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DEVELOPING WORLD MARKETS

Responsibility and Impact Report 2016

ACTIAM Institutional Microfinance Fund III

June 2017

ACTIAM Institutional Microfinance Fund III

Closed-end fund for joint account

Fund Manager

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Management Note

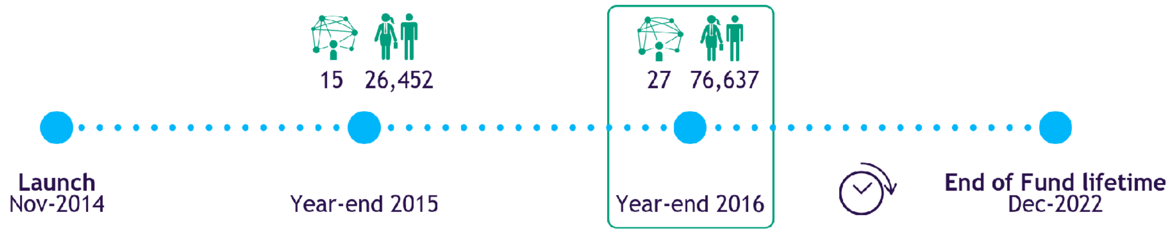
We have the pleasure to present the second Responsibility and Impact Report of the ACTIAM Institutional Microfinance Fund III (Fund or AIMF III). With the support of our investors, the Fund reached out to nearly 77,000 microfinance clients[1] (from its inception to year-end 2016). Moreover, during the lifetime of the Fund, the total committed capital will be invested more than twice in microfinance institutions (MFIs) located in emerging and frontier market countries. In addition, MFIs provide loans to microfinance clients with a typical tenor of 6 to 12 months, which enables portfolio MFIs to on-lend every euro invested several times. With this report we hope to provide you valuable insights into the Fund's impact strategies, responsible initiatives, investment markets, social outcomes and potential impact generated.

The Fund builds on the experience that Fund Manager, ACTIAM, and Investment Manager, DWM, have managing AIMF I and II, which were launched in 2007 and 2008 and will be successfully closed this year. An independent review of these two funds, highlighted two key impact lessons learned based on our decade of experience in managing microfinance funds:

- Given microfinance clients' vulnerable position, it is essential to cooperate as a sector and ensure client protection standards are implemented. Both DWM and ACTIAM have been involved in developing the following initiatives: SMART Campaign's Client Protection Principles (CPP), PRI's Principles for Investors in Inclusive Finance (PIIF) and SPTF's Universal Standards for Social Performance. In addition, we have been engaged with industry practitioners including credit bureaus to conduct proper monitoring and data collection.
- In order to support the basic needs of people and to contribute to reaching the Sustainable Development Goals (SDGs,) microfinance offers only one part of the solution. Acknowledging this, the Fund allows for an 'adjacent spaces' allocation. This option enables the Fund to invest up to 20% of its capital in other socially beneficial areas including affordable housing, health, education, and insurance. The year 2016 witnessed the entrance of one adjacent space exposure into the Fund. This financial institution was established to address the housing deficit issue facing low-income populations in Costa Rica. The case study on page 7 reflects how the company developed into one of the key financial institutions of the country and is able to support thousands of families per annum.

The Fund's focus on financial inclusion is contributing to 7 of the 17 SDGs. The SDGs tackle the root causes of poverty and aim to unite people to make a positive change for the planet. ACTIAM is one of the promoters of the SDG Investing Initiative (SDGI) and its agenda, which serves as a guide to the Dutch market in promoting Sustainable Development Investments (SDIs)[2]. It also serves as an inspiration for other countries. A concrete follow-up step was carried out by our participation in the SDG impact measurement working group and a working group to boost Sustainable Development Investments, both facilitated by the Dutch Central Bank. During 2017, ACTIAM will continue its efforts regarding the SDGs and relevant industry initiatives in partnership with DWM and other industry players to further develop the impact investing landscape.

Happy reading,
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 and building on an outreach of AIMF I and II of >2.5 million since 2007)

1 *Please refer to page 8 for the social profile of the Fund and appendix III as a reference for the outreach calculation.*

2 *SDI or SDGI: Any investment strategies whereby sustainability and/or the SDGs form a 'material' factor (i.e. are actively considered in investment decisions)*

2 From Insight to Impact

ACTIAM commits to the SDGs as a means to contribute to a livable world where people have access to basic needs. We try to accomplish this by living up to our responsible investment policy[3], by making proactive contributions related to our focus themes; climate, water and land, and by our impact investing activities.

Fund Manager ACTIAM's and Investment Manager DWM's investment policies are compatible. Together both firms make their investments measurable and work towards concrete targets. We seek to proactively promote the SDGs.

2.1 FINANCIAL INCLUSION & THE SUSTAINABLE DEVELOPMENT GOALS

In emerging and frontier markets, financial inclusion is crucial for strengthening the financial sector and mobilising domestic resources. As such, it can contribute to social and economic development. Microfinance, as an element of financial inclusion:

- Supports micro entrepreneurs and helps them grow their businesses
- Smooths the income for low-income households
- Provides a buffer for investments in health, education and risk insurance

The SDGs recognise the importance of financial inclusion, addressing it (directly and indirectly) 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 the field of 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

The *Progress Towards The Sustainable Development Goals Report* (World Bank, 2017) notes that 'despite the fact that the global poverty rate has been halved since 2000, intensified efforts are required to boost the incomes, alleviate the suffering and build the resilience of those individuals still living in extreme poverty'. The World Bank (2015) also states 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

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

economies to develop and can be a catalyst for social change. Together, we have been supporting this effort since the launch of the first ACTIAM Institutional Microfinance Fund in 2007.

2.2 AIMING FOR IMPACT GENERATION

In addition to ensuring responsible investments are being made and are proactively committing to the SDGs, the economic and social impact of an investment are specifically taken into account. The Fund manager aims for fund investments to generate real and measurable social impact in three distinctive areas that are considered to be essential for further development of the industry. Every proposed investment is therefore evaluated for its contribution to the following Fund impact themes:

ACCESS TO FINANCE

Improving access to finance for low income people in emerging and frontier markets.

Improving access to finance translates into 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 financial literacy and additional education materials and by 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.

SOCIAL PROFILE OF THE FUND

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 financial health and help prevent any increase in over-indebtedness while focusing on providing access to finance in areas that remain underserved. The figure on the following page provides an insight into the social value of the Fund and its relation with the SDGs.

2.3 ADJACENT SPACES

Sustainable development cannot be accomplished through microfinance alone. It requires a broad array of investments 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.

Social profile of the Fund

Financial inclusion related SDGs

1 NO POVERTY
access to finance
supporting men and women
serving the poor
serving the vulnerable

2 ZERO HUNGER
equal access to finance
supporting agriculture

3 GOOD HEALTH AND WELL-BEING
financial risk protection

5 GENDER EQUALITY
access to finance
equal access to finacne
enabling technology
women empowerment

8 DECENT WORK AND ECONOMIC GROWTH
formalisation of MSMEs
MSME growth
capacity strengthening
expand access to finance

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
expand access to finance
small-scale enterprise
developing countries

10 REDUCED INEQUALITIES
regulation of FIs
monitoring of FIs

17 PARTNERSHIPS FOR THE GOALS
Even though SDG 17 has no direct link to financial inclusion, the Fund has several strong partners in order to achieve and improve social results**

Fund results contribution

SDG 1,2, 5 , 8, 9
access to finance | equal access to finance | expand access to finance | MSME growth
- 76,637 micro-entrepreneurs reached since Fund inception of which 50,185 during 2016 with an average loan size of € 3,000 and an average deposit size of € 1,500
- Reached 27 MFIs in 15 countries since Fund inception
- Exposures in 6 local currencies and 2 hard currencies

SDG 1, 2, 5
supporting men and women | equal acces to finance | women empowerment
- 27% men 73% women

SDG 1, 2, 5, 9
serving the poor | serving the vulnerable | equal access to finance | developing countries
- Socioeconomic category*
  1. Very poor: 35% clients & 9% GLP
  2. Poor: 5% clients & 5% GLP
  3. Low income: 49% clients & 65% GLP
  4. Other: 11% clients & 21% GLP
- 100% representation in DAC countries*

SDG 2
supporting agriculture
- 68% rural and 32% urban clients
- 76% of MFIs have 30% or more of their loan book in rural areas

SDG 3
financial risk protection
- 87% of MFIs offer savings products where regulations allow
- 67 % offers insurance
- 65% offers access to financial and non-financial services (e.g. financial literacy training)

SDG 5
enabling technology
- A growing number of MFIs are providing mobile banking

SDG 8,10
formalisation of MSMEs | capacity strengthening | regulation of FIs | monitoring of FIs
- 100% endorsed Client Protection Principles (CPP), 96% implemented CPPs
- 100% cooperates with other MFIs and/or credit bureaus to verify clients' debt level

SDG 9
small-scale enterprise
- adjacent space bucket allows for SME lenders, 0 in portfolio at year-end 2016

Fund impact themes

* Indicating socioeconomic category is one of the items in the Fund's social questionnaire. 73% of MFIs provided a classification. Classification is based on various poverty assessment tools.

** The DAC List of ODA Recipients shows all countries and territories eligible to receive official development assistance (ODA). These consist of low and middle income countries (World Bank classification)

*** Refer to section 2.3 of the 2016 Responsibility & Impact Report of the ACTIAM Institutional Microfinance Fund III

Legend
Access to finance
Client-centric approach
Organisational development

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.

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 a home for their families. Because they are often still in an income bracket too low to be considered for a mortgage by traditional banks, many MFIs have begun offering mortgages to eligible clients.

CASE STUDY: SOCIAL HOUSING PROGRAMME

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

2.4 RESPONSIBLE INVESTING & PROFESSIONALISING THE INDUSTRY

In order for the microfinance industry to be sustainable, MFIs need to become self-sustaining. Over the past decade, we witnessed significant improvements in the institutionalisation and professionalisation of the microfinance industry. Further development involves 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 regards to the business of ACTIAM and DWM. All portfolio MFIs of the Fund should, at a minimum, comply with the ACTIAM Fundamental Investment Principles[4] and operate in line with applicable international standards. Social standards of the Fund include conformity with the Universal Standards for Social Performance Measurement by the Social Performance Task Force, adherence to the Client Protection Principles by the SMART Campaign and reporting on financial and non-financial performance in line with the Resposibility and Impact Framework. This includes an assessment of an MFI focusing on the social policies, practices and performance, as well as the social characteristics of the products and services offered by the MFI to its clients.

RESPONSIBLE FINANCIAL INCLUSION INITIATIVES

The Fund is committed to uphold and implement the Principles for Investors of Inclusive Finance (PIIF)[5] and to work with other microfinance investment vehicles (MIVs) to invest responsibly in microfinance. Since the development and launch of the PIIF, DWM and ACTIAM have taken a leading role in implementing the seven principles. In the 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+ given to 6 out of 7 underlying themes. ACTIAM and DWM continue to be involved in and dedicated to the PRI/PIIF.

As the initiator of the Client Protection Principles (CPP), the Smart Campaign remains an important factor in the microfinance sector. The Fund requires portfolio MFIs to endorse the CPP in loan agreements with all MFIs and encourages CPP certification to portfolio MFIs.

The Social Performance Task Force (SPTF) also continues to develop, strengthen and facilitate guidance on social performance management for MFIs. These efforts have included 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.
Both ACTIAM and DWM are members of the Social Investor Working Group, aimed at advancing responsible investment in financial inclusion.

SDG RELATED INITIATIVES

In 2015, the United Nations set targets to reach the SDGs by 2030. The SDGs are comprised of 17 ambitious goals on such themes as climate, poverty, healthcare and education. No less than 5 - 7 trillion dollars of investments are needed annually to achieve the SDGs fby 2030 - an impossible task without institutional and private capital. As a responsible asset manager with a future vision of a livable world in which people can meet their basic needs, ACTIAM published a statement in September 2016 on its support for the global agenda for positive change and has committed to the goals by underwriting a statement with Dutch peers in 2016[6]. As highlighted in section 2.1, the Fund targets 7 of the 17 SDGs (direct & indirect), as part of a financial inclusion strategy.

4 *https://www.actiam.nl/nl/documenten/verantwoord/Documents/Fundamental_Investment_Principles_Companies.pdf*

5 *https://www.unpri.org/download_report/6193*

6 *Please refer to Appendix I for the full statement on the SDGs.*

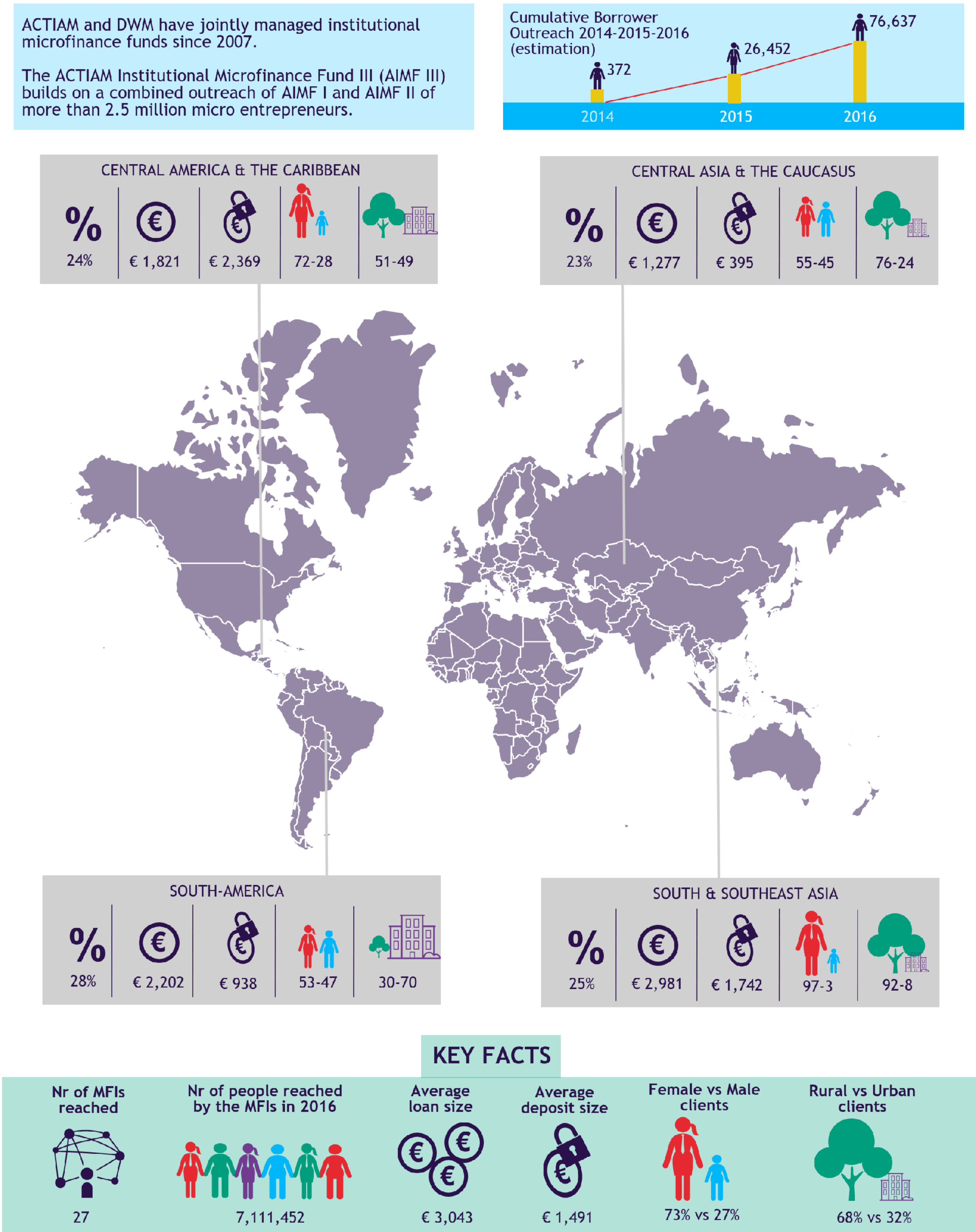
In December 2016, Hans van Houwelingen (CEO of ACTIAM) followed up on the statement, together with 17 Dutch financial peer institutions, by presenting a report entitled '*Building Highways to SDG Investing*[7] to Lilianne Ploumen, Minister for Foreign Trade and Development Cooperation, and Frank Elderson, Director of the Dutch Central Bank (DNB). The presentation took place during the conference of the Global Impact Investing Network (GIIN), with 700 institutional and other professional investors in attendance. The report sets out key priorities for maximising SDG investments (SDGI) at home and abroad. It is the first time that national pension funds, insurers and banks have gathered together for an SDG Investment Agenda.

Finally, ACTIAM currently engages in several working groups hosted by the *Dutch Central Bank Platform for Sustainable Finance*. One example is ACTIAM's seat in the SDG Impact Measurement working group, with the aim to formulate a credible and practicable set of 'top-line' impacts indicators per SDG for investors and companies. A standard may emerge, helping investors to significantly increase investments and loans that measurably contribute to the SDGs, "*from millions to billions*". A Guide to SDG Impact Measurement is expected to be presented to a wider audience in the third quarter of 2017. Furthermore, ACTIAM is active in a working group to boost sustainable investments, identifying ways to increase SDIs.

7 *https://www.sdgi.nl/report*

Fund Overview

Since 2012, ACTIAM and DWM report on the social indicators of the jointly managed institutional microfinance funds as a basis for analysing results. The figure below presents an overview of the key indicators of AIMF III at year-end 2016 at a portfolio level[8]. Section 4 will provide MFI and country specific data.



8 *Please note that the average Central American deposit size excludes one MFI which is an outlier given its large deposit size. Similarly, the average loan size of South America excludes an MFI given its profile of social housing with higher loan sizes which are not representative of the total Fund portfolio.*

3.1 DATA COLLECTION

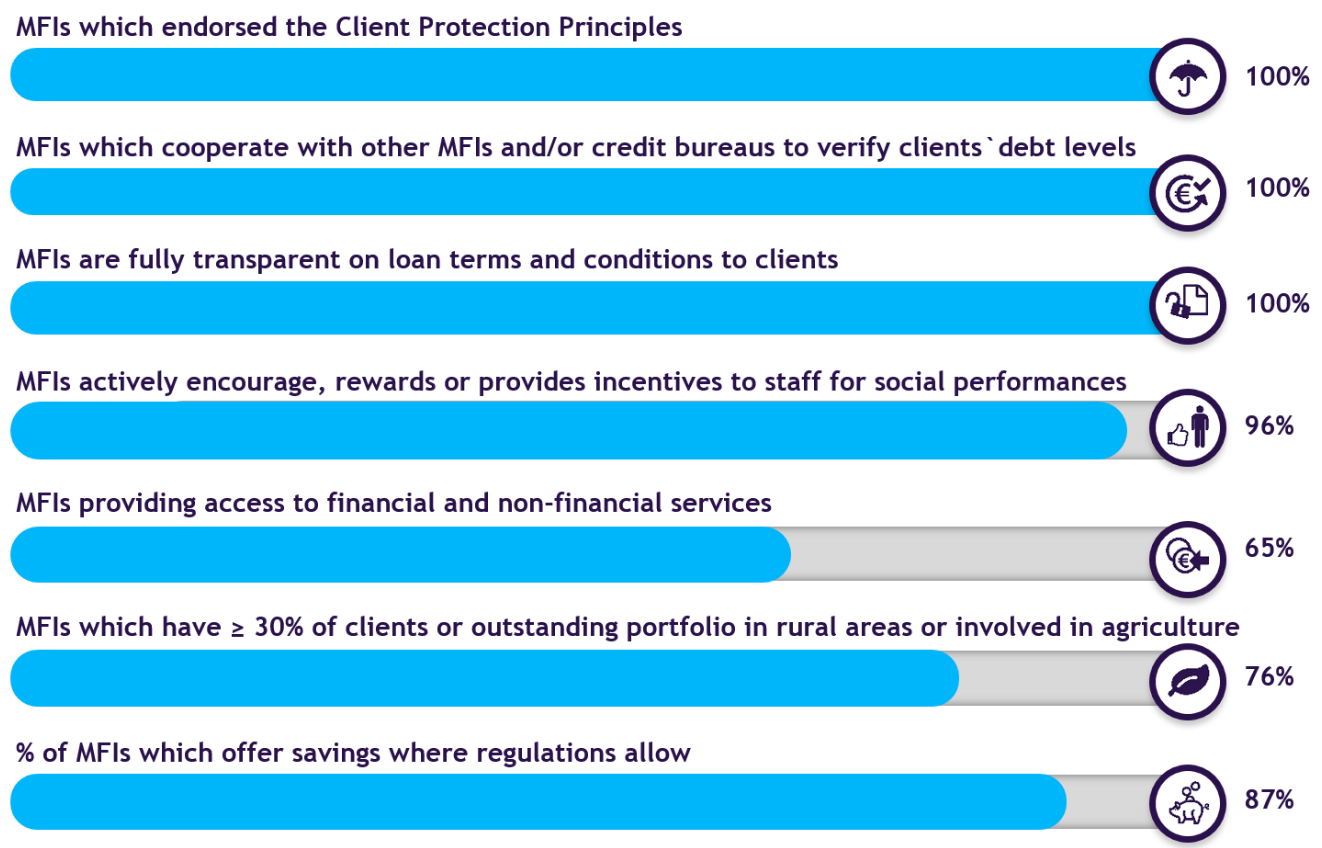
In order to generate the Fund overview infographic in the introduction of section 3, a social questionnaire/ scorecard co-developed by DWM, ACTIAM and Oikocredit and maintained by DWM is distributed to the MFIs annually each spring. As part of the due diligence process, all prospective clients must complete the questionnaire too. When scorecards are filled out by the MFIs, in many instances, the MFIs appoint specialised members who complete them. Findings are analysed during credit committees. The social scorecard consists of about 60 questions and forms the foundation for the social data to ACTIAM.

All portfolio-related data is cross-checked against the financial database of DWM (gross loan portfolio (GLP) breakdown, portfolio at risk, number of clients and loans etc.). Endorsement of the CPP 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.

For each portfolio MFI, DWM performs an annual onsite due diligence visit. An integral part of the due diligence performed consists of visits to micro entrepreneur clients. 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 responsible development of the inclusive financial industry worldwide. 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 of these principles and were among 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 at the investee level at year-end 2016.



Translation of PIIF to Fund investees - yearend 2016 results

4 Fund Investments

As of December 31, 2016, the Fund was invested across three 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 and the progress concerning access to finance. The indicators are derived from the most recent World Development Report (2017) 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 US $ 1,025 or less
- Lower middle-income economies : GNI per capita between US $ 1,026 and US $ 4,035
- Upper middle-income economies : GNI per capita between US $ 4,036 and US $ 12,475
- High-income economies : GNI per capita of US $ 12,476 or more.

The Fund had exposure to lower-middle and upper-middle income countries in 2016. In some of these countries, inequality 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 portfolio MFI, an introduction or investment rationale is provided, followed by key indicators ranging from client information to the legal status of the institution. Finally, the MFI's best practices on each of the three main impact themes as presented on page 9 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 the Fund portfolio institutions deploy their capacity to reach their provide access to finance in a responsible manners.

4.1 AMERICA (CENTRAL AND SOUTH)

At the end of the year 2016, the Fund was invested in 14 MFIs in 7 Latin American countries. Together, these institutions represent 51.5% of the Fund's portfolio (41% in 2015). During the year, 4 countries and 8 MFIs were added to the portfolio.

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

NICARAGUA

Lower-Middle Income country | 6.1 million people

Daniel Ortega was re-elected in 2016 for his fourth term as President of the country. 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. Ortega has developed a pro-business reputation, and the economy has grown by an average of more than 5% over the past five years, surpassing many others in Latin America. The achievements have been matched by growing concern over authoritarian tendencies.

The microfinance sector of Nicaragua used to be one of the larger recipients of international 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 microfinance regulatory agency (CONAMI), made credit bureau consultation a requirement, and established standards for audit, corporate governance, credit risk management, and client protection. Nicaragua has shifted from the anti-business sentiment of the 'No Pago' movement to a more constructive environment of business sentiment in the current economic landscape.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	Medium	GDP pc (US $)	4,884	Credit Gap (US $)	2,410m
Inequality adjust.	Low	MSMEs	0.62m	No access	39%
Rank / 188	124	Employment	60.4%	Severe barrier	21%
Adult literacy	82.8%	Imp. Exp. (% GDP)	93.0%	Adult account	19%
				Formal Saving	8%
				Formal borrowing	14%

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

ECUADOR

Upper-Middle Income country | 16.1 million people

Between 2006 and 2014, GDP growth averaged 4.3%, driven by high oil prices and substantial external financing. During that period, poverty declined from 37.6% to 22.5%. In the years leading up to 2014, a period of high oil and metals prices allowed the government to spend heavily on improving social services and infrastructure. However, the more recent phase of low oil prices, sustained through 2016, has negatively affected capital inflows overall and has been continuing to reduce the government's capacity to maintain social spending. Also, Ecuador witnessed a severe earthquake in 2016 which posed challenges for disaster recovery. Together, these two developments have contributed to an increased value of social capital for 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 measures such as interest rate caps may thereby have hindered the spread of financial services to less populated areas (which are more expensive to serve).

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (US $)	10,536	Credit Gap (US $)	28,197m
Inequality adjust.	Medium	MSMEs	1.8m	No access	32%
Rank / 188	89	Employment	61.4%	Severe barrier	21%
Adult literacy	94.5%	Imp. Exp. (% GDP)	45.1%	Adult account	46%
				Formal Saving	14%
				Formal borrowing	13%

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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, agricultural products, gold and copper) 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 pose a concern. The Fund therefore adds social and financial value by attracting MFIs that are compliant with the CPP of the SMART Campaign and attest to not over-indebt their clients.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (US $)	11,672	Credit Gap (US $)	17,516m
Inequality adjust.	Medium	MSMEs	2.4m	No access	35%
Rank / 188	87	Employment	71.5%	Severe barrier	31%
Adult literacy	94.5%	Imp. Exp. (% GDP)	44.6%	Adult account	29%
				Formal Saving	12%
				Formal borrowing	11%

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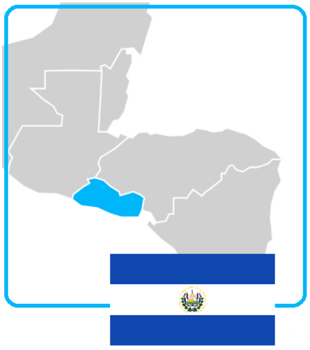
EL SALVADOR



Lower-Middle Income country | 6.1 million people

Since the end of the civil war in 1992, El Salvador has made significant progress towards peace and democracy. The country's political transformation led to major structural reforms and macroeconomic policies that resulted in strong economic performance, with an average yearly GDP growth of around 6 percent during the 1990s. Major social protection investments have helped reduce poverty rates in recent years. Nevertheless, crime and violence threaten social development and economic growth in El Salvador and negatively affect the quality of life of its citizens. In addition to these problems, El Salvador's vulnerability to adverse natural events, exacerbated by environmental degradation and extreme climate variability, also affects the country's sustainable development and long-term economic growth.

El Salvador has a diversified and competitive microfinance market. The level of development achieved by El Salvador`s microfinance market (with annual growth rates of 5-15% per year in recent times) over the years has brought with it broader and deeper access to financial products for clients in the sector. Data from the World Bank shows that the percentage of adults with a bank account in El Salvador has grown rapidly, from 14% in 2011 to 37% in 2014. These figures represent the highest growth rate of any Latin American and Caribbean country for this period. In spite of the number of market actors, there exists a relatively low level of market penetration.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	Medium	GDP pc (US $)	7,732	Credit Gap (US $)	2,508m
Inequality adjust.	Low	MSMEs	0.64m	No access	39%
Rank / 188	117	Employment	58.7%	Severe barrier	32%
Adult literacy	88.4%	Imp. Exp. (% GDP)	68.0%	Adult account	37%
				Formal Saving	14%
				Formal borrowing	17%

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COSTA RICA

Upper-*Middle Income country* | *4.8 million people*

Costa Rica is a development success story in many respects. The post-1980s economic growth is the product of a strategy of outward-oriented growth, based on openness to foreign investment and gradual trade liberalisation. Costa Rica is also a global leader for its environmental policies and accomplishments. The combination of political stability, a social compact, and steady growth has resulted in one of the lowest poverty rates in Latin America and the Caribbean. Despite the solid growth over the past decades, two pressing development challenges stand out: the deteriorating fiscal situation and stubborn inequality. These items affect the basic pillars of development: inclusion, growth, and sustainability.

The Costa Rica low-income housing industry is driven by a great need to provide adequate shelter for a significant portion of the population. The housing deficit sits at approximately 200,000 units and has exhibited an average annual increase of approximately 2.5% since 2000. Aiming to address this need are a number of financial institutions including banks and three specialist housing financial institutions. Given the housing need, this lending activity has received support from the government in the form of subsidies.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (US $)	14,472	Credit Gap (US $)	4,327m
Inequality adjust.	Medium	MSMEs	0.308m	No access	38%
Rank / 188	66	Employment	56.3%	Severe barrier	41%
Adult literacy	97.8%	Imp. Exp. (% GDP)	72.3%	Adult account	65%
				Formal Saving	24%
				Formal borrowing	13%

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COLOMBIA

Upper-Middle Income country | 48.2 million people

The economic adjustment to the major oil shock continued in 2016 and economic growth slowed to 2%. With the oil price developments, Colombia has faced one of the largest terms-of-trade shocks in the region and one of the largest in its history. Nevertheless, the Colombian economy has been resilient to this shock, supported by the 2016 FARC peace agreement and macroeconomic and structural reforms that have been implemented in recent years.

Colombia is the third largest microfinance market in terms of number of clients in Latin America. The country is home to over 50 financial institutions providing credit to more than 2.7 million clients. While on the one hand this level of development has brought with it broader and deeper access to financial products at a lower cost, over-indebtedness is a concern within certain geographies especially after an industry-average GLP growth rate of 20% over the past three years. Like in other countries, the Fund focuses on lending to clients with proper client protection policies in generally less-indebted areas.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (US $)	12,988	Credit Gap (US $)	35,667m
Inequality adjust.	Low	MSMEs	4.3m	No access	33%
Rank / 188	95	Employment	61.7%	Severe barrier	62%
Adult literacy	94.7%	Imp. Exp. (% GDP)	39%	Adult account	39%
				Formal Saving	12%
				Formal borrowing	16%

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HONDURAS

Lower-Middle Income country | 8.1 million people

Honduras is a lower middle-income country that faces significant developmental challenges. More than 66% of the population lived in poverty in 2016 according to official data. In rural areas, approximately one out of 5 Hondurans live in extreme poverty. Since the 2008-2009 global economic crisis, Honduras has experienced a moderate recovery, driven by public investments, exports and higher remittances. Despite the favorable economic outlook, the country faces the highest level of economic inequality in Latin America.

Honduras has one of the lowest levels of financial inclusion in Latin America, with only around 21% of the population maintaining a formal account at a financial institution. The microfinance market is nascent in terms of total size and the number of clients reached. Thus, there is a market opportunity to address this need.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	Medium	GDP pc (US $)	4,466	Credit Gap (US $)	7,143m
Inequality adjustL.	Low	MSMEs	0.744m	No access	36%
Rank / 188	130	Employment	63.1%	Severe barrier	18%
Adult literacy	88.5%	Imp. Exp. (% GDP)	109.1%	Adult account	32%
				Formal Saving	14%
				Formal borrowing	10%

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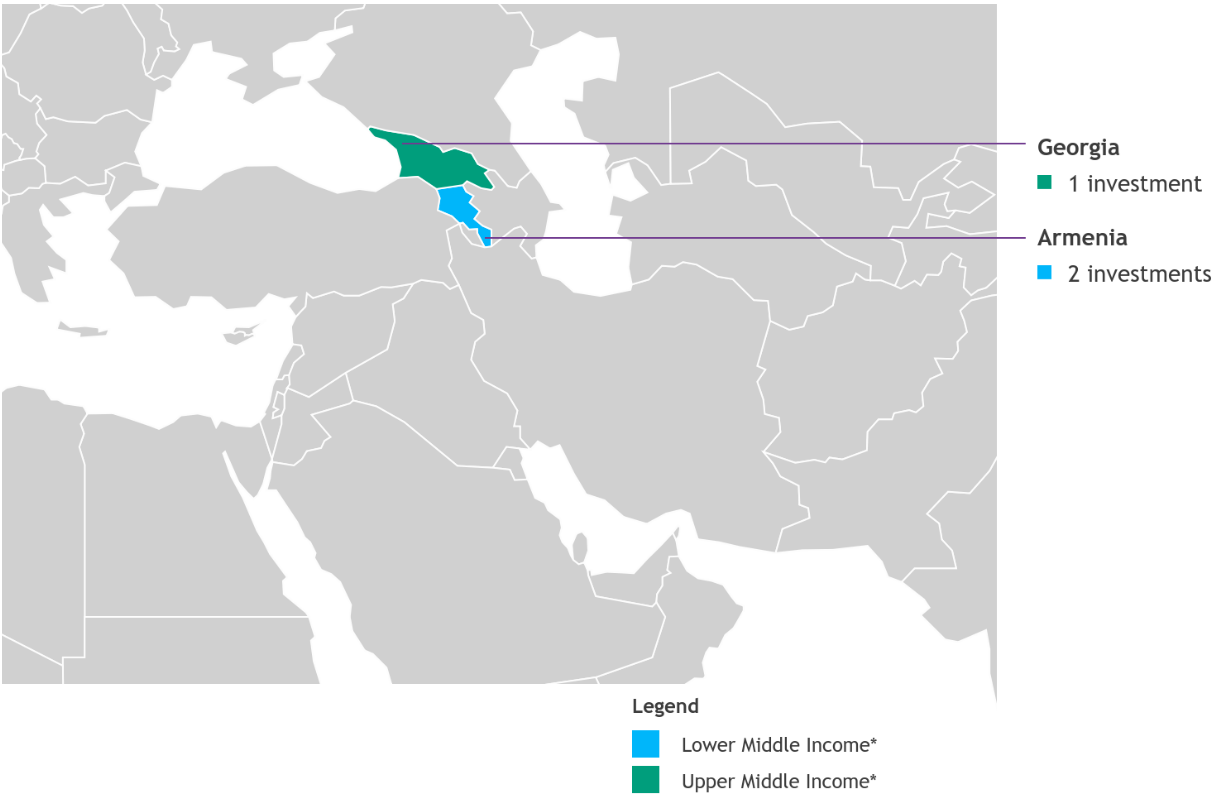
4.2 NEAR AND MIDDLE EAST COUNTRIES

At the end of the financial year 2016, the Fund was invested in 3 Microfinance Institutions in 2 Near and Middle Eastern countries. These institutions represent 10.3% of the Fund's portfolio at year-end 2016 (3% in 2015). During the year, 1 country and 2 MFIs were added to the portfolio.



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

ARMENIA

Lower-Middle Income country | 3.0 million people

Armenia is closely linked to Russia, which is a major trade partner, source of remittances, and source of investments into Armenia. Russia's economy has stabilized, as the price of oil continues to remain relatively stable after partially recovering from its low point in 2015. This in turn should result in an increase in remittances into Armenia.

Compared to many 'microfinance countries', Armenia benefits from average incomes that are relatively high. On another note, several studies point to the higher penetration of microfinance loans in the country. There is particular value of the Fund's focus on the CPP and investing in MFIs that attest to not over-indebt their clients. Also, the merely modest level of commitment of the central bank to financial inclusion leaves a social opportunity for international MIVs.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (US $)	7,899	Credit Gap (US $)	2,098m
Inequality adjust.	Medium	MSMEs	0.20m	No access	28%
Rank / 188	84	Employment	53.0%	Severe barrier	37%
Adult literacy	99.8%	Imp. Exp. (% GDP)	71.0%	Adult account	18%
				Formal Saving	2%
				Formal borrowing	20%

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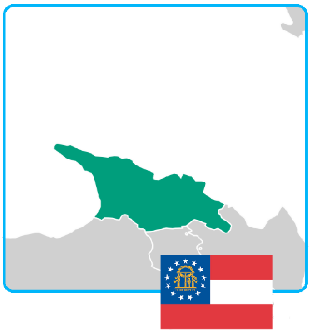
GEORGIA



Upper-Middle Income country | 4.0 million people

Following several years of robust growth performance, Georgia's macroeconomic outlook and fiscal position have deteriorated in recent years, amid a weak external environment and policy changes. The increase in social spending, however, helped to increase incomes at the bottom 40%.

Georgia`s microfinance market served by microcredit organizations has tripled in size over the last five years with compound annual growth rate of roughly 37.8%. As large microfinance market players transform into full-fledged banking institutions, Microfinance market products and services are becoming more sophisticated and tailored to address needs of the Georgian micro and small businesses. The banking transformations of the MFIs evidence the National Bank of Georgia's continued support towards the microfinance sector. The regulator has recently introduced a rule that requires microloans to be provided in local currency only in an effort to protect borrowers by removing FX risks while making more hedging instruments available to MFIs to insure a smooth implementation of this policy.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (US $)	8.856	Credit Gap (US $)	876m
Inequality adjust.	Medium	MSMEs	0.134m	No access	39%
Rank / 188	70	Employment	58.9%	Severe barrier	37%
Adult literacy	99.8%	Imp. Exp. (% GDP)	110%	Adult account	40%
				Formal Saving	1%
				Formal borrowing	14%

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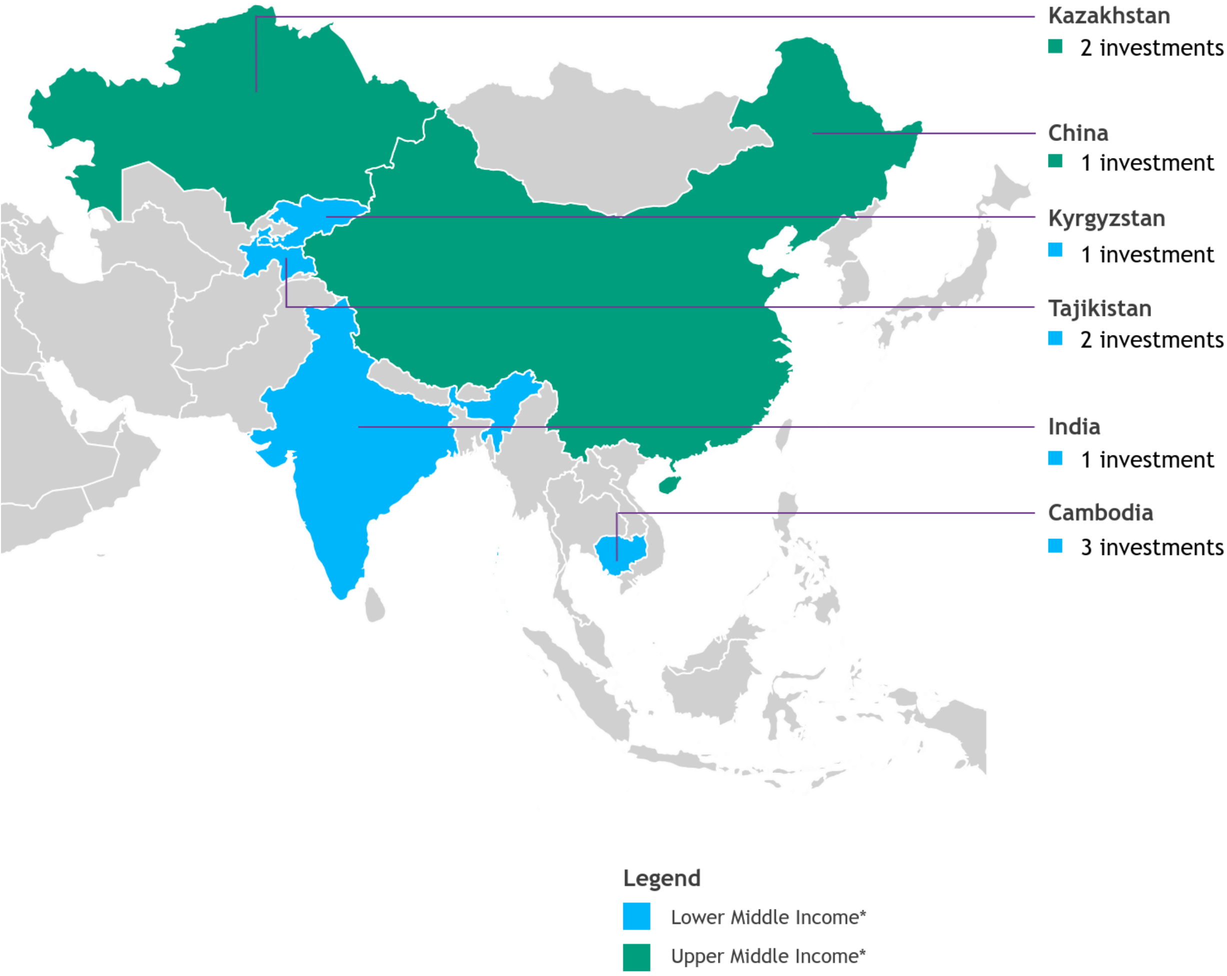
4.3 ASIA PACIFIC

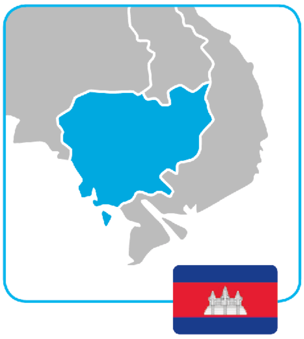
At the end of the year, the Fund was invested in 6 Asia Pacific countries, contracting 9 microfinance institutions. Together, these institutions represent 38.2% of the Fund's portfolio at year-end 2016 (56% in 2015). During the year, 1 country and 1 MFI were added to the portfolio.



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

CAMBODIA

Lower-Middle Income country | 15.6 million people



While rapid credit growth in Cambodia has taken place over the past years, the Fund, driven by social and financial considerations, has actively sought to provide capital to MFIs with strong shareholders 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. Cambodia`s microfinance sector has experienced steady growth over the last several years which intensified in 2012-2014 following approval from the regulator for market leading MFIs to take deposits. The regulator (National Bank of Cambodia, or NBC) has been proactive in regulating the microfinance industry.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	Medium	GDP pc (US $)	3,278	Credit Gap (US $)	2,462m
Inequality adjust.	Low	MSMEs	1.2m	No access	41%
Rank / 188	143	Employment	80.5%	Severe barrier	17%
Adult literacy	77.2%	Imp. Exp. (% GDP)	141.7%	Adult account	22%
				Formal Saving	4%
				Formal borrowing	28%

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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 international 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 (US $)	13,400	Credit Gap (US $)	337,886m
Inequality adjust.	n.a.	MSMEs	1.04bn	No access	41%
Rank / 188	90	Employment	67.6%	Severe barrier	18%
Adult literacy	96.4%	Imp. Exp. (% GDP)	41.2%	Adult account	79%
				Formal Saving	41%
				Formal borrowing	10%

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INDIA

Lower-Middle Income country | 1.2 billion people

With the second largest population and the world's third largest economy in purchasing power parity terms, India's recent growth has been a significant achievement. Life expectancy has more than doubled, literacy rates have quadrupled, health conditions have improved, and a sizeable middle class has emerged. India is now home to globally recognised companies and enjoys a voice on the international stage that is more in keeping with its size and potential. Many developmental challenges remain however and poverty rates in India's poorest states are three to four times higher than those in their more prosperous counterparts. India has pioneered a host of bold new initiatives to address its developmental challenges.

From a macro and overall market perspective, the depth of demand and market potential for microfinance-related products and services remains extensive. A study by CRISIL (an S&P-affiliated local ratings agency) in conjunction with India's central banking institution, (Reserve Bank of India, or RBI) found that one in two Indians has a bank savings account and one in seven has access to bank credit. India's household debt to GDP (9%) and debt to disposable income (9%) ratios confirm the wide gap of financial inclusion within India versus its peers, and serves as a motivating factor behind the Modi Administration's financial inclusion mandate to provide savings accounts and access to credit to at least 75 million unbanked families by 2015, of which microfinance is expected to play a large part. In July 2015, the RBI approved 10 Small Finance Bank licenses to large, multi-state MFIs allowing these MFIs to offer deposits and foreign exchange services to clients.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	Medium	GDP pc (US $)	5,663	Credit Gap (US $)	140,282m
Inequality adjust.L	Low	MSMEs	49.6m	No access	41%
Rank / 188	131	Employment	51.9%	Severe barrier23	18%
Adult literacy	94.6%	Imp. Exp. (% GDP)	48.8%	Adult account	53%
				Formal Saving	14%
				Formal borrowing	6%

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KAZAKHSTAN

Upper-Middle *Income country* | *17.6 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 moderate for microfinance countries and regulation in the financial sector has been improving over the past couple of years, benefitting the investment landscape.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	High	GDP pc (US $)	24,353	Credit Gap (US $)	11,138m
Inequality adjust.	High	MSMEs	0.75m	No access	40%
Rank / 188	56	Employment	67.2%	Severe barrier	27%
Adult literacy	99.8%	Imp. Exp. (% GDP)	53.3%	Adult account	54%
				Formal Saving	8%
				Formal borrowing	16%

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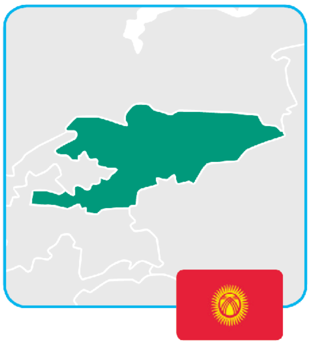
KYRGYZSTAN



Lower-Middle *Income country* | *5.9 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 relatively high microfinance penetration rate, 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 (US $)	3,225	Credit Gap (US $)	286m
Inequality adjust.	Medium	MSMEs	0.17m	No access	40%
Rank / 188	120	Employment	57.7%	Severe barrier	27%
Adult literacy	99.5%	Imp. Exp. (% GDP)	125.1%	Adult account	18%
				Formal Saving	5%
				Formal borrowing	14%

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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 countries in the region, the economy experienced challenges which have moderated from a recently modest improvement in the outlook for Russia and stabilization in remittances.

Financial regulations in the country are relatively good. The microfinance sector has a very large number of entities which is expected to drop as the impact is felt of the large increase in minimum-capital requirements instituted in 2015-2016.

HUMAN DEVELOPMENT		ECONOMIC DEVELOPMENT		ACCESS TO FINANCE	
HD level	Medium	GDP pc (US $)	2,616	Credit Gap (US $)	259m
Inequality adjust.	Low	MSMEs	0.3m	No access	40%
Rank / 188	129	Employment	61.0%	Severe barrier	27%
Adult literacy	99.8%	Imp. Exp. (% GDP)	87.5%	Adult account	12%
				Formal Saving	2%
				Formal borrowing	4%

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Appendix

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.

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.

APPENDIX III - FUND OUTREACH CALCULATION

For disbursements that occurred within the same outreach year the following calculation is applied:
(Disbursement end of year- disbursement date)/365 days * (disbursement amount/average loan size)

For instance: we disbursed a € 369, 740 loan on January 31/2013 to MFI X with a final maturity on 3/31/2014 and with a average loan size of € 588. The calculation will then be as follows:

=(12/31/2013-1/31/2013)/365*(369.740/588)
=334/365*(628)
=575 borrowers reached in 2013

To make it even more specific, the investment manager applies the following 3 scenarios, incorporating repeat borrower rate.

- If both the loan disbursement and the year of calculation (extensions/short term refinance) are within the same calendar year the calculation is as follows: [(End of year of disbursement year-Disbursement date)/365]* [Disbursed amount /Average loan size for the year]
- If the loan is less than a year (disbursement and maturity year are the same) and also the disbursement year is different from the year of calculation (eliminating the first situation), then we take into account the borrower repeat rate (1- repeat borrower rate)
- If the loan is greater than a year and also the disbursement year is different from the year of calculation (eliminating the first situation), then we can take into account the borrower repeat rate (1- repeat borrower rate).

List of Abbreviations

AIMF III	ACTIAM Institutional Microfinance Fund III
CPP	Client Protection Principles
DNB	Dutch Central Bank
DWM	Developing World Markets (investment manager)
GDP p.c.	Gross Domestic Product per capita
GLP	Gross Loan Portfolio
HD	human development
Imp. Exp.	import & export
MFI	microfinance institution
MIV	Microfinance Investment Vehicle
MSME	micro, small and medium enterprise
PIIF	Principles for Investors in Inclusive Finance
PRI	Principles for Responsible Investment
SDG	Sustainable Development Goals
SDGI	Sustainable Development Goals Investing
SDI	Sustainable Development Investments
SME	Small and Medium Enterprise
SPTF	Social Performance Task Force

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