actiam
THE RESPONSIBLE INVESTOR

DEVELOPING WORLD MARKETS

Responsibility and Impact Report

ACTIAM Institutional Microfinance Fund III

OCTOBER 2016

ACTIAM Institutional Microfinance Fund III

Closed-end fund for joint account

FUND MANAGER

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1 Management Note

We have the pleasure to present the first responsibility and impact report of the ACTIAM Institutional Microfinance Fund III. The Fund builds on the experience that Fund Manager, ACTIAM, and Investment Manager, DWM, have working together. Jointly the two firms launched Fund I in 2007, Fund II in 2008, and Fund III in late 2014. The responsibility and impact dimensions of microfinance have become increasingly important for investors, investees, governments, NGOs and the general public. We consider this as a positive development and are supportive of disclosing the social added value of the Fund, alongside its financial returns. On top of our annual two-page Eye4Impact report, covering key social indicators, this report presents more detailed background information on the Fund portfolio institutions, the investee countries, and microfinance markets.

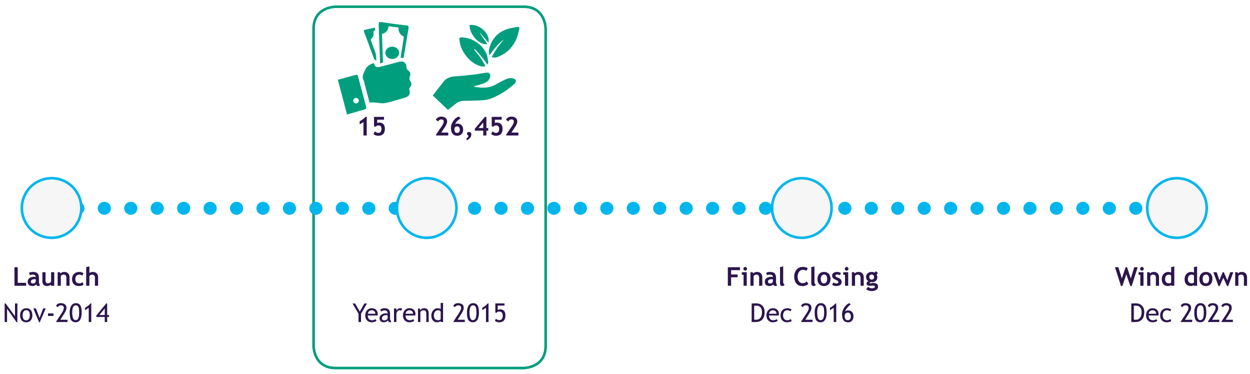
As investors, ACTIAM and DWM aim to contribute to realise universal access for micro, small and medium- sized enterprises to a wide range of financial services at a reasonable price, and doing so in a responsible and transparent manner. The magnitude of global financial inclusion in further development of emerging economies is also reflected in the United Nations Sustainable Development Goals (SDGs), adressing this overarching theme in 7 of the 17 goals to end poverty, protect the planet, and ensure prosperity for all. This report will provide insight into the relationship between the Fund, Microfinance (as part of the broader theme of financial inclusion) and the SDGs. ACTIAM has officially committed to the SDGs by signing a statement[1] with several other Dutch Institutional Investors in the third quarter of 2016. In addition to this commitment, responsibility is a key feature to the business of ACTIAM, highlighted by being one of the founding signatories of the Principles for Investors in Inclusive Finance. Furthermore, ACTIAM and DWM support responsible and industry initiatives and institutions such as the Global Impact Investing Network (GIIN) and the Social Performance Task Force (SPTF) among others.

The objective of this report is to provide a more detailed insight into the potential impact generated by the ACTIAM Institutional Microfinance Fund III (AIMF III). Highlighting that with the commitments of our investors, the Fund not only targets a market rate return, but also contributes positively to society and to the realisation of the SDGs. Over the lifetime of the Fund, the total committed capital will be invested more than twice in microfinance institutions located in developing and emerging countries. In addition, considering that MFIs provide loans to microfinance clients with a typical tenor of 6 to 12 months, our portfolio MFIs will be able to on-lend every euro invested in AIMF III several times. Even though measuring impact at the end-client level is a costly and challenging process, with this report we hope to provide you a better understanding of the responsible initiatives, social outcomes and potential impact generated by the ACTIAM Institutional Microfinance Fund III.

Happy readings on behalf of,

Theo Brouwers
Managing Director ACTIAM Impact Investing

Peter Johnson
Managing Partner DWM



Legend:

Number of MFIs reached by the Fund (cumulative since Fund inception)

Number of end-clients reached by the fund (approximation, cumulative since Fund inception)

1) Please refer to Appendix I for the full statement on the Sustainable Development Goals.

2 From Insight to Impact

ACTIAM wants to use its responsible investment policy[2] to contribute to a liveable world, now and in the future. ACTIAM's policy has several focus themes, one of which is financial inclusion. As it relates to financial inclusion ACTIAM and DWM's investment policies are compatible. Together both firms make their investments measurable and work towards concrete targets. We seek to proactively promote the United Nations Sustainable Development Goals.

2) Please refer to Appendix II for the Responsibility & Impact Framework of the ACTIAM Institutional Microfinance Fund III.

2.1 FINANCIAL INCLUSION AND THE SUSTAINABLE DEVELOPMENT GOALS

In developing and emerging countries, financial inclusion is crucial for strengthening the financial sector and mobilising domestic resources. As such, it can contribute to social and economic development. The United Nations Sustainable Development Goals (SDGs) recognise the importance of financial inclusion, addressing it in 7 of the 17 goals. The figure below highlights these 7 goals and how each relates to financial inclusion. We are committed to contributing to these ambitions by using our expertise in this area and especially in microfinance and SME finance.

No poverty
Global access to financial services by 2030, including all men and women and in particular the poor and vulnerable

Zero hunger
Secure and equal access to financial services as a means to double agricultural productivity and incomes of small-scale food producers by 2030

Good health and well-being
Financial risk protection against health related expenditures

Gender equality
Equal access to economic resources and financial services and enhancing the use of enabling technology to promote empowerment of women

Decent work and economic growth
Encourages formalization and growth of micro-, small & medium-sized enterprises and capacity strengthening of domestic financial institutions to expand access to financial services

Industry, innovation and infrastructure
Increasing access to financial services for small-scale industrial and other enterprises, in particular in developing countries

Reduced inequalities
Encourages a reduction in costs of migrant remittances and regulation and monitoring of global financial markets and institutions.

The global goals
Visit globalgoals.org to learn more about the goals and targets

Financial Inclusion addressed in 7 of 17 UN Sustainable Development Goals

According to The World Bank (2015), there is 'emerging evidence that access to financial services through formal accounts can enable individuals and firms to smooth consumption, manage risk, and invest in education, health and enterprises.' ACTIAM and DWM are convinced that microfinance can help the poor become self-reliant, can help economies to develop and can be a catalyst for social change. Jointly, we have made an effort in this industry since the launch of the first ACTIAM Institutional Microfinance Fund in 2007. Today, the ACTIAM Institutional Microfinance Fund III contributes directly to the Sustainable Development Goals by providing capital to microfinance institutions in emerging and developing economies.

2.2 ADJACENT SPACES

Sustainable development cannot be accomplished through microfinance alone. It requires a broad array of investment in other socially beneficial areas. The Fund therefore allows investments in adjacent spaces including affordable housing, health, education, insurance or other sectors providing additional social value up to a maximum of 20% of the value of the Fund. Investment manager, DWM, is constantly searching for new investment opportunities that meet the evolving financial needs of people at the bottom of the economic pyramid.

SMALL AND MEDIUM ENTERPRISE (SME) LENDERS

SME lenders lend to a wide range of business sectors, addressing a shortage in financing commonly referred to as the 'missing middle', given that SME financial requirements are often too large for most MFIs to satisfy. SMEs typically provide the bulk of job creation and economic growth in developing countries, generating a significant portion of GDP (more than 90 percent of non-agricultural firms are SMEs in developing countries). SMEs have been recognised by international development experts as engines of economic growth and development. Therefore, specialised expertise with SMEs can confer a large competitive advantage. SME lenders are also often fully-licensed banks funded by deposits, which adds to their stability.

LOW-INCOME HOUSING FINANCE

The potential for housing finance in developing countries is extensive. As micro entrepreneurs become successful in their endeavours and begin to grow their businesses, their next step is often to consider buying houses for their families. Because they are often still in an income bracket too small to be considered for mortgage loans by traditional banks, many MFIs have begun offering mortgages to their most successful clients.

EDUCATION FINANCE

There is a growing level of demand for high quality, affordable education at all levels in developing countries. Furthermore, around the world there is an increased recognition of the growing economic value of continuing education beyond the secondary level. Demand for financing to pay for education is growing in tandem with these trends. While some commercial banks in developing countries offer loans to students, such loans are typically expensive and out of reach for those low-income students and families that could benefit the most from them. The number of education finance companies stepping in to fill this funding gap is increasing.

Financial Inclusion: Our goal

Creating universal access for micro, small and medium- sized enterprises to a wide range of financial services at a reasonable price, and doing so in a responsible and transparent manner.

We aim to achieve this goal by building on ten years of experience in impact investing and in the thematic areas of Microfinance and SME Finance in particular.

Microfinance

- Supports micro- entrepeneurs to grow their businesses
- Smoothens the income of low-income households
- Provides a buffer for investments in health & education and risk insurance

2.3 RESPONSIBLE INVESTING & PROFESSIONALIZING THE INDUSTRY

In order for the microfinance industry to consist of sustainable financial institutions, the institutions need to become self-sustaining in terms of capital provision. Over the past decades, we have already witnessed early signs of institutionalisation and professionalisation of the microfinance industry. Further development invokes an integrative approach towards the social performance of MFIs. Social performance management and enhancing social betterment is an integral and inseparable part of the function of microfinance.

Responsibility is a key feature with regard to the business of ACTIAM and DWM. All portfolio MFIs of the ACTIAM Institutional Microfinance Fund III should, at a minimum, comply with the ACTIAM Fundamental Investment Principles and should operate in line with applicable international standards. These standards are largely based on the ACTIAM's Fundamental Investment Principles and on the Universal Standards for Social Performance Measurement. In addition, the assessment of an MFI's focus on the social policies, practices and performance of an MFI, including the social characteristics of the product and services offered by the MFI to its clients.

The Fund is committed to uphold and implement the Principles for Investors of Inclusive Finance (PIIF) and to work with other MIVs to invest responsibly in microfinance. Since the development and launch of the PIIF, DWM and ACTIAM Impact Investing have taken a leading role in implementing the seven principles. In the

PRI

2016 annual survey by the Principles for Responsible Investment (PRI), ACTIAM received the highest possible score (A+) for its responsible investment approach. In addition, an A was rewarded to ACTIAM for its Inclusive Finance approach, with the highest score of A+ to 6 out of 7 underlying themes. Improvements can still be made in providing more local currency lending. ACTIAM continues to be involved in and dedicated to the PRI/PIIF.

As the initiator of the Client Protection Principles, the Smart Campaign remains an important factor in the microfinance sector. The SPTF also continues to develop, strengthen and facilitate guidance on social performance management for MFIs, for instance with the launch and promotion of the Universal Standards for Social Performance Management. In addition, the Fund Manager has cooperated in an initiative to re-evaluate earlier negotiated standards on reasonable returns.

The fund is supportive of the 17 Sustainable Development Goals and 169 targets, spearheaded by the United Nations involving its 193 Member States, as well as global civil society. The Goals and targets will stimulate action over the next 15 years in areas of critical importance for humanity and the planet. ACTIAM recognises that there is an important role to play for the private sector in realising these goals and as a responsible asset manager, ACTIAM supports this global agenda for positive change and has recently committed to the goals by underwriting a statement[3] with Dutch peers.

3) *Please refer to Appendix I for the full statement on the Sustainable Development Goals.*

2.4 AIMING FOR IMPACT GENERATION

In addition to ensuring responsible investments are being made and proactively committing to the Sustainable Development Goals, the economic and social impact of an Investment are specifically taken into account. The Fund focuses on three main impact themes which are considered to be essential for further development of the industry. Every proposed investment is therefore evaluated for its contribution to these themes.

ACCESS TO FINANCE

Improving access to finance for low income people in developing and emerging economies.

Improving access to finance translates in MFIs seeking to diversify products and to increase their geographic and demographic outreach to address the needs of financially excluded population.

CLIENT-CENTRIC APPROACH

Enhancing MFI clients' capacity to manage their financial affairs in a responsible way and prompting MFIs to increase their transparency and optimally protect the interests of their clients.

A client-centric approach ensures that MFIs thrive to protect their clients' interest, by providing education material and increasing transparency.

ORGANISATIONAL DEVELOPMENT

Prompting MFIs to improve the quality of their reporting on financial and nonfinancial performance according to generally agreed upon standards.

On the organisational level, we see compliance with local regulation and the application of industry best practices as necessary to increase transparency, benchmarking and standardisation that will help improve the industry as whole.

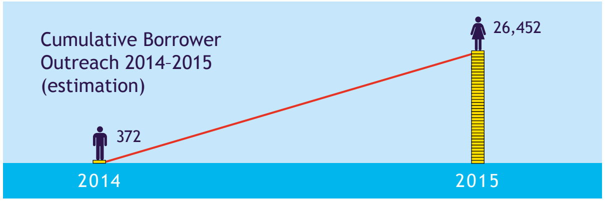
The Fund invests in MFIs whose impact proposition encompasses these three objectives. By focusing on these objectives, we seek to encourage the microfinance industry to maintain its social mission and responsibilities alongside a healthy financial situation, and help prevent any increase in over-indebtedness while focusing on providing access to finance in areas that remain underserved.

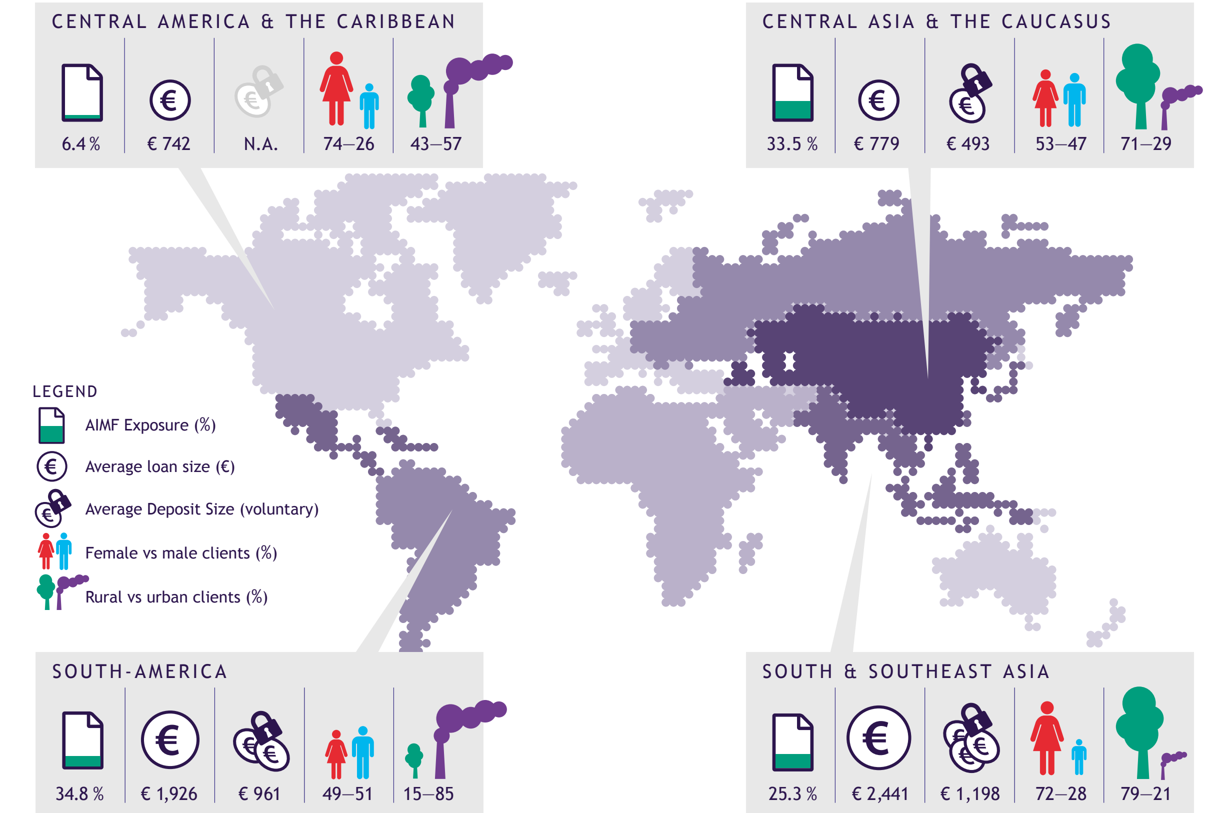
Fund Overview

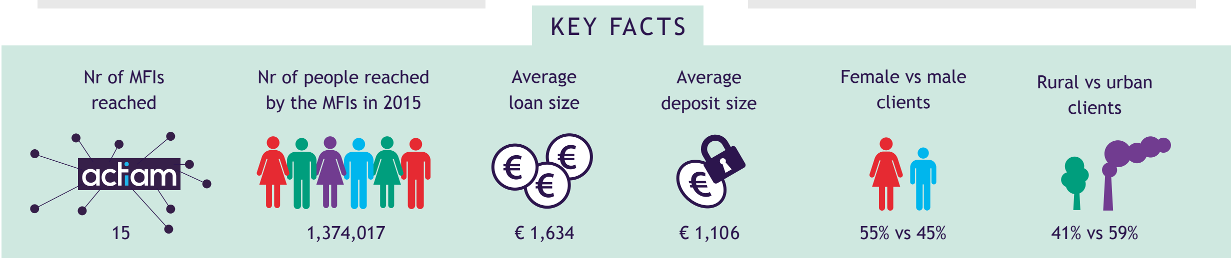
ACTIAM and DWM report on the social output indicators of the ACTIAM Institutional Microfinance Funds – as a basis for analysing outcomes and potential impact. Our Eye4Impact two-pager provides an overview of the key indicators. In cooperation with MFIs, since 2012 we have published an annual Eye4Impact report (for the ACTIAM Institutional Microfinance Fund I and II). The figure below presents an overview of the key indicators of AIMF III at yearend 2015. Section 4 of this report expands on several of the important indicators and themes highlighted below.

ACTIAM and DWM have jointly managed Institutional Microfinance Funds since 2007.

The ACTIAM Institutional Microfinance Fund III builds on a combined outreach of these Funds of more than 2.5 million micro entrepreneurs.







3.1 DATA COLLECTION

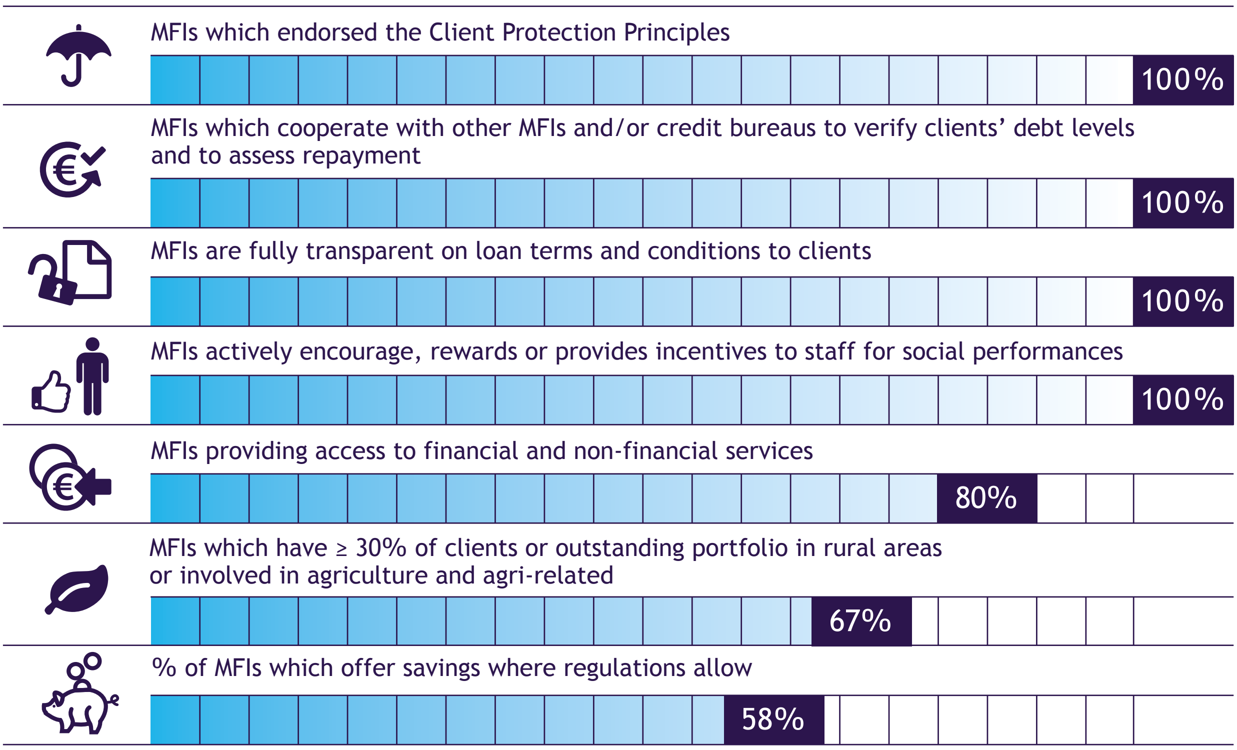
In order to generate the annual Eye4Impact two-pager, a social questionnaire/ scorecard which is developed by DWM, ACTIAM and Oikocredit, is distributed to the MFIs annually each spring by DWM. As part of the due diligence process, all prospective clients must complete the scorecard too. When scorecards are filled out by the MFIs, in many instances, the MFIs appoint specialised members who complete them. Possible findings are analysed during credit committees. The social scorecard consists of about 60 questions and forms the foundation for the social data reported to ACTIAM.

All portfolio-related data is cross-checked against the financial database of DWM (GLP breakdown, PAR number, number of clients and loans etc). Endorsement/Certification concerning Client Protection Principles is cross-checked against the Smart Campaign website. As part of the vetting process, if any metric looks strange, the investment manager reaches out to the Relationship Manager of the specific MFI for further explanation.

DWM performs onsite annual due diligence visits to the portfolio MFIs. An integral part of the due diligence performed is the micro entrepreneur client visits. A randomly selected sample of loan files is checked and client visits are conducted during a branch visit. Although the sample size cannot be statistically representative relative to the total client universe MFIs serve, DWM focuses on the procedural points of the origination, underwriting and monitoring process.

3.2 PRINCIPLES FOR INVESTORS IN INCLUSIVE FINANCE

The fund was launched aiming to contribute to increase worldwide and responsible development of the inclusive financial industry. The Principles for Investors in Inclusive Finance (PIIF) address seven key risks that investors should tackle in order to make responsible investments in inclusive finance. ACTIAM and DWM were actively involved in the development and two of the first signatories. The principles range from risks associated with client over-indebtedness to the need for increased transparency. The figure below provides a translation of these risks to the investee level at yearend 2015.



Translation of PIIF Principles to fund investees - yearend 2015 results

3.3 HARMONIZING SECTOR STANDARDS

While some PIIF indicators can be quite easily quantified, the seventh principle with regards to harmonized standards to support further development of inclusive finance is more lucent. An inspiring example of a country where standards are harmonised is Peru. Peru ranks highest by The Economist Intelligence Unit (EIU)'s Global Microscope 2015, which assesses the regulatory ecosystem for financial inclusion in 55 countries. Financial Inclusion has been high on the agenda of policymakers for years, resulting in a competitive and open market, with regulation acting to facilitate market forces. Institutions professionalise over time, and stakeholders cooperate to develop products addressing the needs of poor and vulnerable populations. Furthermore, schools and communities offer financial literacy educational programmes.

ACTIAM and DWM continue to be deeply involved in a number of initiatives aimed at further developing the inclusive finance industry. During the financial year 2015 we collaborated with the Social Performance Task Force to revise Lenders' Guidelines for Setting Covenants in Support of Responsible Microfinance. This is an initiative aimed at easing reporting constraints for Financial Institutions, by involving public and private socially responsible investors that aspire to harmonise the definition of covenants and social undertaking. Another example is the realised progress with regards to the Client Protection Principles (CPP) of the Smart Campaign, which are created to implement a common code of conduct governing how clients should be treated and to help implement client protection safeguards within the industry's operations. Whereas 68% of our microfinance portfolio MFIs endorsed the CPP in 2012, this increased to 100% in 2015.

In summary, our goal is to continue to contribute to the improvement of access to and quality of financial services targeting the financially underserved and excluded. We work hard to achieve our goal, by funding some of the most inclusive MFIs in the investment universe and collectively, by striving to further align industry standards.

4 Fund Investments

In 2015, the Fund was invested across 3 regions: Central and South America, Near and Middle East and Asia Pacific. This section provides an overview of our investments in each of these regions, followed by a closer look at the respective countries and financial institutions.

At the country level, a brief overview of the macro developments and a short background of the microfinance sector are provided. Also, these country segments provide several indicators concerning the level of human development, the level of economic development of the progress concerning access to finance. The indicators are derived from the most recent World Development Report (2016) by the World Bank, the IFC Enterprise Finance Gap and Global Financial Inclusion Data (Findex, 2014)

One of four World Bank income classifications is given to each country. The income classifications are segmented as follows:

- Low-income economies : GNI per capita of $1,025 or less in 2015
- Lower middle-income economies : GNI per capita between $1,026 and $4,035
- Upper middle-income economies : GNI per capita between $4,036 and $12,475
- High-income economies : GNI per capita of $12,476 or more.

The Fund had exposure to lower-middle and upper-middle income countries in 2015. In some of these countries, inequality[1] levels are high and the majority of society lives in poverty. The majority of the Fund's portfolio MFIs target low-income populations in the respective country.

For each of the portfolio MFIs, an introduction or investment rationale is provided, followed by key indicators ranging from client information to the legal status of the institution. Finally, the MFIs best practices on each of the three impact themes as presented on page 7 of this report are highlighted. Within the context of the global microfinance market, the following profiles of our portfolio MFIs highlight the importance of our impact proposition and how it helps to ensure that our portfolio institutions have the capacity to reach their objectives and those of the Fund.

1) *Please refer to the text box on page 23 for more details on inequality.*

4.1 AMERICA (CENTRAL AND SOUTH)

At the end of the financial year 2015[2], the fund was invested in 3 Latin American countries, contracting 6 microfinance institutions. Together, these institutions represent 41% of AIMF III portfolio at yearend 2015.

Legend
- Lower middle income*
- Upper middle income*

** Income categories are adopted from the World Bank country classification*

2) At the end of the Q3 2016, the Fund invests in 6 Latin American countries and 11 underlying institutions, adding 3 countries and 5 MFIs to the portfolio.

ECUADOR

Upper-Middle Income country | 16.1 million people

There is a strong social opportunity to provide capital to MFIs in Ecuador. During the recent past, a period of high oil and metals prices allowed the government to spend heavily on improving social services and infrastructure. The current macroeconomic landscape, however, has reduced Ecuador's access to these capital flows. While the government has recently raised rounds of financing and has gained access to loan facilities, there is still a need for financing to maintain social spending in the country.

Microfinance is quite developed in Ecuador and some of the dominant players are also large banks. The government has tried to help poor borrowers with more strict regulation with respect to interest rates and fees but in some cases may thereby have hindered the spread of financial services to less populated areas (which are more expensive to serve). Another regulatory initiative passed in the fourth quarter of 2015 exempted MFIs from the cross-border transfer tax applicable to payments of principal and interest to foreign lenders.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (USD)	10,541	Credit gap (USD)	28,197m
Inequality adj.	Low	MSMSEs	1,8m	No access	32%
Rank / 188	88	Employment	58.2%	Severe barrier	21%
Adult literacy	93.3%	Imp. Exp. (% GDP)	60.8%	Adult account	46%
				Formal saving	14%
				Formal borrow	13%

What is Microfinance and how does it relate to financial inclusion?

'Microfinance is the provision of financial services to low-income people. The definition of microfinance, which has its roots in microcredit, has evolved in recent decades. In the 1970s, social innovators from the Global South introduced the concept that small amounts of short-term capital (microcredit) can help poor people in the informal economy engage in productive activities and grow their way out of poverty. The early success of microcredit demonstrated that poor families in the informal economy are valuable customers and that it is possible to serve them in large numbers in a sustainable way.

Over the past few decades, we learned that poor households need access to the full range of financial services to generate income, build assets, smooth consumption, and manage risks—financial services that a more limited microcredit model cannot provide. Now the term 'microfinance' generally refers to a broad set of financial services tailored to fit the needs of poor individuals.

The global financial inclusion agenda recognizes these broader needs. It also recognizes the importance of financial literacy, building consumer financial capabilities, and for consumer protection policies that take the conditions and constraints of poor families in the informal economy into account.'

Source: 2016 CGAP (Consultative Group to Assist the Poor).

Information on the individual Fund investments is confidential and available for investors only.
Please be aware that the following page with MFI specific information is removed from this report.
Investors in the Fund can request a full copy of the report via ACTIAMImpactInvesting@actiam.nl

NICARAGUA

Lower-Middle Income country | 6.1 million people

Over the last few years, Nicaragua's economy has expanded at an average rate of 4.8% per year. Like most countries in Central America, Nicaragua has a recent history of political violence. However, relative to some neighbouring countries, the current level of overall violence is much lower, and the level of political stability is considered higher.

The microfinance sector of Nicaragua used to be one of the larger recipients of Western funding until the 'No Pago' crisis of 2009-2010 (a debt forgiveness movement) led to the demise of many MFIs. However, after the turmoil of such a movement was painfully felt, the current environment allows for MFIs to operate, and political risk surrounding such policy has been materially reduced. Reforms in response to the movement removed interest rate caps and clarified the legal process for pursuing delinquent loans. Reforms also established a micro-finance regulatory agency (CONAMI), made credit bureau consultation a requirement, and established standards for audit, corporate governance, credit risk management, and client protection principles (CPP).

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	Medium Low	GDP pc (USD)	4.494	Credit gap (USD)	2,410m
Inequality adj.	125	MSMSEs	0.6m	No access	39%
Rank / 188	78%	Employment	58.8%	Severe barrier	21%
Adult literacy	93.3%	Imp. Exp. (% GDP)	92.6%	Adult account	19%
				Formal saving	8%
				Formal borrow	14%

Who are the 2 Billion Unbanked Adults Globally?

'Most of the world's 2 billion unbanked adults live in developing economies. According to the most recent Global Findex data, from 2015, 89 percent of adults in high-income economies report having an account at a formal financial institution; in developing economies, 41 percent of adults do.

Regionally, according to this same database, the rate of unbanked adults is highest in the Middle East and North Africa, at four out of every five adults, followed by Sub-Saharan Africa and South Asia. In several developing economies, more than 95 percent of adults do not have an account at a formal financial institution.

Disparities also exist by gender. Among adults in developing economies living below the $2-a-day poverty line, women are 28 percent less likely than men to have an account at a formal financial institution. Indeed, there is a persistent gender gap of six to nine percentage points across income groups within developing economies.

Financial inclusion efforts aim not only to serve the unbanked, but also the underbanked. These are people who have poor or unreliable access to formal financial services – for example, customers who open a bank account to receive government payments, but withdraw all of the money immediately and thereafter operate in cash.'

Source: 2016 CGAP (Consultative Group to Assist the Poor).

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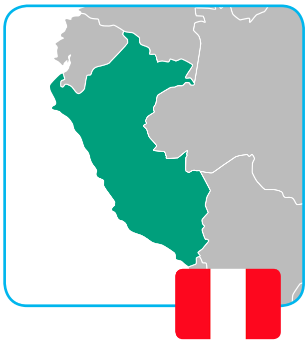
PERU

Upper-Middle Income country | 31.4 million people



Among South American countries Peru stands out as one of the more stable democracies. In the past, the government has used previously high commodity prices to help build a more prosperous society for both rich and poor. Peru's export range is quite diverse (fishmeal, other agricultural products and especially gold, copper and oil) but dominated by raw and lightly processed materials, not manufactured goods.

The Peruvian microfinance market is recognised as one of the most successful in the region due to the country's prolonged macroeconomic stability, the strength of its financial system overall, and the quality of its financial regulator. However, after many years of fast growth, signals of market saturation are increasing as evidenced by increasing arrears and reports of multiple borrowing. The Fund therefore adds social and financial value by attracting portfolio MFIs that are compliant with the Client Protection Principles[1] of the SMART Campaign and attest to not over-indebt their clients.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (USD)	11,397	Credit gap (USD)	17.5bn
Inequality adj.	Low	MSMSEs	2.4m	No access	35%
Rank / 188	84	Employment	58.8%	Severe barrier	31%
Adult literacy	93.8%	Imp. Exp. (% GDP)	48.4%	Adult account	29%
				Formal saving	12%
				Formal borrow	11%

Legal Status of a Microfinance Institution

The main types of MFI organisations are:

- NGO: Non-profit financial institution
- Co-op: Cooperative financial institution, membership-based
- NBFI: Non-banking financial institution. This type of MFI is usually licensed for limited operations, activities or services, differentiating them from a full-service commercial bank.
- Bank: Commercial, private microfinance bank, full-fledged bank

Each institution differs in terms of what products and services it is allowed by law and regulation to offer; whether it is subject to rigorous prudential regulation, internal governance structure, ownership structure and accountability. Differences arise from the applicability of legal and regulatory requirements, and those differences have important implications for the outreach and sustainability of the institution.

The Fund focuses on higher quality NBFIs and microfinance banks. These are regulated MFIs with a clear and strong ownership and governance structure and proven track record. The Fund very much supports higher potential NBFIs to further develop and extend their product and services range over time.

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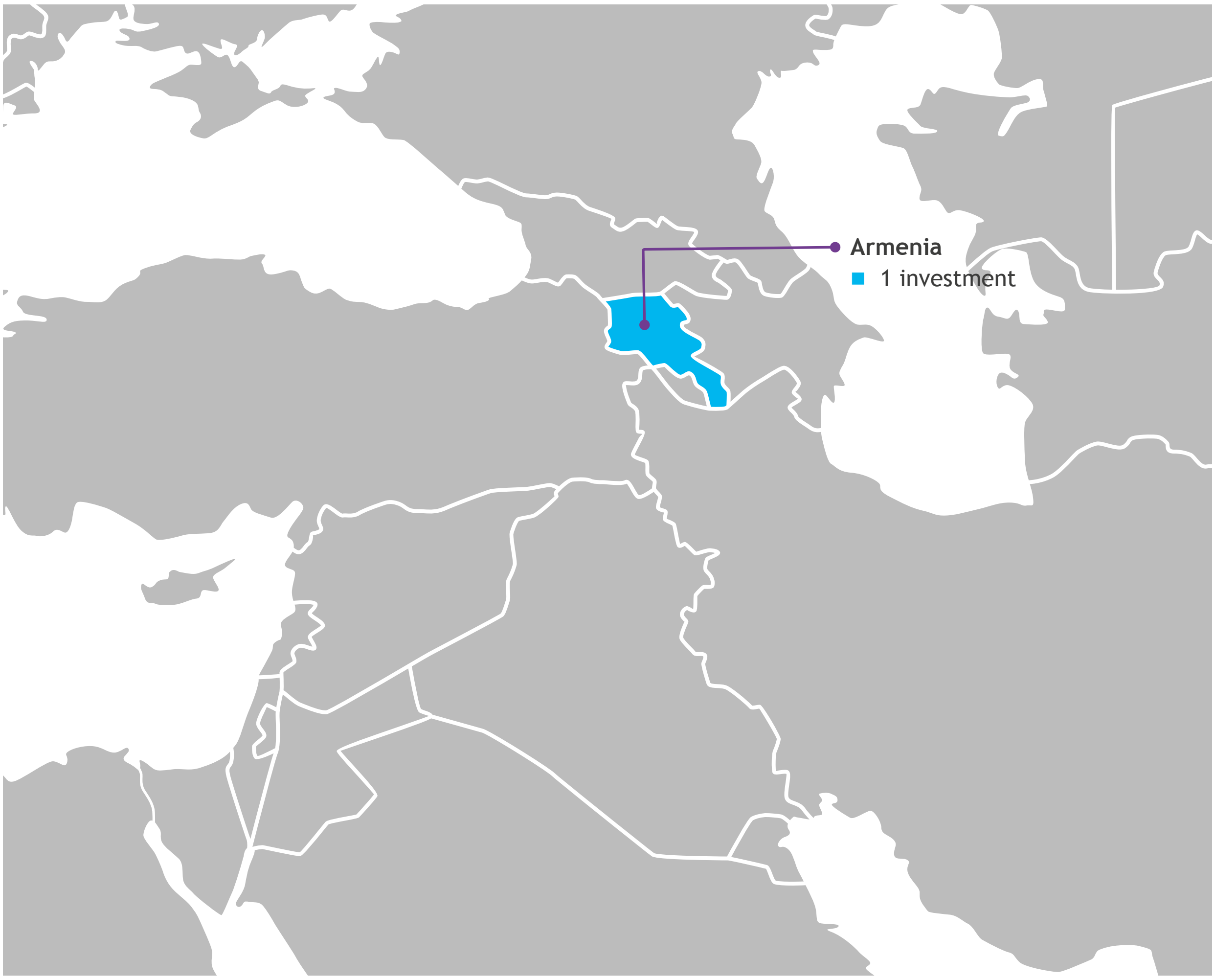
1) *Please refer to the text box on client protection on page 20 for more details.*

4.2 NEAR AND MIDDLE EAST COUNTRIES

At the end of the financial year 2015, the fund was invested in 1 near and Middle Eastern country, contracting 1 Microfinance Institution in Armenia[1]. This institution represents 3% of AIMF III portfolio at yearend 2015.



Legend
Lower middle income*

** Income categories are adopted from the World Bank country classification*

1) *At the end of Q3 2016, the Fund has exposure in 2 countries and 2 underlying MFIs in the region, adding 1 country and 1 MFI to the portfolio.*

ARMENIA

Lower-Middle Income country | 3.0 million people

Compared to many ‘microfinance countries’ average incomes are relatively high. Several studies point at the relatively high penetration of microfinance loans in the country, giving value to the Fund’s inclusion of CPP-compliant (please refer to the text box below) portfolio MFIs that attest to not over-indebting their clients. Also, the merely modest level of commitment of the central bank to financial inclusion leaves a social opportunity for international Microfinance Investment Vehicles (MIIVs).

Economically Armenia is very dependent on Russia, which is a major trade partner, source of remittances (14% GDP), and source of investment into Armenia. While recently Russia’s economy has had significant challenges, oil prices have modestly recovered and there is little appetite in Europe for new sanctions. These two developments are positive for Russia and in turn Armenia.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (USD)	7,527	Credit gap (USD)	2.1bn
Inequality adj.	Medium	MSMSEs	0.2m	No access	28%
Rank / 188	85	Employment	53.2%	Severe barrier	37%
Adult literacy	99.6%	Imp. Exp. (% GDP)	75%	Adult account	18%
				Formal saving	2%
				Formal borrow	20%

Client protection

For ACTIAM, properly servicing our clients is a key focus area. In relation to microfinance – servicing often poor and vulnerable people - this is an even a more important and sensitive issue. The Fund requires MFIs to endorse the Client Protection Principles (CPP) - and strongly encourages them to make them operational. Compliance and implementation of client protection measures is included in the loan agreement with MFIs.

‘The Client Protection Principles (CPPS) are the minimum standards that clients should expect to receive when doing business with a microfinance institution. There is consensus within the microfinance industry that providers of financial services should adhere to these core principles’ (Smart Campaign, 2014). The Principles are formulated by The Smart Campaign - a global effort to unite microfinance leaders around a common goal: to keep clients as the driving force of the industry.

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4.3 ASIA PACIFIC

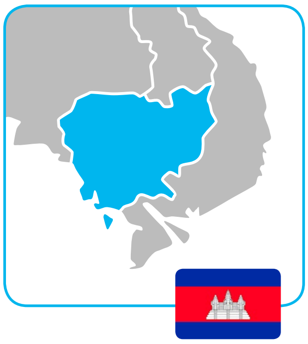
At the end of the financial year 2015, the fund was invested in 5 Asian Pacific countries[1], contracting 8 Microfinance Institutions. Together, these institutions represent 56% of AIMF III portfolio (based on NAV) at yearend 2015.

Legend
Lower middle income*
Upper middle income*

** Income categories are adopted from the World Bank country classification*

1) At the end of Q3 2016, the Fund has exposure in 6 countries in the region and 9 underlying MFIs, adding 1 country and 1 MFIs to the portfolio.

CAMBODIA



Lower-Middle Income country | 15.6 million people

While rapid credit growth in Cambodia has taken place, it has recently moderated, a welcome development for economic stability. Portfolio at risk levels in the microfinance industry have remained extremely low. The Fund, driven by social and financial considerations, has actively sought to provide capital to MFIs that serve clients in less-penetrated areas. Also, the microfinance industry is broadly viewed as being in a more secure situation than the banking sector at large, which makes a case for microfinance investment into the country. Although the country is prone to floods and political risks are also present, Cambodia's strong economic growth supported by strong demographics is conducive to investment opportunities for a microfinance portfolio.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	Medium	GDP pc (USD)	2,944	Credit gap (USD)	2.5bn
Inequality adj.	Low	MSMSEs	1.2m	No access	41%
Rank / 188	143	Employment	82.3%	Severe barrier	17%
Adult literacy	73.9%	Imp. Exp. (% GDP)	140%	Adult account	22%
				Formal saving	4%
				Formal borrow	28%

Inequality

For each country in which the Fund invests, we present a general overview of the country by highlighting issues and providing key figures and human development, economic development and the level of access to finance.

An observation is that the level of human development is medium or high for all portfolio countries. A striking fact however, is that for most of these countries, the level of human development drops dramatically once adjusting for inequality. Thus, even in such countries, the Fund has great potential to fulfil its social objectives.

This adjusted figure takes into account differences in income, education and life expectancy.

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CHINA

Upper-Middle Income country | 1.4 billion people

Compared to many other ‘microfinance countries’ China is relatively well governed even as the level of political freedom and the amount of corruption leaves much to be desired. The microfinance market has shown a degree of insularity from the notable macroeconomic conditions in the broader economy. In China relatively little funding is provided by Western sources to local microfinance institutions. Tight interest rate caps make it more difficult for banks and other official financial institutions to service riskier and smaller borrowers properly. Banks in China mainly service state owned and other very large corporations and retail accounts (79% of the people of 15+ years old have a formal account) thereby pushing smaller businesses towards other sources of finance.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (USD)	11,525	Credit gap (USD)	337.9bn
Inequality adj.	NA	MSMSEs	103.5m	No access	41%
Rank / 188	90	Employment	68%	Severe barrier	18%
Adult literacy	95.1%	Imp. Exp. (% GDP)	50.3%	Adult account	79%
				Formal saving	41%
				Formal borrow	10%

Female clients

This indicator provides information to the Fund portfolio managers, indicating the level of female involvement in financial service provision. Microfinance services lead to women’s empowerment by positively influencing women’s decision-making power and enhancing their overall socio-economic status.

It also provides insight into SDG 5 on Gender equality. This goal calls for equal access to economic resources and financial services and enhancing the use of enabling technology to promote empowerment of women.

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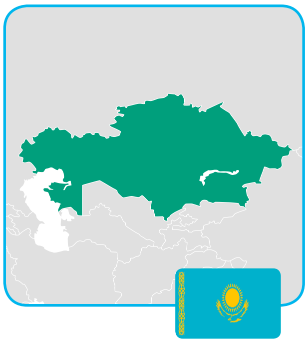
KAZAKHSTAN



Upper-Middle Income country | 17.5 million people

Kazakhstan is a country with large mineral reserves of which oil and gas has generated the most significant revenues. However, rural populations remain underserved by banks. Kazakhstan's economy has experienced difficulties of late, but the outlook has benefited from recent developments including the stabilization of the price of oil and apparently less willingness from Europe to impose sanctions on Russia. Political risk is medium for microfinance countries and regulation in the financial sector improved in 2015, benefitting the investment landscape.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (USD)	22,467	Credit gap (USD)	11.1bn
Inequality adj.	Medium	MSMSEs	750,414	No access	40%
Rank / 188	56	Employment	69%	Severe barrier	27%
Adult literacy	99.7%	Imp. Exp. (% GDP)	65%	Adult account	54%
				Formal saving	8%
				Formal borrow	16%

Rural clients

'There are an estimated 500 million smallholder farmers in low- and middle-income countries. And, despite some improvement in their access to general financial services, relatively little progress has been made in financial services specific to their 13 agricultural activities' (CGAP5, 2013). Access to finance is a necessary condition for improvements in agricultural production. This can lift at least some portion of farmers' incomes into higher-value production activities, and thereby enable them to stabilise their financial situation.

In order to improve the supply of specialised agricultural financial services, the sector needs to better understand farmers' specific needs. In the selection of investments, the Fund favours MFIs that reach out to the rural or otherwise excluded poor.

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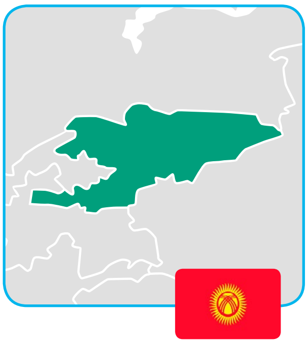
KYRGYZ REPUBLIC



Lower-Middle Income country | 6.0 million people

Kyrgyzstan is a poor, mountainous landlocked country that is dependent on remittances from Russia and earnings from gold exports. Therefore, the economy experienced challenges for which the outlook has moderated from an improving outlook for Russia. The country is seeing the level of political risk gradually decline after unrest in 2010.

As the country has a high microfinance penetration rate according to the MIMOSA Scores 2014, the Fund carefully targets responsible MFIs, considering over-indebtedness risk. Financial sector regulation is of good quality, and the Fund's investments have supported an increase in product offerings available to microfinance borrowers as the largest microfinance players have increased their product scope.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	Medium	GDP pc (USD)	3,110	Credit gap (USD)	286m
Inequality adj.	Low	MSMSEs	167,331	No access	40%
Rank / 188	120	Employment	62%	Severe barrier	27%
Adult literacy	99.2%	Imp. Exp. (% GDP)	143%	Adult account	54%
				Formal saving	8%
				Formal borrow	16%

Savings

Savings are an essential tool in guaranteeing a sustainable inclusive financial sector. On the one hand, poor households can benefit greatly from having access to deposit mechanisms as savings contribute to ease cash flow changes and increase security for clients (PRI, 20146). On the other hand, it is an alternative source of finance for MFIs that can help to achieve independence from donors and investors (MIX, 20117).

According to MIX (2011), only a limited number of MFIs offer savings products as they are often not able to meet the regulatory requirements or as appropriate regulatory regimes do not exist. Another reason could be that MFIs prefer to tap finances from investors.

A safe way to store money could therefore be a valuable add-on to an MFI's product portfolio. The majority of the portfolio MFIs are offering savings products to their clients.

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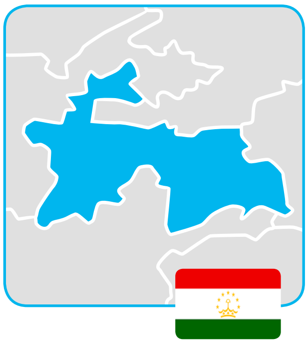
TAJIKISTAN

Lower-Middle Income country | 8.5 million people



Tajikistan is a poor, mountainous, landlocked country that depends on Russia from linkages in remittances and trade. Therefore, like other EEC countries, the economy experienced challenges which have moderated from a recently tempered outlook for Russia.

Financial regulations in the country are solid. The microfinance sector has a very large number of entities (EIU Global Microscope 2015 mentions a number of 120) but this should change in response to the large increase in minimum-capital requirements instituted in 2015-2016.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	Medium	GDP pc (USD)	2,432	Credit gap (USD)	259m
Inequality adj.	Low	MSMSEs	298,047	No access	40%
Rank / 188	129	Employment	61%	Severe barrier	27%
Adult literacy	99.7%	Imp. Exp. (% GDP)	87.5%	Adult account	12%
				Formal saving	2%
				Formal borrow	4%

Over-indebtedness prevention

In more mature and saturated microfinance markets, borrowers have been able to take out loans in excess of their repayment capacities. In response to this challenge, credit reporting systems (credit bureaus) help to ensure financial stability. In 2012, ACTIAM started an active dialogue with the International Finance Corporation (IFC), part of the World Bank, on the current credit reporting environment for MFIs. We actively stimulate MFIs to deliver client credit data to credit bureaus and to subtract and use essential information from them in the lending process. In many countries oversight and regulation of MFIs is growing, bringing more MFIs under formal oversight of the regulatory bodies and thus requiring them to be a part of the credit information sharing system. Both the IFC and several MFIs notice that the attitude among microfinance borrowers is also changing. Microfinance clients realise they are being monitored and that their financial behaviour influences the MFI's credit decisions.

Several challenges remain ahead however and even in countries where solid reporting systems are in place, it is important to remain alert with regard to the level of default rates. While credit bureaus for microfinance are work in progress, we plan to keep a close watch on further developments. We continue our dialogue with microfinance institutions and microfinance networks in order to aim to strengthen our own decision making process.

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5 Appendix

5.1 APPENDIX I - STATEMENT ON SUSTAINABLE DEVELOPMENT INVESTMENTS

Institutional investment into the Sustainable Development Goals

Committed to the SDGs

Mounting social and environmental challenges underline the urgency for investing into a sustainable economy whose needs are codified by the United Nations in the Sustainable Development Goals (SDGs) for 2030. As institutional investors we believe that it is essential to invest pension fund assets in these goals, and to do so at scale.

... at market rate returns or above

As a group of investors we strive to facilitate a steep increase in what we call Sustainable Development Investments (SDIs):

"We invest in solutions that contribute to the UN Sustainable Development Goals. These investments meet our financial risk and return requirements and support the generation of positive social and/or environmental impact through their products and services, or at times through acknowledged transformational leadership. We distinguish between investments where impact has and those where it has not been measured, and stimulate the latter to report on measurable impact."

Important to note here is that as large institutional investors who invest retirement savings, we are seeking to help create positive social and environmental impact and do so at market-rate financial returns.

The SDGs provide a global reference framework within which institutional investors can set different thematic priorities for themselves and/ or in line with their clients wishes. We explicitly target investible solutions to specific themes through a range of asset classes in both public and private markets.

... and with measurable impact

We want to communicate the real positive impact we help create to our clients and their participants. Therefore we actively encourage our investees to measure and report on social and environmental impact of their products, services or leadership. Recognizing that one initially may have to use proxies for impact, such as revenues from specific solutions, we will push for being able to capture more tangible impact over time.

At the same time we develop best practices and tools, and support data development initiatives to better measure investments' contribution to the Sustainable Development Goals and specific themes such as the low-carbon economy or water scarcity.

Some Funds are committing more capital

The two biggest pension funds in The Netherlands, ABP and PFZW have set ambitious targets for 2020 to invest 58 billion euro in Sustainable Development Investments, respectively measure the impact of 20 billion euro in a select set of themes. We will actively collaborate with other like-minded investors to accelerate investments into a more sustainable world that our beneficiaries want to invest for and live in.

5.2 APPENDIX II - FUND RESPONSIBILITY AND IMPACT FRAMEWORK

Responsibility is a key feature with regard to the business of ACTIAM. All portfolio MFIs should, at a minimum, comply with the ACTIAM Fundamental Investment Principles and should operate in line with applicable international standards.

The Fund does not only seek to realize an attractive financial return. It also aims to make socially responsible investments and contribute to fostering a dynamic microfinance sector in developing and emerging economies. In this respect both the Fund Manager and the Investment Manager have explicitly committed themselves to act in the microfinance industry on a socially responsible basis, which is manifested in their endorsement of the Principles for Investors in Inclusive Finance (PIIF) and the responsibilities that result from this endorsement.

The Fund builds on the experience of the Fund Manager and Investment Manager with the ACTIAM Institutional Microfinance Funds I and II. The responsibility and impact dimensions of microfinance have become increasingly important for investors, investees, governments, NGOs and the general public, represented by the media. This development has consequences for the social and impact standards that the Fund will apply to its Investments.

ENSURING RESPONSIBILITY

To ensure the Fund makes socially responsible investments, each Fund Investment will be assessed on the basis of the Responsibility and Impact Framework as developed by the Fund Manager. The assessment will focus on the social policies, practices and performance of an MFI, including the social characteristics of the product and services offered by the MFI to its clients. The applicable social criteria contained within the Responsibility and Impact Framework are based on international standards and include but are not limited to issues such as:

- Human rights;
- International labour standards, including prohibitions on child labour and forced labour;
- Good governance and employment practices, including the prevention of corruption;
- Tax payment;
- Client protection;
- Transparency; and
- Accountability.

GENERATING IMPACT

In addition to ensuring the social responsibility of Investments, the Fund will explicitly take into account the economic and social impact a Fund Investment generates. In order to ensure that the Fund creates real and measurable impact, the Fund Manager has identified a number of key themes on which it aims to distinguish itself as a committed and responsible impact investor:

- Improving access to finance for low income people in developing and emerging economies;
- Enhancing MFI clients' capacity to manage their financial affairs in a responsible way;
- Prompting MFIs to improve the quality of their reporting on financial and nonfinancial performance according to generally agreed upon standards; and
- Prompting MFIs to increase their transparency and optimally protect the interests of their clients.

IMPLEMENTATION OF THE FUND RESPONSIBILITY AND IMPACT FRAMEWORK

To qualify as a Fund Investment, each Investment Proposal must be approved by the Investment Committee. The Investment Committee uses an integrated approach to evaluate the quality of each Investment Proposal, in which it assesses both the financial aspects as well as the potential social impact of the investment. If there are significant discrepancies in the policies, practices or performance of the MFI from the standards of the Fund Manager, the management of the MFI will be required to commit to meeting those standards within a predefined period.

These social standards include:

- conformity with Universal Standards for Social Performance Management as developed by the Social Performance Task Force;
- adherence to the Client Protection Principles as developed by the SMART Campaign; and
- monitoring and reporting on financial and non-financial performance in line with the requirements as set by the Fund Manager, in order to test compliance with the Responsibility and Impact Framework.

After investments have been made, the Fund Manager will conduct annual monitoring of impact and responsibility-related issues based on input provided by the MFIs by way of the Investment Manager. This monitoring will include the composition of MFI's loan portfolios, compliance with the Fund's social criteria, measurement of positive and negative social and economic outputs, and whether or not social impact recommendations have been implemented by the MFIs.

The Fund uses the Impact Reporting and Investment Standards (IRIS) for data collection and reporting on the social performance and impact creation of the Fund. The IRIS indicators have been developed by the Global Impact Investing Network (GIIN) and contribute to the standardization of reporting.

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