

# IMPACT

Developing World Markets

SOCIAL MEASUREMENT AND PERFORMANCE STRATEGY



DEVELOPING  
WORLD  
MARKETS

*Investing for Impact*

750 Washington Blvd., 5th Floor  
Stamford, Connecticut 06901, USA

T: +1 203.655.5453

F: +1 203.656.9528

E: [InvestorRelations@dwmarkets.com](mailto:InvestorRelations@dwmarkets.com)

[www.dwmarkets.com](http://www.dwmarkets.com)





## Contents

- 3 Letter from the Managing Partner
- 5 DWM: A Different Kind of Investment Firm
- 6 A Decade of Catalyzing Impact
- 9 Industry Collaboration & Initiatives
- 11 DWM's Impact Committee
- 12 Social Impact Measurement & Analysis:  
*Social IQS*  
*Pre-Investment Process*  
*Post-Investment Process*
- 16 Impact Performance: 2012 and Beyond



# Developing World Markets: Investing for Impact

With 2.7 billion people worldwide lacking access to formal financial services, the need seems insurmountable. However, Developing World Markets (DWM) is investing in a solution. We're a different kind of investment firm. We're serious about investing. We're serious about impact.

For the past 10 years, DWM has been a leader in investing private capital in microfinance and the larger inclusive finance industry. We have financed over 140 financial institutions in more than 40 developing countries, structuring and advising on over \$1 billion in microfinance and inclusive finance transactions. Our driving purpose as a firm is to provide market-level financial returns to our investors and social impact through the investments we make. We are striving to create measurable and sustainable impact at a global scale. And, we believe that international capital markets provide the best solution to accomplish this goal.

Social impact has been at the core of our activities for the past decade, and we are developing a more concerted effort to measure and demonstrate that impact. While financial returns are relatively straightforward to quantify and report, social performance—the impact of our investments on the livelihoods and well-being of end-borrowers and their communities—can be more challenging. We

have made major strides over the past year in this effort, including the creation of the firm's Impact Committee and a more robust set of metrics to measure and analyze the impact of our portfolio institutions.

We are dedicated to creating needed access to financial services for the base of the economic pyramid by linking microfinance and other inclusive finance institutions to international capital markets. In 2012 and beyond, we aim to innovate the ways in which we pursue this mission. We plan to expand our impact by developing new investment products to serve a wider range of inclusive finance institutions, continually improving our social impact assessment and reporting processes, and contributing to the development of a more responsible impact investing industry.

DWM has committed itself to a goal of improving the lives of 10 million families at the base of the economic pyramid in developing countries by 2020. It may be ambitious, but we have a dedicated team of over 40 professionals that work every day to make this goal a reality. We're serious about investing. We're serious about impact.

Judy Kirst-Kolkman  
Managing Partner

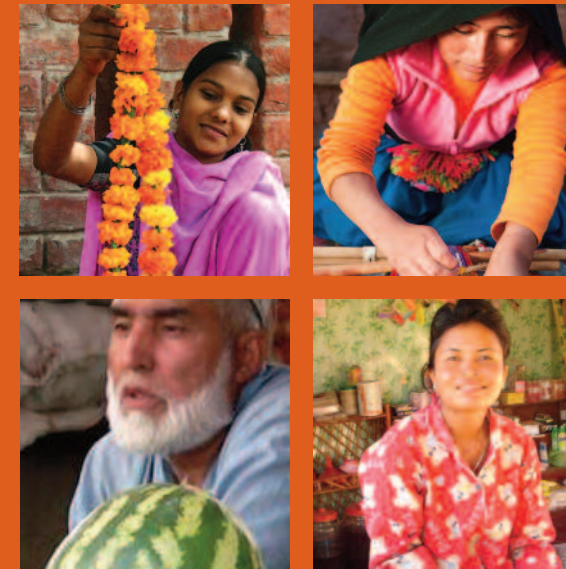
# Developing World Markets

DWM is a global leader in inclusive finance investing. We structure and manage investment vehicles that aim to produce market-level returns for investors and expand access to financial products and services in the developing world.

- 15+ years of experience as emerging markets fund manager, including experience through Developing World Markets, Inc.
- Structured and advised on \$1 billion in microfinance and other inclusive finance transactions in the past 10 years
- Financed more than 140 inclusive finance institutions in over 40 emerging market countries
- Team of 40+ professionals with strong social mission, speaking over 20 languages
- Focus on managing investments for institutional investors globally



## A Different Kind of Investment Firm



### Core Purpose

To improve lives at the base of the world's economic pyramid by harnessing the power of capital markets

### Goal

To improve the lives of 10 million families at the base of the economic pyramid in developing countries by 2020

### Firm Values

- Social Change. We work to create equality of opportunity, to alleviate poverty and to improve the quality of life for those at the base of the economic pyramid.
- Responsibility. We treat clients and stakeholders alike with fairness, respect and transparency.
- Innovation. We bring value to investors and clients through constant innovation and creativity. Through our investments, we aim to create financial returns as well as social impact.
- Disciplined Approach. We believe in applying the highest professional standards to everything we do.
- Collaboration. We work together, enabling our team and our company to better achieve our core purpose.

# A Decade of Catalyzing Impact

For more than a decade, DWM has been an innovative and responsible participant in the impact investing industry. Since structuring the first international capital markets transaction in microfinance in 2004, we have been a leader in creating investible solutions to meet the social and economic needs of the developing world.

## 1999

DWM's founding partners structure the firm's first microfinance loan fund for Pro Mujer Network through DWM Inc.

## 2004

Structures first microfinance collateralized loan obligation (CLO) in partnership with BlueOrchard, which channels \$87 million into microfinance institutions and serves as a catalyst for other private capital flows into the industry

Begins providing annual social performance data for investors

## 2006

Structures second microfinance CLO totaling \$60 million, becoming the first microfinance CLO to receive a rating by a third party risk assessment firm

Arranges the first major direct equity investment in a microfinance institution by a mainstream asset manager, a \$43 million investment by TIAA-CREF, a leading U.S. provider of retirement savings products and services, in ProCredit Holdings

Improves methodology for annual collection of portfolio company and end-borrower data used to monitor the social performance of portfolio institutions

## 2007

Structures the first international bond issuance for a single microfinance institution, raising \$25 million for AccessBank in Azerbaijan

Partners with SNS Asset Management to launch SNS Institutional Microfinance Fund, raising approximately \$215 million

## 2008

Endorses Smart Campaign's Client Protection Principles and MFTransparency

Partners with SNS Asset Management to launch SNS Institutional Microfinance Fund II, raising approximately \$230 million

## 2009

Signs UN Principles for Responsible Investment (UN PRI)

Launches microfinance private equity fund, raising \$82 million and taking active ownership in microfinance institutions

## 2010

Develops social scorecard in collaboration with SNS Asset Management and Oikocredit to collect and analyze social performance data of portfolio institutions

Incorporates borrower endorsement of the Smart Campaign's Client Protection Principles into loan agreement

Begins encouraging microfinance institutions to annually submit the Social Performance Standards Report to MIX Market and acquire social ratings

## 2011

Signs UN Principles for Investors in Inclusive Finance (UN PIIF)

ImpactAssets names DWM in Global Top 50 impact investment managers

Launches The DWM Microfinance Fund-J, the first mutual fund focused on impact investments designed for the Japanese retail market, raising \$236 million

Enhances social questionnaire, expanding set of indicators and mapping with the Global Impact Investing Network's (GIIN) Impact Reporting and Investment Standards (IRIS) to better align with impact investing industry standards

Designates an Impact Analyst and forms the firm's Impact Committee

Commits as a pioneer fund to the Global Impact Investment Rating System (GIIRS), a third party assessment of the social and environmental impact of a fund's investments

# Supporting Industry Collaboration and Initiatives

DWM has been and continues to be an early supporter of key industry initiatives. We collaborate with partners to contribute to the development and standardization of a more transparent impact investing industry.



The United Nations Principles for Responsible Investment (PRI), created in 2005, provides a network of international investors with a framework of six principles for incorporating environmental, social and governance issues into their decision-making and ownership practices. In 2011, the Principles for Investors in Inclusive Finance (PIIF) were created as a distinct subset within the PRI Initiative, providing investors with a framework for responsible investment focused on access to finance for poor and vulnerable populations.

DWM is a signatory to the PRI and an original endorser of the PIIF and submits annual progress reports to each initiative for publication.



The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the effectiveness of impact investing through collaboration, research and advocacy.

GIIN has developed the Impact Reporting & Investment Standards (IRIS), an independent set of common metrics for impact reporting.

DWM contributes to GIIN publications and uses IRIS metrics in its social performance assessments of microfinance clients, contributing to a standardization of impact measurement in the industry.



The Smart Campaign advocates a common code of conduct in the microfinance industry, governing and establishing client protection safeguards. The Client Protection Principles (CPP) are the Campaign's outlined minimum standards that clients should expect to receive when doing business with a microfinance institution.

DWM is an endorser of the Smart Campaign and our loan agreements require that portfolio companies be signatories of the CPP or take measures to do so within a reasonable time period.



MFTransparency was established to serve as a platform for the microfinance industry to publicly demonstrate its commitment to pricing transparency, integrity and poverty alleviation. Endorsers of MFTransparency publicly support the microfinance industry's effort to present information on credit products and pricing in a clear and consistent fashion. MFTransparency has evaluated approximately 400 institutions in 17 countries.

DWM is an endorser of MFTransparency.



Microfinance Information Exchange (MIX) provides objective, qualified and relevant financial and social performance information and publications on microfinance institutions, covering approximately 2,000 institutions globally.

DWM encourages microfinance clients to annually submit the Social Performance Standards Report to MIX Market and acquire social ratings.



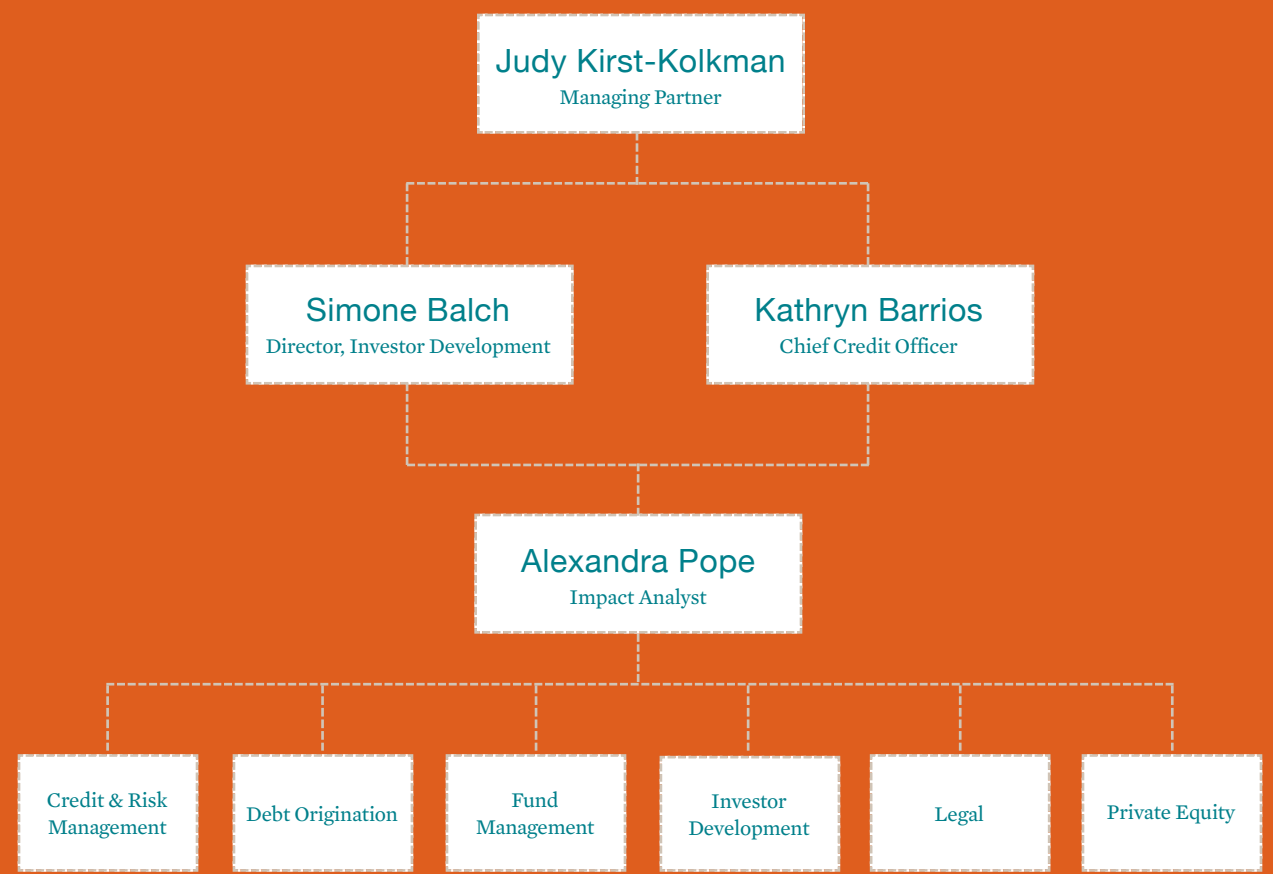
Global Impact Investing Ratings System (GIIRS), a project of the independent nonprofit B Lab, is a comprehensive and transparent system for analyzing and rating the social and environmental impact of companies and funds. Ratings are subject to the GIIRS verification process, which utilizes third party documentation review.

DWM has been named a pioneer fund by GIIRS and will be one of the first funds to receive a GIIRS Impact Rating.



# DWM's Impact Committee

In 2011, DWM designated an Impact Analyst to lead the firm's Impact Committee, which was formed to coordinate strategic efforts to promote and integrate social, governance and other impact considerations across DWM's core business functions. Initiatives include: developing enhanced metrics for social performance analysis, monitoring data collection, and tracking and reporting social impact performance. The Committee is comprised of representatives across firm departments and is structured as follows:



# Measurement & Analysis: DWM's Social IQS

DWM evaluates and monitors the social performance of our portfolio institutions using DWM's Social Impact Questionnaire and Scorecard (Social IQS). Social IQS is used to analyze institutions during the pre-investment due diligence process as well as on an annual basis post-investment. Social IQS is comprised of two components—a questionnaire and a scorecard—which quantitatively and qualitatively measure an institution's social performance and impact.

DWM developed the questionnaire, mapping indicators to the Impact Reporting and

Investment Standards (IRIS), a framework of transparent, credible and consistent social impact indicators. IRIS is an initiative of the Global Impact Investing Network (GIIN), which works toward standardization of social reporting across the industry.

The questionnaire feeds social performance data into a scorecard. Developed in collaboration with SNS Asset Management and Oikocredit, the scorecard is a quantitative impact measurement tool that produces a score on a scale of 0% to 100%. The score is used as an overall indicator of the institution's social impact.



DWM's Social IQS is a data-driven tool that uses approximately 50 indicators to evaluate a financial institution's impact across the following five dimensions:

## Client Benefit and Welfare

- Policies for the prevention of client over-indebtedness
- Code of conduct and client grievance procedures
- Transparency of costs to clients
- Non-financial products and services
- Women's empowerment

## Outreach and Targeting

- Poverty levels of client base
- Client base in rural vs. urban areas
- Average initial loan size

## Governance

- Mission and vision
- Strategic plan and focus on social issues
- Orientation and experience of board and management team
- Salaries, remuneration and incentives
- Broad ownership base

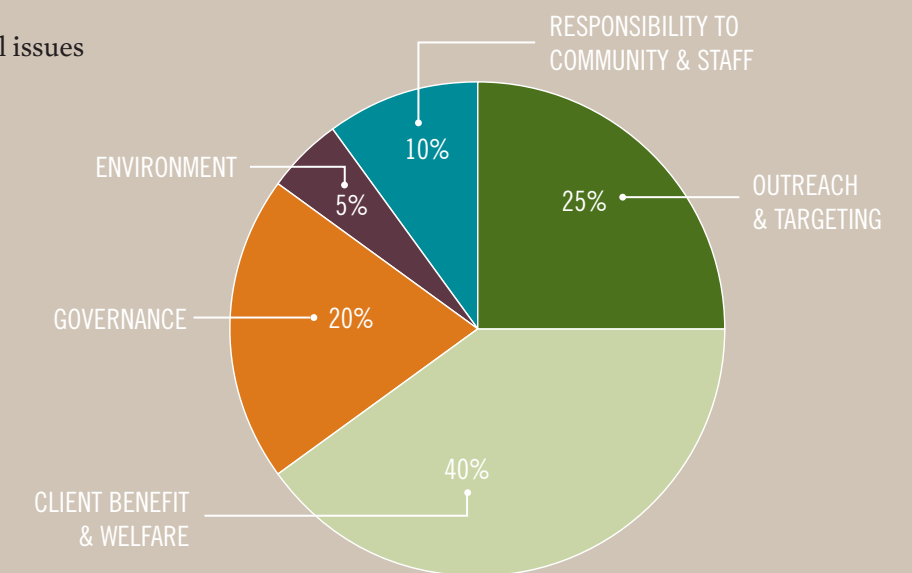
## Responsibility to Community and Staff

- Staff feedback and grievance procedures
- Staff appraisal and incentives
- Contribution to community projects

## Environment

- Internal environmental policies and conduct
- Environmental education and promotion

*The scorecard generates an overall social performance score based on the following weightings of key performance areas:*





# Pre-Investment Process

DWM's investment team evaluates the social impact of a potential investment during the pre-investment due diligence process. In addition to meeting DWM's financial criteria, the financial institutions under consideration must demonstrate high social values as well as a dedication to improving their social impact performance. This analysis is done through both on-site and desktop due diligence.

## On-Site Due Diligence

- 1 Interviews are conducted with senior and branch-level management, loan & recovery staff.
- 2 Random sampling of loan portfolio and unannounced borrower visits are made to cross-reference employee interviews.
- 3 Overall initial social performance review is conducted.

## Desktop Due Diligence

- 1 Institutions complete social impact questionnaire.
- 2 Relationship managers review and incorporate Social IQS evaluation into investment memo.
- 3 Investment Committee reviews memo and makes final investment decision based on both social and financial performance.



# Post-Investment Process

On an annual basis, DWM uses the Social IQS to collect social impact data from portfolio companies. The results are used to track trends among portfolio companies, identify strengths and weaknesses and report back to investors.

- 1 Relationship managers work with their portfolio institutions to complete the Social IQS within 120 days of December 31 each year.
- 2 Social performance data is entered into a unique management information system (MIS), designed by DWM to manage and track social impact performance.
- 3 The MIS aggregates all portfolio institutions' information and is able to segment the data based on various search criteria, such as country, region, legal status and asset size.
- 4 DWM uses the aggregate data to benchmark and identify the strengths and weaknesses of an institution's social performance.
- 5 DWM reports on the social performance of its portfolio institutions. Beginning in 2012, DWM will create and distribute an annual firm-wide social performance report.

# Impact Performance: 2012 and Beyond

In 2012 and the coming years, DWM aims to deepen and expand our impact by:

- Expanding outreach and support to a wider range of inclusive finance clients to achieve their social impact goals through innovative funding products
- Enhancing and continually improving our social performance assessments and reporting
- Designing a specialized database to track and analyze social performance data
- Developing and distributing annual social performance reports
- Contributing to a more responsible impact investing industry through participation in collaborative industry initiatives

