MICROVEST
PURPOSEFUL INVESTING
*A DAI Global Company*

2024 DISCLOSURE STATEMENT
MICROVEST CAPITAL MANAGEMENT

# Operating Principles for Impact Management

MARCH 31, 2024

# MicroVest Capital Management
## 2024 Disclosure Statement

MicroVest is an asset manager that specializes in allocating private debt capital to micro and SME financial institutions in frontier and emerging markets. As one of the first U.S.-based microfinance investors, the Firm has built a 20-year track record of investing in responsible financial institutions whose interests are aligned with the borrowers and communities they serve. MicroVest's approach involves investing in institutions that aim to improve financial access and utilization challenges in segments underserved by traditional banks. These institutions play a crucial role in extending access to financial products such as credit, savings, and insurance to underserved households and small businesses. By supporting financial inclusion for underserved segments, MicroVest is helping to deepen financial sector development, fuel productivity and local economic growth, promote gender equality, and reduce poverty. Since its founding in 2003, MicroVest has disbursed more than $1.7 billion to over 200 responsible financial institutions in 60 emerging and frontier countries.*

MicroVest is a registered investment adviser and Certified B Corporation. MicroVest forms part of the asset management division of DAI Capital, the investment and advisory arm of global development company, DAI. Neither DAI Capital nor DAI Global is a registered investment adviser. MicroVest Capital Management, LLC provides all advisory services to its funds. For more information please visit: **www.microvestfund.com**

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MicroVest Capital Management, LLC ("MicroVest") hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Impact Principles"). This Disclosure Statement applies to the MicroVest Short Duration Fund and MicroVest Enhanced Debt Fund (the "Covered Assets").

The total assets under management in alignment with the Impact Principles is US$215 million as of December 31, 2023.

Leela Vosko
Director of Impact
MicroVest Capital Management
March 31, 2024

MicroVest Capital Management, LLC
7600 Wisconsin Avenue, Suite 300, Bethesda, MD, USA 20814 | Tel. 301.664.6680 | microvestfund.com

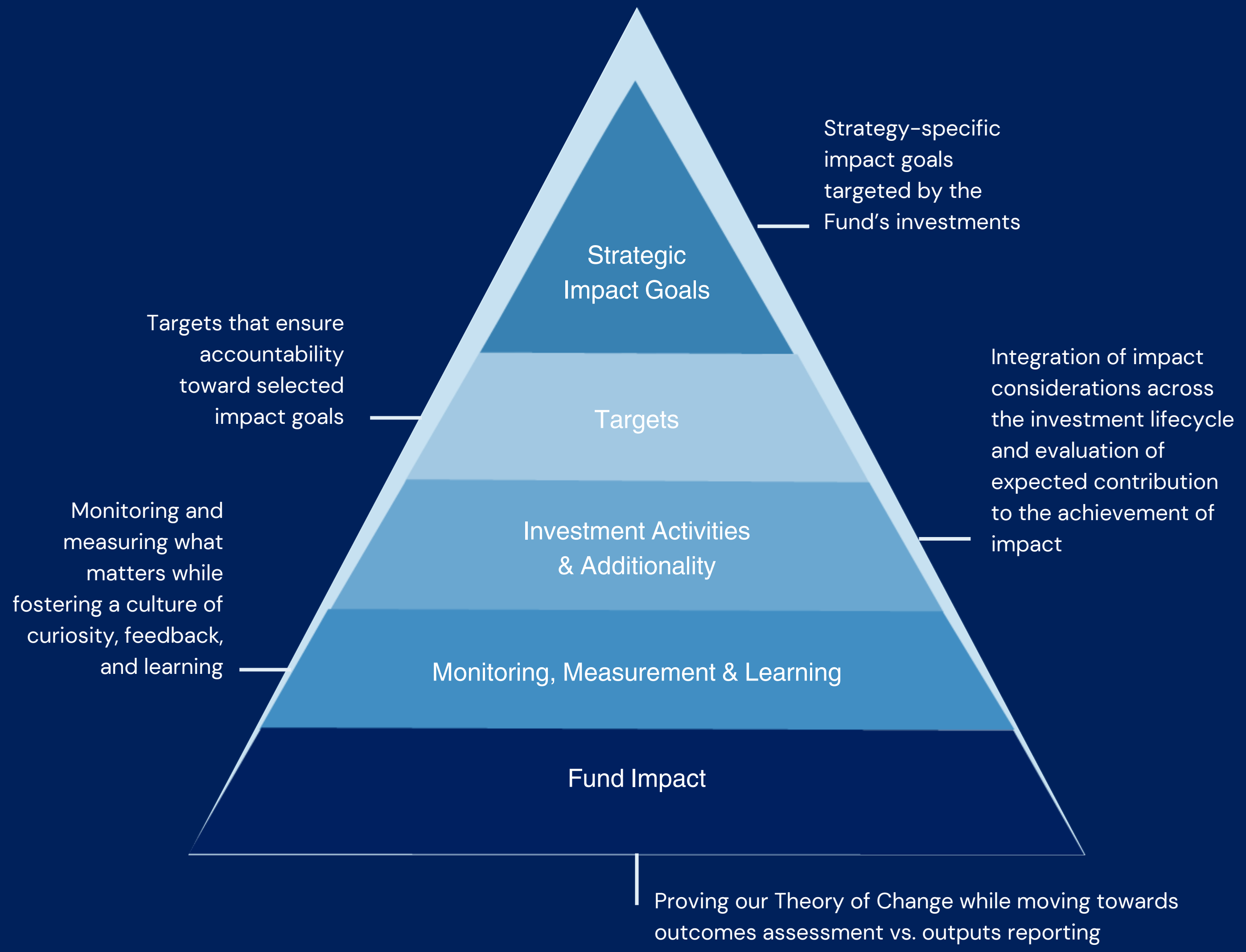
*As of Dec 31, 2023.

# A Framework for Portfolio Impact Management

In March 2024, MicroVest took a significant step to expand its capacity for supporting a comprehensive Impact Measurement & Management (IMM) platform and launched its new Impact Framework: *The Pyramid of Intentionality (PI).* The Framework seeks to standardize the practice of IMM across MicroVest's current and future funds by providing a structured and systematized approach to defining, assessing, managing, and measuring the impact targeted by our investments. The MicroVest PI also seeks to ensure accountability for the intended impact of MicroVest's investments and pivots the practice toward the evaluation of impact outcomes and performance. *(An overview of the Framework's development and its core components may be found in this published Framework Guide.)*

**The subsequent pages detail how the Framework is applied in accordance with the Operating Principles for Impact Management.**

MicroVest's Pyramid *of* Intentionality (PI)



# Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

*The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.*

## Our Impact Thesis & Strategy

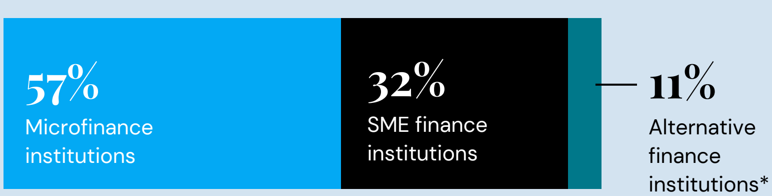
MicroVest's private debt vehicles, as identified under 'Covered Assets,' seek to promote financial inclusion for un- and underbanked small businesses and communities in emerging markets by investing in—and catalyzing the availability of credit for—responsible micro and SME financial institutions. Capital provided to these financial institutions is used to extend credit to underserved micro, small, and medium enterprises (MSMEs) that seek funding for productive initiatives such as business expansion or asset acquisition, but are unable to access financing from the formal financial system.

MicroVest believes that an investment vehicle dedicated to providing flexible and tailored financing, ranging from three months to three years, can facilitate the growth of these institutions and enable greater outreach to underserved enterprises and communities across emerging markets. **These investments address key barriers to financing that continue to persist for millions of underserved MSMEs, due to:**

- **Information asymmetry and risk perception:** Traditional banks and financial institutions are often reluctant to lend to underserved MSMEs due to the lack of formal information on these businesses and their financial performance, increasing the perception of risk of these borrowers.
- **Underwriting difficulty:** Limited credit histories, lack of sufficient collateral, business licenses and/or formal financial reporting makes it difficult for banks to assess the creditworthiness of this segment.
- **High Transaction & Due Diligence Costs:** Catering to these segments is often a time-consuming, resource-intensive process that makes underserved populations unprofitable to bank.
- **Lack of infrastructure in rural areas:** Setting up branches in rural areas where many underbanked businesses and populations are located is often expensive. Despite the increasing availability of digital banking and services aimed at reaching borrowers in remote areas, in-person touchpoints remain important, particularly for borrowers who may not be comfortable with digital channels.
- **Small loan sizes:** Traditional banks may find it economically unviable to offer small loans due to the high cost of processing and managing these loans relative to their size.

## Brief Portfolio Snapshot (as of Dec 31, 2023)

Types of Financial Institutions Invested




**Geographic Exposure (as of Dec 31, 2023)**

| | |
|---|---|
| East Asia & the Pacific | 10.9% |
| Eastern Europe & Central Asia | 14.5% |
| Global | 4.7% |
| Latin America | 19.2% |
| MENA and SSA | 2.2% |
| South America | 20.9% |
| South and East Asia | 27.6% |

*Alternative Financial Institutions encompass education finance, housing finance, payment & remittance transfer providers and other portfolio companies.

# Principle 1: *continued*

## Our Approach

MicroVest's investment approach targets *responsible* micro and SME financial institutions that have built commercially sound business models to finance the MSMEs largely overlooked by traditional banks. These MSMEs are often unable to raise sufficient debt capital from local markets at affordable pricing, therefore require external lenders such as MicroVest, to help finance the institutions banking them.

**Addressing barriers to financing for underserved microenterprise and SMEs**
**Why Barriers Persist**

**Information asymmetry and risk perception**
Limited access to financial performance and business information increases perception of risk.

**Underwriting difficulty**
Limited credit histories, lack of sufficient collateral, business licenses and/or formal financial reporting makes it difficult for banks to assess the creditworthiness of this segment.

**High Transaction & Due Diligence Costs**
Catering to these segments is often a time-consuming, resource-intensive process that makes underserved populations unprofitable to bank.

**Lack of infrastructure in rural areas**
Expense of setting up branches in rural areas where many underserved businesses and populations are located.

**Our approach:** An investment vehicle dedicated to providing flexible and tailored financing, ranging from three months to three years to financial institutions which can facilitate their growth and enable greater outreach to underserved enterprises and communities across emerging markets

MicroVest's portfolio of micro and SME financial institutions operate in a segment underserved by global banks

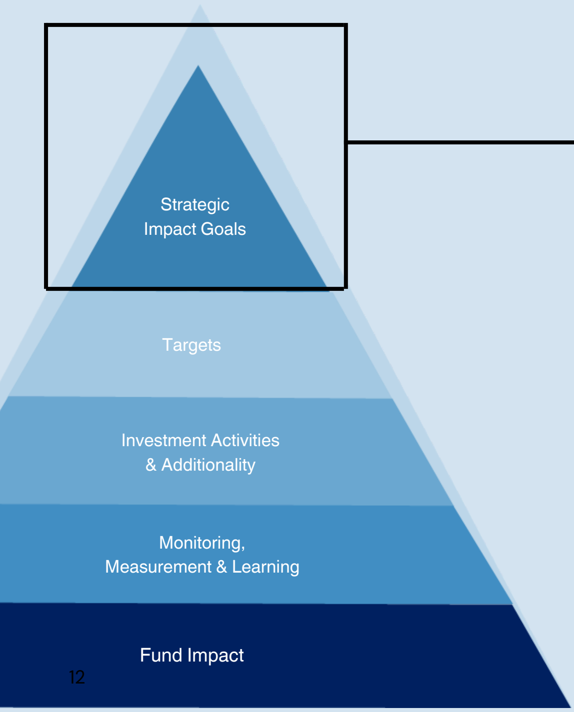
1. Supporting access to productivity-generating financing for underserved micro, small, and medium enterprises (MSMEs)
2. Facilitating use of other financial and non-financial services that contribute to improved financial health (savings, insurance, money management tools, education, training)

## Theory of Change

MicroVest's Theory of Change is rooted in the belief that comprehensive, responsible financial services have the potential to empower underserved segments and drive lasting impact. Through the provision of ethical and transparent financial products, underserved households and small businesses can grow and sustain their businesses, thereby generating income, creating employment opportunities, and improving standards of housing, healthcare, and education for themselves and their families. Additionally, these households and small businesses benefit from financial inclusion through their enhanced ability to manage cash flow and household finances, as well as heightened resilience in dealing with emergencies.

| | | |
|---|---|---|
| Inputs | MicroVest | • Private debt to enhance lending capacity of Responsible Financial Institutions (RFIs) providing critical financial services to underserved MSMEs (this may be supplemented with non-financial support, such as capacity building, etc.) |
| Outputs | Responsible Financial Institutions | • With additional funding and/or non-financial support, micro and SME financial institutions have more capital to lend, as well as other financial and non-financial products to offer MSMEs in need |
| Short-term Outcomes | MSMEs | • Previously underserved MSMEs gain access to a variety of financial and non-financial services to build, grow, and/or manage self-sustaining businesses |
| Medium-term Outcomes | MSMEs | • MSMEs have opportunities to increase business profits and income<br>• Business owners improve their capacity to finance other critical needs, such as healthcare, education, sanitation<br>• Opportunity to invest back into the business, expand, and create jobs for the community |
| Long-term Outcomes | People | • Owners and operators of microenterprises and SMEs, as well as their employees, can increase household income, which leads to:<br>◦ Increased ability to manage cashflow and household finances<br>◦ Increased financial resilience<br>◦ Improved housing, health, and education |

# Principle 1:
*continued*




MicroVest's Pyramid *of* Intentionality (PI)

Strategic Impact Goals

## Strategic Impact Goals for Covered Assets:

### Target Impact Theme (Primary)

Financial Inclusion

### Primary Strategic Impact Goals (IRIS+)

- Improving access to and use of responsible financial services or historically underserved populations
- Improving financial health for underserved populations

### Secondary Impact Lens (IRIS+)

- Increasing Gender Equality through Financial Inclusion: Increasing products & services for women, increasing income for female clients, improving financial resilience, increased spending on family's basic needs
- Supporting decent jobs & fostering economic development: Improving earnings and wealth through employment & entrepreneurship (particularly for disadvantaged & excluded groups)

### Targeted UN SDGs & Indicators

SDG 1: No Poverty (1.4, 1.5)
SDG 5: Gender Equality (5.5)
SDG 8: Decent Work & Economic Growth (8.3, 8.10)
SDG 9: Industry, Innovation & Infrastructure (9.3)
SDG 10: Reduced Inequalities (10.1, 10.2)
SDG 17: Partnership for the Goals (17.3)

**1.4:** By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance
**1.5:** By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters
**5.5:** Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life
**8.3:** Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
**8.10:** Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
**9.3:** Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets
**10.1:** By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average
**10.2:** By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
**17.3:** Mobilize additional financial resources for developing countries from multiple sources

### Investment Focus Areas / Criteria

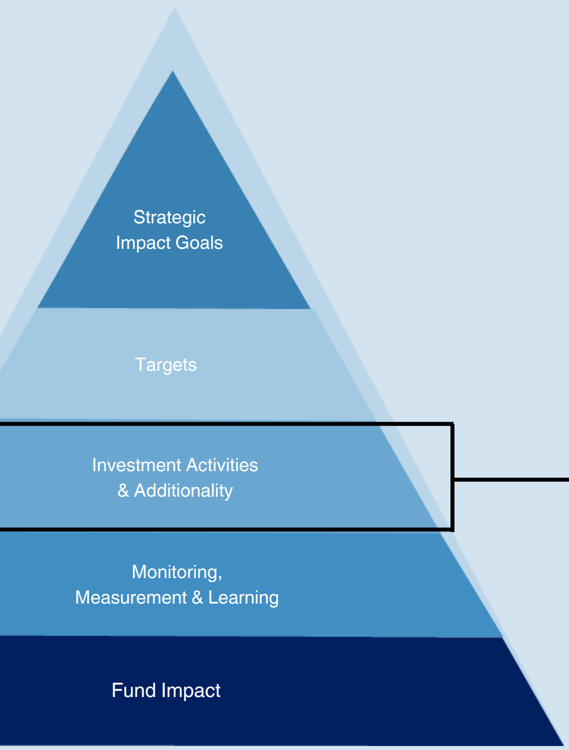
MicroVest will focus on investing in financial institutions that undertake one or more of the following activities:

- Support access to productivity-generating financing for underserved populations and microentrepreneurs and SMEs
- Facilitate use of other products and services that contribute to improved financial health (savings, insurance, money/debt management tools, education, training)

## Principle 2: Manage strategic impact on a portfolio basis.

*The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.*

MicroVest seeks to integrate impact considerations at each stage of the investment lifecycle. Our goal is to harmonize impact objectives and activities with the overarching strategy, ensuring a cohesive and purposeful approach throughout the investment process. We seek to identify and address potential impact risks early on, and facilitate the collection, review, and learning from relevant metrics to continuously enhance our impact-driven investments. Currently MicroVest does not align staff incentives with the achievement of impact but we are cognizant of the practice's emergence and may consider doing so as more best practices emerge.




MicroVest's Pyramid *of* Intentionality (PI)

| SDF Investment Process (Steps 1-5 / 7) (High level) | |
|---|---|
| 1. Prospecting | A macro assessment of country and regional financing gaps and the level of need. |
| 2. Risk Review | Financial institution impact metrics collected and reviewed to determine:<br>• Whether the financial institution meets the portfolio's minimum requirement for impact eligibility;<br>• Where the financial institution's impact stands in relation to MicroVest's portfolio averages for similar institution types and geography; and<br>• Target beneficiaries. |
| 3. Due Diligence | A standardized ESG performance assessment is conducted to pinpoint potential ESG risks. Additionally, the intended use of investment capital is defined, along with MicroVest's anticipated financial and non-financial contributions, and the expected impact resulting from the investment. |
| 4. ICOM | Investment Committee reviews the Impact Assessment document as part of its deliberations. |
| 5. Document & Disburse | Loan agreements guarantee adherence to regulatory, anti-fraud, anti-corruption/AML, and international standards, as well as best practices. |

### Description of Impact Considerations Across Each Investment Stage

**Investment Stage**

**Prospecting**

During the prospecting phase, MicroVest conducts an assessment of target countries based on the level of financial constraints MSMEs face. This allows us to establish and contextualize the development needs that our investments can address.

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**Risk Review**

During the pre-due diligence Risk Review, prospective portfolio companies are required to fill out a Risk Review Metrics questionnaire. This template integrates credit, financial, and impact indicators, enabling a comprehensive evaluation of alignment with MicroVest's risk, return, and impact goals. From an impact perspective, MicroVest looks at various indicators, including the value of loans categorized by type/sector, client utilization of non-loan products/services, the availability of financial literacy training/education, financial services delivery methods, and portfolio at risk metrics, among others. These metrics serve as the basis for evaluating the impact performance of the portfolio company during the initial investment phase.

MicroVest will also review specific indicators against averages derived from our existing portfolio within the same country or across the same region, whenever data is available. This comparison serves as a reference point, allowing for the benchmarking of one portfolio company's metrics against the broader portfolio until thresholds can be established with the maturation of the new framework.

*(Continued...)*

# Principle 2: *continued*

Investment Stage

Description of Impact Considerations Across Each Investment Stage

*(...Continued)*

MicroVest aims to utilize impact metrics collected during the Risk Review stage as a benchmark for measuring year-over-year (YoY) impact performance and to gauge the depth of changes over time. Furthermore, the collected metrics play a critical role in shaping future thresholds and the criteria employed to assess impact eligibility for the portfolio.

Metrics collected in this stage help inform the impact assessment portion of the Risk Review one-pager, which establishes the What and the Who of the IMP 5 Dimensions. (How Much and Contribution of the 5 Dimensions are addressed in the ICOM memo following onsite due diligence, when additional data is gathered and can be used to make assessments.)

**Due Diligence**

Once a prospective investment passes the Risk Review, MicroVest will proceed with due diligence, which includes conducting a standardized ESG Performance Assessment on each potential portfolio company. This assessment is a customized version of the ALINUS due diligence tool (Aligning Investors Due Diligence to the Universal Standards), which evaluates and monitors financial institutions across seven dimensions related to social performance, client protection, and ESG Risk. These dimensions include:

- Social strategy
- Committed leadership/Governance
- Client-centered products & services
- Client protection
- Responsible HR
- Responsible growth & returns
- Environmental performance management

To get better insight into outcomes at the end borrower level, MicroVest will inquire whether the prospective portfolio company has engaged with the 60 Decibels Microfinance Index. If so, MicroVest will request the corresponding report to enhance its understanding of the correlation between access to financing for the financial institution's end borrowers and their capacity to generate increased income, experience improved wellbeing, and/or bolster financial resilience. MicroVest may also conduct randomized visits to the end borrowers of financial institutions to gain insights into the utilization of financing and to understand their experiences in engaging with the financial institution.

**Due Diligence Findings and Impact Considerations for Investment Committee (IC) Memo**

MicroVest seeks to document the assessment of impact from the preceding stages within the IC memo, aligning with the IMP 5 Dimensions:

- **What:** Purpose of the investment, how it supports the Fund's strategic goals, and expected impacts
- **Who:** Identification of target beneficiaries and their level of financial need
- **How Much:** How much impact is expected to be generated and over what duration?
- **Contribution:** How did the Fund's contribution (financial and non-financial) create impact beyond what would have happened without its participation?
- **Risk:** MicroVest takes credit and ESG risk into consideration when evaluating the likelihood that expected impact does not transpire.

**Investment Committee (IC)**

The IC memo includes information from Prospecting, Risk Review, and Due Diligence for deliberation.

**Document & Disburse**

Loan agreements maintain adherence to regulatory, anti-fraud, anti-corruption/AML, and international standards and best practices.

# Principle 3: Establish the manager's contribution to the achievement of impact.

*The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.* The narrative should be stated in clear terms and supported, as much as possible, by evidence.*

*For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

MicroVest's impact narrative emanates from its strategy. MicroVest predominantly provides 2-3 year amortizing senior debt to responsible micro and SME financial institutions that then use this capital to offer additional credit and financial products to underserved entrepreneurs, small businesses, and individuals, thereby facilitating the closing of the financing gap and the promotion of financial inclusion for millions worldwide. Each time MicroVest makes a loan to a financial institution, 1) the institution has additional capital that can be used to meet the growing needs of its end borrowers, and 2) the end borrower benefits from the availability of credit or other financial service, which may be used to support productivity-generating initiatives that can, in turn, improve a borrower's livelihood, financial health, and spur job creation in their local community.

**Financial Additionality**

MicroVest typically provides flexible loan structures (e.g. amortizing loans, bullet payment loans, unsecured loans) to its investees that would otherwise be generally unavailable through traditional banks or local financiers due to a variety of structural reasons or perceptions around risk. MicroVest will also consider short term loans and work with an FI to provide customized, flexible instruments, provided that the institution meets its social impact and credit underwriting criteria. Depending on the financial institution's needs, MicroVest may provide local currency debt (approximately 30% of the portfolio), which we then hedge to US dollars. This structure helps these institutions, which typically lack access to hedging instruments, access international capital markets without bearing foreign exchange risk.

MicroVest's investment in a financial institution can also indirectly improve both the availability and cost of capital for end borrowers. Among the institutions in MicroVest's portfolio, interest rates for end borrowers average 25% per annum in local currency, a significant cost savings versus other informal and/or predatory lenders that might charge exorbitant rates if they are willing to lend at all, which makes capital either unavailable or unaffordable and risks leading to debt traps for borrowers.

MicroVest's due diligence and portfolio monitoring processes support and deepen financial institution partnerships by providing advice on how the institution can implement more sophisticated risk management processes, as well as via its rigorous monitoring requirements. In both cases, these institutions benefit from MicroVest's global perspective and 20 years of experience evaluating and working with them.

**Non-Financial Additionality**

Historically, MicroVest has been dedicated to solely providing financial contribution to its portfolio companies. However, we are currently assessing the expansion of our additionality to include Technical Assistance which, if/when implemented, is expected to be designed and implemented by MicroVest's parent company, DAI Global.

# Principle 4: Assess the expected impact of each investment, based on a systemic approach.

*For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact* potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?** The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.*

*In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards*** and follow best practice.*****

*Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.
**Adapted from the Impact Management Project (www.impactmanagementproject.com).
***Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (http://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx ); and SASB (www.sasb.org), among others.
****International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

As outlined in Principle 2, MicroVest has a process which seeks to assess the potential positive impact of each investment ex-ante, and seeks to document the assessment of impact from preceding stages within the Investment Committee (IC) memo for the investment, aligning with the IMP 5 Dimensions of What, Who, How Much, and Contribution.

**Our assessment also seeks to:**

- Specify the impact of MicroVest's investment on enabling the financial institution to accomplish more or specific objectives;
- Record the anticipated financial, and potentially, non-financial contributions;
- Estimate expected impact, such as the approximate number of clients to be financed by MicroVest's investment throughout the loan duration, considering turnover; and
- Estimate the expected volume of originated loans over the next twelve months due to MicroVest's investment, considering turnover.

Because closing the financial inclusion gap requires growth in loan volume and matching borrowers with suitable financial products, MicroVest will examine historical and forecasted loan volumes in order to quantify how our investment fits our risk/reward appetite from a commercial perspective. Tracking a financial institution's growth in loan origination and number of borrowers reached can also serve as a fundamental proxy for measuring output and thus, expected impact. Since MicroVest provides financial institutions with the raw material for making loans, an institution's lending statistics indicate whether it is contributing to filling the estimated MSME financing gap or reducing the number of unbanked and underbanked individuals. MicroVest also collects data on the number and percentage of rural and female borrowers; two populations that have been historically underserved by traditional lending incumbents. Metrics on loan delinquency further indicate whether credit growth is sustainable for the borrowers. Please refer to Principle 2 for an illustrative example of the metrics collected and tracked by our portfolio.

# Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment.

*For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)* risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.** As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.*

*The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.
**Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/ themes/human-rights.htm).

Because MicroVest's investment strategy targets responsible micro and SME financial institutions, our pipeline process filters out institutions that may correlate with higher environmental, social and governance risks, any of which could undermine the value of the investment and impair impact performance.

In addition to financial, credit, social impact, and ESG assessments during due diligence, all loan agreements between MicroVest and a financial institution specify that the institution must operate in compliance with applicable laws, including regulatory, fraud, anti-corruption/AML, as well as international standards and best practices applicable to the institution and its business.

MicroVest's portfolio companies are also urged to operate in a manner consistent with the requirements of the IFC's Performance Standard 2 on Labor and Working Conditions, which governs themes such as workers' rights and ESG Guidelines. Furthermore, MicroVest's investees are restricted from using proceeds of the Loan for lending to certain prohibited sectors, including but not limited to: arms productions or sales; illegal trade or production of of activity deemed illegal under local or national laws; pharmaceuticals or medical equipment not approved for use in the United States; alcoholic beverages; companies involved activities or products around gambling, tobacco, and more.

MicroVest's portfolio management process involves ongoing monitoring of financial performance and a range of qualitative factors. Our risk, portfolio and investment teams receive a steady flow of information on how investee companies and their underlying loan portfolios are performing.

MicroVest's ongoing portfolio monitoring activities are comprised of:

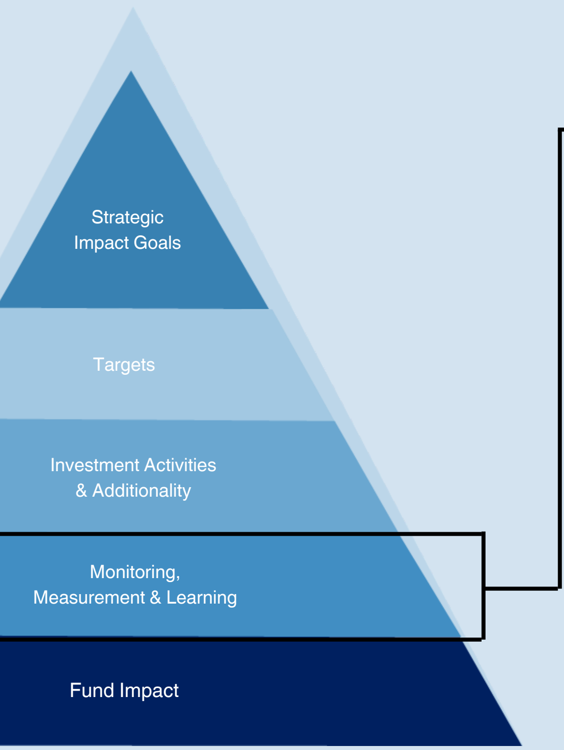
- Monthly Watch List meetings to monitor covenant violations and review problem assets;
- Quarterly credit risk scoring and performance assessment
- Semi-annual sovereign risk review
- Virtual or in-person visits to investee financial institution in the portfolio every 12 to 18 months.

Through monitoring, our team often gains early visibility into any ESG risk issues and can work with the RFI to proactively address problems. In the worst-case scenario, MicroVest can respond to a high-risk ESG situation by accelerating and/or declining to renew the relationship with an investee after its loan has been repaid, typically two to three years after origination.

# Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

*The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.* The Manager shall also seek to use the results framework to capture investment outcomes.***

*Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.
**Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).




| SDF Investment Process (Steps 6-7) | |
|---|---|
| 6. Monitoring | Quarterly review of portfolio and credit data.<br>Annual assessment of impact, including metrics, IMM system evaluation, feedback, reflection, and learning.<br>Publish an annual impact report. |
| 7. Repayment | Evaluate actual impact of the FI against the expectations set during the initial investment and explore potential future financing opportunities based on the FI's financial information and demonstrated impact. |

## Portfolio Monitoring

MicroVest sets expectations and outlines procedures for financial, operational, and social impact reporting with each portfolio company. Data is collected quarterly for financial, credit, and select impact metrics, while a comprehensive set of social impact metrics is gathered annually, and are aligned with our target impact goals. This approach allows us to gain insight into an institution's financial performance, loan portfolio trends, compliance with covenants, adherence to covenants, and social impact trends that inform progress toward our goals.

Our metrics collection schedule allows our risk, portfolio, and investment teams to receive a steady flow of information on how the investee and their underlying loan portfolios are performing. Impact and portfolio data points collected, particularly those concerning product types, loan volume and end borrowers, offer directional evidence in support of MicroVest's financial inclusion narrative. For example, investee financial institutions with expanding loan books and low default rates are typically expanding access to capital given the underserved customer bases that they target. When this data is aggregated at the portfolio level, it helps inform the development impact that our portfolio is creating and can be compared against aggregate estimates of the financial inclusion gap and the size of the unbanked and underbanked population for a given country and sub-region.

## Targets

MicroVest seeks to set impact targets at the portfolio level on an annual basis to hold itself accountable to chosen impact goals. Following the launch of MicroVest's new Impact Framework in 2024, the first year's targets are largely project-based, to ensure the practical integration and application of the new Framework across processes and operations. Year two targets (2025) will be based on insights or data gleaned from the operationalization of the Impact Framework in 2024. Furthermore, MicroVest will consider setting targets at the investment level, in consideration of their specialization and areas identified for improvement.

**2024 Targets** (Information gathering)

Complete a full year of investment due diligence and data collection in compliance with the new Framework to determine:

1. The viability of new metrics set and quality for reporting and assessment purposes; and
2. To identify any gaps in financial inclusion within the portfolio that could be addressed in Year 2

# Principle 6: *continued*

As mentioned previously, MicroVest establishes expectations and procedures around financial, operational, and social impact reporting with each of its portfolio companies and collects data on a quarterly (most metrics) and annual (all metrics) basis to glean insight into each institution's financial performance, loan portfolio trends, corporate updates, end borrower demographics, and compliance with covenants. The metrics collected provide MicroVest with visibility into the portfolio's position as it relates to MicroVest's Impact Framework and pertinent UN SDGs, which are referenced under Principle 1.

The impact metrics that MicroVest collects span a broad range of indicators, including those listed below. On an aggregate level, this data provides MicroVest with visibility into the total number and types of end borrowers its investments are reaching. MicroVest's assessment of a financial institution's social performance management system is supplemented through periodic virtual or in-person monitoring discussions with the institution's management teams and on-site monitoring visits (when advisable under security and health guidance and regulations).

**Example (non-exhaustive) of a list of impact metrics that MicroVest seeks to assess against our strategic impact goals**

**Portfolio**

Gross Loan Portfolio (GLP) (FP2630)
Annual Portfolio Growth Portfolio Yield (YTD annualized)
Operating Expense Ratio (FP1001)
Write-offs (FP9717) /Average GLP (TTM)
PAR>30 & Restructured Loans/GLP

**Primary Impact Goals**

**Financial Access**

Avg. loan size (PI5160)
# of active borrowers (PI9327)
# of active borrowers accessing financing for the first time* (PI2822)
Value of loans across loan type and sector (PD8808)
Micro/SME Finance Delivery methods* (PD7356)
% Rural Borrowers (PI6652)
% Productive Loans

**Financial Health**

Avg. interest rate charged to borrowers
Non-financial services offered to clients
Usage of non-loan products or services (insurance, deposits/savings PI6439), payments, etc.) (PI1209, PI8255)
Results from participation in 60 Decibels Microfinance Index*

**Secondary Impact Lens**

**Gender Equality**

#/% of female owned or operated enterprises (PI8330)
Value of loans to female owned or operated enterprises*
% of female owned businesses accessing financing for the first time*
% remunerated employees at financed enterprises*
Female loan officers
% female employees (OI6213)
% female senior management (OI1571)
% female board members (OI8118)

**Supporting Decent Jobs**

# of Remunerated Employees at Financed Enterprises (PI4874)
Total # Permanent Employees (OI3160)
Total # Loan Officers (OI2818)

*Metric being introduced for the first time as part of the Covered Asset's 2024 metrics set.

## Principle 7: Conduct exits considering the effect on sustained impact.

*When conducting an exit,* the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.*

*This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

As a provider of amortizing debt capital, MicroVest's exit is already built into the structure of the investment; however, we seek to utilize the pre-renewal stage to assess the realized impact of the investee financial institution against the expectations and intended contributions established during the initial investment. Because MicroVest's loans are short to medium term in nature, this gives MicroVest the opportunity to assess the impact of our investees and whether there has been any material change as the loans come up for possible renewal and serve as an opportunity to explore potential future financing opportunities, taking into account the investee's financial information and demonstrated impact.

## Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

*The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.*

As outlined in previous sections, MicroVest will undertake an annual review of the portfolio's social impact performance to identify financial inclusion or other gaps which may be addressed through methods such as quantitative target setting, through Technical Assistance (once operational), or through other approaches. MicroVest will also use its annual impact review to gather feedback from staff related to the design of its Impact Management System, allowing for adjustments as needed. The annual impact review will serve as a platform for discussing feedback, reflections, and lessons learned. This will enable staff to engage in open discussions about what is effective, what is not, and how decisions can be improved to better support our goals.

# Principle 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification* of the alignment.

*The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.*

*The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.

This Disclosure Statement re-affirms the alignment of MicroVest's policies and procedures with the Operating Principles for Impact Management and will be updated annually. The independent verification report on the alignment of MicroVest's practices with the Impact Principles may be found on MicroVest's website here.

MicroVest intends to conduct an independent verification of its practices every three years. Information on the current independent verifier is as follows:

| | |
|---|---|
| **Name and Address:** | BlueMark<br>915 Battery St<br>San Francisco, CA 94111, USA |
| **Qualifications:** | MicroVest engaged BlueMark to independently verify the alignment of MicroVest's impact management practices with the Operating Principles for Impact Management, an industry standard for integrating impact throughout the investment lifecycle. BlueMark's assessment findings cover both areas of strength and areas for improvement, as reflected in the Verifier Statement.<br><br>BlueMark is a leading independent provider of impact verification services in the impact investing market. BlueMark is a subsidiary of Tideline Advisors, LLC, a specialized consulting firm that works with asset managers and allocators to design and implement best-in-class impact management and measurement systems. |
| **Most Recent Review:** | December 12, 2023 |