RESPONSIBILITY AND IMPACT REPORT 2020

ACTIAM Financial Inclusion Fund

Content

ACTIAM Financial Inclusion Fund

Open-ended for joint account

1. ABOUT

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

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 ESG engagement program since 1995. With around 90 staff we manage € 57,2 billion (as of December 2020) for insurance companies, pension funds, banks and intermediaries. We offer a comprehensive range of investment solutions: from index strategies to impact investing and from mandates to tailored ESG advice. 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 7 professionals with an average of 16 years' experience in the industry manages approximately € 300 million for institutional clients.

DEVELOPING WORLD MARKETS (DWM)

As a pioneer in the field of impact investing, DWM has invested or arranged US$ 2.0 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 12 global locations.

2. MANAGEMENT NOTE

With micro-, small- and medium enterprises (MSMEs) representing over 90% of business worldwide, MSMEs are at the heart of the search for inclusive growth. Ensuring small firms have access to finance in the appropriate forms and volumes is a prerequisite for their development and growth. This is even more evident during times of crisis, such as the one the world is currently facing in the context of the COVID-19 pandemic, which is having immediate and profound effects on MSMEs. Efforts to protect both at-risk segments of the population (including the elderly and those with certain underlying health conditions) as well as the general population from what are still very much unknown long-term effects of contracting the pathogen prompted governments globally to implement lockdowns and social distancing until a vaccine might be found. Trade, tourism, service sectors, and other segments of the economy requiring physical interaction saw steep declines in activity. Every recession has unique challenges, but historically, recessions have typically always involved a mere deceleration of economic activity; with COVID-19, certain industry segments experienced a sudden cessation of activity altogether due to lockdowns and social distancing. Therefore, the economic slow-down in growth was particularly pronounced across the global economy.

MSMEs are vulnerable to disruption of their business caused not only by the direct health impact of the pandemic but maybe more so by the effects of lockdowns and social distancing. At the same time, MSMEs have demonstrated their resilience in the past. Also, during these hardships, adaptive business models emerge as these business segments are eminently entrepreneurial, flexible and innovative. ACTIAM and DWM continue to support emerging market MSMEs through continued investments within the terms & conditions of the ACTIAM Financial Inclusion Fund (the Fund/AFIF, previously named ACTIAM Institutional Microfinance Fund III) in order to manage the impact of the global pandemic. We believe continued support of the MSMEs enables better outcomes for both financial and social returns.

In this Responsibility and Impact Report of the Fund, we present the non-financial results of the Fund over 2020 as well as an outlook for 2021 and beyond. During 2020, the Fund achieved a positive return of 3.4%, whilst the annualized return since inception of the Fund stands at 3.7%. From an impact perspective, 2020 was an unique year due to the COVID-19 pandemic and the MSME portfolios at the financial inclusion institutions in which the Fund is invested showed to be resiliened and even modest growth, in line with the impact strategy of the Fund.

Globally, about 1.7 billion adults have no access to an account at a financial institution or through a mobile money provider (World Bank Group, 2018). Most of these people live in developing and emerging economies. By gaining improved access to finance, entrepreneurs can grow their businesses, and families can smooth their incomes, build a buffer for investments in health and education and have a form of risk insurance. By investing in local financial institutions with the right mix of impact potential, risk management and return on investment, the ACTIAM Financial Inclusion Fund aims to promote the benefits of responsible financial inclusion worldwide.

With the support of our investors, AFIF reached nearly 130,000 microfinance clients in 2020 and over 485,000 clients since inception in 2014 (Appendix II contains example calculations). Of these clients, 83% are female and 78% live in rural areas, two demographic groups which are typically underserved by traditional banks. Due to the transformation of a closed-end fund into an open-end structure as of 30 September 2019, the committed capital will continuously be invested in financial inclusion institutions (FIIs). So far, the Fund invested in 69 FIIs in 31 countries. Moreover, our portfolio FIIs provide loans to MSME with a typical tenor of 6 to 12 months, which enables portfolio FIIs to on-lend every euro invested several times. AFIF capitalizes on the lessons learned and track record of ACTIAM's and DWM's longstanding partnership in managing its predecessor funds. Ensuring the investors' interests are managed effectively to drive financial performance as well as positive, measurable impact is central to our approach. Both the weighted average deposit size and weighted average loan size increased significantly, compared to last year. This is partly due to the inclusion new SME lenders in the adjacent space portfolio with higher average loan and deposit levels. In addition, there has been a general trend observed globally in the financial inclusion market whereby GLP growth was accompanied by declines in client growth rates. This resulted in increased average loan sizes as financial institutions steered more credit to their most credit-worthy borrowers during the challenging COVID-19 period.

Realising worldwide financial inclusion cannot be accomplished through microfinance alone. It requires a broad array of investments in other economically and socially beneficial areas and attention to ancillary products and services. The Fund therefore tracks a) involvement of portfolio companies in products other than credit (such as voluntary savings and different forms of insurance) and financial and non-financial services (such financial literacy training); and b) allows investments in adjacent spaces up to 20% of the net asset value of the Fund. The adjacent spaces include affordable housing, health, education, insurance or other sectors providing additional social value. In 2020, the Fund's adjacent space investment exposure reduced slightly to 17% of the net asset value of the Fund. The investments included three SME finance investments, one investee covering both housing and SME, and one investee covering SME and fintech.

Financial inclusion is a cross-cutting theme and contributes directly to 5 of the SDGs and indirectly to another 7 of the 17 United Nations Sustainable Development Goals (SDGs)[1]. This interconnectedness demonstrates that obtaining access to finance is a means to an end. A means which can help drive development if done in a responsible manner. A means that can help people facilitate investments in their health, education, and businesses and to manage financial emergencies more easily. The Fund reports on the interconnectedness between its investments in the financial inclusion of families, entrepreneurs and small and medium businesses and the SDGs. In addition, we strive to pro-actively enhance the social, economic and environmental value year-on-year by upgrading the impact measurement system, targeting specific investments and collaborating in relevant industry initiatives. In 2020, we started a more significant update of the Fund's Responsibility & Impact framework, following lessons learned, sector developments and changes in the regulatory landscape. Please refer to chapter 5 for further detail.

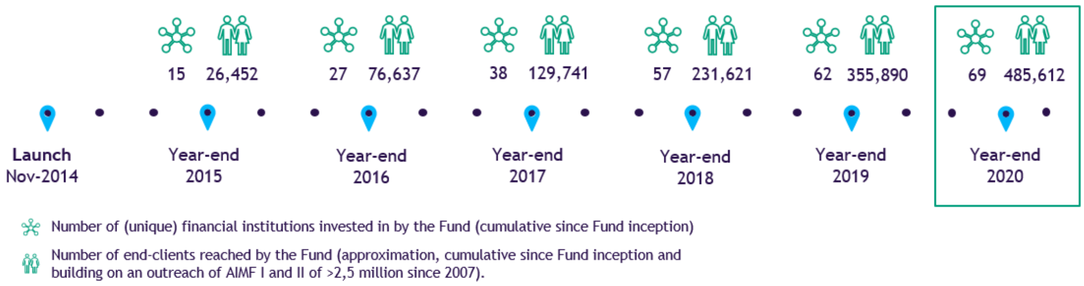
Finally, DWM and ACTIAM remain involved in sector initiatives to educate and further professionalize the industry. Social performance management and enhancing social betterment is an integral and inseparable part of the function of financial inclusion. The sustainable offering of financial products and services to financial inclusion clients indispensably requires a framework that combines financial and non-financial considerations and conditions. For that matter, the Fund does not invest in a financial inclusion institution that does not meet its minimum social, environmental and governance standards. These standards are based on the ACTIAM's Fundamental Investment Principles and on the Universal Standards for Social Performance Measurement. In 2020, development of the SMART Campaign's Client Protection Standards (CPP) and management of their implementation was transferred to long-time partners SPTF and CERISE. The CPP are integrated into the Universal Standards for Social Performance Management (USSPM) managed by SPTF and continue to guide financial service providers to implement better consumer protection practices. The yearly annual survey of the Principles for Investors of Inclusive Finance (PIIF) has been incorporated in the standard PRI as part of the asset classes modules, e.g., fixed income. The results of this assessment will be available mid-2021.

In 2020, Phenix Capital Group, in close consultation with institutional asset owners and industry leaders, for the purpose of assessing the robustness of a fund's impact proposition, set up the proprietary framework Phenix Impact GEMS. ACTIAM received the final report of Phenix Capital on the Fund's impact proposition following an extensive assessment and received a score of 51/62 for its ACTIAM Financial inclusion Fund. ACTIAM belongs to the first 20 GEMS assessments (ESG+ and impact funds) and scored above the average of 43/62.

As of March 10, 2021, the EU Sustainable Finance Disclosure Regulation (SFDR level I) became applicable. The SFDR is part of the EU Action Plan on Sustainable Finance which aims to create a stable, sustainable, and transparent financial system. It seeks to establish a reorientation of capital flows towards sustainable investment, promote the inclusion of sustainability in risk management, and foster transparency and long-termism into financial and economic thinking. The first set of the new disclosure obligations (SFDR level I), requires Financial Market Participants (FMPs) and Financial Advisors (FAs) to evaluate and disclose sustainability related data and policies at entity, service and product level. The SFDR refers to specific types of disclosures for different types of product categories that each require pre-contractual disclosures. It distinguishes mainstream products (Article 6/7), products promoting environmental or social characteristics (Article 8) and products with a sustainable investment objective (Article 9). *The Fund can be classified as a so-called Article 9 fund*, since the Fund upholds a clear sustainable investment objective and invests in companies that actively contribute to achieving social goals and sustainable practices in the field of good governance. In this context, the Fund aims to contribute to the well-being of customers and employees of the entities in which it invests and of the communities in which these entities operate, whereby social injustice and inequality are controlled as much as possible. The Fund does not invest in entities that seriously deviate from the achievement of sustainability goals in the field of environment and social development formulated by ACTIAM. These goals are aligned with, amongst others, climate targets of the Paris Climate Agreement.

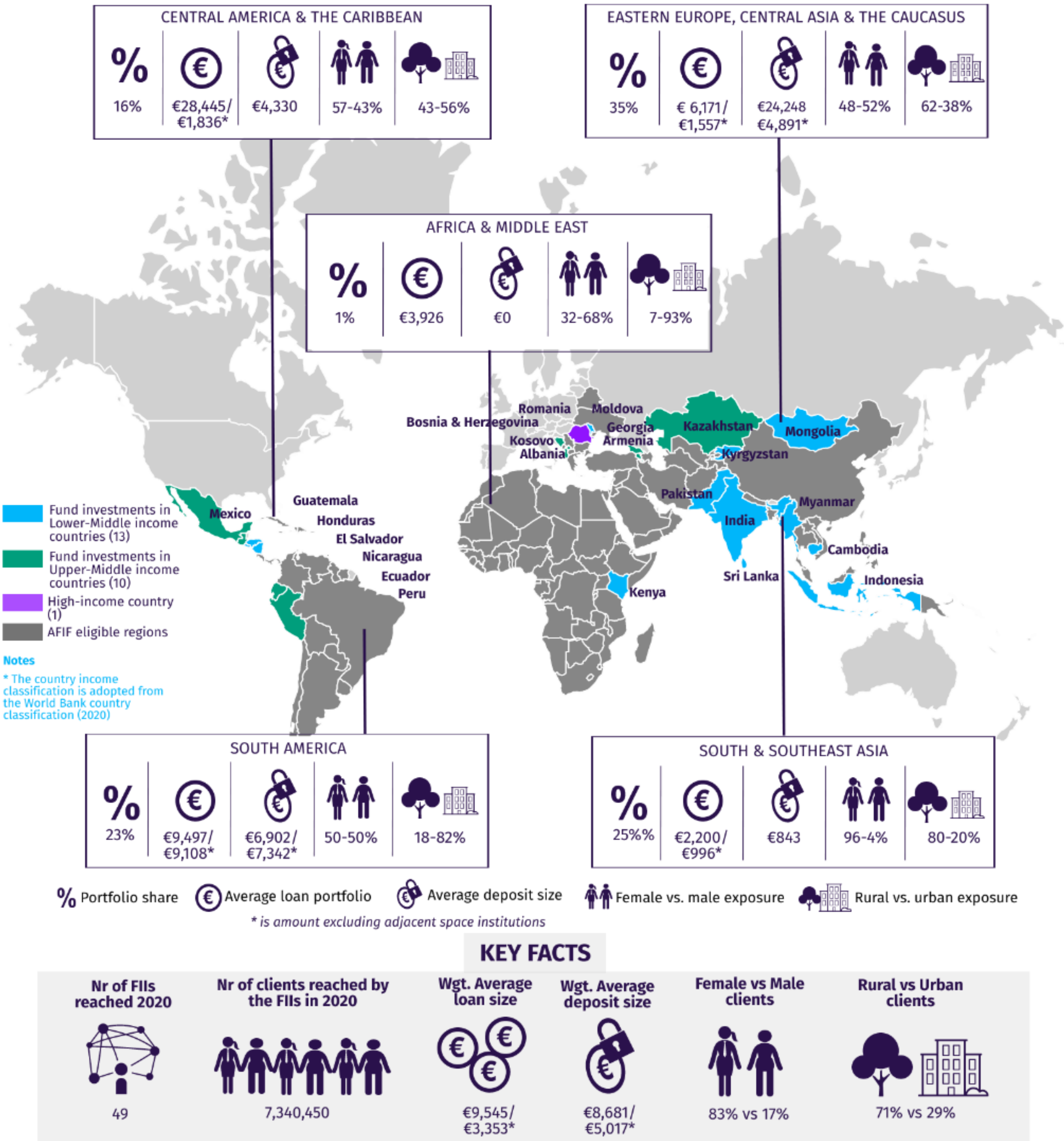
Happy reading,

ACTIAM & DWM



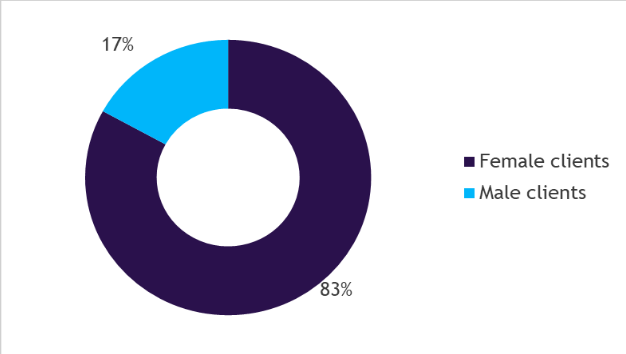
[1] https://sustainabledevelopment.un.org/?menu=1300

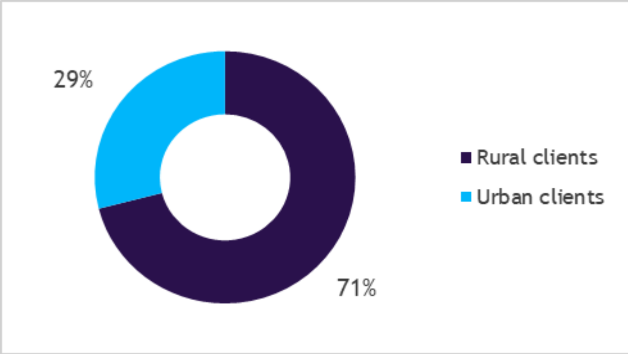
3. PORTFOLIO HIGHLIGHTS[2]

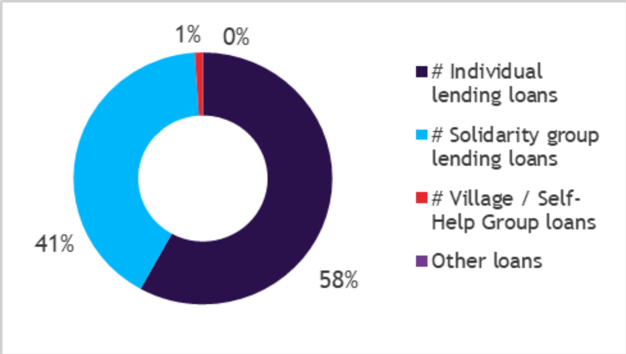


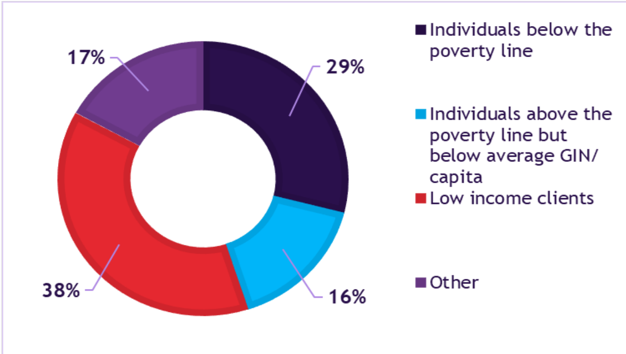
2 Please note that some of the FIIs did not report the numbers required to calculate some of the (weighted) averages and as such were not included in the calculation. The data is however still a very good representation of the portfolio.

End client exposure 2020[3]

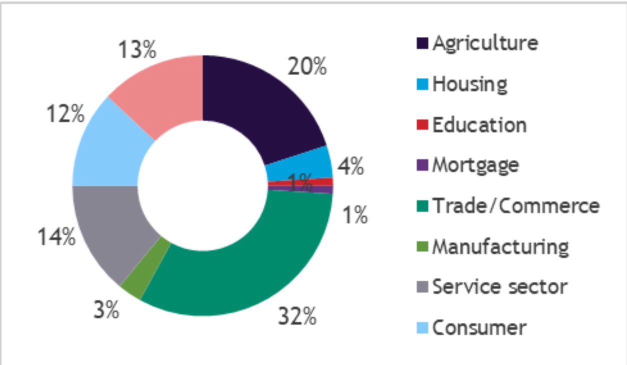




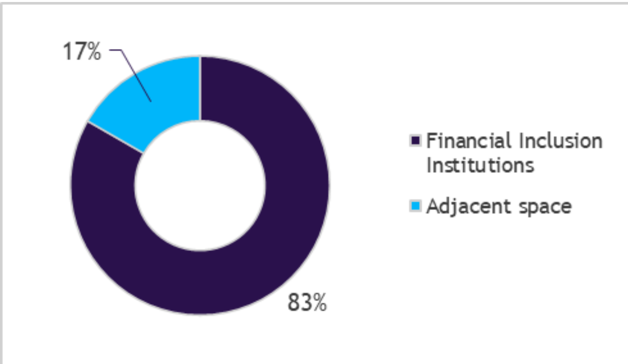




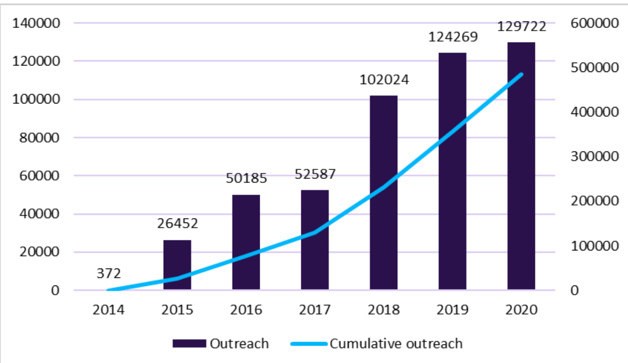
End client sector exposures 2020

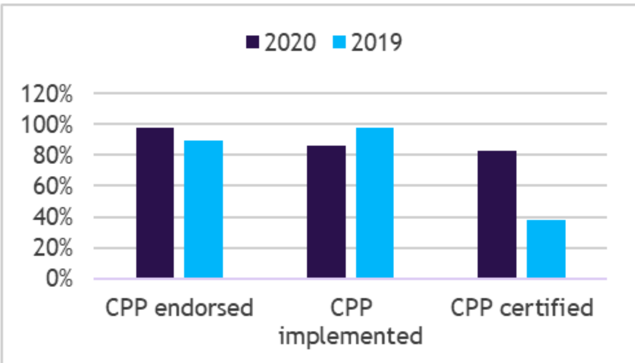


Type of investments (adjacent space investments)



Borrower outreach





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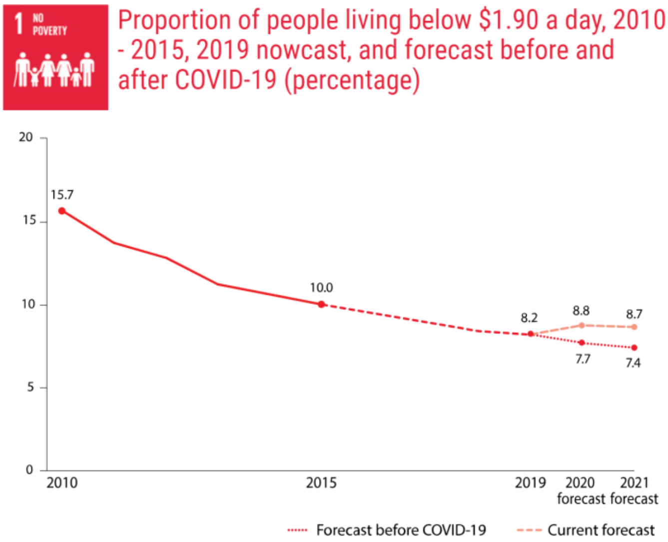
[3] Please note that some of the FIIs did not report the numbers above and as such were not included in the calculation. The data is however still a very good representation of the portfolio.

THE HUMAN AND BUSINESS IMPLICATIONS OF COVID-19 IN EMERGING MARKETS

March 11, 2021, marked one year since COVID-19 was declared a pandemic by the World Health Organization (WHO). COVID-19 has had an unprecedented impact on societies, livelihoods of communities, and the wellbeing of families, redefining the overall everyday life of people all around the world. The COVID-19 pandemic produced a year of stress, uncertainty, and economic hardship for our global community with the most vulnerable people and communities hit the hardest. While the gaps in income, racial, ethnic and gender equality have widened during this period, it also has brought greater focus on these inequalities. The UN (2020)[4] has projected (figure 2) how the COVID-19 situation will negatively affect almost all the SDGs and for the first time in nearly two decades, has contributed to a rise in global extreme poverty (figure 1). By striving to attain the SDGs, we are also striving to provide families and communities with support to reduce vulnerabilities and increase resiliency to better protect themselves in future crises.

Figure 1



But not only the impact on poverty is visible, UNICEF for instance estimates that more than 168 million children have lost a full year of education because of school closures due to COVID-19 lockdowns, while data from UNESCO shows that education has been significantly disrupted for over 800 million students worldwide who lost two thirds of an academic year on average (SDG 4). Also, the economic and financial shocks associated with COVID-19, such as disruptions to industrial production, falling commodity prices, financial market volatility, and rising insecurity, are derailing the already tepid economic growth and compounding heightened risks from other factors and impacted SDG 8 (Decent work and Economic Growth).

The inclusive finance sector plays a critical role in facilitating a strong, equitable and resilient world. MSMEs play a critical role in countries with little public support but currently over 70% lack access to basic credit. By providing a well-needed buffer, financial inclusion institutions help people and communities manage social and economic stresses exacerbated by the pandemic. When executed responsibly, financial inclusion can be the economic engine for innovation, entrepreneurialism, and job creation, and be paramount in creating a more just society.

- **Dutch emerging market impact investors speak out on COVID-19**

Low-income households and communities in emerging markets are most vulnerable to social and economic shocks. COVID-19 is such a shock and is felt across the globe. Dutch emerging market impact investors, under the banner of NpM,[5] joined forces to speak out and provide support to bolster the resilience of those most affected by the COVID-19 outbreak in emerging markets across the globe. ACTIAM was one of the initiators and leading authors of this statement.[6]

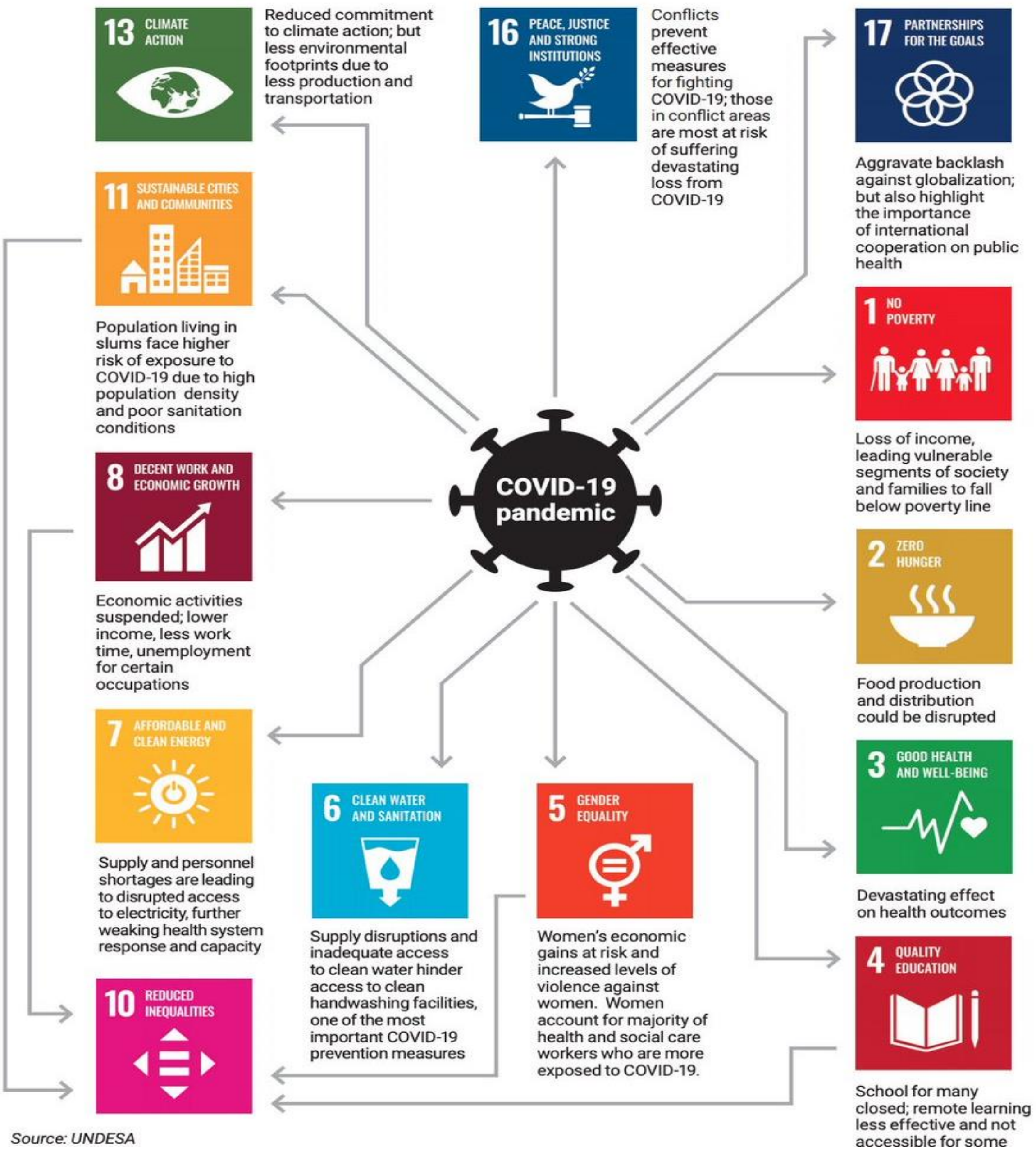
- **Coordination among MIVs in response to COVID 19**

To help support inclusive finance institutions, leading microfinance and impact fund managers came together during the crisis to provide a coordinated response through a Memorandum of Understanding to provide IFINs with greater flexibility in managing their liquidity needs. DWM, the investment manager of AFIF was one of the leading parties and initiators of this initiative, and believes, along with ACTIAM, that close coordination at the manager level helps support better outcomes for all stakeholders:

a. Ordinary renewals / fresh loans / waivers for going concern clients that with informal MIVs coordination can sustain themselves
b. Informal handshake rollover / moratorium / payment holiday. These going concern clients will need support from a wider group of lenders in an informally coordinated manner
c. Legally binding forbearance agreement and rollover requiring more formally coordinated and binding support to the client
d. Ordinary restructurings resulting in a Restructuring Agreement and workouts. Going concern is at stake

4 https://www.un.org/sites/un2.un.org/files/sg_report_socio-economic_impact_of_covid19.pdf
5 NpM is a member platform for Dutch investors in the worldwide inclusive finance sector, https://www.inclusivefinanceplatform.nl/
6 https://www.inclusivefinanceplatform.nl/news/npm-members-issue-investor-statement/

Figure 2: COVID-19 affecting all SDGs



4. FINANCIAL INCLUSION OF MICRO, SMALL AND MEDIUM ENTERPRISES

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. Access to finance, as an element of financial inclusion, supports MSME's 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 Fund aims to increase the accessibility of such financial services to catalyse equitable sustainable development by investing in local FIIs. In doing so, the Fund caters to three key impact themes that are considered essential for further development of the industry. In addition, financial Inclusion can help contribute directly to 5 of the SDGs and indirectly to another 7 of the 17 SDGs[7].

[7] https://sustainabledevelopment.un.org/?menu=1300

Impact themes

ACCESS TO FINANCE

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

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

CLIENT-CENTRIC APPROACH

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

A client-centric approach ensures that FIIs thrive to protect their clients' interest, by providing financial literacy and additional education materials and by increasing transparency.

ORGANISATIONAL DEVELOPMENT

Prompting FIIs 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. We also see the advantages of benchmarking and standardisation that will help improve the industry as whole.

The Fund invests in FIIs whose philosophy and activities encompass these three objectives. By focusing on these objectives, we seek to encourage the financial inclusion 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 on page 9 provides an overview of the social value of the Fund and its relationship with the SDGs.

Social profile of the Fund FYE 2020[8]	Sustainable Development Goals					Fund impact themes		
Fund results contribution	Financial inclusion related SDGs					Access to finance	Client-centric approach	Organisational development
(equal) access to finance | expand access to finance | MSME growth → 485,612 micro entrepreneurs reached since Fund inception of which 129,722 during 2020 with an average exposure per borrower of € 9,545 and an average deposit size of € 8,681 → Reached 49 FIIs in 24 countries in 2020 and 69 FIIs in 31 countries since Fund inception → Exposures in 12 local currencies and 2 hard currencies	SDG 1	SDG 2	SDG 5	SDG 8	SDG 9	●	●	●
supporting men and women | equal access to finance | women empowerment → 83% of exposure to women, 17% to men	SDG 1	SDG 2	SDG 5			●		
serving the poor | serving the vulnerable |equal access to finance |developing countries → Socioeconomic category* 1. Individuals below the poverty line: 29% clients, 20% GLP 2. Individuals above the poverty line but below average GIN/ capita: 16% clients, 14% GLP 3. Low income: 38% clients, 46% GLP 4. Other: 17% clients, 34% GLP → 71% of exposure is to rural clients	SDG 1	SDG 2	SDG 5	SDG 9		●		
supporting agriculture → 71% of exposure to rural, 29% to urban clients	SDG 2					●		
financial risk protection → 31% of FIIs offer savings products where regulations allow → 17% offers health insurance, and 33% offers life insurance → 45% offers access to financial and non-financial services (e.g., business development training, enterprise skills development, basic health and/or nutritional education)	SDG 3					●		

[8] Please note that some of the FIIs did not report the numbers above and as such were not included in the calculation. The data is however still a very good representation of the portfolio.

enabling technology ➔ A growing number of FIIs are providing mobile banking (33%)	5 GENDER EQUALITY					●	●	
formalisation of FIIs | capacity strengthening | regulation of FIs | monitoring of FIs ➔ 98% endorsed Client Protection Principles (CPP), 86% implemented CPPs, 83% is CPP certified ➔ 95% cooperates with other FIIs and/or credit bureaus to verify clients' debt level	8 DECENT WORK AND ECONOMIC GROWTH	10 REDUCED INEQUALITIES					●	●
small-scale enterprise ➔ Adjacent space bucket allows for SME lenders, 6 adjacent space of which 5 offer SME loans in portfolio	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE					●		

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

5. SOCIALLY AND ENVIRONMENTALLY RESPONSIBLE INVESTMENTS

Next to realizing an attractive financial return, the Fund also aims to make socially responsible investments and contribute to access to financial services for MSMEs in developing and emerging economies. To that end the strategy is to provide a market-based return with substantial social value. The responsibility and impact dimensions of microfinance have become increasingly important for investors, investees, governments, NGOs and the general public, represented by the media. These developments are carefully considered in the social and impact standards that the Fund applies to its investments.

5.1 IMPACT MEASUREMENT METHODOLOGY & TOOL

Ensuring a responsible investment practice and generating positive impact are key features of the Fund. To that end, AFIF operates a separate Responsibility & Impact Framework (Chapter 8 - Appendix) on top of the ACTIAM Fundamental Investment Principles[9] and operates in line with applicable international standards. Additionally, in this respect both ACTIAM as Fund Manager and DWM as the Investment Manager have explicitly committed themselves to contribute to financial inclusion of MSMEs on a socially responsible basis by being actively involved in leading industry initiatives and developments (Chapter 5.2).

FUND REQUIREMENTS

The sustainable offering of financial products and services to MSME borrowers indispensably requires a framework that combines financial and non-financial considerations and conditions. For that matter, the Fund does not invest in a FII that does not meet its minimum social, environmental and governance standards. All portfolio FIIs of AFIF should, at a minimum, comply with the ACTIAM Fundamental Investment Principles (ACTIAM FIP)[10] and operate in line with applicable international standards as mentioned in the ACTIAM FIP. Social standards of the Fund include conformity with the Principles for Responsible Investment (PRI)[11], adherence to the Client Protection Principles by the SMART Campaign (CPP) and reporting on financial and non-financial performance in line with the Responsibility and Impact Framework of the Fund itself. This includes an annual assessment of a portfolio company focusing on the social policies, practices and performance, as well as the social characteristics of the products and services offered by the FII to its clients.

INTEGRATION OF RESPONSIBILITY & IMPACT REQUIREMENTS IN THE INVESTMENT PROCESS

DWM performs desktop and onsite due diligence on each FII prior to each investment. An integral part of the due diligence consists of visits to MSMEs, the ultimate beneficials of our funding. 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 FIIs serve, DWM focuses on the procedural points of the origination, underwriting and monitoring. ACTIAM determines potential responsibility and impact fit to the Fund for each eligible investment based on:

- Investment memo, risk opinion and relevant additional materials (such as country updates)
- Outcomes of the Impact Questionnaire & Scorecard

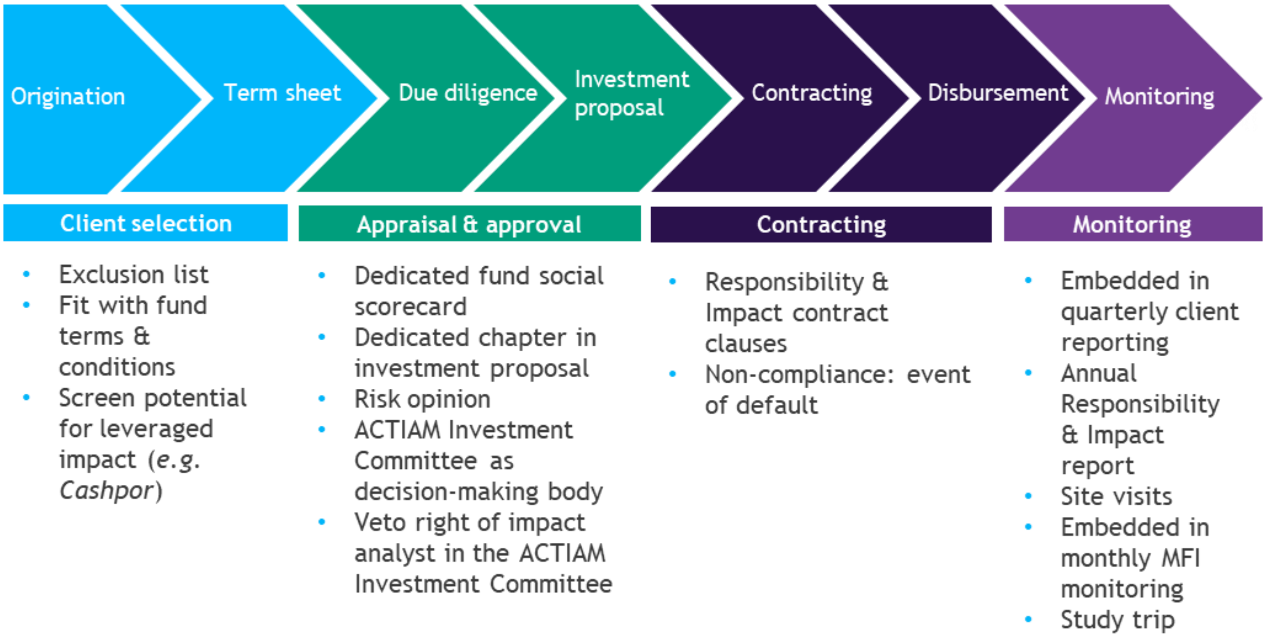
9 https://www.actiam.nl/nl/documenten/verantwoord/Documents/Fundamental_Investment_Principles_Companies.pdf
10 https://www.actiam.nl/nl/documenten/verantwoord/Documents/Fundamental_Investment_Principles_Companies.pdf
11 In particular the seven guidelines for investors in inclusive finance (referred to as the Principles for Investors in Inclusive Finance prior to full integration into the PRI in 2019. This integration took place to integrate the PRI's approach to inclusive finance with the rest of its work across ESG incorporation, active ownership and systemic issues, bringing an end to the PIIF as a distinct entity. Source: https://www.unpri.org/thematic-and-impact-investing/practical-guide-for-investors-in-inclusive-finance/4044.article

- Written answer by DWM to questions posed by ACTIAM Investment Committee (ACTIAM IC)
- Investment committee discussions (i.e., online meetings/conference calls between DWM and ACTIAM IC members)
- Relevant external sources

Upon approval, each investee company is monitored on at least a monthly basis (more if necessary). On an annual basis, DWM performs an onsite visit and collects social and environmental data to track trends and identify areas of strength and opportunities for improvement for each portfolio company. DWM and ACTIAM closely cooperate in publishing an annual AFIF Responsibility & Impact Report presenting annual outcomes, trends and expectations.

The figure below represents an overview of Responsibility & Impact matters throughout the investment process from deal origination to monitoring approved investments.

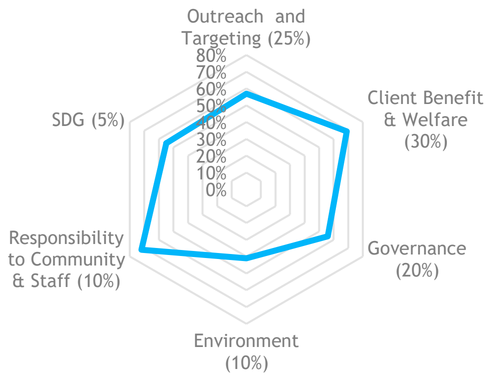
Figure 2 – AFIF investment process from responsibility & impact perspective



IMPACT QUESTIONNAIRE & SCORECARD

The Impact Questionnaire & Scorecard originally co-developed by DWM, ACTIAM and Oikocredit, is a proprietary, data-driven tool used during the due diligence process and on an annual basis post-investment. In 2020, the tool has been updated by incorporating best practices from existing frameworks such as IRIS+ and including the SDGs as one of the evaluation dimensions. The tool now contains approximately 150 indicators (up 30%) to evaluate impact across five dimensions and the SDGs are customized based on the portfolio company types, including microfinance institutions and SME lenders. Data are cross-checked against DWM's financial database and the Smart Campaign website.

Evaluation dimension	Indicator examples
Client Benefit & Welfare (30%)	Borrower indebtedness prevention Non-financial products & services
Outreach & Targeting (25%)	Average loan size Client socioeconomic levels Rural vs. urban
Responsibility to Community & Staff (10%)	Staff feedback Grievance mechanisms Contributions to community
Environment (10%)	Internal environmental policies Environmental education & promotion
Governance (20%)	Mission and vision Salaries, remuneration & incentives
SDG (5%)	Women in Management FIIs offering basic medical care



As part of our impact monitoring process in 2020, we asked each borrower to indicate whether it received certification for the "Client Protection Principles" or implemented an independent ESG evaluation. Within the portfolio, 35 of 41 FIIs indicated that they had gone through these evaluations. Multiple impact rating agencies and frameworks were used across

the portfolio with the most common being the MicroFinanza Ratings (MFR). When internally evaluating poverty levels of clients, the portfolio companies were most likely to use the Poverty Probability Index (PPI).
Findings from this exercise include the following:

- Across the portfolio, the most common external study was the MFR social rating report. Generally, reporting FIIs received strong social scores with continued development needed in integration of social indicators with the organizations mission, with an ultimate goal of better measurement of impact on stakeholders.
- One South Asian NBFI completed their annual impact report with a focus on promoting financial inclusion with new borrowers and improvements in gender inclusion, particularly within the area of female entrepreneurship.
- A different South Asian FII conducted various socially focused reports including one tracking overall employee satisfaction with the organization and how to enhance employee loyalty and increase employee retention.
- One borrower in South America provided deeper transparency into its CPP certification including specific practices that have been adopted to improve customers experiences, prevent over-indebtedness, ensure excessive fees and costs are not transferred to the client and that they have appropriate mechanisms to deal with client problems.

Overall, these findings are an illustrative sample of the wider report collection efforts and provided a closer look into contribute towards ACTIAM and DWM's monitoring of the impact activities of AFIF portfolio companies.

PORTFOLIO HIGHLIGHT RESPONSIBLE INVESTMENTS IN PRACTICE: CREDO Bank Georgia

The CREDO Bank ("CREDO"), headquartered in Tbilisi, Georgia is the largest microfinance company in the country. CREDO started in 1997 as the Georgia Entrepreneurs' Fund ("GEF"). In 2002 it received a grant to expand operations doubling the portfolio. In 2005, the GEF registered a local entity named the Vision Fund CREDO Foundation, and in 2006 all lending activities were officially transferred to MFO Credo LLC. In 2017, CREDO took a significant step forward with respect to broadening its financial inclusion strategy by securing a banking license from the National Bank of Georgia. This allowed CREDO to expand its product offering to include deposit-taking and pre-paid cards.

Thanks to its banking license, CREDO has been able to expand financial inclusion to people and communities in Georgia not typically served through traditional banks. With its large and expanding network, CREDO has been able to reach more rural communities and work with clients who have smaller average loan sizes. In addition, CREDO has sought to expand its reach by increasing its adoption of digitalization to provide banking services to those beyond its current network's reach.

CREDO is certified with respect to the Smart Campaign's Client Protection Principles. Even prior to their accreditation as a licensed bank, CREDO was able to launch "crop cards" where borrowers have a pre-approved limit for purchases of agricultural machinery in a range of CREDO Bank partner stores. Additionally, CREDO created an educational portal for their agricultural clients with videos providing informational instructions and a digital store for agriculture products. Beyond the products offered, CREDO also works to ensure privacy of client data by employing a formal data protection officer and providing resources during the data collection, data processing, data distribution and data storage stages.

CREDO BANK

5.2 PROFESSIONALISING THE INDUSTRY

In order for the financial inclusion industry to be sustainable, FIIs need to become self-sustaining. We witness continued improvements in the institutionalisation and professionalisation of the industry.

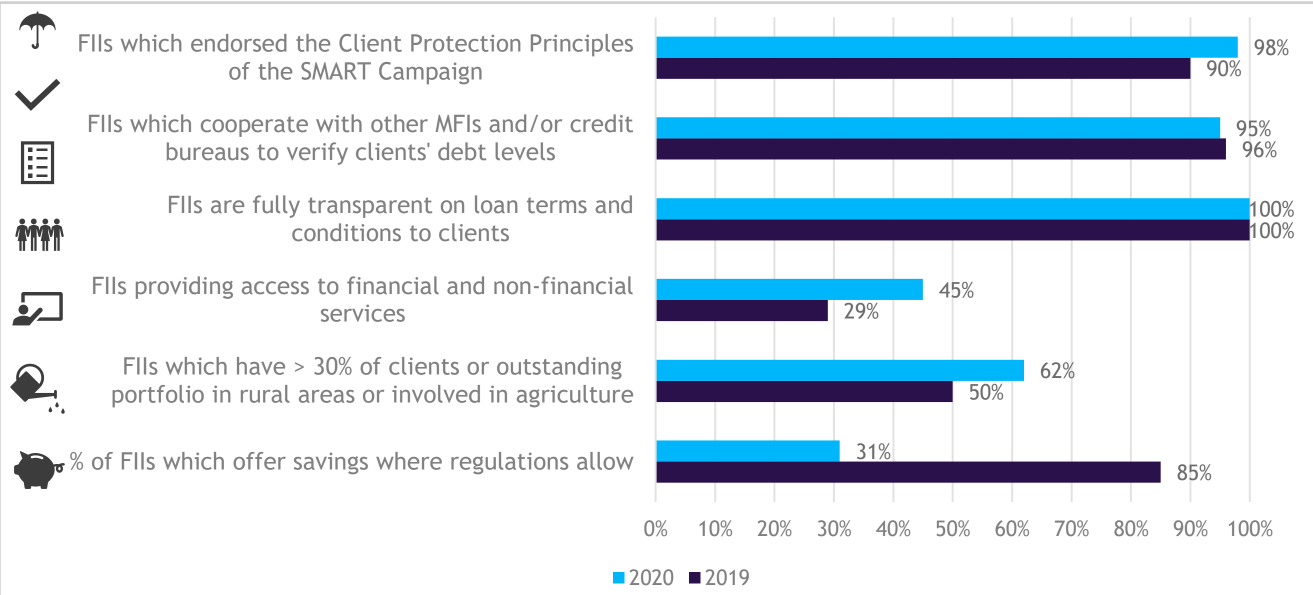
HIGHEST SCORE IN THE ANNUAL PRI SURVEY & PRI MARKET MAP

The Fund was launched aiming to contribute to increased responsible development and professionalisation of the inclusive financial industry worldwide. As the provision of financial services to the world's poor has grown, the PIIF have, since their inception in 2011, sought to protect the interests of people that are often lacking the financial knowledge, power and influence enjoyed by the financial institutions that they are dealing with. ACTIAM and DWM were actively involved in the development of these principles, were among the first signatories and worked with other microfinance investment vehicles (MIVs) to invest responsibly in microfinance. However, in 2019 it was decided to integrate the PIIF into the PRI's approach to inclusive finance with the rest of its work across ESG incorporation, active ownership and systemic issues, bringing an end to the PIIF as a distinct entity.[12]

During Q3 the PRI published the 2020 assessment reports of the Principles of Investors in Financial Inclusion (PIIF). ACTIAM was awarded with the highest possible score (A+) for its financial inclusion approach. Again, ACTIAM belongs to the top 10% amongst all respondents by outperforming on six out of seven Principles. The assessment report of ACTIAM's mainstream activities with regards to responsibility was published in Q2 and ACTIAM achieved the highest score of A+ on all 14 modules. Furthermore, ACTIAM is recognized as a member of the 2020 Leaders' Group on climate reporting.

For 2021, inclusive finance will be embedded in the primary reporting framework of the PRI. Results are expected to be published during the summer of 2021.

Figure 2 - Translation of PIIF to Fund investees - year end 2020 results



INDUSTRY DEVELOPMENTS 2020 ACHIEVEMENTS

- **Smart Campaign**

Social performance management and enhancing social betterment is an integral and inseparable part of the function of financial inclusion. The sustainable offering of financial products and services to financial inclusion clients indispensably requires a framework that combines financial and non-financial considerations and conditions. For that matter, the Fund does not invest in a financial inclusion institution that does not meet its minimum social, environmental and governance standards. These standards are based on the ACTIAM's Fundamental Investment Principles and on the Universal Standards for Social Performance Measurement. In 2020, development of the SMART Campaign's Client

12 https://www.unpri.org/thematic-and-impact-investing/practical-guide-for-investors-in-inclusive-finance/4044.article

Protection Standards and management of their implementation was transferred to long-time partners SPTF and CERISE. The Smart Campaign's Client Protection Standards (CPP) are integrated into the Universal Standards for Social Performance Management (USSPM) managed by SPTF and continue to guide financial service providers to implement better consumer protection practices.

- **Phenix Impact GEMS**

In 2020, Phenix Capital Group, in close consultation with institutional asset owners and industry leaders, for the purpose of assessing the robustness of a fund's impact proposition, set up the proprietary framework Phenix Impact GEMS. ACTIAM received the final report of Phenix Capital on the Fund's impact proposition following an extensive assessment and received a score of 51/62 for its ACTIAM Financial inclusion Fund. ACTIAM belongs to the first 20 GEMS assessments (ESG+ and impact funds) and scored above the average of 43/62.

- **Joint Impact Model**

We are participating in a pilot of the Joint Impact Model (JIM), offering standardized reporting on indirect impacts such as value added, employment and GHG emissions. Development finance institutions (DFIs) and Steward Redqueen have been collaborating to develop a model to measure and report on. ACTIAM has officially become a member of the Joint Impact model

INDUSTRY DEVELOPMENT GOING FORWARD

Both ACTIAM and DWM are continuously open to engage in sector initiatives and cooperate with peers to evolve sector standards and support further professionalisation and potential to add value. During 2021, we expect to witness several industry updates and will keep fund participants informed about any (proposed) changes potentially affecting the fund in due time.

- **EU SFDR**

As of March 10, 2021, the EU Sustainable Finance Disclosure Regulation (SFDR level I) became applicable. The SFDR is part of the EU Action Plan on Sustainable Finance which aims to create a stable, sustainable, and transparent financial system. It seeks to establish a reorientation of capital flows towards sustainable investment, promote the inclusion of sustainability in risk management, and foster transparency and long termism into financial and economic thinking. The first set of the new disclosure obligations (SFDR level I), requires Financial Market Participants (FMPs) and Financial Advisors (FAs) to evaluate and disclose sustainability related data and policies at entity, service and product level. The SFDR refers to specific types of disclosures for different types of product categories that each require pre-contractual disclosures. It distinguishes mainstream products (Article 6/7), products promoting environmental or social characteristics (Article 8) and products with a sustainable investment objective (Article 9). The Fund can be classified as a so-called Article 9 fund, since the Fund upholds a clear sustainable investment objective and invests in companies that actively contribute to achieving social goals and sustainable practices in the field of good governance. In this context, the Fund aims to contribute to the well-being of customers and employees of the entities in which it invests and of the communities in which these entities operate, whereby social injustice and inequality are controlled as much as possible. The Fund does not invest in entities that seriously deviate from the achievement of sustainability goals in the field of environment and social development formulated by ACTIAM. These goals are aligned with, amongst others, climate targets of the Paris Climate Agreement.

When the level 2 requirements go into force, the information on additional sustainability disclosures must be provided using a mandatory template (Regulatory Technical Standards (RTS)) and integrated as an annex into the existing pre-contractual documents. The RTS are still to be endorsed by the European Commission and are expected to apply as per a January 2022.

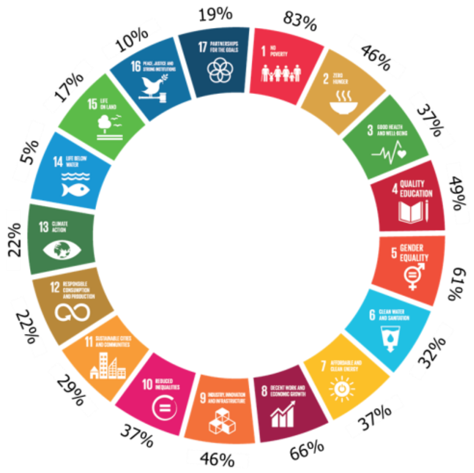
- **Alignment with regulation on active participant in sector**

Work on further alignment with non-financial reporting regulations (i.e., by the Dutch National Bank and EU) and related sector initiatives such as the IFC Operating Principles for Impact Management, Impact Management Project and the transition from IRIS to IRIS+.

FUND SDG CONTRIBUTION & LEVERAGED FUND IMPACT

The primary goal of the Fund is to facilitate and improve access to financial products and services for clients in emerging and frontier markets. Financial inclusion can help people facilitate investments in their health, education, and businesses and to manage financial emergencies more easily. As such, we have identified direct contribution to 5 of the SDGs and indirect contributions to another 7. Figure 4 indicates the percentage of AFIF investees who identify their mission objectives with the SDGs . Additionally, we have identified KPIs for many of the SDGs and in figure 5 have shown how the AFIF portfolio aligns with them.

Figure 4 - AFIF % of investees who identify their mission objectives with SDGs



SDG Combinations / % of MFIs	
93%	SDG 1 or 8
100%	At least 1 SDG
68%	At least 1 Green SDGs (2,6,7,12,13,14,15)
85%	2 or more SDGs
63%	5 or more SDGs

Figure 5 - SDGs linked to financial inclusion and to fund results FYE 2020

	Connection between the SDGs and financial inclusion	*Related fund results FYE 2020*
1 NO POVERTY	Global access to financial services by 2030, including all men and women and in particular the vulnerable	• 29% of Individuals Below the National Poverty Line • 15.8% of Individuals Above the National Poverty Line but Below Avg GIN/Capita • 38.4% of Clients who are Low income • 73.3% of clients that are Microenterprises • 46.3% of FIIs that Provided Insurance
2 ZERO HUNGER	Secure and equal access to financial services as a means to double agriculture productivity and incomes of small-scale food producers by 2030	• 26.9% of the portfolio invested in Agriculture by # of loans • 3 of FIIs have a portfolio with over 50% in Agriculture by # of loans • 24.4% of FIIs have a portfolio with over 30% in Agriculture loans by # of loans
3 GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote well-being for all at all ages	• 7.3% of FIIs Provide Basic Medical Service • 12.2% of FIIs Provide Basic Health or Nutrition Education
4 QUALITY EDUCATION	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	• 87.8% of FIIs provide Financial Literacy Training • 24.4% of FIIs provide business development assistance

5 GENDER EQUALITY	Achieve gender equality and empower all women and girls	• 58.5% of FIIs have a Client Base with Majority Female • 36.6% of FIIs have a Portfolio with Majority Female • 14.6% of FIIs with Client Base >80% Female • 14.6% of FIIs with Portfolio >80% Female • 21.7% of FIIs Board are Female • 32.6% of FIIs Management are Female • 36.9% of FIIs employees are Female
6 CLEAN WATER AND SANITATION	Ensure availability and sustainable management of water and sanitation for all	• 26.8% of companies provide credit in water & sanitation
7 AFFORDABLE AND CLEAN ENERGY	Ensure access to affordable, reliable, sustainable and modern energy for all	• 24.4% of companies provide credit in clean energy/energy efficiency
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	• 95.1% of FIIs have "Fair Recruitment Practices" policies • 90.2% of FIIs have "Fair Career Advancement" policies
10 REDUCED INEQUALITIES	Reduce inequality within and among countries	• 76.8% Client Female • 68.8% Client Rural • 38.4% End Clients Low Income • 44.8% end Clients Poor • 12.2% of FIIs Target Candidates who have been: Long-term unemployed, living below the poverty line, historically disenfranchised
13 CLIMATE ACTION	Take urgent action to combat climate change and its impacts	• 43.9% of companies that provide either water/sanitation or clean energy/energy efficiency

6. IMPACT CASE STUDY | ENLACE EL SALVADOR

MICROENTREPRENEURS

José Villatoro Rodríguez lives in the canton Zapotitán of Ciudad Arce, Province of La Libertad, in El Salvador. His mother died when he was only 12 years old, and since then, he became responsible for taking care of himself and his brothers. At age of 14, he started a micro-enterprise selling essential products out of a small stand. He had modest goals of selling $20 a day to provide for himself and his family. However, with limited resources and experience, he had multiple failures and bankruptcies. Years later, a neighbour convinced him to join in a group loan with Enlace Servicios Financieros. The initial loan was for just $500 dollars. In a tribute to his mother, José decided to open the first supermarket of Zapotitán. With the capital injection, he was able to grow the business and now the supermarket not only meets his family's needs, but also provides a source of employment for 10 others in the area. José has since then, gone back to Enlace for a home improvement loan and currently, has a home loan of $3,000 dollars and $3,500 in a group loan for working capital purpose. During the pandemic, with high mobility restrictions throughout the country, his sales grew as his supermarket became one of the few local business able to provide primary need products for the community

ENLACE | El Salvador		
	2020	
	341	Employees
	15	Branches
	US $ 29.8 mln	Gross loan portfolio
	US $ 1.09 mln	Net income
	US $ 394 mln	Average loan size
DWM arranged a total transaction of:	US $ 2.0 mln	
AFIF Loan:	US $ 2.0 mln	

EL SALVADOR

As most countries in the world, El Salvador has been hit hard by COVID-19. Its GDP has contracted by around 9.0% in 2020 but according to the World Bank a rebound of 4.1% is expected in 2021. Because currently only 15% of the population is vaccinated, risks of new waves of the infection remain prominent. In March of 2021, the country launched its *National Financial Inclusion Policy*, a milestone event in the country's efforts to boost the access, use and quality of financial services to the unbanked. According to the latest Global Findex, only 30 percent of adults have access to an account in El Salvador, less than in neighbouring Guatemala (44 percent) and Honduras (45 percent). Split by gender, 24 percent of women have access to an account, putting the country's financial inclusion gender gap at 13 percent or nearly double the global average of seven percent.

ENLACE

Enlace is a pure microfinance institution operating in 9 of the 14 provinces in El Salvador. Founded as part of a program of the Catholic Relief Services, the original mission was on enhancing access to credit for low-income and previously excluded populations. Enlace focuses on improving the standard of living and on reaching the poorest people in El Salvador by providing small loans through the group lending methodology. Along with its lending program, Enlace provides a comprehensive curriculum for basic financial education and women empowerment to its borrowers. In 2009, recognizing the need to strengthen its operations and increase capital, Enlace incorporated itself as a NBFI. Despite is not a regulated entity, Enlace has chosen to adhere to prudential regulations including complying with rules on board composition and creating financial reports for its board.

7. APPENDIX I: FUND RESPONSIBILITY AND IMPACT FRAMEWORK

Responsibility is a key feature with regard to the business of ACTIAM. All portfolio FIIs 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 PRI 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.

7.1 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 FII, including the social characteristics of the product and services offered by the FII 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

7.2 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 MSME in developing and emerging economies;
- Enhancing Financial Inclusion Institutions' clients' capacity to manage their financial affairs in a responsible way;
- Prompting Financial Inclusion Institutions to improve the quality of their reporting on financial and nonfinancial performance according to generally agreed upon standards; and
- Prompting Financial Inclusion Institutions to increase their transparency and optimally protect the interests of their clients.

7.3 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, by making use of a social scorecard. If there are significant discrepancies in the policies, practices or performance of the Financial Inclusion Institutions from the standards as required by the Fund Manager, the management of the Financial Inclusion Institution will be required to commit to meeting those standards within a predefined period.

The minimum social standards include:

- To act in conformity with Principles for Investors in Inclusive Finance (PIIF) as developed by the United Nations Principles for Responsible Investment (UN PRI);
- To adhere to the Client Protection Principles as developed by the SMART Campaign; and
- To monitor and report 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 Fund Investments have been made, the Fund Manager conducts annual monitoring of impact and responsibility related requirements based on input provided by the Financial Inclusion Institutions by way of the Investment Manager. This monitoring includes the composition of Financial Inclusion Institutions' 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 Financial Inclusion Institutions.

The Fund Manager 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.

8. 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 FII 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 consider the borrower repeat rate (1- repeat borrower rate).

9. DISCLAIMER

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