actiam

Developing World Markets

Responsibility and Impact Report 2017

ACTIAM Institutional Microfinance Fund III

Content

ACTIAM Institutional Microfinance Fund III

Closed-end fund for joint account

1. ABOUT

Fund Manager	Investment manager
ACTIAM N.V.	**Developing World Markets**
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ACTIAM N.V.

ACTIAM is the responsible asset manager for over one million Dutch people. We first introduced our responsible investment policy in 1990 and have been running our engagement program since 1995. With over 100 staff we manage €54,1 billion (ultimo December 2017) for insurance companies, pension funds, banks and intermediaries. We offer a comprehensive range of investment solutions: from index strategies to impact investing. ACTIAM imposes strict criteria on its investments and follows a robust selection process without making concessions to financial returns. ACTIAM uses its responsible investment policy to contribute to a liveable world, now and in the future. In addition to our basic investment policy we focus on three themes: climate, water and land. We make our investments measurable and work towards concrete goals.

Moreover, ACTIAM has developed a unique approach to impact investing. A specialised team of 8 professionals with an average of 15 years' experience in the industry manages approximately €1 billion for both institutional and retail clients.

DEVELOPING WORLD MARKETS (DWM)

As a pioneer in the field of impact investing, DWM has invested or arranged $1.5 billion in financing for more than 200 socially positive companies in 60 emerging and frontier markets. Through our approach of seeking risk-adjusted returns and measurable social and environmental outcomes, we partner with some of world's largest institutional investors and wealth managers to help address some of the most pressing challenges facing the developing world. DWM was founded in 1994 and is headquartered in Stamford, CT, USA, with staff across 11 global locations.

2. MANAGEMENT NOTE

Impact Investing is gaining momentum and we are proud to share the results of the 11th consecutive year of managing institutional microfinance funds. This is the third Responsibility & Impact Report of the ACTIAM Institutional Microfinance Fund III (Fund/AIMF III). The Fund continues to build on the experience that Fund Manager, ACTIAM, and Investment Manager, DWM, had managing AIMF I & II. The two funds, launched in 2007 and 2008 respectively, reached over 2.5 million entrepreneurs and are in the final stages of Fund wind down.
With the support of our investors, AIMF III reached over 50,000 microfinance clients in 2017 and nearly 130,000 clients since inception (Appendix II contains example calculations). Of these clients, 80% are female and 54% live in rural areas, two demographic groups which are typically underserved by traditional banks. By gaining improved access to finance, entrepreneurs can grow their business, smooth their income and build a buffer for investments in health & education and to serve as risk insurance. During the lifetime of the Fund, the total committed capital will be invested more than twice in microfinance institutions (MFIs) located in emerging market countries around the globe. So far, this included 47 MFIs in 23 countries. Moreover, our portfolio 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 during the life of the Fund.
Financially 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 up to 20% of the value of the Fund. The adjacent spaces include affordable housing, health, education, insurance or other sectors providing additional social value. In 2017, the Fund's adjacent space investment exposure increased to 15.8% of the value of the Fund. The investments included three SME finance investments, one low-income housing finance investment and one investee covering both themes.

ACTIAM and DWM have always been at the forefront of the development of responsible standards for the inclusive finance industry. Some major development that took place during 2017 include:

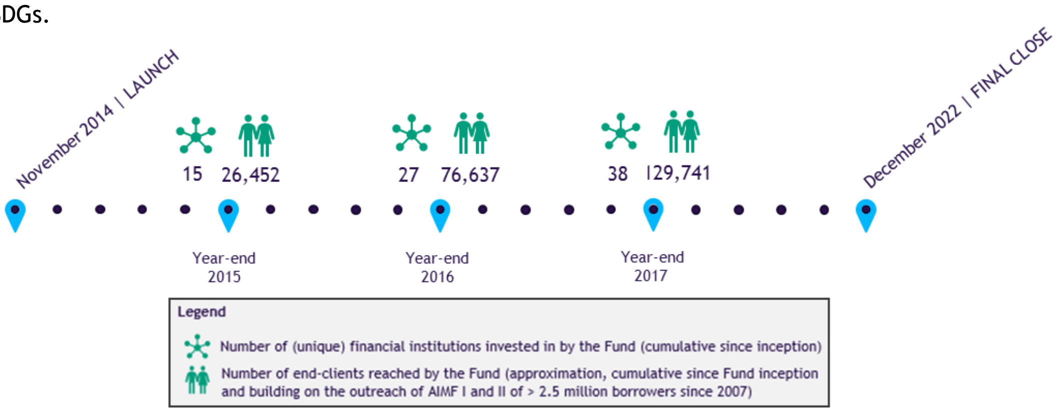
- The number of portfolio investees that obtained client protection increased during the year. Client protection has gained even more importance with the rise of fintech solution providers that successfully target people previously excluded from the financial system, but have increased insight in personal information.
- ACTIAM became a member of the Dutch platform for Financial Inclusion (NpM) in 2017. Together with three other members and VBA/CFA, we are developing educational material for portfolio managers and analysts of institutional investors as an effort to reduce impact bias and risk and return related investment barriers in order to mobilise significantly more SDG investments.
- In 2017 and 2018, ACTIAM actively participated in the UN PRI Market Map by integrating the lessons learned in this Fund as well as in AIMF I and II. The Market Map, expected to be published in Q2 2018, is a resource for investors to identify companies that, through their products and services, generate impact in one or more of ten thematic environmental and social areas. It can be considered as a tool for new and existing investors to align their investments with market standards, aimed at advancing further development of the theme.

Both ACTIAM and DWM continue to engage in initiatives and cooperate with peers to improve and further professionalise impact investing standards. Moreover, we aim to add value and contribute to the United Nations Sustainable Development Goals (SDGs). To this end, two improvements are scheduled for financial year 2018:

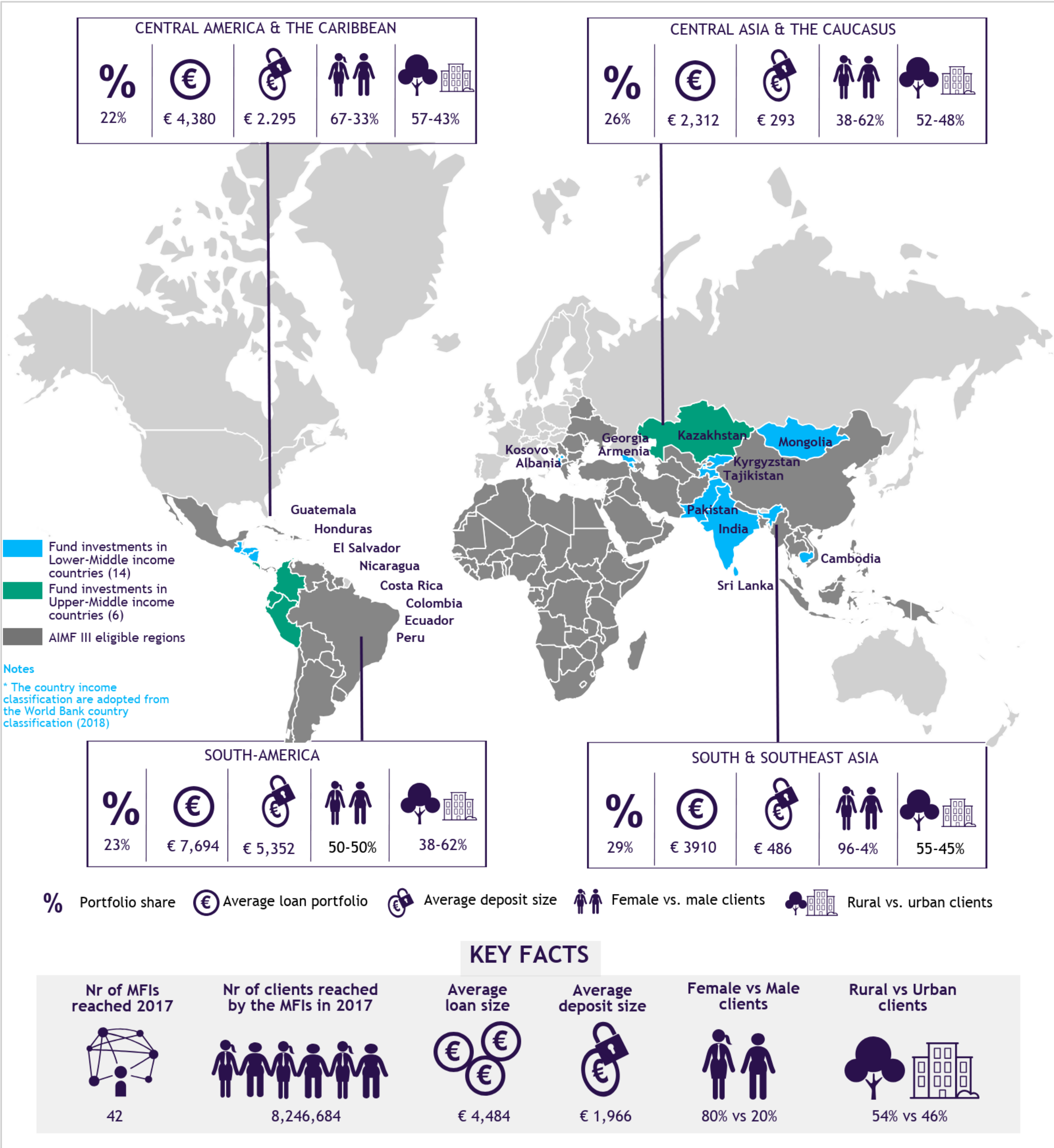
- Based on the latest results of the Findex analysis, we get an understanding of the progress on financial inclusion worldwide. While this report compares financial year 2017 Fund performance to Findex results, over the course of 2018 and further, we aim to implement this resource in the investment decision making process (chapter 5.1 presents further details).
- Several financial institutions in the Fund indicate a desire to conduct their own impact assessment at client level. DWM and ACTIAM plan to share detailed information on these processes to provide a better understanding, to map current activities of Fund investees and disseminate best practices as an inspiration for MFIs worldwide on how to contribute to the SDGs.

Happy reading,

ACTIAM & DWM

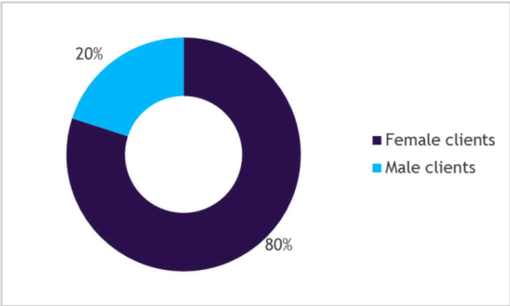


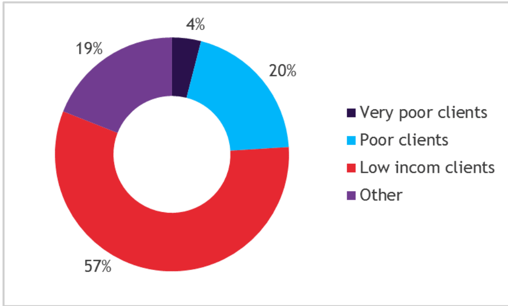
3. PORTFOLIO HIGHLIGHTS

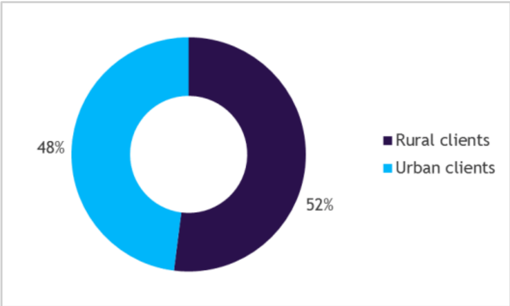


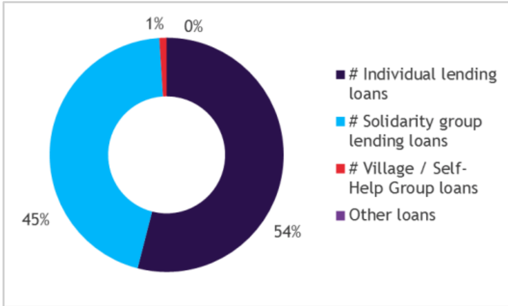
Note: The data presented in the above map, are a reflection of the entire portfolio in 2017. The Fund's exposure to adjacent space investments in SME Finance, social housing and fintech providers increased significantly (up to 15.8% of the portfolio) during 2017. This has an influence on the character of the portfolio and on the numbers when compared to previous years. Considering microfinance investments separately, this results in average loan exposure per borrower between €1,000 and €2,000 for each of the regions. The average deposit size is between €100 for Central Asia and the Caucasus and €2,000 for Central America & the Caribbean. Female and rural outreach do not change significantly when considering microfinance investments only.

End client exposure 2017

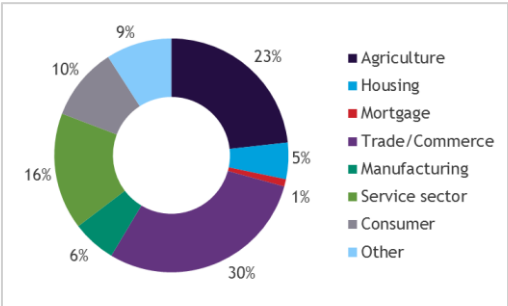




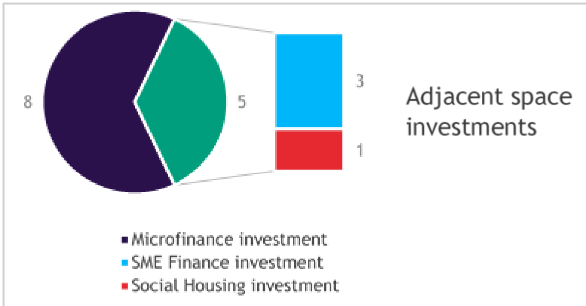




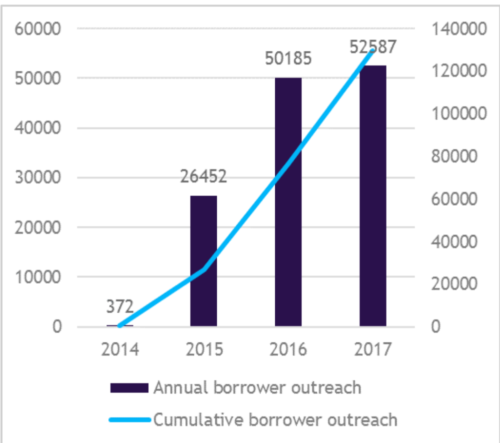
End client sector exposures 2017



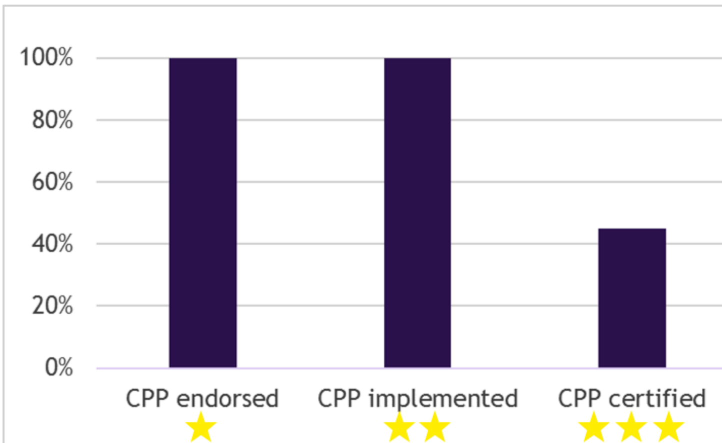
Type of investments



Borrower outreach



Responsible lending practices[1]



ACTIAM and DWM have jointly managed institutional microfinance funds since 2007. The ACTIAM Institutional Microfinance Fund III (AIMF III) builds on a combined outreach of AIMF I and AIMF II of more than 2.5 million micro entrepreneurs.

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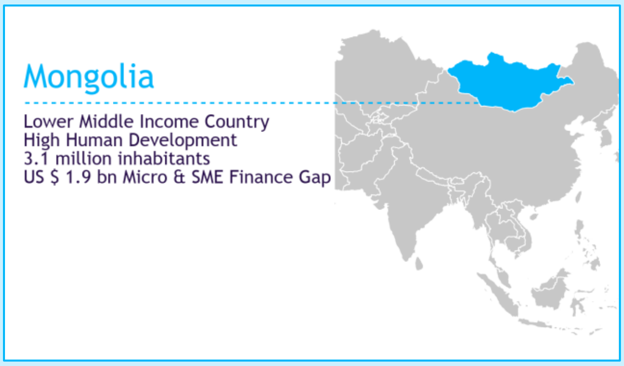
[1] CPP: SMART Campaign's Client Protection Principles

4. IMPACT CASE STUDY | KHAN BANK SUPPORTING AGRI BUSINESS DEVELOPMENT

CATALYSING BUSINESS DEVELOPMENT

Bayjuulagch Odod LLC is a milk, dairy, and beef producer, who has been working with Khan Bank since 2012. Khan Bank is an adjacent space investment of the Fund since 2017, that lends across multiple sectors in Mongolia, and targets small and medium agricultural enterprises. Mr. Battur, the Executive Director, is responsible for the management and operations of "Bayjuulagch Odod" LLC. The beef and dairy business started with only 17 cows in 2009. A very small dairy product processing plant was launched in 2011, equipped with old Russian milk producing machines which had the capacity of producing only 500 litres of milk per day. In 2012, with a MNT 200 million business loan (~US $83 k) from Khan Bank, more advanced equipment was purchased, increasing the production capacity of the plant by 200% (producing 1,500 litres of milk per day) which allowed for more diversification across the product line and fulfilling the requirements of the Mongolian National Standardization (MNS). With this upgrade, the plant can produce 8 different types of products in 18 different packages. The business enhanced its operating environment by constructing a new building for the plant and cow barn and expanded the grass field for cattle. It had played an important role in creating more standardized working environment for the employees and operating efficiency of the plant. For the second phase of the project which started in 2017, Mr. Battur has received another MNT 200 million (~US $83K) business loan from Khan Bank to launch a milk drying technology into its operation as a pilot in the region.



AWARD WINNING FARM BUSINESS

Today, the farm has 340 cattle including 80 milk cows. The cattle farm operates in a medium-sized cow barn on 410 hectares of land, along with cribs of grasses, fodder and two wells. The farm is staffed with 10 employees from 5 households in the region.
Mr. Battur is very honoured to be granted the Best Cattle Farm award by the Government of Mongolia and aims expand its business further with more extended cooperation with Khan Bank. Over the next few years, Khan Bank intends to continue its current strategy centered on providing comprehensive products & services, increasing digital & mobile banking and further automation of the operations to better serve the clients while running its operations in the most efficient way to support the bottom line.

ENVIRONMENTAL & SOCIAL RISK MANAGEMENT

Khan Bank manages environmental risks of its borrowers, including SME clients, in line with its internal “Environmental and Social (E&S) Policy” and regulation on Environmental and Social assessment.
Environmental risk associated with each transaction is categorized based on its risk level, designated as high (Category A), medium (Category B) and low (Category C). Environmental risk associated with client activity is identified and assessed in the following two step processes:

- Relationship managers should conduct the preliminary E&S assessment on each loan application more than MNT 200 million within the scope of 10 questions prepared to appraise and identify E&S risks.
- If the preliminary E&S assessment result is concluded as high risk, the environmental officer conducts further E&S assessment. In this process, the environmental officer reviews the relevant documents, records and certificates of the loan applicant and if necessary, conducts on-site monitoring.

In order to ensure that the business is running in compliance with the state environmental laws and regulations, the relevant documents, records and certificates are requested from the borrower for a review.

Khan includes information on environmental compliance in the appraisal documents. Loan agreement includes clauses whereby a client is required to be in compliance with the state environmental law, labour law and public health law and Environmental requirements: if and when necessary, on-site and off-site monitoring is conducted.

Prior starting the business, the company was required to be appraised by the Department of Environment and Tourism of Erdenet City, resulting in a “low risk” appraisal.

FINANCING

Khan Bank is a new client to DWM and ACTIAM. The ACTIAM Institutional Microfinance Fund III approved and disbursed a US $4.5mn senior loan with a tenor of 24 months in 2017.

Khan Bank | Mongolia		
	2017	
KHAN BANK	4,528	Employees
	537	Branches
	€1,227mn	Gross loan portfolio
	€113.7mn	Net income
	€588mn	MSME loan portfolio
	DWM arranged a total transaction of:	US $9.5 mn
	ACTIAM Institutional Microfinance Fund Loan:	US $4.5 mn

5. FINANCIAL INCLUSION OF MICRO ENTREPRENEURS

Assessing microfinance's impact on poverty alleviation & well-being remains challenging. Reported impact varies greatly across countries and also by research design, with findings even conflicting in some cases. It is clear, however, that 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 and provides a buffer for investments in health, education and risk insurance. The ACTIAM Institutional Microfinance Fund III (the Fund) aims to increase the accessibility of such financial services as to catalyse equitable sustainable development by investing in local microfinance institutions. In doing so, the Fund caters to three key impact themes that are considered to be essential for further development of the industry. In addition, financial Inclusion can help (directly and indirectly) in the realisation of 7 of the 17 United Nations Sustainable Development Goals (SDGs)[2].

Impact themes

ACCESS TO FINANCE	CLIENT-CENTRIC APPROACH	ORGANISATIONAL DEVELOPMENT
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.	**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.	**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 philosophy and activities encompass 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 over-indebtedness while focusing on providing access to finance in areas that remain underserved. The social profile below provides an overview of the social value of the Fund and its relation with the SDGs.

2 https://sustainabledevelopment.un.org/?menu=1300

Social profile of the Fund FYE 2017	Sustainable Development Goals					Fund impact themes		
Fund results contribution	Financial inclusion related SDGs							
(equal) access to finance | expand access to finance | MSME growth 129,596 micro entrepreneurs reached since Fund inception of which 52,587 during 2017 with an average exposure per borrower of €4,484.11 and an average deposit size of €1,966.09 → Reached 42 MFIs in 21 countries in 2017 and 47 MFIs in 23 countries since Fund inception → Exposures in 7 local currencies and 2 hard currencies	1	2	5	8	9	●	●	●
supporting men and women | equal access to finance | women empowerment → 80% women, 20% men	1	2	5			●		
serving the poor | serving the vulnerable |equal access to finance |developing countries → Socioeconomic category 1. Very poor: 4% clients, 2% GLP 2. Poor: 20% clients, 24% GLP 3. Low income: 57% clients, 43% GLP 4. Other: 19% clients, 32% GLP → 54% rural clients	1	2	5	9		●		
supporting agriculture → 68% rural, 32% urban clients	2					●		
financial risk protection → 100% of MFIs offer savings products where regulations allow (47% of portfolio) → 68% offers insurance → 42% offers access to financial and non-financial services (e.g. business development training)	3					●		
enabling technology → A growing number of MFIs are providing mobile banking	5					●	●	
formalisation of MFIs | capacity strengthening | regulation of FIs | monitoring of FIs → 100% endorsed Client Protection Principles (CPP), 100% implemented CPPs, 45% is CPP certified → 95% cooperates with other MFIs and/or credit bureaus to verify clients' debt level	8	10					●	●
small-scale enterprise → Adjacent space bucket allows for SME lenders, 3 in portfolio at year-end 2017	9					●		

= Access to Finance = Client-centric approach = Organisational development

5.1 ADJACENT SPACE INVESTMENTS

Sustainable financial 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. We are constantly searching for new investment opportunities that meet the evolving financial needs of people at the bottom of the economic pyramid. In 2017, the Fund increased its adjacent space investment exposure to 15.8% of the value of the Fund. The adjacent space investments at year end 2017 include three SME finance investments, one low-income housing finance investment and one investee covering both themes.

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.

LOW-INCOME HOUSING FINANCE

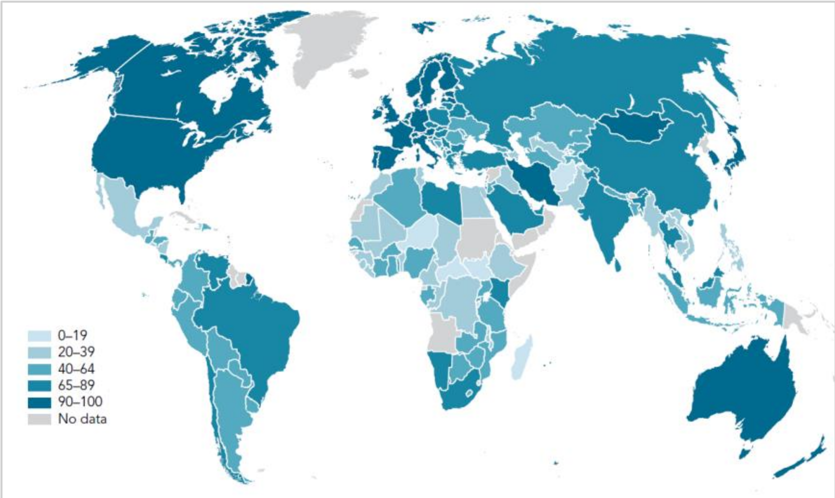
The potential for housing finance in developing countries is extensive. As micro entrepreneurs become successful in their endeavours and begin to grow their businesses, their next step is often to consider either renovating an existing home or buying a new home for their families. Because they are often 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.

5.2 FINANCIAL INCLUSION ON THE RISE

Financial inclusion is on the rise globally. The Global Findex 2017 report presents that 1.2 billion adults have obtained a bank or mobile money account since 2011, including 515 million since 2014. Account ownership is regarded as an indicator for financial inclusion as accounts provide a safe way to store money and build savings for the future. People with an account also have a lower hurdle rate to pay bills, access credit, make purchases, and send or receive remittances. Account ownership varies greatly within income group categories, implying that a low income country can have the same level of account ownership than an upper middle income country. Figure 2 shows that 16 out of a total 20 countries the Fund invested in at FYE 2017 have a lower account ownership than the average of 63% for developing countries. The Fund is active where there is still a lot to be gained in terms of access to finance.

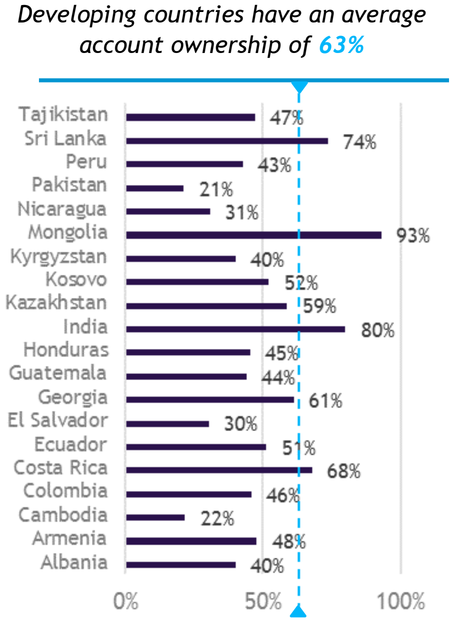
Figure 1 - 69 percent of adults around the world have an account

Adults with an account (%), 2017



Source: Global Findex database

Figure 2 - Bank & mobile money account ownership of Fund exposures vs. average of developing countries

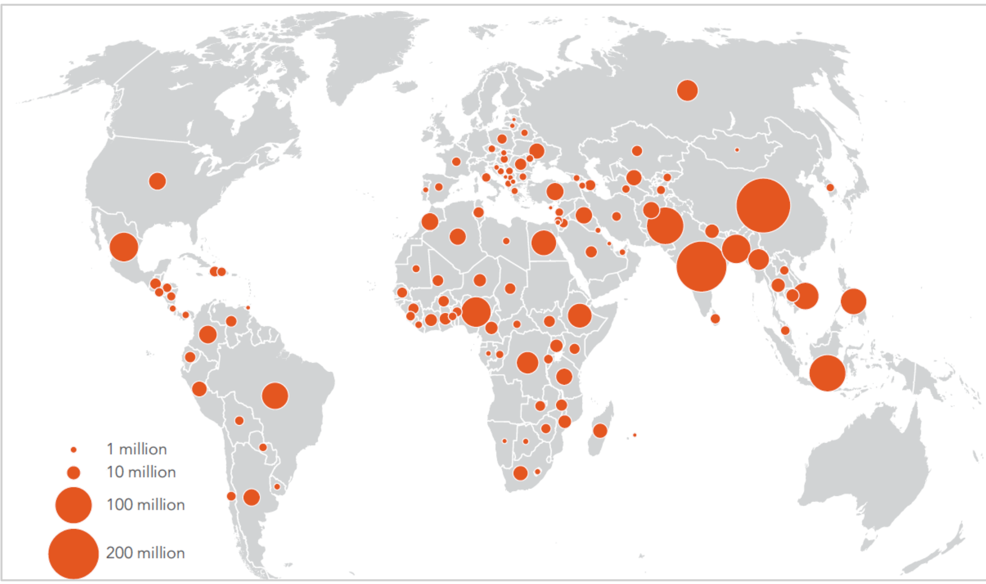


IDENTIFYING THE UNBANKED

Nearly half of the people without an account live in just seven developing economies: Bangladesh, China, India (*AIMF III exposure 2017*), Indonesia, Mexico, Nigeria, and Pakistan (*AIMF III exposure 2017*).

Figure 3 - Globally, 1.7 billion adults lack an account

Adults without an account, 2017



Source: Global Findex database

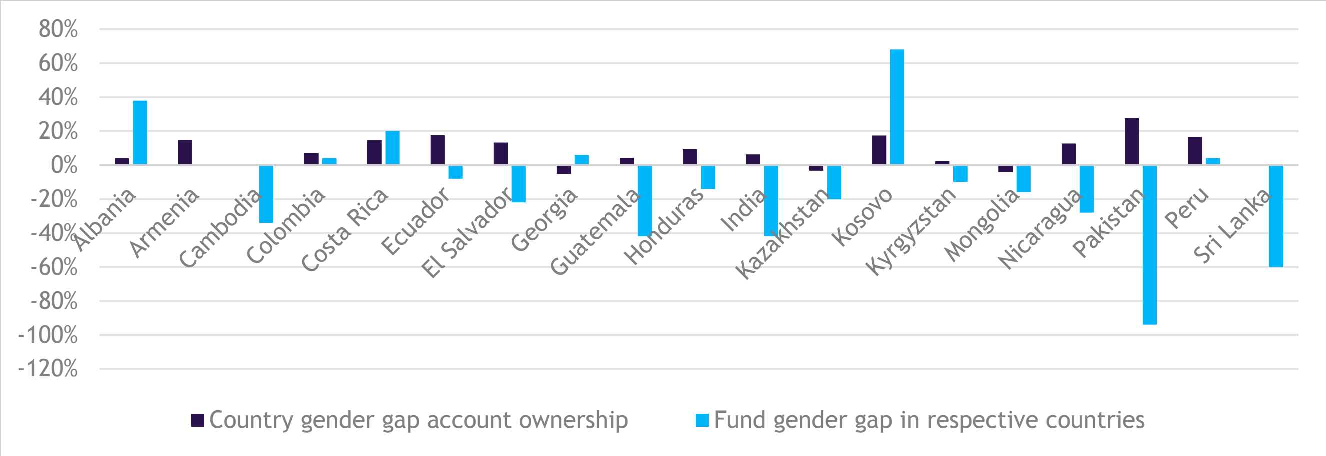
INEQUALITIES

Even as bank and mobile money account ownership continues to grow, inequalities persist, especially for women and the poorest communities. The following paragraphs present inequality gaps in account ownership for the countries in which the Fund was invested during 2017 in comparison with the gender gap of the Fund exposures within the respective countries. Please note that no direct conclusions can be drawn from these comparisons between the Findex results and the Fund outcomes of 2017. The Findex study presents an inequality gaps in account ownership, whereas the Fund presents a gender gap in the number of borrowers only. The comparison can provide valuable insights however concerning the countries invested in.

Gender gap

In developing countries, the gender gap amounts to 9%. Figure 4 presents the gender gap in account ownership for the countries in which the Fund was invested during 2017 in comparison with the gender gap of the Fund exposures within the respective countries. From the figure we can observe that in most countries, the Fund has a significant higher exposure to women than the national average. The three outlier countries are Albania and Kosovo, where the Fund has a higher gender gap than the country average, while in Pakistan, where our portfolio MFI has practically only female clients in a country with a significant gender gap. Reaching female clients through microfinance is not only important from a gender equality perspective. Following a growing body of evidence, women often prove to be more financially responsible with better repayment performance than men and outcomes may lead to a greater chance of realising long-term welfare improvements.

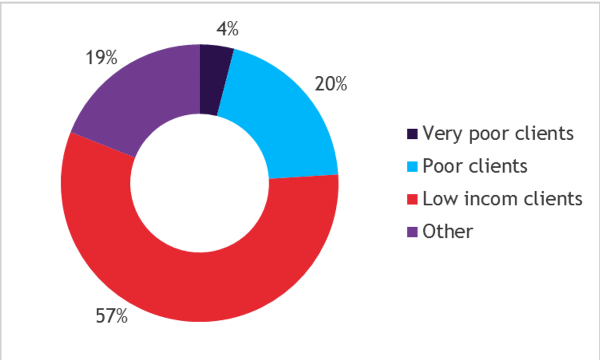
Figure 4 - Gender gap account ownership and the Fund's exposure to female end-clients



Income inequality gap

The Fund's exposure to different income groups mainly concerns low income clients. The impact microfinance has on the poorest households is inconclusive according on academic evidence. No clear positions for the Fund going forward can be take in that respect.

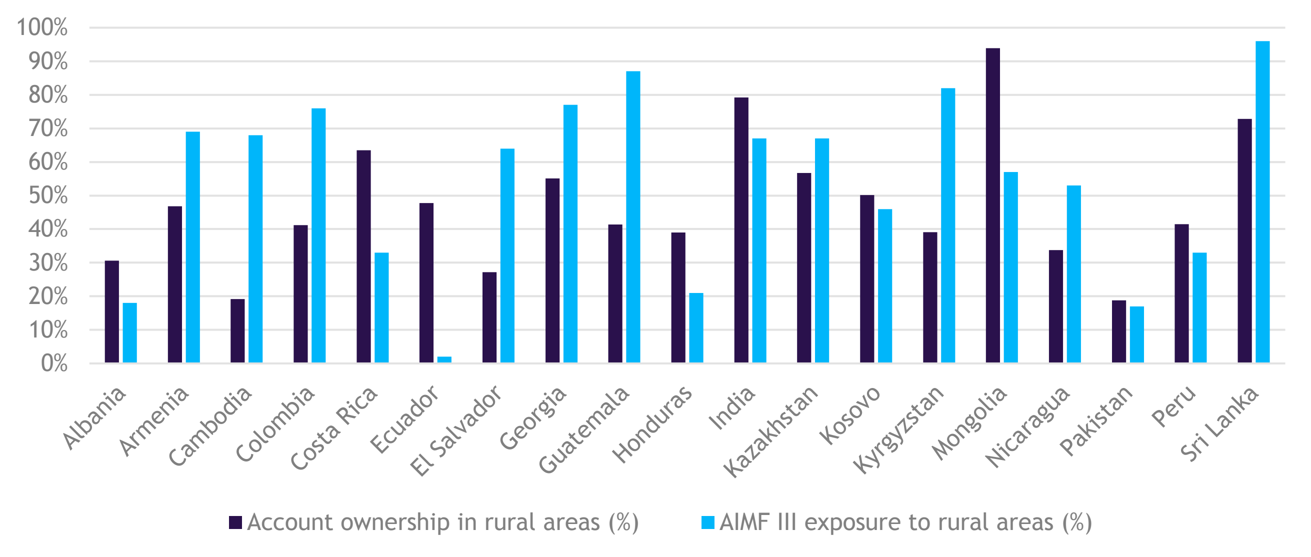
Figure 5 - Fund end-client income level classification



Geographical gap

The impact microfinance has on the poorest households is inconclusive according on academic evidence. What is clear however, is that rural entrepreneurs face more difficulties to access financial products and services, implying that there is still much to gain. In order for microfinance to be more effective, new impact methodologies and more diverse types of financial services need to be developed. Furthermore, a reduction in risks and operating costs needs to be further realised to make rural clients more attractive to financial intermediaries and have a lower impact on the financial capacity of rural microfinance clients. Figure 6 presents account ownership in rural areas as well as the Fund's exposure to these areas with regards to borrowers.

Figure 6 - Financial activity in rural areas



5.3 IMPACT MANAGEMENT & FUND STRATEGY GOING FORWARD

Based on the latest results of the global Findex study, highlighting the progress to achieve full access to and use of formal financial services, and the Fund's 2017 results, see that the Fund is generally active in countries with a lower than average account ownership for developing countries. This is in line with the Fund's goal to increase access to finance and invest there where progress can be achieved, while respecting risk and return requirements. Investment committee decisions for the Fund are based on evaluation of an entity's risk, return and impact profile. For 2018 investment proposals, we plan to include the latest Findex results in the analysis of the country in terms of maturity levels of the microfinance industry. Special attention goes out to counties where:

- The level of account ownership is distinctively low or high. If countries with low account ownership also witness high barriers to access credit (as per IFC's MSME Finance Gap database), we consider additionality of a Fund investment to be higher than average. In cases where both account ownership is high and barriers to access credit are low, we consider additionality of the Fund to be lower and will carefully consider signals of over-indebtedness.
- Furthermore, digital technology can help to increase financial inclusion which leads to the decision to overweight investments. However, client protection should be considered even more carefully than normal for such innovative entities.
- Finally, results can be used to influence deal-sourcing activities, looking for suitable investment opportunities there where we identify the highest potential for achieving positive outcomes for all stakeholders.

ACTIAM and DWM will build on lessons learned going forward and adopt applicable lessons to our decision-making process.

6. SOCIALLY AND ENVIRONMENTALLY RESPONSIBLE INVESTMENTS

Our social questionnaire & scorecard originally co-developed by DWM, ACTIAM and Oikocredit and maintained by DWM is distributed to the MFIs annually each spring to gain insights into the social, environmental and governance characteristics of the investee. 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/metrics and forms the foundation for the extra-financial data for the Fund.

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.

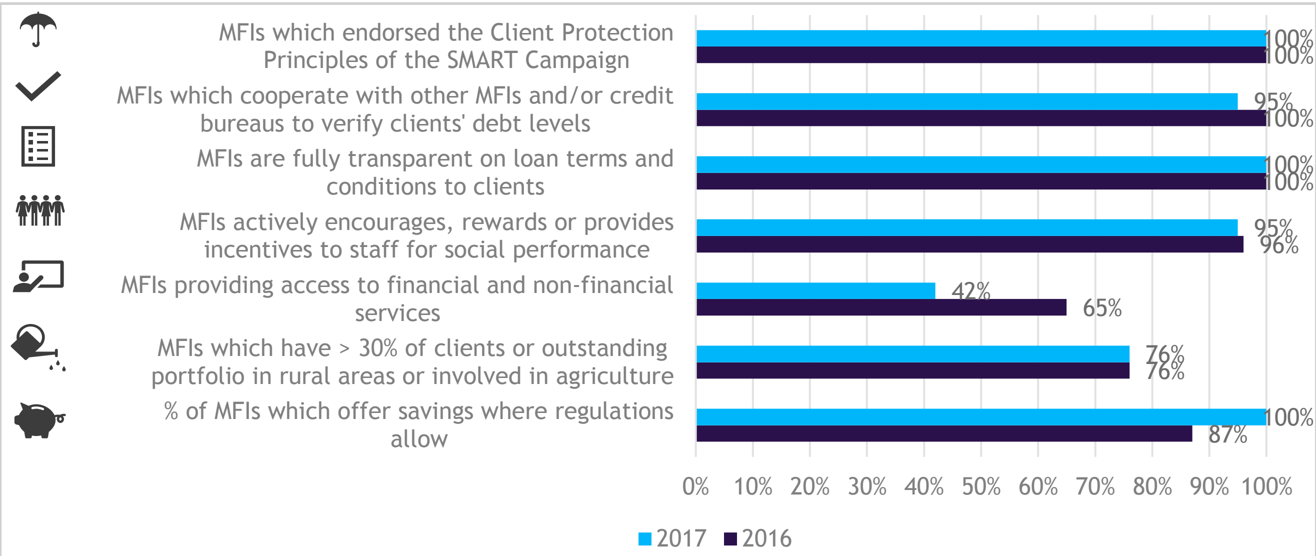
DWM performs an onsite due diligence visit to each MFI prior to each investment. Thereafter DWM performs an annual onsite visit for each portfolio MFI. An integral part of the due diligence performed consists of visits to micro entrepreneur clients. A randomly selected sample of loan files is checked, 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.

6.1 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, were among the first signatories and work with other microfinance investment vehicles (MIVs) to invest responsibly in microfinance. The principles range from risks associated with client over-indebtedness to the need for increased transparency.

In the 2017 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. The figure below provides a translation of these risks at the investee level at year-end 2017. Results are generally in line with or improved during 2017. Due to the increased exposure to adjacent space investments, the MFIs providing access to financial and non-financial services declined.

Figure 7 - Translation of PIIF to Fund investees – year end 2017 results



6.2 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.

17 PARTNERSHIPS FOR THE GOALS

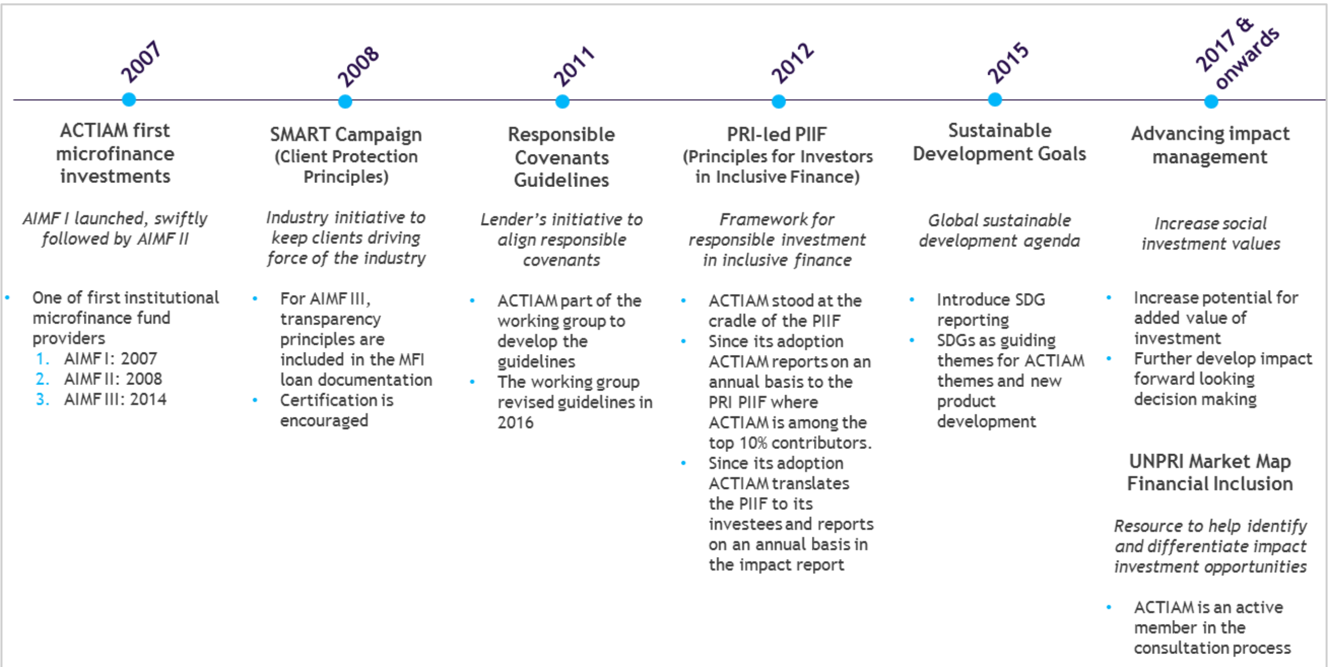
FUND REQUIREMENTS

The sustainable offering of financial products and services to microfinance borrowers indispensably requires a framework that combines financial and non-financial considerations and conditions. For that matter, the Fund does not invest in a microfinance institution that does not meet its minimum social, environmental and governance standards. All portfolio MFIs of the Fund should, at a minimum, comply with the ACTIAM Fundamental Investment Principles[3] 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 Responsibility 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.

HIGHEST SCORE IN THE ANNUAL PRI SURVEY

In the 2017 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 (PIIF section). In comparison to 2016, the score improved due to an increase in the share of local currency investments. At yearend 2017, 26.6% of the portfolio was invested in 7 local currencies. ACTIAM and DWM continue to be involved in and dedicated to the PRI/PIIF. The team continuously searches for cooperation with other MIVs and stakeholders to invest responsibly and search for impactful investments in microfinance. Both ACTIAM and DWM are continuously open to engage in initiatives and cooperate with peers to evolve sector standards and support further professionalisation and potential to add value. Figure 8 below presents the key initiatives and developments over time.

Figure 8 – Timeline responsibility & impact developments microfinance with regards to the Fund



[3] https://www.actiam.nl/nl/documenten/verantwoord/Documents/Fundamental_Investment_Principles_Companies.pdf

ACTIAM RE-INSTALLED AS A MEMBER OF NPM

In 2017 ACTIAM decided to be re-installed as an NpM member (the Dutch Platform for Inclusive Finance), following positive developments concerning the relevance of sector initiatives the Platform is pursuing to the Fund. Together with three other members and VBA/CFA, we are developing educational material for portfolio managers and analysts of institutional investors as an effort to reduce impact bias and risk and return related investment barriers in order to mobilise significantly more SDG investments.

SECTOR DEVELOPMENT

Furthermore, representatives of the Fund actively participated in working groups on Impact measurement and increasing Sustainable Development Investments (SDIs), hosted by the Dutch National Bank. Furthermore, the team attended get-togethers on impact investing in general, and on microfinance in particular, organized by, among others, Social Performance Task Force (SPTF), GRI, PRI, Global Impact Investing Network (GIIN) and NpM. In 2017 and 2018, ACTIAM actively participated in the UN PRI Market Map initiative by integrating the lessons learned of this Fund. The Market Map, expected to be published in Q2 2018, is a resource for investors to identify companies that, through their products and services, generate impact in one or more of ten thematic environmental and social areas. It can be considered as a tool for new and existing investors to align their investments with market standards, aimed at advancing further development of the theme.

APPENDIX I: 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.

8.1 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

8.2 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.

8.3 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.

7. APPENDIX II: 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 exposure per borrower)

For instance: we disbursed a €369,740 loan on January 31/2017 to MFI X with a final maturity on 3/31/2018 and with an average exposure per borrower of €588. The calculation will then be as follows:

- =(12/31/2017-1/31/2017)/365*(369.740/588)
- =334/365*(628)
- =575 borrowers reached in 2017

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 exposure per borrower 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).

8. DISCLAIMER

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