfolio companies, but also on a grander scale. The financial institutions we lend to, after exhaustive due diligence, are the institutions we think will stake their places in the financial system of tomorrow and 100 years from now.

The famous railroad entrepreneur James J. Hill once remarked, “Few things are more worthless or uneasy than capital unemployed, and wealth locked up in great vaults in a great city is just as useless to its possessor as heaps of gold to Robinson Crusoe.” We’d like to expand on that, and applaud the UN SDGs for providing a framework for some of the world’s largest asset owners to make initial forays into impact investing and put their capital to work for good. While the economic benefit of achieving the SDGs is expected to be incredibly massive, the cost of falling short could be catastrophic.



HOW MICROVEST WORKS ON THE SDGs: #5

The stated goal of SDG #5, Gender Equality, is to, “give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws.” Last year, 71% of our MFI’s clients were women, and our belief is that the provision of ethically priced, useful loans to 9 million women contributes to the creation of a more just and equal economic balance.

HOW MICROVEST WORKS ON THE SDGs: #1

By actively working to build a world with more Gender Equality and one that offers Decent Work and Economic Growth opportunities, we believe we are fighting for SDG #1, No Poverty. Ensuring all men and women have equal rights to economic resources, we believe, helps to build the resilience, in particular of poor and the vulnerable populations, across the globe.

SDGs AND MICROVEST:

SUSTAINABLE DEVELOPMENT GOALS

1 NO
POVERTY



#1 - Eradicating poverty in all its forms remains one of the greatest challenges facing humanity. While the number of people living in extreme poverty dropped by more than half between 1990 and 2015 – from 1.9 billion to 836 million – too many are still struggling for the most basic human needs.

86 Institutions
Financed

12.3M Active
borrowers

5 GENDER
EQUALITY



#5 - Ending all forms of discrimination against women and girls is not only a basic human right, but it also crucial to accelerating sustainable development. It has been proven time and again, that empowering women and girls has a multiplier effect, and helps drive up economic growth and development across the board.

71%
Female MFI
Clients

8 DECENT WORK AND
ECONOMIC GROWTH



#8 - Over the past 25 years the number of workers living in extreme poverty has declined dramatically, despite the lasting impact of the 2008 economic crisis and global recession. In developing countries, the middle class now makes up more than 34 percent of total employment – a number that has almost tripled between 1991 and 2015.

77%
Productive
Loans

MICROVEST PORTFOLIO: AGGREGATE

The MicroVest aggregate portfolio includes direct investments across all funds under management and advisory activities. In 2016, MicroVest continued to expand into new countries and sectors, closing the year financing 86 institutions across 40 countries. Our portfolio companies continue to demonstrate resiliency despite economic and political challenges. With their partnership over the past five years, we have doubled the number of LIFIs financed, seen a 50% increase in the number of countries where we work, and in 2016 had two funds named Best for the World Funds by B the Change Media.

	Dec. 2014	Dec. 2015	Dec. 2016	Y/Y Change ²
Total Number of Institutions Financed (at year end)	89	85	86	1%
Number of Direct Countries (at year end)	39	35	40	14%

LIFI PORTFOLIO METRICS - WEIGHTED¹:

# of Institutions Reporting ³	78	76	76	
Gross Portfolio ⁴	241,422,301	283,603,398	414,839,861	46%
Annual Port. Growth	26.5%	26.4%	25.6%	-3%
PAR>30 /Gross Loan Portfolio	4.5%	5.4%	6.3%	17%
Portfolio Yield (YTD annualized)	25.1%	24.1%	24.8%	3%
Op. Exp./ Avg. Port.	16.2%	13.0%	13.0%	0%
Write-offs/Average Gross Loan Portfolio (TTM)	1.3%	1.8%	1.5%	-15%
Deposit Taking	53.3%	50.7%	55.5%	9%

OUTREACH INDICATORS - WEIGHTED¹:

# Active Borrowers	198,775	268,690	304,963	13%
Avg. Loan Size (US\$)	10,351	8,299	8,187	-1%
Avg. Loan Size as % of Per Cap GDP	233.6%	172.5%	247.0%	43%
% Women Clients	55.3%	62.0%	62.1%	0%
% Productive Loans	75.2%	73.0%	76.8%	5%

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

MFIs:

	Dec. 2014	Dec. 2015	Dec. 2016	Y/Y Change
# of Institutions	60	56	57	2%
# Active Borrowers	221,441	332,715	374,243	12%
Avg. Loan Size (US\$)	1,746	1,298	1,588	22%
Avg. Loan Size as % of Per Cap GDP	52.4%	47.7%	63.8%	34%
% Women Clients	60.5%	71.1%	71.2%	0%
% Productive Loans	79.3%	77.8%	78.1%	0%

SMEs:

# of Institutions	18	20	19	-5%
# Active Borrowers	153,087	138,834	174,001	25%
Avg. Loan Size (US\$)	31,201	25,843	25,296	-2%
Avg. Loan Size as % of Per Cap GDP	1039.3%	604.9%	814.6%	35%
% Women Clients	24.6%	20.4%	27.2%	33%
% Productive Loans	68.5%	64.1%	75.9%	18%

FOOTNOTES:

1 Statistics are weighted by portfolio exposure and exclude any company that did not report that metric.

2 Change in metric statistics between December 2015 to December 2016

3 Excludes institutions designated as "Other" that do not fall into the MFI or SME categories

4 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, 2016. 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, 2016 company financials are used with December 31, 2016 portfolio exposure.

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