MICROVEST
PURPOSEFUL INVESTING
A DAI Global Company

Celebrating 20 *Years* of Purposeful Investing

2023 IMPACT REPORT

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Acknowledgements

This report was authored by Leela Vosko, Director of Impact, with key contributions from Alejandra Perez Cohen, Sr. Investment Officer; Daniel Eberhardt, Portfolio Analyst; Marco Grisenti, Investment Officer; Sharini Kulasinghe, Sr. Investment Officer; Jason Loughnane, Investment Officer, and Kasia Prandecka, Director of Finance.

Disclaimer

MicroVest Capital Management, LLC
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About MicroVest

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. 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.

MicroVest is a registered investment adviser, Certified B Corporation, and forms part of the asset management division of DAI Capital, the investment and advisory arm of global development company, DAI.
For more information please visit: www.microvestfund.com

@microvestfund

Certified B Corporation

Signatory of: PRI Principles for Responsible Investment

Signatory to: Operating Principles for Impact Management

GIIN MEMBER

2X GLOBAL

$1.7B

Disbursed to support financial inclusion

200+

Micro and SME financial institutions invested

60+

Countries invested since inception

*As of December 31, 2023.

About DAI Capital*

DAI Capital is the investment and advisory arm of DAI. The Firm leverages DAI's global platform to mobilize and deploy private capital in frontier and emerging markets, aiming to drive economic growth, job creation, and poverty reduction.
For more information please visit: www.dai.com/our-work/solutions/dai-capital

About DAI*

Founded in 1970, DAI is a global development company that works alongside national and local governments, bilateral and multilateral donors, private corporations and investors, and philanthropies, the company takes on fundamental social and economic development problems worldwide. DAI has 5,000 employees implementing more than 200 projects across 80 countries on 5 continents.
For more information please visit: www.dai.com

*Neither DAI Capital nor DAI are registered investment advisers.

Message from the CEO

Dear Investors and Partners,

With global poverty on the rise for the first time in decades, we are reminded of the importance of ensuring that underserved communities can access capital and build self-sustaining businesses that support their communities and families.

In 2023, MicroVest celebrated a remarkable milestone – 20 years of deploying capital seeking to create pathways out of poverty for millions of hardworking entrepreneurs across emerging markets. This achievement reflects the resilience and determination of our portfolio companies, the trust of our investors, and the tireless efforts of our dedicated team.

Over the past two decades, we have witnessed the microfinance sector evolve from its origins of providing financial services to low-income individuals to serving commercial entities. Our portfolio of Responsible Financial Institutions (RFIs) has also broadened its services beyond loans; offering comprehensive financial solutions such as microinsurance, savings accounts, mobile banking, and payment services, among others. The introduction of technology, especially through mobile and digital channels, has transformed the delivery of micro and SME finance, making these services more accessible to millions of previously marginalized individuals.

While much progress has been made, we are acutely aware of the concerning narrative surrounding microfinance, particularly reports of unethical collection practices and high-interest rates in some of the regions where we invest. MicroVest remains committed to maintaining stringent due diligence measures, ensuring our capital is directed exclusively to responsible and ethical lenders who adhere to robust governance frameworks and treat their clients with fairness, transparency, and respect.

Additionally, we recognize the growing financial impact of climate change on our portfolio companies and their borrowers. To address this, we plan to introduce a dedicated fund later this year aimed at promoting climate justice in emerging markets.

In 2023, MicroVest deployed $55 million in investments to eight responsible financial institutions in six countries. Highlights included boosting agricultural development in Paraguay, facilitating access to finance for Ecuador's microenterprises, and supporting climate-smart investments through Mongolia's first-ever Green Bond. In order to expand our impact measurement and management capabilities, we launched our new framework for portfolio impact management, The Pyramid of Intentionality, in March 2024, to systematically assess, manage, measure, and report on impact across all current and future funds while pivoting away from outputs reporting towards more outcomes-focused assessments.

As the microfinance investment sector has grown and evolved over the last two decades, MicroVest's model of balancing purpose with investment discipline has continued to serve as our guiding principle. We will continue to leverage our expertise, partnerships, and innovative approaches to drive sustainable economic growth and empower underserved communities worldwide.

Our success would not be possible without the trust and support of our investors. Your confidence in us enables us to expand our reach and assist underprivileged communities in obtaining essential financial services and achieving their small business aspirations.

Thank you for being a part of our journey. We look forward to continuing our partnership and creating a more inclusive financial future for millions of MSMEs worldwide.

Sincerely,

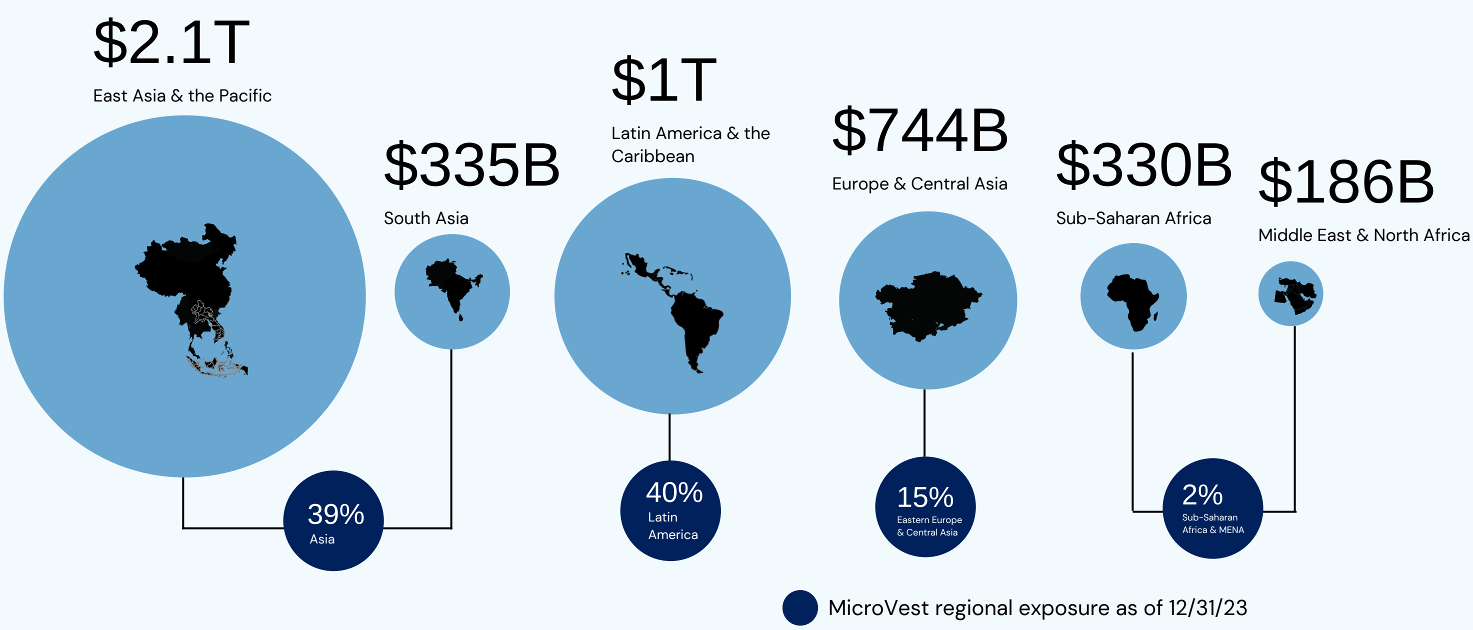
Michael Apel
CEO & CIO

We Seek to Fill Funding Gaps Overlooked by the Formal Financial System

Micro, small and medium enterprises (MSMEs) are the lifeblood of the global economy, accounting for roughly 90% of businesses and generating more than half of the world's employment.[1] The contribution of formal SMEs in developing markets is even more important, driving nearly 40% of GDP and 70% of new job creation. Yet, across frontier and emerging markets, more than 130 million MSMEs face onerous constraints in accessing finance, leading to unmet growth potential and unfulfilled aspirations. In aggregate, the unmet demand for finance among MSMEs in these markets amounts to $4.8 trillion,[2] with women-owned businesses constituting one-third of this total.

At MicroVest, we believe that providing MSMEs with access to responsible, productivity-generating financing can have a profound impact on economic growth. As business needs are financed, productivity rises and MSMEs contribute more valuable goods, services, and jobs to the local economy.

MSME financing gap by region



Why Funding Gaps Persist for Millions of MSMEs

Information asymmetry and risk perception

Traditional banks and financial institutions are often reluctant to extend credit to underserved MSMEs. This hesitation primarily stems from a lack of access to formal information regarding these businesses and their financial performance, which heightens the perceived risk associated with these borrowers.

Underwriting difficulty

Limited credit histories, insufficient collateral, absence of business licenses, and lack of formal financial reporting can make it challenging for banks to accurately assess the creditworthiness of this segment.

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.

High transaction and due diligence costs

Catering to these segments can be a time-consuming and resource-intensive process, rendering underserved populations unprofitable for traditional banks.

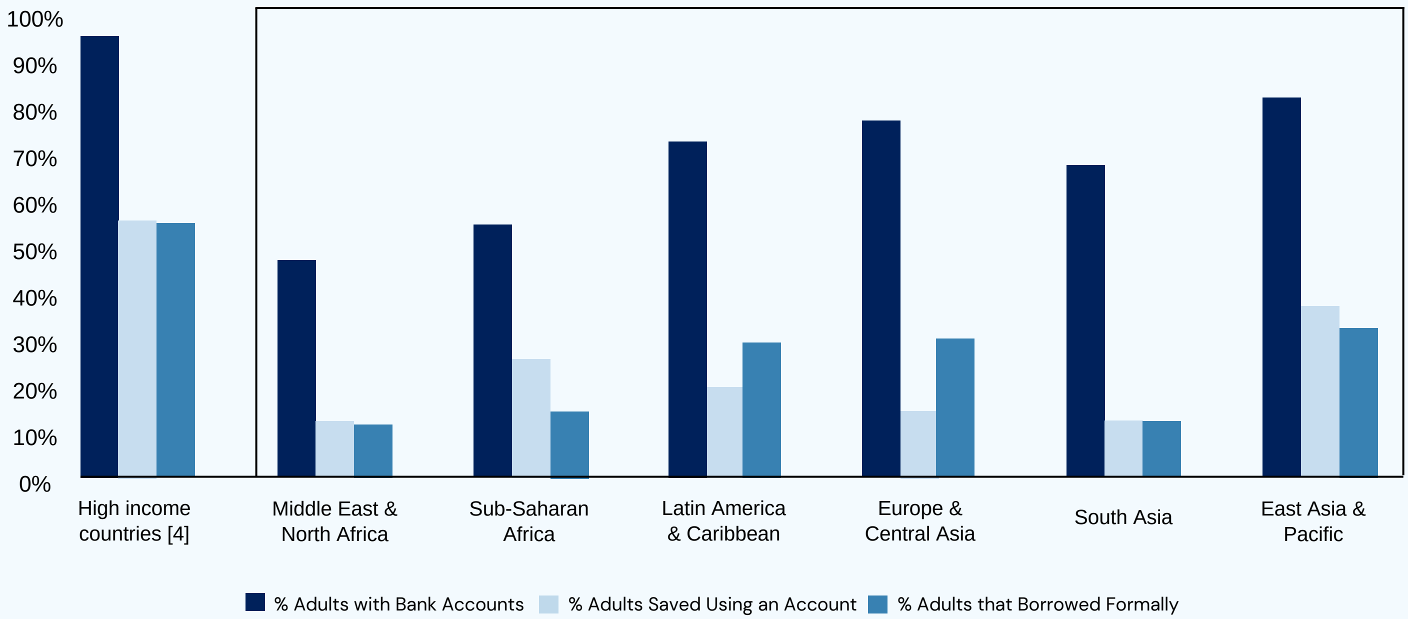
Cost of reaching rural borrowers

Despite the increasing availability of digital banking and services aimed at reaching borrowers in remote areas, in-person touchpoints remain crucial, particularly for borrowers who may not be digitally-savvy, familiar or comfortable using or understanding loan terms through digital channels.

[1] World Bank. https://www.worldbank.org/en/topic/smefinance
[2] IFC, SME Finance Forum, MSME Finance Gap 2017, updated in 2018/19

There is an Opportunity to Enhance the Uptake of Formal Credit and Savings Products to Facilitate Improved Financial Health of Customers in Emerging Markets

Regional Comparison of Adult Account Ownership, Formal Savings, and Credit [3,4]



[3] World Bank Global Findex Data Book 2022 (Regional breakdowns exclude high income countries in those regions)
[4] The World Bank classifies high income economies with a GNI per capita of $12,695 or more.

How We Are Addressing Barriers to Financing for Underserved MSMEs

MicroVest's private debt vehicles 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 potentially 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, often due to information asymmetry and risk perception, underwriting difficulty, high transaction and due diligence costs in emerging markets, a lack of infrastructure in rural areas, and small loan sizes, among others.

MicroVest's portfolio of Responsible Financial Institutions operate in a segment underserved by global banks

We seek to identify RFIs that are:

Supporting **access to productivity generating financing** for underserved micro, small, and medium enterprises

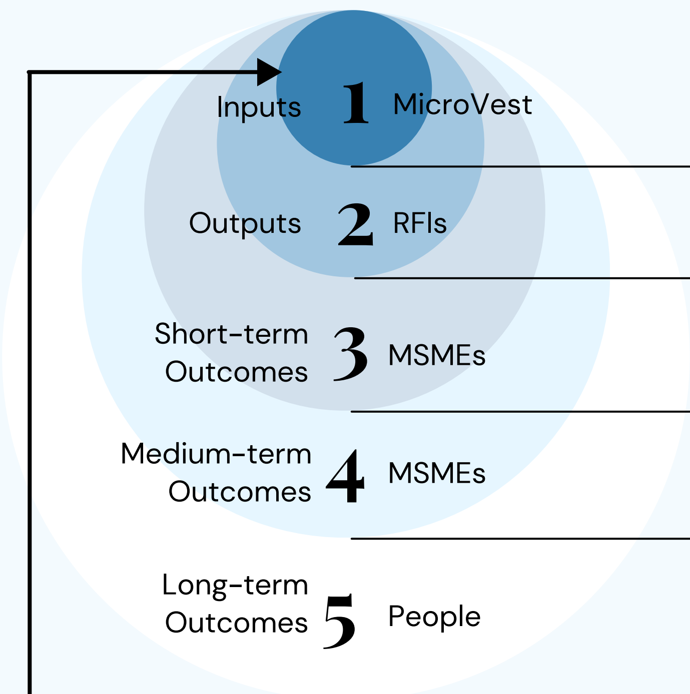
Facilitating the **use of financial and non financial services that contribute to improved financial health** (savings, insurance, money management tools, education, and training)

Our Approach

MicroVest's investment approach targets responsible micro and SME financial institutions with commercially sound business models that finance MSMEs typically overlooked by traditional banks. These MSMEs often struggle to secure sufficient debt capital from local markets at affordable rates and thus rely on external lenders like MicroVest to support the institutions that bank them.

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.

Our Theory of Change



MicroVest provides private debt to enhance the lending capacity of RFIs offering critical financial services to underserved MSMEs. This may be supplemented with non-financial support, such as capacity building. We focus on RFIs that facilitate access to productivity-enhancing financing and offer non-loan financial and non-financial services that contribute to borrowers' improved financial health.

With additional funding, RFIs can increase their lending capacity and offer additional financial and non-financial products to MSMEs in need.

Previously underserved MSMEs gain access to a variety of financial and non-financial services to build, grow, and/or manage self-sustaining businesses.

MSMEs have opportunities to increase business profits and income. This creates opportunities to reinvest in the business, expand, and create jobs for the community. Business owners can improve their capacity to finance other critical needs, such as healthcare, education, and sanitation.

Owners and operators of microenterprises and SMEs, as well as their employees, can increase household income, which leads to:
- Increased ability to manage cashflow and household finances
- Increased financial resilience
- Improved housing, health, and education

Our Contribution

Financial Contribution
Historically, MicroVest's contribution has been primarily financial. We typically provide 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 consider short-term loans and work with an RFI 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 also provides 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 represent significant cost savings versus other informal and/or proprietary 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 Contribution
Historically, MicroVest has been dedicated to solely providing financial contribution to its portfolio companies. However, we are looking to expand on our additionality to include Technical Assistance to our portfolio companies, with design and implementation support from our parent company, DAI Global.

Embracing Intentionality with MicroVest's New Impact Management System

The impact investing landscape is undergoing a remarkable transformation, marked by the emergence of standards, best practices, and tools that enhance our approaches to Impact Measurement & Management (IMM). At MicroVest, we are committed to staying abreast of this evolution, ensuring that our impact integration, measurement, and reporting align with the industry's leading practices.

In 2023, MicroVest appointed its first ever Director of Impact to spearhead the creation and implementation of an Impact Management (IM) function. Given the pivotal role of impact in our investment thesis, this role aimed to ensure that our current investment processes reflect the latest thinking around IMM.

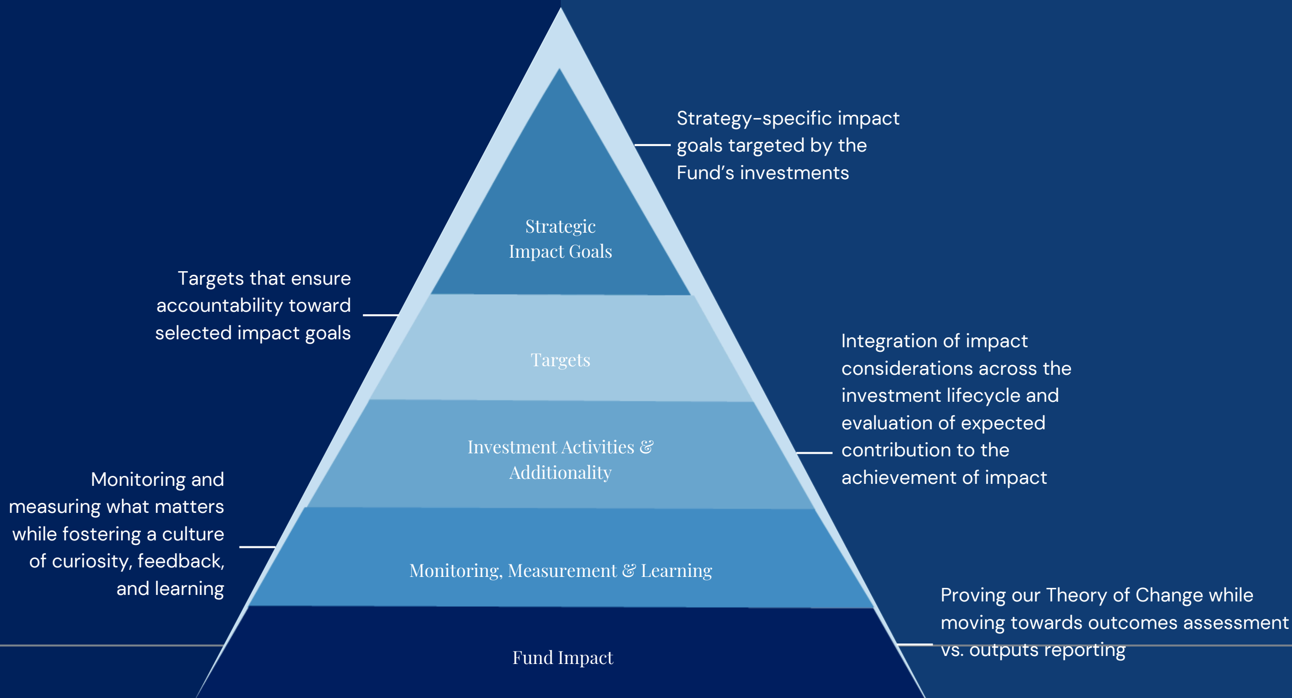
In March 2024, MicroVest unveiled its new Impact Framework, "The Pyramid of Intentionality" (PI), which showcases our evolved approach to systematically assessing, managing, measuring, and reporting on impact across all current and future funds. The Framework pivots us toward the evaluation of impact outcomes and performance, ensuring accountability for the intended impact of our investments. We also sought to align components of our framework with leading industry standards, such as the IRIS+ impact themes and categories, the IMP 5 dimensions of impact, and the Operating Principles for Impact Management, of which MicroVest is a founding signatory.

The public-facing Framework that you see below and on the next page is just the tip of the iceberg. Beneath it lies a comprehensive effort to bridge the gap between theory and practice in a way that balances the needs of our stakeholders without creating undue burden on existing processes at the firm level or at the portfolio company level. These efforts can be found codified in our updated investment investment templates across each investment stage and in our investment manual.

In 2023, MicroVest also completed the 3-year, independent re-verification of its alignment with the Operating Principles for Impact Management, engaging BlueMark to verify our alignment and solicit feedback and actionable recommendations on the IM system we were developing for the new Framework. The goal for our 3-year re-verification was to go beyond compliance and proactively seek feedback, in addition to actionable recommendations, on the Impact Management System underpinning our Framework in the hopes that we could further strengthen the IM System through guidance and best practices obtained. BlueMark's findings cover both areas of strength and opportunities for improvement, as reflected in the Verifier Statement. Additionally, we published our 2024 Disclosure Statement for the Operating Principles for Impact Management, detailing the application of our new Impact Framework in accordance with the Impact Principles and the integration of each Impact Principle across our investment process.

As we move forward in our impact management journey, we remain committed to continuous improvement and innovation in our practices and systems. We expect our Framework and thinking around IMM to evolve year-over-year, incorporating lessons learned and insights gleaned from previous operational periods and we will keep you updated on the evolution of our processes and the emergence of new findings.

MicroVest's Pyramid *of* Intentionality (PI)



Standardizing the Integration of Impact Across the Investment Lifecycle

MicroVest's Pyramid of Intentionality (PI) is a Framework that 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.)

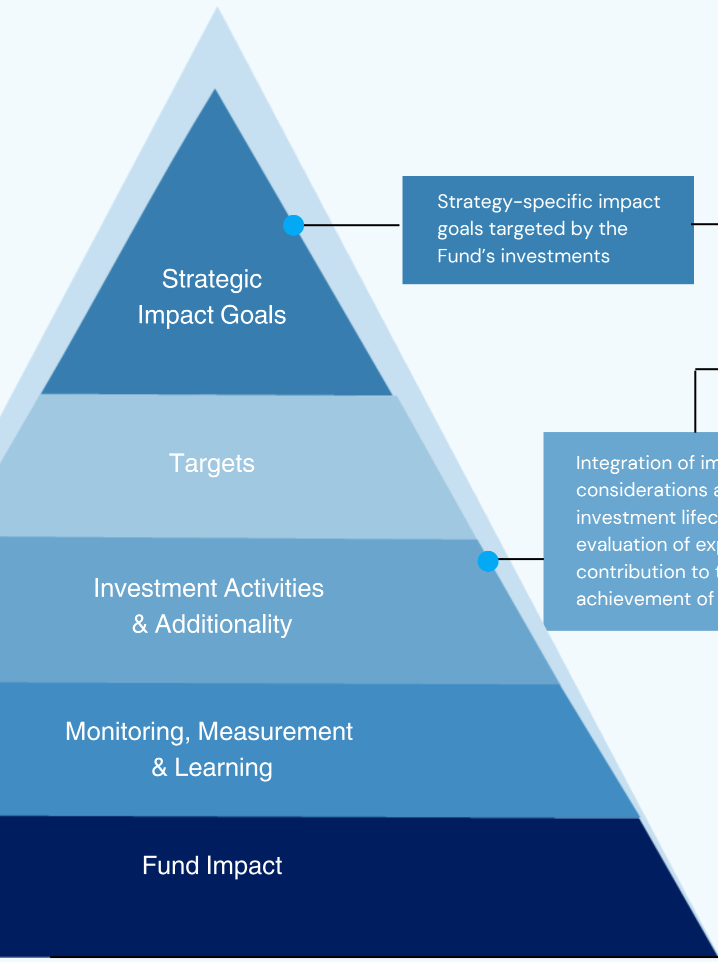
Target Impact Theme for MicroVest's Flagship Funds (Primary)
Financial Inclusion

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 10: Reduced Inequalities (10.1, 10.2)
SDG 17: Partnership for the Goals (17.3)

MicroVest's Pyramid *of* Intentionality (PI)



Strategy-specific impact goals targeted by the Fund's investments

Integration of impact considerations across the investment lifecycle and evaluation of expected contribution to the achievement of impact

1 **Prospecting**
Macro assessment of country and regional financing gaps and the level of need.

2 **Risk Review**
RFI impact metrics collected and reviewed to determine: 1) Whether RFI meets portfolio's minimum requirement for impact eligibility; 2) Where the RFI stands in relation to MicroVest's portfolio averages for similar institution types and geography; and 3) 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 **Investment Committee**
The Investment Committee reviews the Impact Assessment portion of the IC memo as part of its deliberations.

5 **Document & Disburse**
Loan agreements guarantee adherence to regulatory, anti-fraud, anti-corruption/AML, and international standards and best practices.

6 **Monitoring**
Quarterly review of portfolio and credit data. Annual review of impact data, IMM system evaluation, feedback, reflection, and learning. Publish annual impact report.

7 **Repayment**
Evaluate impact of RFI against expectations set during the initial investment and explore possible future financing opportunities.

Aligning Our Systems and Processes with Leading Industry Standards

MicroVest is a proud participant and signatory of a number of impact investment-focused initiatives that support the growth and professionalization of the industry worldwide. Throughout our 20-year history, we have sought to build strong partnerships and participate in dialogue around impact measurement and management to facilitate learning and sustainably grow the base of capital that seeks to advance social and environmental priorities.

Signatory of

PRI Principles for Responsible Investment

Operating Principles for Impact Management

Verified by[6]

BlueMark

Certified as

Certified B Corporation

Member of

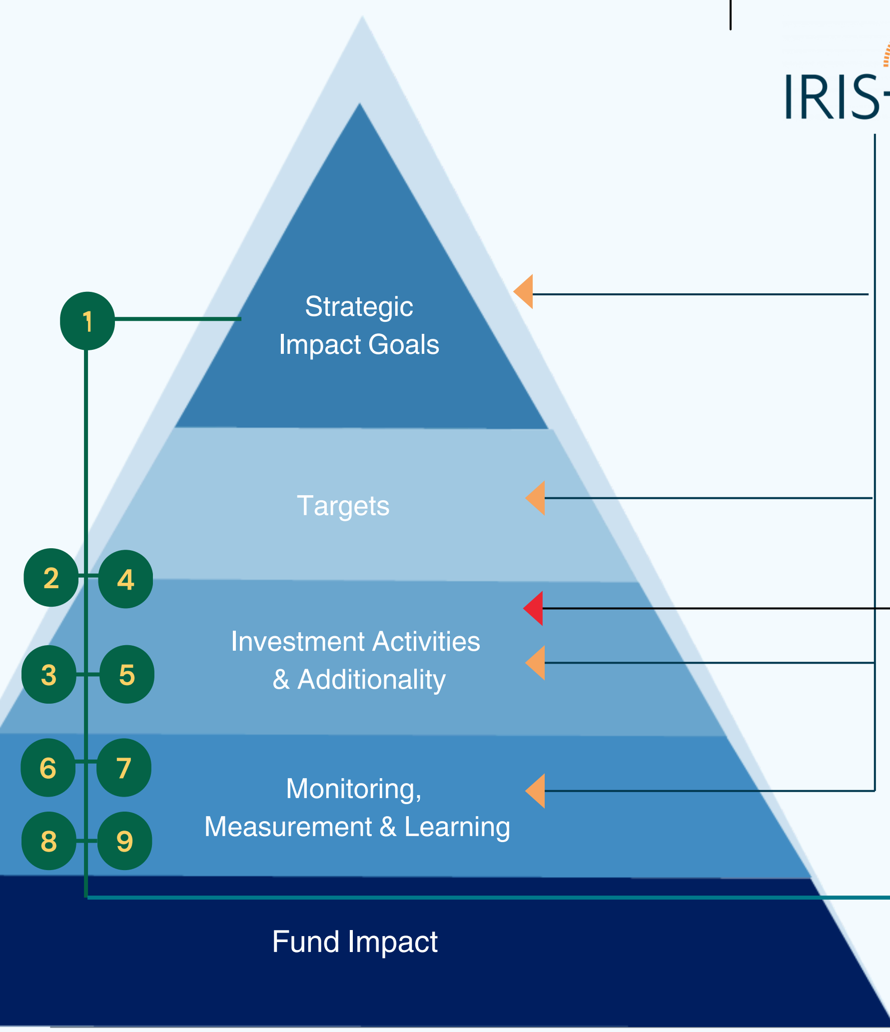
GIIN Member

2X Global

Designated as

IA 50 2024 Emeritus Manager

MicroVest's Impact Framework



User of

IRIS+

MicroVest seeks to align its Funds' strategic impact goals with the IRIS+ Impact Themes and Categories to facilitate better harmonization of impact classifications across strategies.

IMPACT FRONTIERS

During due diligence, MicroVest will assess the potential impact of an investment according to the IMP 5 Dimensions of Impact (What, Who, How Much, Contribution, Risk).

Operating Principles for Impact Management

MicroVest seeks to align its Framework and underlying IM System with the Operating Principles for Impact Management's 9 Principles. The Impact Principles are a leading framework for integrating impact throughout the investment lifecycle.

#

[6] BlueMark's verification does not constitute either an endorsement of the client's practices or a verification of the resulting impacts achieved. 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.

If you’re poor or have low-income, accessing and managing money is central to your life; more so than for any other group. This makes our work ensuring the responsibility of financial institutions serving this segment all the more critical.

Ensuring Portfolio Responsibility with ALINUS[5]

At MicroVest, we screen for institutional responsibility as rigorously as we do financial stability. Ensuring portfolio responsibility starts at deal origination and continues throughout the lifecycle of our investment. We believe that by putting our investments to work in institutions that are ethically responsible, offer fair and competitive rates, and operate in a manner that serves and protects customers, we are strengthening the financial impact of our capital, promoting transparency, and helping to diminish the footprint of problematic lenders. Our screens also help to exclude institutions that may correlate with higher environmental, social, and governance (ESG) risks, any of which could undermine the value of the investment and impair impact performance. To help assess institution responsibility, MicroVest utilizes ALINUS, a social data collection tool that measures the implementation of the Universal Standards for Social Performance Management across the following seven dimensions:

Committed Leadership

E.g. Does senior management analyze data on client protection risks (over-indebtedness, unfair treatment, lack of transparency, complaints, fraud, etc.?
Does management assess client repayment capacity, loan approval analysis, prevention of aggressive sales, transparency to clients, collateral seizing and appropriate debt collection practices, etc.?

Client-centered Products & Services

E.g. Does RFI offer loan sizes and loan terms that are suited to the client's economic profile, cash flow, and business type?
Do FI's collateral and guarantor requirements not create severe hardship for clients?

Client Protection

E.g. Does RFI give clients the opportunity to review the terms and conditions of products?
Does RFI's incentive structure promote aggressive sales?
Do RFI's policies prohibit things like corruption, theft, kickbacks, fraud; client intimidation: using abusive language, physical force, shouting, etc.?

Responsible Human Resources

E.g. Does RFI meet or exceed local regulations across areas including competitive wages; benefits/social protection; limits on working hours; paid leave, etc.
Does RFI have formal grievance mechanism that allows employees to raise workplace concerns in a confidential manner?
Does RFI train employees on client protection?

Responsible Growth and Returns

E.g. Is RFI's annual percentage rate (APR) for all its major credit products within 15% of its peers? If outside range, does RFI have valid justification?
Is RFI's operating expense ratio within the accepted performance range?

Environmental Performance Management

E.g. Does RFI assess clients' vulnerability to climate change?
Does RFI build capacity of its clients to reduce their vulnerability to climate change?

Social Strategy

E.g. Does RFI's policy mention how to mitigate against negative effects on clients and their households?
Does policy mention how to mitigate against corruption and bribery?

[5] ALINUS is a publicly available social data collection tool for due diligence monitoring, based on the SPI4, the social audit tool to measure implementation of the Universal Standards for Social Performance Management https://en.spi-online.org/files/ressources/SPI%20Online%20audit%20tools/factsheet-2-ALINUS.pdf

Creating Opportunities

1

At MicroVest, we seek to **support financial inclusion for underserved microentrepreneurs and small businesses** that seek financing for income-generating initiatives but who are unable access credit through the formal financial system.

2

To achieve this, **we invest in responsible Microfinance Institutions (MFIs) and Small and Medium Enterprise (SME) Financial Institutions** that ethically and transparently provide productive loans to underserved groups.

3

With access to credit on fair and transparent terms, many microentrepreneurs and SMEs have the opportunity to finance their small business dreams, though outcomes can vary. (Our portfolio's end borrowers operate enterprises across a variety of sectors, which include production and manufacturing, crafts, agriculture and livestock, commerce and trade, services, affordable housing, and education.)

4

When the underbanked become financially included, they are better equipped to **manage day-to-day finances, build financial resilience, and knowledgeably use financial products and services to pursue their goals.**

Target SDGs and Indicators

1 NO POVERTY — Indicators: (1.4, 1.5)

5 GENDER EQUALITY — Indicator: (5.5)

8 DECENT WORK AND ECONOMIC GROWTH — Indicators: (8.3, 8.10)

10 REDUCED INEQUALITIES — Indicator: (10.1, 10.2)

17 PARTNERSHIPS FOR THE GOALS — Indicator: (17.3)

Pioneering a Market-Based Approach to Responsible Microfinance Investing

This segment incorporates excerpts and information derived from materials provided by MEDA and a case study on MicroVest's inaugural fund conducted by Duke University. The content has been compiled, expanded on, refined, and adapted to suit this report.

In the early 2000s, global humanitarian organizations CARE and the Mennonite Economic Development Associates (MEDA) were managing microfinance portfolios in-house, providing small loans to the working poor in an effort to catalyze income-generating activities that could lift underserved communities out of poverty. CARE and MEDA however, quickly realized that scaling microfinance through a purely philanthropic model had reached its limits.

The first problem was insufficient funding to satisfy the high demand for microfinance products. Furthermore, with most NGOs oriented towards donating their money or making grants, CARE and MEDA's internal operations were not built to offer banking services, often a highly regulated and operationally demanding business.

The recognition of these challenges prompted W. Bowman Cutter, a CARE Board member, private equity investor, and former Deputy Assistant for Economic Policy during the Clinton Administration, to seek a market-based solution.

Assembling the Team

Working with CARE's Economic Development unit, Mr. Cutter first engaged MEDA's then CFO, Gerhard Pries, to work on the funding model. Mr. Cutter and Mr. Pries sought out Gil Crawford, who at the time was running the Seed Capital Development Fund (SCDF), a nonprofit aimed at capitalizing microfinance institutions in frontier markets.

Both Mr. Cutter and Mr. Pries felt that Mr. Crawford's prior experiences working for the International Finance Corporation, the Africa Venture Capital Project, and Chase Manhattan Bank would be helpful in getting MicroVest off the ground. Equally important was Mr. Crawford's experience overseas with the Red Cross in Chad and the U.S. State Department in Guinea, which provided him with vital context and appreciation for working in data-poor financial markets.

While Mr. Crawford was conducting economic research for the US State Department in West Africa in the 1980s, he became fascinated by the activities of small business owners that were not supposed to exist in Guinea's Marxist dictatorship. To Mr. Crawford, the potential of these businesses was palpable. It was possible to confirm their credit worthiness and imagine the productivity gains that could have been achieved with a small amount of borrowed capital. However, he questioned how they could be banked ethically and profitably and if viable players could rise to the challenge. Mr. Crawford was fascinated by the ingenuity and resilience of small business owners, but even more so, by the financial institutions that served them.

Back in Bo Cutter's office in New York City, the three individuals agreed that there was significant demand for capital from micro, small, and medium-sized enterprises (MSMEs) in emerging markets and **an investment opportunity existed to provide capital to profitable, well managed financial institutions that facilitated productive lending activities with low write-off rates, appropriate leverage, and growing loan portfolios.**

The three partners began outlining several core requirements that would be needed to execute on this investment thesis and overcome investor concerns around a new sector and a new asset manager.

- First, the founders needed to put enough capital into the holding company to give it sufficient runway for success;
- The company needed a pro-business Board of Directors who saw a commercial approach as the best way to achieve social impact;
- The company should be free to hire financial professionals and pay them market rate salaries;
- The company should have an independent investment committee;
- The senior management team should be financially-aligned with the results of the fund; and
- The asset manager could not be owned by a single NGO.

With all in agreement on the founding principles, MicroVest was officially established as an asset management firm in 2003, seeded with an initial commitment of USD$1.3 million.

As an investment manager, MicroVest could now underwrite targeted microfinance institutions with both debt and equity, a pivotal step that would increase capital flow to the space while compelling MFIs to build business models that did not rely on donor funding.

The Early Days

In the early days, CARE and MEDA helped with fundraising, introducing Mr. Crawford to investors in California's Silicon Valley tech hub and MEDA's North American network of business owners. In 2004, MicroVest launched a USD$15 million fund, opening the doors to other investors in Atlanta's real estate market and early institutional impact investors. As a result of the conversations with Lehman Brothers in 2007, MicroVest decided to undertake a Collateralized Loan Obligation (CLO), packaging together 12 loans into a bankruptcy remote instrument. (One mutual fund manager bought the entire US$40 million CLO for their mutual funds.) While Lehman Brothers did not survive the 2008 financial crisis, the MicroVest fund did, and the investments performed well. After calling on JP Morgan for seven years, conversations resulted in the launch of a USD$60 million private equity fund raised in the midst of the financial crisis. In the aftermath of the 2008 liquidity crisis, investors made it clear to MicroVest that they highly valued liquid investment funds. Given the relatively high turnover in MicroVest's MFI portfolio, the firm was able to launch a short duration fund in 2010, which became and remains MicroVest's flagship fund.

The Team

Right from its inception, MicroVest was able to attract a remarkable group of team members who were excited about its mission, willing to build systems from the bottom up, and endure long flights to countries that most people wouldn't go to for vacation. While one investment officer had been inappropriately held overnight in a customs holding tank in Central Asia, MicroVest got its team member back safely and with a deeper understanding of the constraints that our borrowers faced on a daily basis. A quick scan of LinkedIn will identify where many of these team members have gone to continue the evolution of impact investing around the globe.

Exploring Untapped Opportunities

Over the years, our investment team traveled the world, exploring opportunities that others deemed too difficult to underwrite, too specialized, or too similar to charitable activities. Subsequent years were focused on growth and leveraging an experienced team with a proven track record of on-the-ground expertise in navigating credit cycles and geopolitical upheavals across regions.

Growth Amidst Market Turbulence

In 2015, when emerging markets faced turmoil, MicroVest was fortunate to experience growth in assets under management at a time when many emerging market funds shed assets. This growth demonstrated that uncorrelated and risk-adjusted returns were in high demand, and the firm continued to increase diversification across countries, intra-country positions, RFIs, types of RFIs, and instruments.

A Significant Milestone

By 2017, MicroVest hit a milestone of USD$1 billion in capital disbursed to RFIs, demonstrating significant impact in supporting financial inclusion and sustainable development. MicroVest launched a levered debt fund the following year in 2018, and in 2019 it reorganized into a Delaware statutory Public Benefit LLC, codifying its commitment to impact into legal form. That same year, MicroVest became a Certified B Corporation, as well as a founding signatory to the Operating Principles for Impact Management.

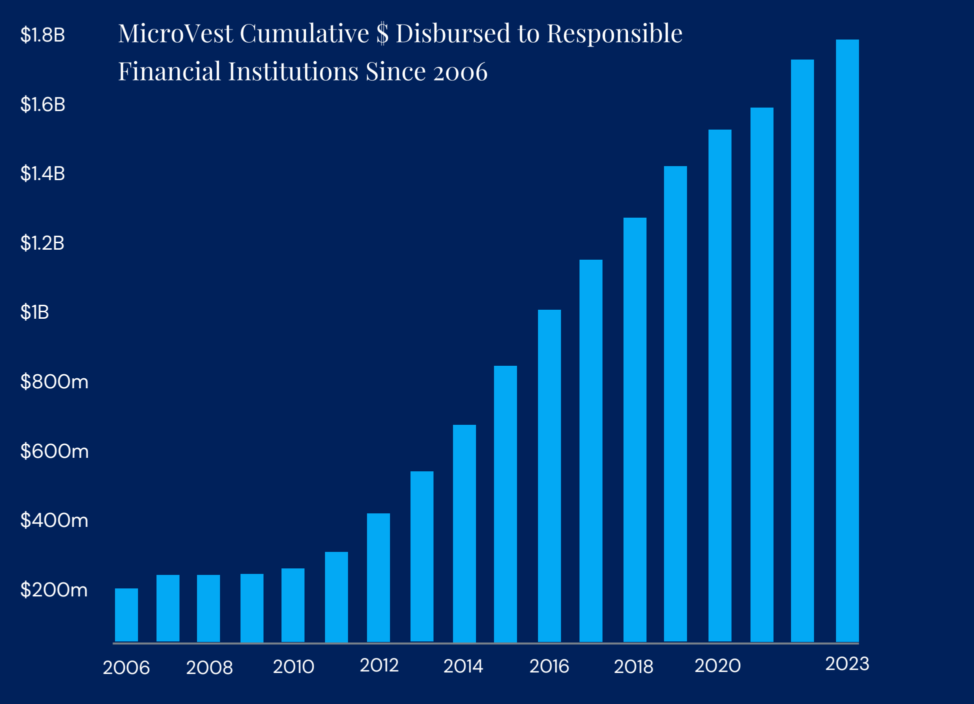
Embracing Evolution and Strategic Partnership

Eager to continue developing new approaches to the rapidly evolving impact markets, MicroVest began seeking a larger partner that shared its philosophy for shaping a sustainable future. To broaden its mandate beyond a highly specialized investment niche, the Board encouraged the MicroVest team to explore a strategic initiative, which culminated in the acquisition of MicroVest by DAI, a global development company, in December 2021.

The partnership, grounded in shared values, has the capacity to significantly amplify MicroVest's impact by leveraging DAI's expertise across a variety of technical areas. By combining MicroVest's investment acumen and DAI's multidisciplinary development expertise, the partnership aims to unlock new avenues for driving positive change and creating sustainable impact at scale.

Expanding Horizons, Deepening Commitment

As MicroVest embarks on this new chapter, the firm remains steadfast in its commitment to delivering risk-adjusted impact returns while actively contributing to the development of emerging markets. With the backing of global partners and a shared vision for creating lasting impact, MicroVest is poised to expand its mandate, explore innovative solutions, and deepen its commitment to driving positive change through responsible investing.



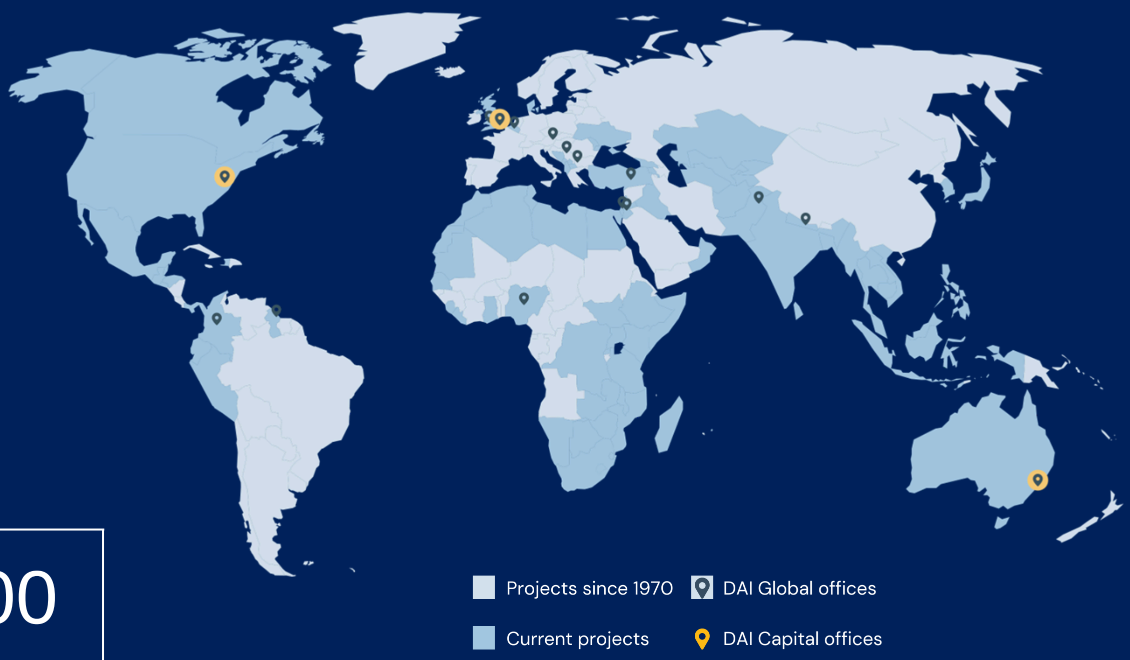
Maximizing Impact through Our Parent DAI's Technical Expertise and Expansive Geographic Footprint

DAI CAPITAL

Today, MicroVest forms part of the asset management arm of DAI Capital, the investment and advisory arm of DAI Global. DAI Capital leverages DAI Global's platform to mobilize and deploy private capital across frontier and emerging markets.

DAI
Shaping a more livable world.

Founded in 1970, DAI is an employee-owned global development company that works alongside national and local governments, bilateral and multilateral donors, private corporations and investors, and philanthropies, the company takes on fundamental social and economic development problems worldwide.



240+ Active projects	**4,900** Employees
80+ Countries	**$900m** In financing for high impact projects
16 Offices worldwide	

Employee-owned

As of December 31, 2023.

DAI Technical Expertise

- Economic Growth
- Environment & Energy
- Climate
- Digital Acceleration
- Global Health
- Education
- Fragile States
- Governance

Mapping MicroVest's Key Milestones (2003 - 2023)

2003-2004
- Launch of first hybrid fund offering debt and equity opportunities for investors
- First equity investment in Edyficar in Peru ($625k), known today as Mibanco
- First debt investment in Banco Solidario in Ecuador ($1m)

2007
- Launch of a microfinance Collateralized Loan Obligation
- First $5m+ debt investment in LOK, Bosnia & Herzegovina
- First partial exit of an equity stake in XAC Bank, Mongolia

2009
- Launch of a pure private equity fund that allows the firm to support larger equity investments
- First SME finance investment in ProConfianza in Mexico ($3m)
- MicroVest is selected as the first fund investment by JPMorgan Social Finance Department

2010-2013
- Becomes SEC-registered investment adviser
- Launch of first regionally focused fund (Africa)
- Launch of first fund offering short term liquidity for investors
- First leasing investment in Lanka ORIX Leasing, Sri Lanka ($3m)

2011
- Launch of follow-on fund to MV I, MicroVest's demonstration fund
- First factoring investment investment in Financiera Summa, Guatemala ($500k)
- Selected to ImpactAssets50 inaugural list of top 50 impact fund managers & for the next 10 years

2012
- First joint-venture to launch a local currency debt fund
- First $10m+ investment in ProCredit Holding, Germany
- First agricultural finance investment in Indupalma, Colombia ($1m)
- Becomes signatory to the United Nations Principles for Responsible Investing (UNPRI)

2015
- Two of MicroVest's funds awarded Top 5 Best for the World by B-Lab and received Gold ratings by GIIRS
- First investment in publicly-traded emerging markets bond (Bayport Management)
- First syndicated loan with a regional DFI

2017-2018
- Becomes member of the Global Impact Investing Network
- Launches levered debt fund

2019
- MetLife's Impact Division provides MicroVest with first $20m redemption line
- MicroVest General Partner Holding LLC, becomes a Delaware statutory Public Benefit LLC
- Becomes a founding signatory to the Operating Principles for Impact Management

2020-2021
- Becomes Certified B Corporation
- Acquired by global development company, DAI

2023
- Appoints new CEO, Michael Apel
- Investment in Mongolia's first-ever Green Bond (Khan Bank)
- First investment in publicly listed company (UGro Capital)

2024
- Launches MicroVest's Pyramid of Intentionality, a new framework for portfolio impact management
- Launches Climate Justice Fund

2023 Portfolio At-a-Glance

The metrics listed here are portfolio level statistics across two of MicroVest's flagship private debt funds and are based on self-reported data by MicroVest's portfolio companies as of 12/31/23. The average portfolio company is weighted by portfolio exposure at cost as of 12/31/23 and excludes any company that did not report the metric.

It has been gratifying for us to witness the development and professionalization of RFIs in our portfolio, many of which MicroVest enjoys long-standing relationships spanning five to ten years. Our philosophy of "growing with what we know" continues to guide strategy and since 2021, we cautiously reduced the number of portfolio companies in our flagship funds by 29% to focus on supporting institutions that exhibit strong growth. Today, MicroVest maintains an efficient portfolio of 37 RFIs, with an average Gross Loan Portfolio (GLP) of $1.1 billion — an increase of 112% since 2021, primarily driven by the inclusion of one Cambodian microfinance institution with a GLP of $6.6B. Across the portfolio, we have witnessed not only the growth that our RFIs have experienced, but also the capacity to offer more loans to more MSMEs. Growth in lending has also been efficient, with the RFI operating expense ratio declining from 9.3% to 8.7% since 2021. This reflects underwriting processes that continue to undergo rapid transformation as digitalization has enabled our portfolio companies to underwrite more end borrowers at lower marginal costs.

37

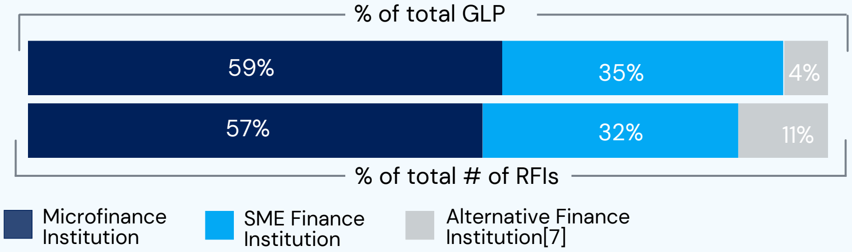
Micro & SME Financial Institutions Invested

$24B

Total GLP

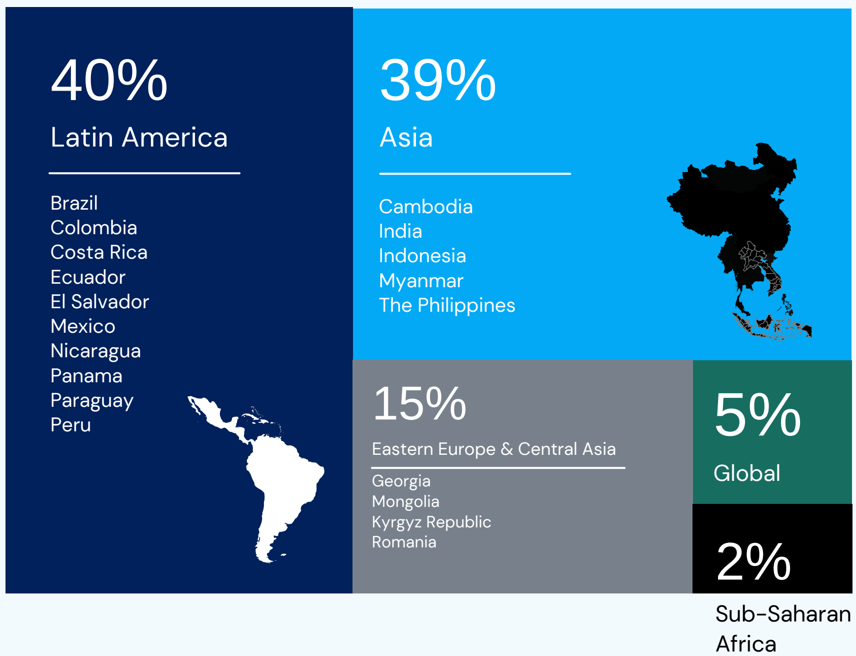
$1.1B average GLP

$343m median GLP

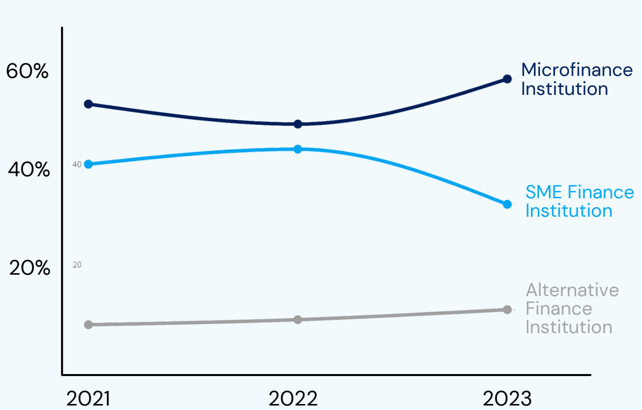


21

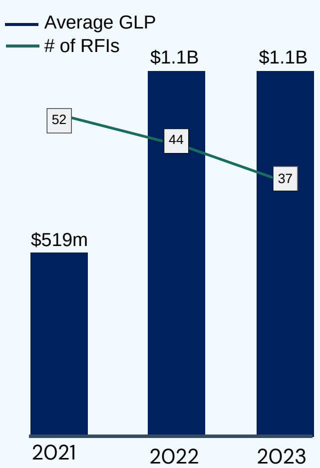
Countries Invested[8]



Year-over-year (YoY) % RFIs Financed by Type



YoY Avg. GLP vs. # of RFIs



YoY Avg. GLP Growth, OpEx Ratio

	YoY 2021	2022	2023
Growth Rate of Average GLP	11.6%	20.1%	18.1%
Operating Expense Ratio	9.3%	8.5%	8.7%

[7] Alternative Financial Institutions encompass education finance, housing finance, payment & remittance transfer providers and other portfolio companies.
[8] The total number of countries includes "global" and "regional SSA," representing exposures held by bonds invested in multiple countries.

Facilitating Access to and Use of Responsible Financial Services for underserved MSMEs

Borrowers Financed

10m

Active borrowers served by portfolio RFIs (Median: 42k)

97,000

Estimated # of borrowers supported through MicroVest's investments (0.97% of 10m)

216,000

Estimated # of borrowers supported through MicroVest's investments taking into account loan turnover (2.16% of 10m)

The total number of borrowers served by MicroVest's portfolio RFIs remained stable at 10 million between 2021 and 2023. Recognizing that MicroVest is not the sole source of capital for our RFIs, this year, we estimated the number of borrowers that could be directly supported by our investments, taking into account an RFI's average loan size and MicroVest's principal amount invested. With these assumptions, we estimate that MicroVest's investments are directly responsible for supporting an estimated 97,000 borrowers (0.97% of 10 million total borrowers served by our portfolio). However, if we build on these assumptions and add an estimate of the number of times that the RFI could revolve MicroVest's capital before the maturity date, this figure rises to 216,000, or 2.16% of the 10 million total borrowers served by our RFIs.

	YoY		
	2021	2022	2023
# of Borrowers Financed	10,125,068	9,585,729	10,111,870

First Time Access* (n=9)

40,000

Borrowers in past year accessing financing for the first time*

RFIs that are successful at lending to first-time borrowers are expanding financial inclusion at the entry point, providing individuals and SMEs that were previously underserved with the opportunity to build credit histories and lending profiles. MicroVest began asking our RFIs for the total number of borrowers who are accessing financing for the first time in Q4 2023. Given the importance of this metric in informing our portfolio's ability to facilitate financial access, we will continue to report on this metric going forward.

Rural Borrowers

37%

Borrowers residing in rural areas

Productive Loans

73%

Borrowers using financing for productive purposes

What is a Productive Loan?

MicroVest defines a productive loan as one that finances enterprises such as manufacturing and production; agriculture and livestock; commerce and trade; services; education; and renewable energy. Sectors excluded from our classification of a productive loan include consumer financing and housing loans. We seek to finance RFIs that lend to support productivity-generating initiatives, as we believe these have a more sustainable impact on borrowers. When used to enhance business operations or agricultural productivity, these loans help borrowers generate ongoing revenue, leading to long-term sustainability.

	YoY		
	2021	2022	2023
% Rural Borrowers	36.9%	34.9%	37.0%
% Productive Loans	72.7%	67.8%	67.2%

*New metric introduced n Q4 2023

SMEs Maturing and Moving Upmarket, Reflected in Larger Average Loan Sizes

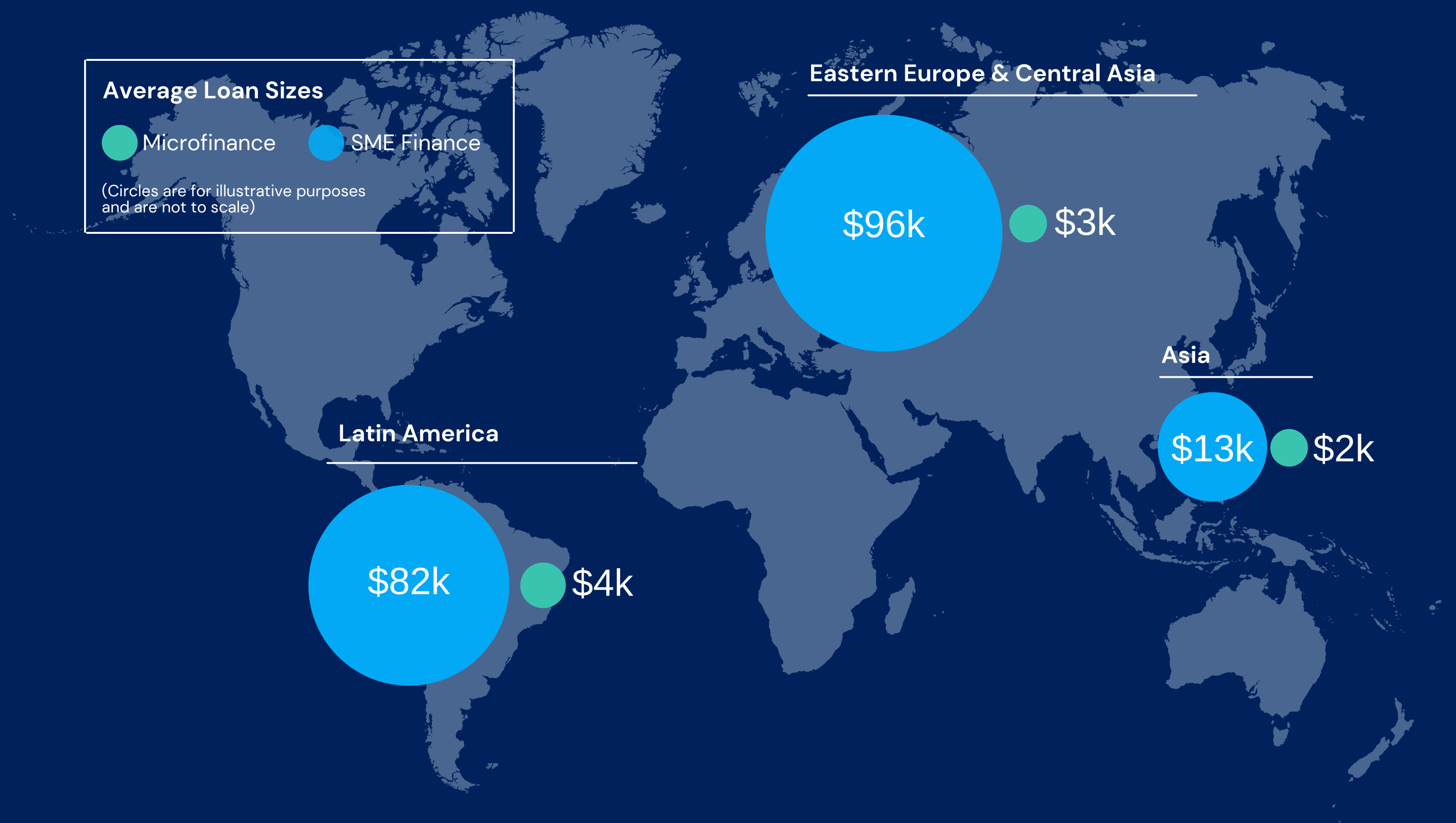
The average loan sizes across our global microfinance portfolio range from $1,600 (Asia) to $4,400 (Latin America). This variance can be attributed to economic and market factors, such as GDP, local currency valuation, and purchasing power. MicroVest's SME portfolio has trended higher in terms of average loan size over the last several years. We are seeing many SME institutions in our portfolio maturing and moving upmarket to offer larger loan sizes. In other cases, providers of group microfinance loans have also expanded to the individual lending market. Both microfinance and SME end borrowers garnered incrementally larger loan sizes as they strengthened their credit through consistent repayment performance.

$2.4k

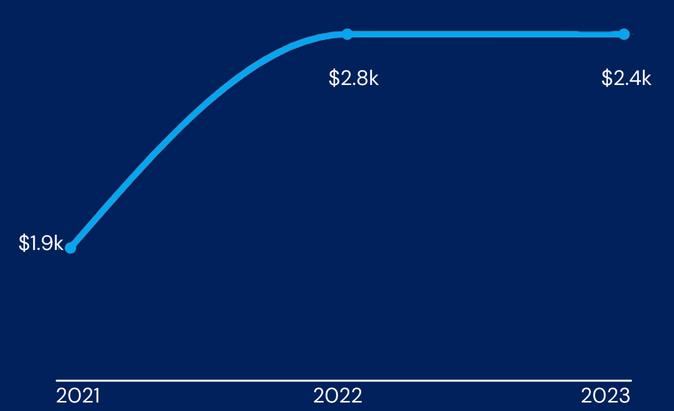
Avg. Microfinance Loan Size
(Median: $2k)

$67k

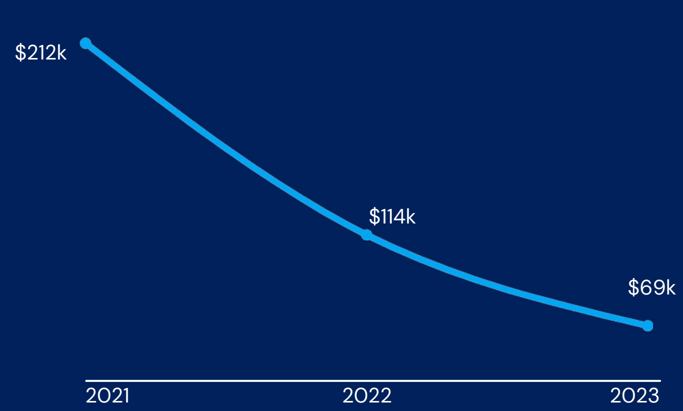
Avg. SME Finance Loan Size
(Median: $35k)



Microfinance Avg. Loan Size (YoY)



SME Finance Avg. Loan Size (YoY)



RFIs Are Expanding Financial Product Offerings for Customers

Borrowers who can access wrap-around services in addition to credit see more significant improvements across quality of life, business income, ability to manage finances, savings levels, and confidence. In Q4 2023, MicroVest began cataloging our RFI's provision of non-loan financial services, aiming to evaluate the existing spectrum of support services within our portfolio and identify opportunities for MicroVest to disseminate best practices across other RFIs who are not offering a similar suite of products. We believe that RFIs offering a broader spectrum of financial services, not just loans, provide customers with the tools to manage their finances more effectively. When clients can meet all their financial needs through one institution, they consolidate their relationships and are more likely to stay with that institution over the long term. Despite the percentage of deposit-taking institutions in MicroVest's portfolio increasing from 34.6% in 2021 to to 48.7% by December 2023, the number of savers/depositors saw a sharp decline between June 2023 (4,011,567) and December 2023 (2,291,586) due to the exit of one of our SME finance institutions from the portfolio.

49%

Deposit-taking institutions

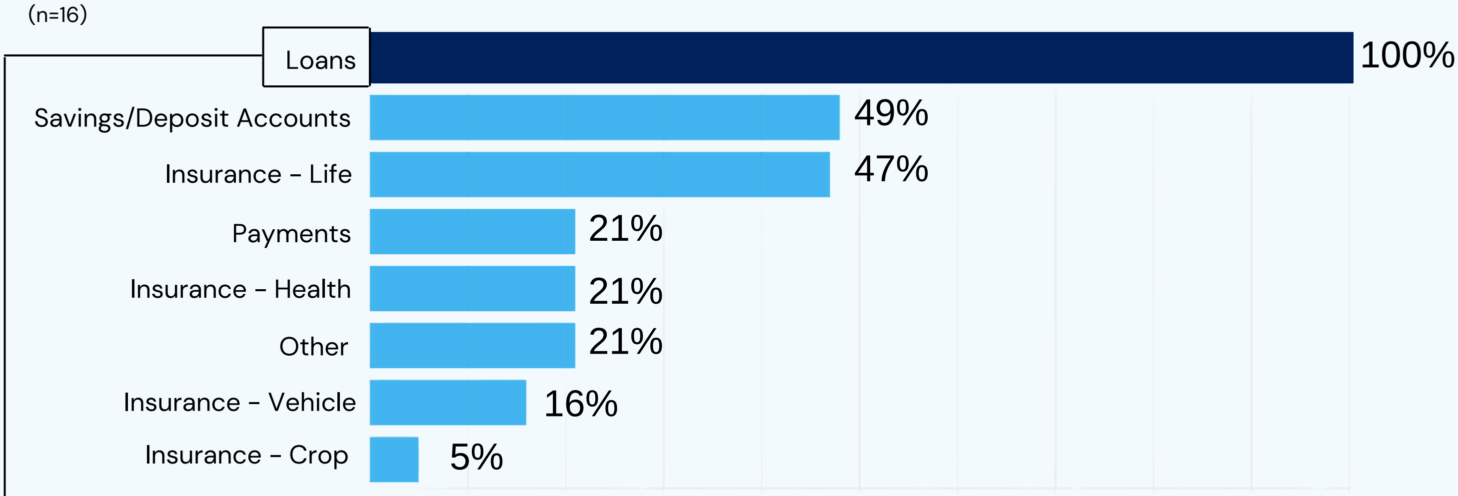
2.4m

Savers/depositors

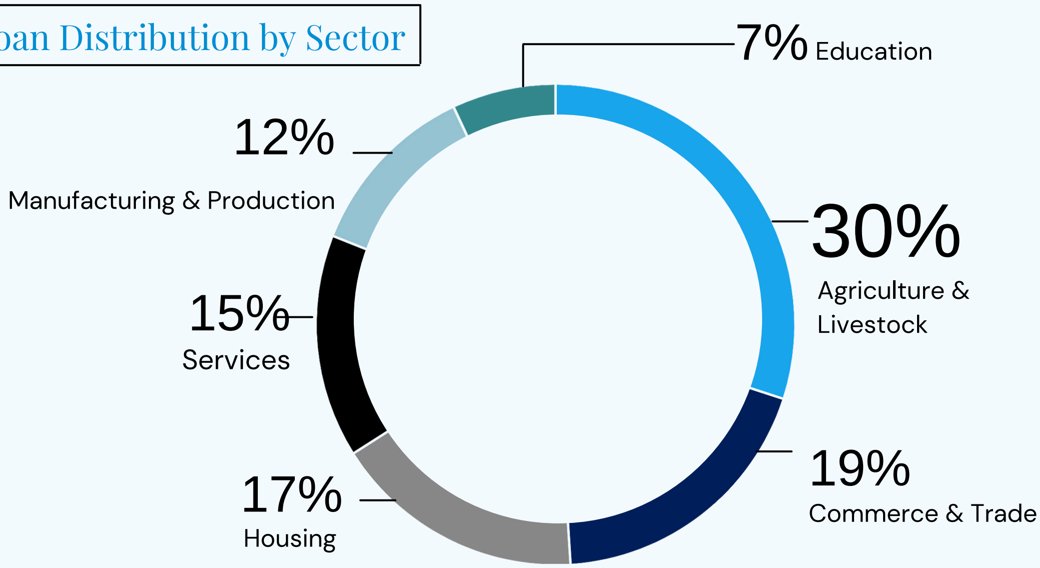
	YoY		
	2021	2022	2023
% RFIs that Take Deposits	34.6%	45.7%	48.7%
# of Savers / Depositors	3,251,414	3,567,544	2,291,586

Types of Financial Services Offered*

(n=16)



Loan Distribution by Sector

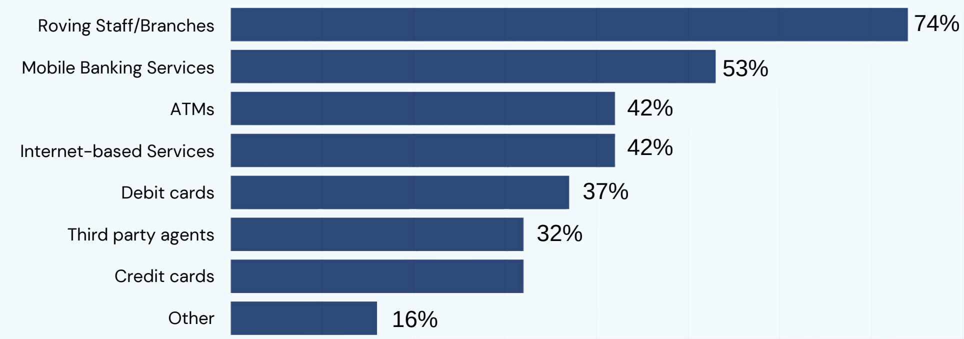


*New metric introduced n Q4 2023 (excludes the % of deposit-taking institutions, which has been tracking quarterly).

Supporting Accessibility, Convenience, and Inclusivity of Financial Services

Financial Services Delivery Methods*

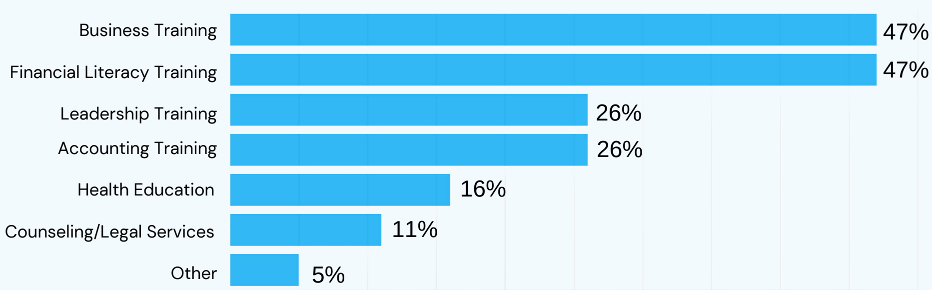
(n=17)



Over the years, MicroVest's RFIs have diversified their service delivery methods to improve convenience and accessibility to clients in an effort to boost financial access and financial health. By offering multiple delivery methods (such as mobile banking, online services, and physical branches), RFIs can ensure that a wider range of clients can access their services and that clients benefit from being able to choose the delivery method that best suits their lifestyle and needs.

Non-Financial Services Offered*

(n=11)



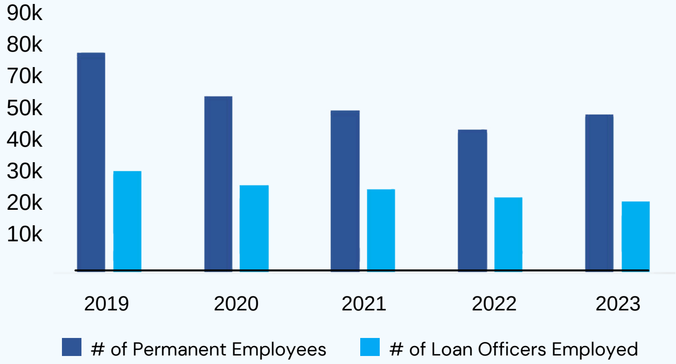
Financing without education can be dangerous, especially when borrowers are concentrated in underserved groups. Financial literacy and business training can empower clients by giving them the knowledge and skills they need to take control of their financial futures. MicroVest began asking our RFIs to report on this metric for the first time in Q4 2023. Less than half of the RFIs that provided insights into their non-financial services reported offering business and/or financial literacy training alongside their loans. This presents a significant opportunity for MicroVest to potentially collaborate with our RFIs to offer additional support so we can enhance their ability to provide essential ancillary services to their borrowers, fostering greater financial empowerment and business acumen within their communities.

*New metric introduced n Q4 2023

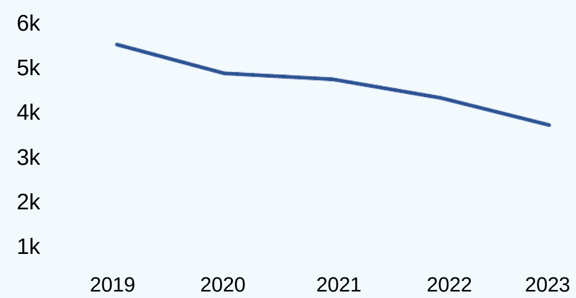
Supporting Workforce Inclusivity

When evaluating a financial institution for inclusion in our portfolio, MicroVest looks for RFIs that exhibit responsible HR practices and assesses trends of permanent employment over time. Since 2019, MicroVest has observed a steady reduction in the number of permanent employees, loan officers, and operating branches within our RFI portfolios. This could be the result of increasing operational efficiency and increasing adoption of digital and mobile banking solutions, particularly after COVID-19, which may reduce the need for physical branches or on-site staff. Separately, at the end borrower level, MicroVest is seeking to gain insight into whether the provision of loans from the RFIs is causing end borrowers to invest in their businesses, expand, and hire more workers - which is a key tenet of the argument for financial inclusion, especially for SME clients. Beginning in Q2 2024, MicroVest will begin collecting data that will provide insight into trends in paid workers at the end borrower level. Tracking and understanding this metric, which we call # of Remunerated Employees at Financed Enterprises, helps us assess whether access to credit and our investments in specific RFIs lead MSMEs to hire more workers, often because they are pursuing growth projects.

Permanent Employees at Financed RFIs



Number of Branches

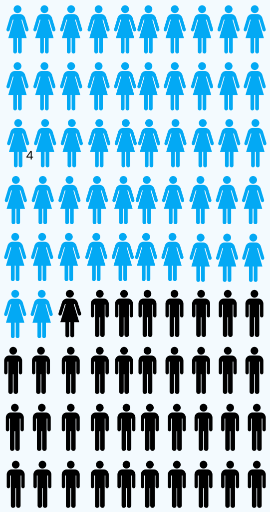


Increasing Gender Equality through Financial Inclusion

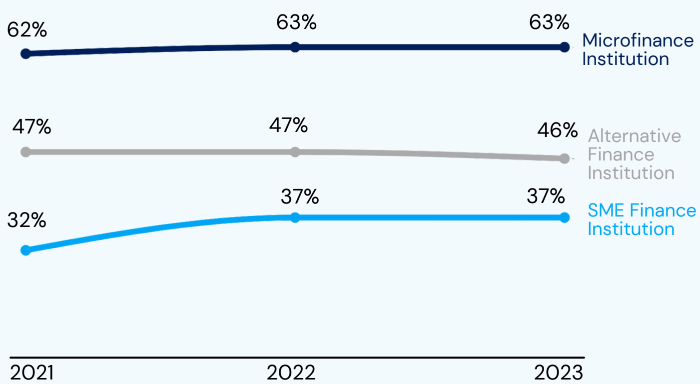
MicroVest makes a concerted effort to target two of the key themes in Gender Lens Investing (GLI): 1) investing in products and services targeted to women (e.g. group micro-loans) and 2) increasing capital allocation to women. As of the end of 2023, many of the metrics we track were flat-to-slightly down from the middle of 2022 but often up by several percentage points when measured against the middle of 2021 when the world was starting to recover from the COVID-19 pandemic. The total % of female borrowers stands at 51.8% while the % of female borrowers in the SME category recovered to 36.9% after declining earlier in 2023. Over this same period, our RFIs continued to make progress on female representation with senior management teams composed of 26.4% women and 21.4% female board representation as of the end of 2023.

52%

Female borrowers or female-owned businesses financed by MIcroVest portfolio



% Female Borrowers by Type (YoY)



	YoY		
	2021	2022	2023
% female senior management at RFIs	26.1%	24.6%	26.4%
% female board members at RFIs	17.8%	19.4%	21.4%

Seeking to Improve Our Understanding of End Borrower Outcomes with 60_dB

The First Step

MicroVest is committed to understanding the impact of our financing on the overall well-being of our RFIs' end borrowers. In 2023, we surveyed our RFIs to gauge whether they were gathering data on the impact of their loans on broader indicators of financial health, such as improved household income, business income, and enhanced financial management capabilities. The response was a resounding 'no'.

Despite the growing interest from funders in shifting towards outcomes assessment, the reality is that RFIs are not collecting this data at the company level without third-party assistance. Among the few RFIs that reported collecting such data, they did so as participants in the 60 Decibels Microfinance Index. In early 2024, MicroVest engaged 60 Decibels (60dB), an impact measurement firm, to explore the relationship between the use of credit and other financial services and various indicators of individual, business, and household-level financial health. 60dB's Index surveys end borrowers of RFIs, offering insights into the outcomes-focused impact of productive loans on their lives across key areas such as: Financial Access, Business Impact, Household Impact, Client Protection, Resilience, and Agency. (Read more about the 60dB survey methodology here.)

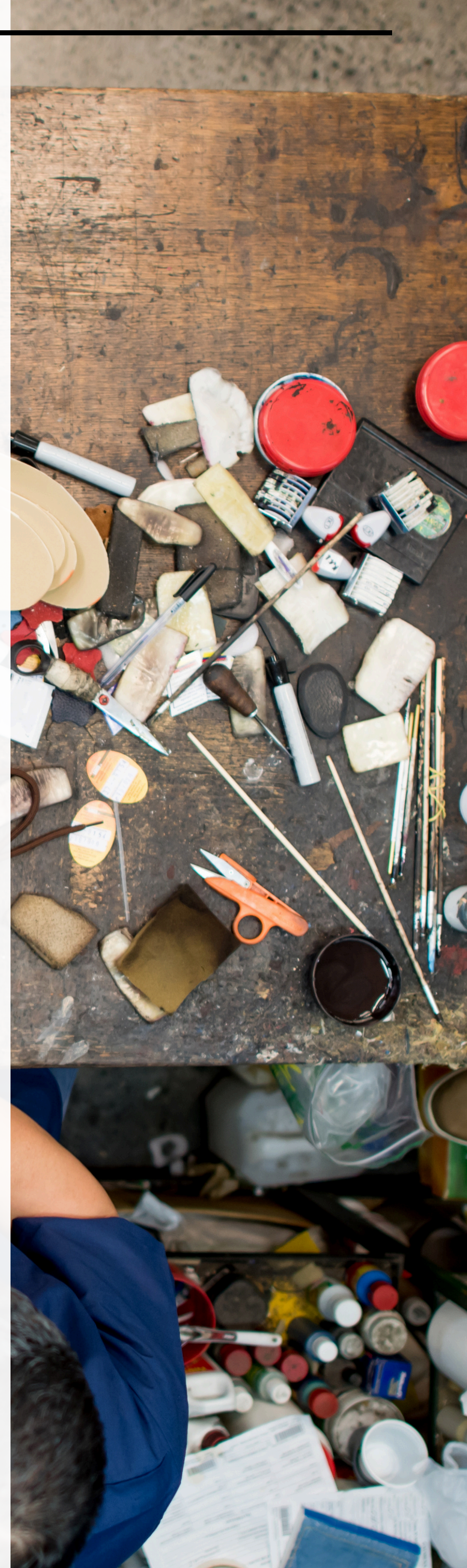
Of the 114 RFIs whose microfinance clients (over 32,000) were interviewed for the 2023 60dB Microfinance Index, six were in the MicroVest portfolio. These six RFIs served as the test cohort for MicroVest's pilot study aimed at understanding the impact of financing on the lives and businesses of our portfolio's end borrowers.

In this pilot exercise, we aimed to determine if any insights could be derived from comparing our RFIs' performance in the 60 Decibels Index with their MicroVest obligor score[9] and their gross interest rates[10]. While a comparison between the obligor score and gross interest rate aligned with traditional risk/return assumptions, the correlation with end borrower sentiment was less clear.

For instance, one RFI, whose MicroVest loan carries one of the lowest gross interest rates among the six RFIs in the test cohort, scored in the top 20% of many 60dB metrics, such as the percentage of borrowers accessing a loan for the first time and various measures of household impact, resiliency, and agency. Conversely, another RFI assigned the highest obligor score ranked in the median or bottom 20% for many categories in the 60dB Index.

MicroVest is still in the early stages of standardizing the assessment of end borrower outcomes across its portfolio. To fully leverage the potential of the 60 Decibels tool and amplify the voices of end borrowers, we may explore ways to increase participation rates across our portfolio or eventually work towards encouraging RFIs to conduct their own surveys of end borrowers.

As we progress in our journey to better understand outcomes at the end borrower level, we look forward to sharing our progress on how we are incorporating these findings into our decision-making processes.



[9] MicroVest's proprietary Obligor Score is a tool used to conduct credit assessment on an RFI using the CAMEL methodology, which takes into account capital adequacy, asset quality, management, earnings, and liquidity. MicroVest considers a score <2.70 to indicate high risk; <3.10 to be average risk; <3.25 to indicate below average risk; and >3.50 and above to be low risk. MicroVest typically does not lend to institutions with an obligor score of <3.0, although as demonstrated above, we will make certain exceptions. We note that the ultimate investment decision will use the Obligor Score as a reference point but will not determine the lending decision.
[10] Gross interest rate is defined as ross interest is the interest rate paid on a loan before fees or taxes are accounted for.

Areas We Want to Focus on for Deeper Insight

The influence of productive loans on end borrowers' business income and job creation

While microfinance has provided access to credit for millions of previously underserved populations worldwide, research on its impact on increasing business income remains inconclusive. Business outcomes can be influenced by factors such as the entrepreneur's experience, industry dynamics, loan size, repayment flexibility, and the broader macroeconomic environment. Another thesis linked to microfinance is its ability to spur entrepreneurship by providing loans to aspiring entrepreneurs and those unable to secure jobs in the formal job market. These loans help individuals start or expand their small businesses, which can, in turn, create additional employment opportunities within the community as business proceeds are reinvested and enterprises grow. Within microfinance, the majority of microbusinesses are sole proprietorships who do not employ others but may receive unpaid help from family members. The opportunity to assess the impact of loans on job creation is expected to be more evident than at the SME level and we will continue to explore scientifically validated methods to evaluate and enhance our future approach to understanding the impact of financing on business income and job creation.

Next steps

MicroVest will be introducing a new metric to track the number of remunerated employees at end borrower businesses. This addition to our metrics set aims to assess year-over-year trends in job growth at the end borrower level. Furthermore, we will continue our collaboration with 60 Decibels to expand the sample set across our portfolio, enabling us to monitor business impact more comprehensively and gain insights into potential linkages.

The impact of loans, non-loan financial services, and training & education on improving end borrowers' ability to manage finances

Several mechanisms are at play when linking access to financing with improving individuals' ability to manage their finances. While loans can finance the sustainability of a business and potentially increase income, this alone is unlikely to lead to improved financial management capacity unless the increase in business income is substantial enough to offset the impacts of poor financial management practices. Financial literacy training, for example, can equip individuals with the knowledge to make informed decisions about saving, borrowing, and spending. Additionally, business training imparts essential skills for managing cash flow, budgeting, and pricing products and services, which significantly enhance business sustainability. Despite these multiple approaches, it remains challenging to establish a direct link between access to financing and improved financial management abilities without taking into account other influences, such as access to non-loan financial services, coupled with financial literacy and business training. We aim to further understand and prove the pathways to improved financial management through lending and other financial and non-financial services.

Next steps

In Q4 2024, MicroVest introduced new metrics to assess non-loan products and non-financial services offered to clients. We will continue to triangulate these metrics to identify opportunities for providing technical assistance, supporting our RFIs in delivering comprehensive financial services, financial literacy, and business training to their borrowers. Furthermore, we will maintain our collaboration with 60 Decibels to evaluate the progress of a larger sample size of our RFIs across these areas.

In 2023 MicroVest Disbursed $55m to 8 Responsible Financial Institutions in 6 Countries

Latin America

2023 LatAm Investments at-a-glance

Boosting Agricultural Development in Paraguay with Financiera Finexpar

MicroVest invested $3.4 million in Financiera Finexpar, the largest non-banking, deposit-taking financial institution in Paraguay. The investment sought to enhance access to financing for agricultural and livestock SMEs in the country and help Finexpar expand its lending capabilities and serve a larger number of underserved SMEs in Paraguay's agricultural sector, which employs around 20% of the country's workforce.

Facilitating Access to Finance for Ecuador's Microenterprises with Banco Solidario

MicroVest invested $4 million in Ecuadorian microfinance institution Banco Solidario to support the expansion of the MFI's lending portfolio and address the liquidity needs of micro and small businesses seeking working capital in the post-pandemic environment.

[11] Economic Commission for Latin America and the Caribbean (ECLAC) - United Nations.
[12] International Monetary Fund

The portfolio companies mentioned here are for educational purposes only and may not represent all of the portfolio holdings. It should not be assumed that investments in the company identified and discussed were or will be profitable. The companies profiled were selected based on their financial inclusion and impact with no reference to amount of profits or losses, realized or unrealized.

Navigating Economic Headwinds in Latin America

Alejandra Perez Cohen
Senior Investment Officer

Marco Grisenti
Investment Officer

2023 saw a marked deceleration in economic growth compared to the previous year, with anticipated GDP growth of 2.2%[11] for the region, versus 4.0% in 2022[12]. In response to inflationary pressures, central banks escalated policy rates in 2022 and into early 2023. High interest rates, along with persistent inflation and escalating unemployment has adversely impacted economic activity and credit demand in the region, contributing to reduced growth forecasts for financial institutions in several countries.

Challenging political and macroeconomic conditions, alongside reduced liquidity, have led to a decline in investor confidence and appetite across the region. This situation has prompted a more cautious allocation of deals and a strategic repositioning of overall portfolios towards other regions. Micro and SME financial institutions in Latin America have encountered several challenges, including the need to adjust projections due to constrained growth potential, stemming from macroeconomic factors and financing limitations from both local and international investors. Additionally, various markets have experienced a slight rise in delinquency rates, and the increase in financial and operational costs has placed pressure on the business models and profitability of some of these institutions.

Considering these factors, MicroVest's strategy for the region has concentrated on meticulous credit selection and rigorous portfolio management. Our allocation of credit has focused on established, creditworthy partners in markets exhibiting positive growth prospects, such as Colombia and Paraguay. To navigate the tightening cycle of monetary policies, strategies have been implemented to bolster returns. Substantial efforts have been directed towards portfolio management and monitoring, maintaining robust relationships with both existing and potential new borrowers, and enhancing the capabilities of our Investment team.

Over the past few years, we have observed a significant expansion in financial services across Latin America, highlighted by the emergence of comprehensive fintech companies, innovative strides in the banking and payment sectors through open banking systems, and the utilization of AI, digital wallets, and Big Data. Additionally, advancements in embedded finance have unfolded vast opportunities within the financial inclusion landscape, particularly benefiting MSMEs.

Although the percentage of Latin Americans with bank accounts has drastically improved in recent years (accelerated by the COVID-19 crisis and the digital transition) approximately 26% of the population remain unbanked in 2022[13]. Citizens without an account at any financial institution decreased from 45% in 2019 to 21% in 2023, yet only 59% of low-income and 40% of those living outside major cities had one[14]. Thus, income inequality, wide informal economy, breaches in access to financing, or low competitiveness of SMEs are consequences of gaps or inefficiencies in financial inclusion in the region. Innovative banks, NBFIs and new digital lenders aim to address these hurdles through technology, from digital payment solutions to online credit applications and so on.

In 2024, Latin American economies are expected to experience further deceleration, with GDP growth projected to slow to 1.9%[15]. Political risk will remain prevalent and the narrowing interest-rate differentials with the Federal Reserve are forecasted to exert downward pressure on the region's currencies in 2024. This dynamic is likely to elevate import prices, thus decelerating the pace of disinflation relative to 2023. Additionally, this scenario could heighten financial burdens on countries heavily dependent on imports and amplify the costs associated with servicing US dollar-denominated debt. Continued stringent monetary policies in developed economies are poised to dampen the region's growth prospects by diminishing demand in crucial export markets. El Niño is expected to significantly affect the region in 2024 following the heavy rainfall in Peru and drought in Panama observed in 2023. Mexico, Brazil, and Argentina are likely to trail behind their 2023 GDP growth figures, spearheading the economic slowdown in early 2024. A partial cyclical recovery is anticipated in the latter half of the year.

[13] World Bank
[14] Mastercard
[15] Economic Commission for Latin America and the Caribbean (ECLAC) – United Nations.

South Asia

2023 South Asia Investments at-a-glance

Supporting Financial Inclusion for Women in India with Annapurna

MicroVest invested $10 million in Annapurna, a microfinance institution in India, to promote economic inclusion and empower women in underserved rural communities. The investment seeks to help Annapurna expand its services and reach more individuals, particularly female entrepreneurs who often lack access to formal financing. Annapurna, which serves over 2.4 million borrowers, 99% of whom are women, provides financial products such as group loans and micro-loans to support the growth of small businesses.

Facilitating the Use of Data Science to Provide Credit to MSMEs in India with UGro Capital

MicroVest invested $7 million in UGro Capital, an India-based lending-tech startup that uses data science to provide credit solutions to underserved MSMEs. The investment aims to enhance UGro's capacity to offer financing to more small businesses in India, facilitating easier and more responsible access to funding. UGro Capital is India's first listed fintech startup and provides secured and unsecured loans, equipment finance, supply chain finance, and working capital loans to small businesses across various sectors.

The Transformative Power of India's Emerging Digital Infrastructure: Driving Financial Inclusion and MSME Growth

Sharini Kulasinghe
Senior Investment Officer

In 2023, India stood out as a relative bright spot in the context of a year of headwinds. With its GDP growth rate forecast to reach 6.3% in 2023, it is more than double the forecast world GDP growth rate of 3%.[16] This was driven by a resumption of private consumption as consumer confidence recovered in a post pandemic world. It was also supported by a growing manufacturing sector, an increase in government spending and an improved investment climate. The Reserve Bank of India's (RBI) monetary policy stance helped moderate inflation which declined from 6.7% in 2022 to 5.5% in 2023. While this is still above the RBI's target inflation rate of 4%, it is in the range of India's recent inflationary environment, which ranged from 3.5% to 6.2% over the previous 5 years.[17]

As impact investors looking to advance financial inclusion, one of the most exciting trends we've seen over the last few years is the potential of India's unique public digital infrastructure – India Stack – to transform India's financial inclusion landscape. The impact of this is ubiquitous across the country. Corner stores, tea stalls and taxis now display QR codes which allow the seamless transfer of payments. In 2023, the payments layer of India Stack, Unified Payments Interface (UPI), processed 117bn transactions, with an average ticket size of $18.[18] The average ticket size of Peer to Merchant (P2M) transaction was ~$8[19], indicating that this payment channel is largely used by Micro, Small and Medium Size Enterprises (MSMEs).

As a result, a large part of MSMEs business is now reflected in their account history. This information allows financial institutions with the right tools and systems to quickly build a financial picture of these MSMEs business, breaking down the problem of lack of information that has been a barrier to MSMEs financing. MicroVest has invested in several financial institutions in India that are using sophisticated Machine Learning (ML) and Artificial Intelligence (AI) techniques to analyze the account history and credit bureau data of MSMEs to build specifically targeted credit models.

Together with the eKYC component of India Stack, these financial institutions are now able to provide well underwritten loans to MSMEs in 1-2 business days. For MSMEs in the developing world, access to quick, responsible and hassle-free finance can make the difference between growing a business and struggling to stay afloat. A growing business means generating employment and contributing to a vibrant economy. Even more importantly, it also means that your children are going to school and are able to access healthcare when they need it.

[16] World Economic Outlook, October 2023 dataset
[17] World Economic Outlook, October 2023 dataset
[18] National Payments Corporation of India, Monthly Statistics, 2023
[19] India Digital Payments Report for H1 2023, WorldLine

Southeast Asia

2023 SEA Investment at-a-glance

Investing to Support Female Microentrepreneurs in the Philippines with OnePuhunan

MicroVest invested $10 million in OnePuhunan, a leading microfinance institution in the Philippines that provides financial services to low-income female microentrepreneurs. The investment seeks to help OnePuhunan expand access to credit and other financial products for women-owned MSMEs, which make up the majority of businesses in the Philippines but often face challenges obtaining financing through traditional banks.

Central Asia

Supporting Climate-smart Investments in Mongolia's First-ever Green Bond with Khan Bank

MicroVest invested $10 million in Mongolia's first-ever green bond, issued by Khan Bank. MicroVest was the sole private institutional investor in the syndicate, subscribing for $10 million of the $60 million five-year bond. The International Finance Corporation (IFC) and Dutch entrepreneurial development bank FMO contributed $15 million and $35 million, respectively. The investment will help Khan Bank grow its climate portfolio by funding projects supporting renewable energy, energy efficiency, green buildings, green mobility, and climate-smart agriculture in Mongolia.

The portfolio companies mentioned here are for educational purposes only and may not represent all of the portfolio holdings. It should not be assumed that investments in the company identified and discussed were or will be profitable. The companies profiled were selected based on their financial inclusion and impact with no reference to amount of profits or losses, realized or unrealized.

Navigating Growth and Challenges with Microfinance in Southeast Asia

Jason Loughnane
Investment Officer

The Philippines enjoyed the fastest GDP growth in Southeast Asia in 2023, at 5.6%, and McKinsey expects the nation's GDP to continue healthy growth of 5% to 6% through 2024. US Secretary of Defense Lloyd Austin visited the Philippines in February 2023, as the US and the Philippines reached an agreement to expand America's military presence in the nation. The Central Bank of the Philippines continued to implement monetary policies aimed at managing inflation, which reached 6.0% in 2023, though is projected to decline to 4.0% in 2024.

MicroVest has one investment in the Philippines, supporting a microfinance institution in which we have been invested since 2016. Given the positive trajectory of the Philippine economy and our confidence in our existing partner, MicroVest expects to complete a follow-on investment in the same institution in 2024.

Indonesia held general elections in February 2024, electing Prabowo Subianto, a former general, to the presidency, replacing the wildly popular Joko "Jokowi" Widodo who was term-limited. According to the World Bank, Indonesia's GDP growth will remain resilient in 2024, and will ease slightly from 5% growth in 2023 to 4.9% in 2024. Inflation will decline from 3.7% to 3.2%, and the Indonesian Rupiah is expected to remain stable against the USD throughout the year.

MicroVest is optimistic about Indonesia, noting its large population and robust projected GDP growth, along with its democratic institutions and generally positive relationship with the United States. MicroVest currently has limited exposure to Indonesia and based on its favourable economic indicators, we are actively negotiating terms with new potential partners in the country.

In November 2022, MicroVest conducted a due diligence trip to Cambodia to visit its three portfolio companies headquartered in Phnom Penh. Cambodia has one of the oldest and most sophisticated microfinance sectors in the world, and historically the deepest market in Southeast Asia. Lending practices are closely monitored by the National Bank of Cambodia, the Cambodia Microfinance Association, and the Credit Bureau of Cambodia.

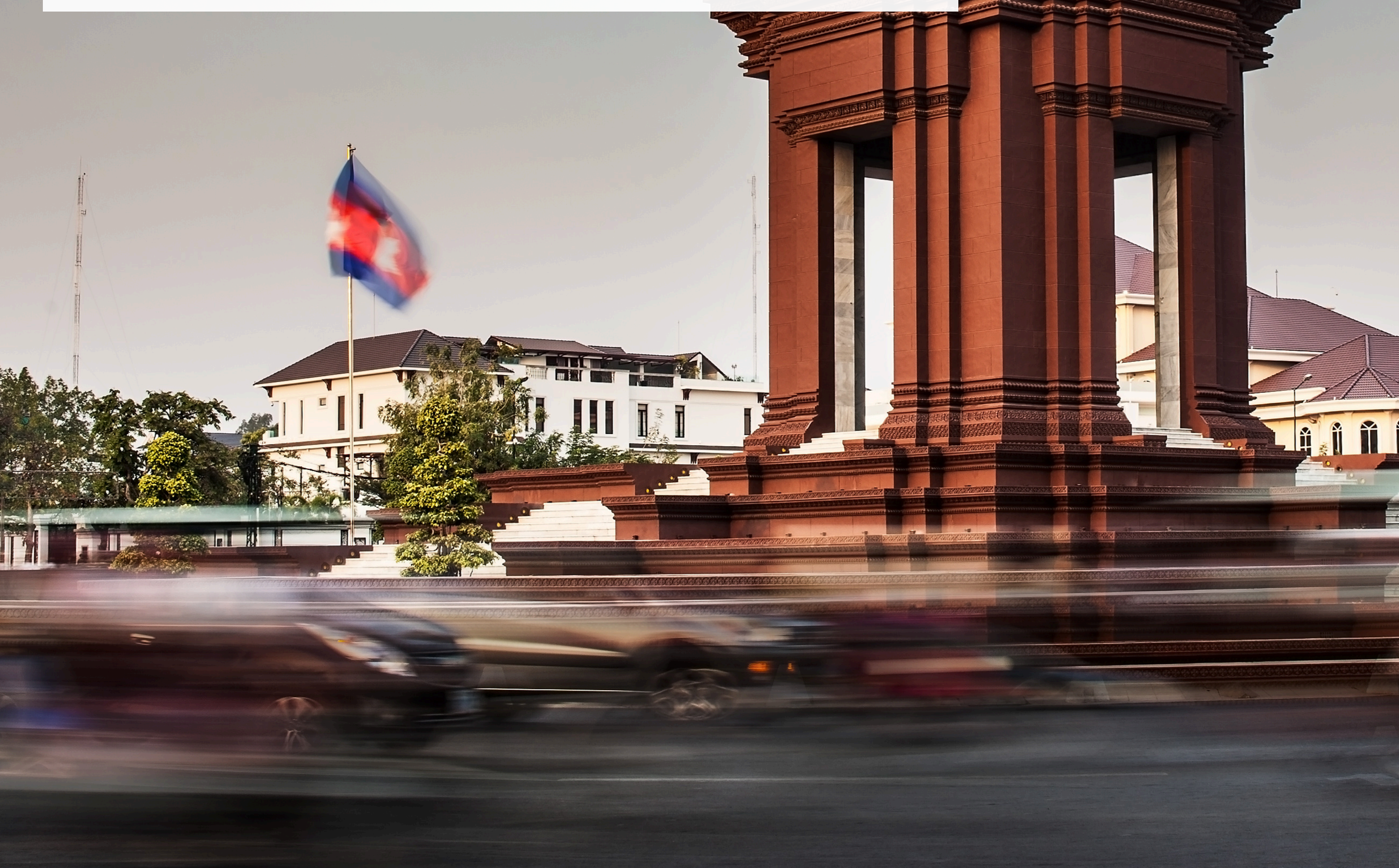
MicroVest has invested in various MFIs in Cambodia since 2013. In the ten years since we began investing in the country, there have periodically been well-sourced reports detailing over-indebtedness and unethical lending behaviour. We take these allegations seriously and actively work to sustain best practice throughout the markets we invest.

In response to these reports, the Ombudsman of the World Bank Group completed an investigation into lending behavior by microfinance institutions accused of irresponsible lending practices, which has led to a renewed focus across Cambodian banks and microfinance institutions on client protection and prevention of over-indebtedness. The Cambodia Microfinance Association and the World Bank's ombudsman are proactively requiring microfinance institutions to re-train their loan officers on responsible lending and Client Protection Principles.

MicroVest has three investments in Cambodia, though our exposure to the country is gradually declining as our existing loans amortize.

In Myanmar, civil war between pro-democracy forces and the military junta continues since the February 2021 coup. The country's economy is weak and constrained, and the Myanmar Kyat has rapidly declined in value against the USD. The country's microfinance sector has retrenched, with no new foreign capital willing to invest. Leading microfinance institutions, including MicroVest's portfolio partners, have negotiated steep haircuts with their foreign lenders to reduce their interest expense and cut their overall liabilities to remain operationally sustainable on a lower-cost basis.

In conclusion, MicroVest expects to deepen our engagement with existing and new partners in the Philippines and Indonesia, and to reduce our exposure in Myanmar and Cambodia. We are also exploring new investment opportunities in electric vehicle financing companies in Vietnam and in commercial banks pursuing green financing in Mongolia.



Lessons on 'Character' Due Diligence with MicroVest Co-Founder Gil Crawford

"It has long been our belief that what's bad for the borrowers is going to lead to trouble for the financial institution and portfolio problems for MicroVest. In our markets, impact and good business go hand-in-hand."

As CEO of MicroVest for nearly two decades, co-founder Gil Crawford has underwritten his fair share of financial institutions. But it's his insightful approach to due diligence, developed together with the MicroVest team and honed over years of operating in data-poor environments, that has set MicroVest apart.

For decades, MicroVest's approach to due diligence has been rooted in a framework that the team iterated over time, called the "3C's": Country, Character, and Credit. To help identify efficient, profitable, and responsible portfolio companies, MicroVest combines top-down country risk assessment and bottom-up, in-depth, company-specific due diligence, to ensure that the institutions we are investing in have both strong financials and a demonstrated commitment to promoting responsible financial inclusion in the communities they serve. While MicroVest heavily weighs financial performance and policies of the financial institutions it is seeking to invest in, the team has always stressed the importance of paying attention to a prospective company's 'Character' when assessing institution responsibility.

"You can't always trust what's on paper," said Mr. Crawford. "We always believed that it was key to try and discern why shareholders, founders and management decided to bank the underserved." Key to MicroVest's assessment, includes a review of an institution's governance structures, policies and procedures but equally important are the intangibles. "We trained the to team to observe management's body language and their interaction with people up and down the company. Vehicles in the parking lot can also serve as possible indication of values that may or may not be commensurate with the company's mission. You have to dig deeper, look for the subtle cues that tell you whether a company truly respects their clients. We have found that successful teams appreciate that by treating their clients fairly and with respect, that they are banking the country's future middle class, a valuable clientele."

Mr. Crawford recalls one deal MicroVest did not do following a due diligence trip, after the most junior person assessing the deal had a very strong negative opinion of the operator. The opinion wasn't based on the financial ratios but rather, on the junior officer's gut intuition of management. Listening to this team member turned out to the right decision. "I remember several years later meeting the third-party contractor that went into that institution to try and salvage value for the other lenders," said Mr. Crawford.

When reflecting on potential investments where Character due diligence made a difference, Mr. Crawford recalls two examples.

The first, was a financial institution in Sub-Saharan Africa which boasted a variety of impactful financial products. Looking at the deal from MicroVest's offices in Bethesda, Maryland, the company's data and financials appeared to fit the fund's investment profile, and the MicroVest team was eager to move forward. This company checked all the right boxes. The management team appeared reputable and said all the right things about their client protection policies and approaches. In addition, two other large and renowned investment firms had already invested, and another was preparing to do so.

Because the microfinance investment market was nascent at the time, MicroVest conducted a great deal of pre-travel reference checks. Prior to on-site due diligence, Mr. Crawford reached out to a Washington-based neighbor whose family worked in the financial sector of a neighboring African country. Just before departure, the contact returned with a warning about the financial institution's reputation and lack of trustworthiness within the region.

When the MicroVest team arrived in-country to begin in-person due diligence, the team began uncovering signs that prompted a decision to dig even deeper. The MicroVest team visited the country's financial regulatory agency, the equivalent of the U.S. SEC, and uncovered that of all the complaints lodged with the regulator in the previous year, 90% were against the financial institution they were assessing. MicroVest approached the financial institution's management team to probe for additional insight into their borrower protection policy and approaches and the reason behind the complaints. They ascribed the regulator's remarks as product of inter-ethnic political tensions aimed at the firm.

When visiting one of the branches, Mr. Crawford politely opted out of the pre-arranged tour to stay behind with one of the company's junior loan officers. "We struck up a conversation, and I started expressing interest in how the business worked and began asking a series of follow up questions. As we followed a transaction through the work-flow on the computer, it became clear that the loans were not in the best interests of end borrowers despite the institution's five-star appearance on paper.

Needless to say, MicroVest did not do the deal.
It has long been MicroVest's belief that what's bad for the borrowers is going to lead to trouble for the financial institution and portfolio problems for MicroVest. In our markets, impact and good business go hand in hand.

Another memorable deal for Mr. Crawford involved a microfinance institution in South Asia.

Despite the MicroVest team previously passing on the opportunity four times, one MicroVest investment officer was drawn to the founder's authenticity and encouraged Mr. Crawford to take an early Saturday morning meeting with him.

Unlike many in the microfinance sector, the founder of this financial institution appeared to be neither a polished product of prestigious universities nor a savvy communicator speaking in impact-heavy jargon. Instead, he was a self-made entrepreneur who had cut his teeth running and testing multiple family businesses, including financing for air conditioners and generators in lower-middle-class neighborhoods.

In country, the team saw that the financial institution's office was not in a fancy part of town. Rather, its office could have used some paint and reinforcement of the rickety stairs. The loan officers were working from dated computers in a small space. Yet, MicroVest's investment officers detected the palpable dedication of the team, who appeared to be forcefully committed to the institution's success. The company's Head of Microfinance understood its clients and manifested respectful interactions with all members of his staff, and importantly, with the women in the field. Both Mr. Crawford and MicroVest's Investment Officer were impressed by the founder and his team's genuine commitment to his business and his interest in transitioning it to rural microfinance across multiple states.

Despite the MicroVest's initial reservations, the due diligence trip confirmed that there was a senior leadership that could execute on its vision while acting with integrity and transparency. MicroVest subsequently made an equity investment in the financial institution, which seemed to bring in other investors that had been waiting on the sidelines.

This investment proved to be one of MicroVest's best-performing deals, and the institution eventually listed on a local Stock Exchange, allowing it to continue to grow the number of rural women receiving credit. The founder's authentic client centric approach, devoid of obviating buzzwords, coupled with a dedicated management team and strong financials, ultimately drove this successful outcome.

MicroVest's experience exemplifies the importance of Character due diligence, of allowing loan officers to value their intuition, of incorporating practical observation into the team's analysis, especially in the data-poor environments we operate in.

2023 Travels

The Philippines

Portfolio Company: **Onepuhunan**
Institution Type: **Microfinance Institution**
HQ Country: **The Philippines**
MicroVest Investment: **US$10m**

Financing Pineapple Farmers in the Philippines

In 2023, MicroVest visited a rural branch of one of our Philippine RFIs, OnePuhunan. OnePuhunan's clients in Tagaytay are pineapple farmers who rely on the institution's financial services to support their agricultural activities.

The pineapple farmers in Tagaytay borrow from OnePuhunan during planting and clearing seasons to pay for labor and fertilizers. Laborers clear the pineapple fields of undergrowth, earning around 500 PHP (approximately $9) per day. Some borrowers also use their loan proceeds to open small sari-sari shops on their property, selling snacks and drinks to passers-by and supplementing their household's seasonal income from pineapple farming.

The pineapples grown in Tagaytay are purchased by brokers for multinational companies like Dole and Del Monte. These large buyers require pineapples in large quantities, so farmers often share the cost of renting a flatbed truck to collect their community's harvest and transport them to the buyers, who pay a higher price per fruit. Smaller farmers also sell their pineapples on the roadside to tourists visiting Tagaytay's picturesque lake. One benefit of belonging to OnePuhunan's 26-member borrowing group is that instead of selling by the road, these farmers use group meetings to coordinate collection of communal harvests by higher-paying brokers.

The pineapple farmers appreciate being members of OnePuhunan for several reasons. The loan officer visits their homes to collect repayments, the interest rates are lower than local pawn shops, and banks are often unwilling to offer them loans. Additionally, the group meetings are held every two weeks, which is more convenient than the weekly meetings common at other microfinance institutions in the Philippines. OnePuhunan also offers a voluntary life insurance product for borrowers and their families, which is widely popular among the clients. Notably, 100 percent of OnePuhunan's clients are self-employed women, highlighting the institution's commitment to empowering female entrepreneurs in the rural Philippines.

Empowering India's SMEs: Kinara's Innovative Financing Solutions

Portfolio Company: **Varthana**
Institution Type: **SME Finance Institution**
HQ Country: **India**
MicroVest Investment: **US$8m**

MicroVest invested $8 million in Kinara Capital, a Non-Bank Financial Company (NBFC) in India that specializes in providing loans to small businesses. Kinara is an MSME-focused finance company, founded by Ms. Hardika Shah in 2011 and now has 120 branches across South and Western India. Kinara's core product is an unsecured, working capital loan to small SMEs that is disbursed within 2 days. Its customers are generally first-time entrepreneurs and small-scale manufacturers, ~50% of who are working with the formal financial sector for the first time. This product is hugely impactful as it provides capital to a hard-to-serve, but vibrant market segment that is often neglected by the formal financial sector.

Banks and NBFCs are generally unable to assess the credit risk of small SMEs due to their lack of credit history and collateral. However, the microfinance sector is unable to cater to them due to the size of their capital requirements. So, they fall into a credit gap.

Kinara has been successfully meeting the capital needs of this market segment for over a decade. In doing so, it has built a credit model and operating strategy that enables it to cater to this specific market segment. MicroVest's investment in Kinara will help this dynamic and innovative company address different credit constraints SMEs in India face. In doing so, they are helping SMEs grow, increase employment and contribute to their communities. They are also helping their proprietors and those around them build better lives MSMEs business, breaking down the problem of lack of information that has been a barrier to MSMEs financing.

Kinara Borrower Spotlight: GainUp Designs

"Nobody was interested in giving us a loan in the early stages of the business except for Kinara. With the loan, we bought an imported machine, which helped us get new buyers and exporters and establish ourselves in our field."

Vaishnavi and Karthik Babu scaled up their textile business from having 1 machine and 3 workers, to having 5 machines and employing 45. They decided to apply for working capital loan to ease cash flow issues and ease new material purchases. Vaishnavi shared, "we wanted to replace our old machines, so we applied for an asset purchase loan from Kinara and got Rs. 20 lakhs. We also added a Japanese machine, which helped us get more buyers and exporters. We have reached a good position in the embroidery field thanks to Kinara."

Kinara Borrower Spotlight: Brookwoods Technologies

Divya is the owner of Brookwoods Technologies, a manufacturing company that produces auto components. Her business faced significant challenges due to the aftermath of the pandemic, hindering her ability to expand operations. As a new entrepreneur, Divya was uncertain about securing financing from lenders. However, she learned about Kinara Capital through a friend and was delighted to receive a HerVikas loan, which provided her with an upfront discount as a woman entrepreneur.

Divya utilized the loan to purchase raw materials and double her workforce, substantially increasing production. She was pleasantly surprised by Kinara's end-to-end digital loan application and disbursement process, appreciating the transformative power of Kinara's services and the HerVikas program. Kinara's intervention not only supported Divya's business growth but also boosted her morale and confidence, especially after overcoming a difficult period. As a startup seeking funding, she leveraged Kinara's financing support to turn her business around.[1] The loan enabled her to invest in raw materials, machinery, and expand her workforce, significantly boosting production.

A Cooperative Driving Financial Inclusion in Southern Ecuador

Portfolio Company: **Jardin Azuayo**
Institution Type: **Microfinance Institution**
HQ Country: **Ecuador**
MicroVest Investment: **US$8m**

Originally founded in 1996, Cooperativa de Ahorro y Credito (COAC) Jardin Azuayo is a savings and credit cooperative that offers a wide range of financial products to underserved SMEs, self-employed microentrepreneurs, and salaried workers, especially in the south and central highlands of Ecuador. The cooperative's name is taken from the resemblance of the Azuay's valley to a colorful garden.

Today, Jardin Azuayo is regulated by the Superintendencia de la Economia Popular y Solidaria (SEPS) and is the second largest cooperative in the country by assets (7.3% of market share). The cooperative operates in 69 branches across Ecuador and has a fast-growing membership base, serving over 700,000 members, of which 43% are women.

Financial cooperatives represent around 25% of assets in Ecuador's financial sector, primarily serving the poorest segments of the population through microcredit and consumer loans. Jardin Azuayo not only represents one of the best managed cooperatives in the LatAm region, with about $1.6 billion in total assets, but it also provides a unique blend of financial and social value proposition, coming from the strong cooperative philosophy in the Andean region. In 2023, Jardin Azuayo was able to issue the first social bond in the history of Ecuador through the Inter-American Development Bank (DIB), which is linked to meeting specific objectives in terms of diversity and inclusion.

At the core of Jardin Azuayo's operations is a decentralized structure in which members have both shared responsibility and oversight of the cooperative's functioning and financial health. MicroVest invested in Jardin Azuayo to facilitate expanded access to financial services for rural microentrepreneurs and SMEs in Southern Ecuador, and ultimately to improve the living standards of those communities.

Borrower Spotlight: Rosa Rivas Morejon

Rosa Rivas Morejon is the owner of the "La Chilena" farm, located in the Arenillas county within the province of El Oro. She has been a member of Jardin Azuayo cooperative since 2016, along with her husband. Rosa is a very dedicated person to agriculture, primarily focused on the production of bananas and livestock as an additional activity. Under her leadership, the farm has grown substantially and now employs 30 workers. Rosa makes use of the working capital credit line offered by the cooperative, as well as the virtual platform for the payroll of her workers. She considers her employees to be unique and irreplaceable. Rosa highlights the incredible support provided by the cooperative, particularly the inclusion of life insurance tied to one of her loans, following the death of her husband in 2020 during the COVID-19 pandemic.

Borrower Spotlight: Rodrigo Chalan

Rodrigo Chalan is a member of the Jardin Azuayo cooperative, from the town of San Lucas in the province of Loja. He turned to the cooperative to seek a productive loan, with the goal of investing in a greenhouse project for his business focused on strawberry cultivation. Rodrigo has been a member of Jardin Azuayo for the past 13 years. He considers the treatment he has received from the cooperative to be very familiar, and he particularly appreciates the cooperative's accountability, seriousness, and willingness to collaborate with the credit requirements in order to adapt them to his needs. Rodrigo has openly recommended the Jardin Azuayo cooperative to his family and acquaintances. He highlights the cooperative's affordable rates for productive credits, especially when compared to other financial entities in the area.

Empowering Nicaragua's Microfinance Sector

Portfolio Company: **Financiera FAMA**
Institution Type: **Microfinance Institution**
HQ Country: **Nicaragua**
MicroVest Investment: **US$8m**

Headquartered in Managua, Financiera Fama is a market leader in Nicaragua's microfinance sector. Initially established as an NGO in 1991 with the support of Accion International, Fama transitioned into a regulated financial institution in 2006. Today, the entity operates a network of 29 regional branches, serving over 41,000 active clients, of which more than 70% are female borrowers. The average loan size per client stands at $1,190, equivalent to 62.2% of Nicaragua's GDP per capita.

Fama offers a comprehensive suite of financial products catering to the diverse needs of its client base. Beyond its core microfinance offerings for the base of the pyramid, the company also provides SME loans, housing finance (for microentrepreneurs operating from their homes), consumer loans, vehicle financing, and home improvement loans. In recent years, Fama has expanded its portfolio to include remittance processing, currency exchange services, micro medical insurance, funeral expenses insurance, and utility bill payment processing. Fama's impact-driven approach combines the provision of loans with high-quality non-financial services, including education and technical assistance. Moreover, the institution is well-positioned in terms of digital transformation and social and environmental risk mitigation and adaptation for its customer base.

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Borrower Spotlight: Nelly de los Ángeles Castillo

My business idea arose as an income opportunity for my family in 2018. I was always driven by the desire to improve myself and take advantage of my knowledge about our artisan work, such as saddlery, specializing in the manufacture of horse saddles. Part of our success has been the great acceptance of our work in the local market across different departments, where we have a wide variety of clients. This has been thanks to the quality of the products we produce. I started working with Financiera FAMA in 2019. My first loan was for an amount of C$ 10,000, which I used to acquire raw materials and grow my business. To date, I have taken out more than 5 loans, which has allowed me to expand my business and improve the well-being of my family. I feel grateful to Financiera FAMA because since I started my business, they have always supported me. They have attended to my requests with agility and great kindness. This support has allowed me to grow my business and employ 9 people to help run the operation and support their families.

Borrower Spotlight: Martha Lorena Martinez Centen

"I started my business more than 15 years ago. I remember that I began with a capital of C$ 30,000, which arose from the need to have an income to support my family. My business consists of wholesale and retail grocery sales, located in the Ernesto Fernández market. The first loan I requested at Financiera FAMA was for an amount of C$ 60,000 in 2016, to invest in my business. I have worked with more than 7 credits and I feel grateful for the attention always provided by all the staff who have assisted me. Today, my last loan was for an amount of C$15,000 in the SME segment. I feel very grateful to Financiera Fama, because they have always been willing to help me in each of my projects and have been an important part of this growth. Thanks to the credits acquired at Financiera FAMA, my business has fostered, and I have been able to employ 5 people with the aim of providing an excellent service to my clients."

Transforming Education Finance and Empowering India's Future with Varthana

Portfolio Company: **Varthana**
Institution Type: **Education Finance Institution**
HQ Country: **India**
MicroVest Investment: **US$7m**

Varthana was established in 2013 with the goal of transforming the affordable education sector in India by providing customized financing to the segment. It's first and oldest product is a loan for affordable private schools in Tier II and III cities that supports capacity expansion. This is a segment that is often overlooked by banks because of the difficulty in understanding the books and legal form of these schools. Varthana has spent a decade developing a product and underwriting strategy exclusively tailored for the operating environment of affordable private schools and in doing so it has helped make affordable education more accessible for lower middle income children.

Varthana's more recent product was designed to plug the financing gap for students of low-income families (household income of ~$250 a month), who are looking to pursue undergraduate studies, pre-university college degrees or certification courses. It is an uncollateralized loan that is intended to support students obtain the qualifications they need to increase their earning potential. The loan was developed in 2018, and after two years of testing and some COVID-induced delays, was launched in 2022. MicroVest has had a long-term relationship with Varthana, first financing them in 2015. We provided our most recent loan to Varthana in 2022, in the aftermath of COVID. In India, the education sector was severally impacted by COVID as schools were closed or partially closed for 96 weeks! This affected Varthana's clients the most given the device and data issues that lower income households faced in accessing remote learning. MicroVest was the first international lender to support Varthana in a post-COVID world, renewing and upsizing our loan. In doing so, we provided the Company with a vote of confidence that enabled them to raise additional funding from a variety of local and international lenders.

Borrower Spotlight: Global English Medium School

Mr. Ramkisan Dhokane, once a child who couldn't afford English medium education, leads a school in Rahuri, Nashik, dedicated to serving economically disadvantaged families. With a Doctorate in Education, Mr. Ramkisan and his wife founded the Global English Medium School with a vision to provide affordable, quality education to children from modest backgrounds. The school integrates academics with Maharashtrian cultural teachings, making it unique in its holistic approach to education. Mr. Ramkisan credits Varthana's support has been instrumental for the school's development. He reflects, "there was a time when we lacked benches and our students had to study on the floor. Varthana provided us with loans to digitize our systems and purchase furniture. The addition of benches increased our enrollment," Mr. Ramkisan said. Mr. Ramkisan plans to expand his school by establishing a junior college next year.

Borrower Spotlight: Good Shepherd School

George Rawate, a retired civil engineer, established Good Shepherd Higher Secondary English Medium School in 1996 in Mahasamund, Chhattisgarh, with the aim of providing quality education to underprivileged children in the area. He faced numerous challenges growing his school, from bureaucratic hurdles to limited resources, but persevered. Despite initial difficulties, the school grew and by 2022 had become the second top school in Mahasamund district. During the COVID-19 pandemic, the school faced challenges including student dropouts, late fee payments, learning loss, lack of technical awareness. One of his studen'ts parents told George about Varthana, and applied for a loan five years ago, to invest in school infrastructure and create a better environment for his students. He knew that these facilities would attract more parents and students to his school and improve the quality of education. With the help of the loan from Varthana, he was able to build new classrooms, a library, a playground, and a computer lab. He was amazed by the impact of these changes on his school. He saw a 25% growth in admissions after these investments and saw an improvement in the academic performance and digital skills of his students.

Navigating Opportunity & Impact with MicroVest Senior Investment Officer, Sharini Kulasinghe

Please tell us about yourself. What does a Senior Investment Officer at MicroVest do? What regions do you cover?

An investment officer manages the entire investment process. This ranges from evaluating whether a RFI meets our deal and impact criteria, managing the investment approval and negotiating and closing the transaction. I also monitor and manage the RFIs in my portfolio. For me, this is primarily RFIs in South and Central Asia.

How did you get involved in impact investing?

My first job in impact investing was with MicroVest when I joined straight out of grad school more than 15 years ago! I took a break in between to help build an investment banking franchise in Sri Lanka, where I am from. I have come full circle and re-joined MicroVest in 2022.

What are trends you're seeing in terms of the demand for responsible credit in your region?

MSMEs in the region continue to have a strong demand for credit that most players in the financial sector are ill equipped to fulfill. Demand for credit is supported by the positive macroeconomic factors in the region. In fact, Emerging and Developing Asia saw GDP growth of 5.4% in 2023, compared with global growth rates of 3.1% based on IMF's World Economic Outlook (Jan, 2024). RFIs in the region are increasingly leveraging technology solutions to deliver better, cheaper and faster credit solutions to their clients. This is especially true in India, where RFIs are leveraging the data and payments technology that is part of India Stack. Some of the RFIs in our portfolio have used this data to develop credit scoring models that evaluate financially excluded MSMEs – with no credit history and no collateral. These models allow an RFI to provide faster and cheaper loans to MSMEs.

The other trend I'm seeing is that RFIs are also becoming more focused on monitoring and measuring how they impact their clients. There is still a lot left to do in terms of developing systems and collecting data, but the last few years have seen significant steps forward!

Microfinance has done much to catalyze financial inclusion for the underbanked worldwide, but not all of the impact is always positive. How does your team ensure that the institutions you're investing in are operating responsibly and ethically?

It's a combination of understanding the culture of the institution and ensuring they have the systems in place to operate responsibly. We spend time with individuals across the organization – from board members, to the senior management team to branch managers, risk, loan officers and operations – to get a sense of their motivations for working with the institution. Do they have a sense of purpose? However, the main focus during a due diligence is to understand and verify the systems and processes the institution has in place. What is the process for determining lending rates – is it systematized and fair? Does the collection process incorporate client protection principles? How do collections work on the ground? Is the collections team well trained? Does the loan underwriting and monitoring process ensure that loans are provided for productive purposes?

If Microfinance Investment Vehicles (MIVs) like MicroVest were to achieve their social impact purpose, what would we be seeing?

When I start working at MicroVest in

2008, microfinance was not considered an investible asset class. Most of the microfinance institutions in our portfolio were not able to attract much funding from their local banks or mainstream investors. Instead, they were largely funded by institutions like MicroVest. However, the successful track record of MIVs over the last 15 years has changed this and microfinance institutions are considered much more investible. Many of the microfinance institutions in our portfolio are able to fulfill at least part of their funding requirements from their local banks. Some MFIs have even been able to attract capital from investors outside the impact investing space. So, in many ways, MIVs have made huge strides in demonstrating that the bottom of the pyramid is a solid investment.

However, there is more left to do in the financial inclusion space. MFIs are still not able to fulfill all of their funding needs from local investors. In addition, although the microfinance model is considered proven in many (but not all) markets, financial institutions that have built business models to finance small SMEs, suburban/rural schools, farmers and marginalized communities still find it difficult to attract financing. I believe his is where the support of institutions like MicroVest can support financial inclusion.

What has been your most memorable investment to date?

One of the first investments I worked on was a loan to a small microfinance institution in Georgia sometime in 2010. At the time, it was headquartered in a converted residential space in one of Georgia's secondary cities. It was a relatively small institution with a loan portfolio of $15m and around 10K clients. However, the passion and systematic approach of the management team (who were also the main shareholders) really stood out. A few years later, MicroVest renewed our loan to them and I went to see them again. By this time, their portfolio and clients had doubled. Shortly after I renewed this loan, I left MicroVest to return to Sri Lanka. More than a decade later, when I returned to MicroVest, I found that we still had a relationship with this institution in Georgia and I was able to visit them. Their portfolio had now grown to $400m and they were serving more than a 120K clients. They had moved their headquarters to an office block in the capital, Tbilisi, and were in the process of transforming into a bank with the intention of offering their clients a full suite of financial products and services. Although the shareholders were largely the same, the management team was now completely different. As I sat through the management presentation, I was struck by the fact that 10 years later, meeting a different management team in a different city, the culture of this institution remained unchanged – they were still so passionate about their mission and they were still extremely structured and thoughtful in their approach.

What advice would you give someone who was interesting in getting into impact investing?

My first piece of advice would be to travel! Learn about the joys and challenges people in other parts of the world, especially in the developing world, experience.

The second is to develop your analytical skills – fundamentally, this is an investment business and our investment capabilities have to be second to none. And the last piece is that you have to enjoy problem solving. We invest in a number of emerging and frontier markets across the world. This means we have to understand and navigate different regulatory frameworks, accounting standards, cultural contexts, communication styles, the list goes on. Every transaction will have its own issues that you'll need to work with the team to solve. So you have to enjoy it.

Perspectives on Fund Accounting & Treasury in Impact Investing with Katarzyna Prandecka, MicroVest's Director of Finance

What do you do as Director of Finance at MicroVest? Tell us about your role.

As Director of Finance, I oversee all fund accounting and treasury functions at MicroVest, as well as compliance with financial regulations and the maintenance of internal controls concerning cash requirements and long-term liquidity strategies for all funds. I also supervise annual fund audits for which we engage Grant Thornton, and diligently oversee key relationships with brokers, custodians, and banks, while managing cash activities for all of funds under management.

MicroVest's work has far-reaching implications that elevate regions around the world through investments that facilitate financial inclusion. MicroVest operate funds with investments worldwide and as a result must adhere to a wide variety of regulations.

What is your background and how did you get involved in impact investing?

I'm originally from Poland; I have a master's degree in finance and accounting from Warsaw School of Economics and began working at McKinsey & Company right after obtaining my master's degree. While I didn't know it at a time, my interest in impact investing started when I first traveled to India, which was a truly life-changing experience. While in Gurgaon, I was moved by the stark contrast between the corporate world and the people inhabiting small villages on the streets, going about their daily lives. The experience stirred a strong desire to do something and work in an environment that could uplift communities. Little did I know that just a year later, I would be working at MicroVest, an opportunity that seemed remarkably serendipitous, as MicroVest has a sizable exposure to India, and had a mandate of investing to support financial inclusion for underserved entrepreneurs worldwide. It was a perfect coincidence.

You oversee both Fund accounting and Treasury operations at MicroVest, a role critical in managing our investments, adhering to regulatory standards, and meeting our financial objectives. What distinct challenges and opportunities does overseeing the Finance function at a firm like MicroVest present?

Fund accounting and treasury functions require a lot of advance planning and consistency, particularly at an asset management firm. We seek to have systematized processes, procedures, and adherence to financial guidelines and regulations, and we have a scrupulous process for reviewing financial statements and work closely with our fund administrators, SEI, and loan administrators, AlterDomus, to provide exceptional service to our investors.

It is important that our stakeholders see the value and meaning in our work and can trust us and rely on the financial information we provide. While doing a good job is essential, effectively marketing our efforts is equally important. Although finance team members are naturally back-office employees, maintaining positive relationships with our investors and responsible financial institutions is paramount to our work.

How do you think the Financial & Accounting role in asset management has evolved in the past five years, especially with advancements in technology and changes in the regulatory landscape?

These days, Chief Financing Officers are increasingly needing to put on a Chief Technology Officer hat. With increased automation also comes increased risks. Fortunately, as MicroVest is now a part of DAI, we are able to leverage a highly specialized and robust IT team and system. Our corporate accounting systems are also being fully integrated into DAI's, further streamlining operations and enhancing efficiency. As Heads of Finance and CFOs navigate the ever-evolving technological landscape, we're finding ourselves increasingly needing to strike the right balance between embracing innovation and ensuring practical, safe, and efficient, implementation.

What advice would you give someone who is interested in getting into asset management finance & accounting?

Top asset management companies are excellent stewards of capital. You can never underestimate having a strong will and a determination to work hard. If you're driven, enjoy the subject, and are self-motivated, a career in asset management can be truly rewarding. Another characteristic that's essential to finance and accounting today is the study and understanding of ethics. Today's accounting exams have separate chapters dedicated to ethics because it is the most important aspect of our work. Adhering to ethical principles not only benefits our investors and partners but also protects our organization's integrity. Even though we live in a fast-paced world that will be increasingly dominated by systems and technology, truly understanding the basic principles of accounting, finance, and financial analysis is a skill that will serve you well in the long run. By combining a strong work ethic, a commitment to ethical practices, and a solid grasp of the fundamentals, professionals in finance and accounting can pave the way for a successful and rewarding career.

Bridging Financial Analysis & Social Impact with MicroVest Portfolio Analyst, Daniel Eberhardt

What does a Portfolio Analyst at MicroVest do? Tell us about your role.

Portfolio Analysts at MicroVest are involved in monitoring and analyzing the performance and compliance of the RFIs in our portfolio. This includes a review of performance metrics, ensuring adherence to legal agreements, and identifying trends that could influence our investment strategy. My responsibilities extend to collaborating with RFIs to secure financial data, which forms the backbone of our analysis and decision-making processes.

Tell us about yourself. What is your background in, and how did you get involved in impact investing?

As a first-generation college student from a Bolivian immigrant family, I witnessed the challenges of navigating financial systems without guidance or resources. My parents, who worked tirelessly in service jobs, lacked access to financial advice, missing opportunities to build wealth or invest in their future. This personal history instilled in me a passion for financial education and empowerment, especially among underserved communities.

After college, I ventured into the financial sector as a financial advisor, where I became one of the few Spanish-speaking advisors in Northern Virginia. My goal was clear: to bridge the financial literacy gap within the Hispanic community, providing the guidance my family and I never had. However, I soon realized the systemic barriers that many in the community faced – from lack of trust in financial institutions to the sheer complexity of investment products and the constraints of low-income living. I sought a platform where my financial expertise could contribute to broader, more meaningful change. MicroVest, with its focus on financial inclusion and serving underbanked populations, resonated with my aspirations. It presented an opportunity to use finance as a tool for social and economic empowerment. Here, I found a way to align my skills with my mission, working toward a world where financial services are accessible and equitable for all.

A big part of the Analyst role involves monitoring portfolio financial institutions' metrics, looking at trends, and ensuring compliance against covenants. What does this entail?

Portfolio Analysts engage in an examination of our RFIs' financial data, which includes quarterly balance sheets, income statements, and extensive portfolio details. This data allows me to calculate financial ratios and assess other qualitative factors, such as the institutions' market position, risk exposure, and adherence to covenants. My role involves not just monitoring these metrics but also analyzing trends to ensure compliance and identify any potential risks or opportunities. This approach is vital for maintaining the integrity of our investments and supporting our goal of promoting financial inclusion and generating positive societal impacts through responsible investing.

You also work closely with the Risk team to monitor our investments' credit risk scores, which is critical to our work. Why is this so important?

Credit risk scores help us understand the financial health of our RFIs and guide our investment decisions. By keeping an eye on these scores, we can spot early signs of financial issues or areas where we might need to step in. The process goes beyond just watching numbers; it's about understanding what these numbers mean for our investments and how they align with MicroVest's goals. My role is to monitor, analyze, and provide insights based on the financial data, helping us make informed decisions and support the RFIs in a way that aligns with our mission of financial inclusion and responsible investing.

A Portfolio Analyst wears multiple hats, in addition to portfolio monitoring, you also provide underwriting support to the investment team. Tell us about a memorable due diligence trip and what you learned engaging with our portfolio companies on the ground?

During my 2023 due diligence trip to Mumbai, I had the opportunity to visit

UGro Capital, meeting their senior executive team to understand their strategic approach to lending. Our objective was to assess not only the financial viability of UGro but also the tangible impact they have on their borrowers.

Our time in Mumbai included visits to several of UGro's end borrowers. These interactions were crucial; they allowed us to see firsthand how the loans facilitated by UGro were being utilized to fuel business growth, innovation, and community development. Witnessing the direct benefits of these loans, from enabling small business expansion to supporting local economies, provided essential insights into the effectiveness and reach of UGro's financial services.

The visit was an integral part of our comprehensive due diligence, ensuring that our potential investment would not only yield financial returns but also contribute positively to economic empowerment and societal progress. These firsthand experiences with end borrowers are a testament to the power of responsible financing and reinforce our commitment to supporting RFIs that prioritize meaningful impact alongside financial sustainability.

How has your role enhanced your understanding of the broader impact of MicroVest's investments?

In my role at MicroVest, I've gained a much deeper appreciation for the ripple effects our investments have. Being out in the field, interacting with end borrowers, and observing firsthand how our support propels businesses and communities—it's been eye-opening.

For example, during our due diligence visits, seeing entrepreneurs and businesses utilizing our funds to innovate and expand offers a clear picture of the impact we're making. It's not just about financial returns; it's about fostering growth, creating jobs, and enhancing local economies.

These experiences have really broadened my understanding of the difference our investments can make. They've made my work more meaningful and have reinforced my dedication to MicroVest's mission, showing me the significant role finance can play in driving positive change and contributing to a more inclusive and equitable world.

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