actiam

Developing World Markets

RESPONSIBILITY AND IMPACT REPORT 2019

ACTIAM Financial Inclusion Fund

Content

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ACTIAM Financial Inclusion Fund

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 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 over 100 staff we manage € 63,8 billion (as of December 2019) 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 8 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$ 1.7 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

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.

MSMEs are vulnerable to disruption of their business caused by the pandemic and to the effects of global containment measures. Supply chains are disrupted, workforces are in lockdown, and a loss of orders and revenues can occur as well. These events have resulted in business closures and massive job losses, with over 300 million jobs lost in the second quarter of 2020 (ILO, 2020). According to an ILO (April 2020) survey, seven out of ten SMEs of the questioned total of 1100 SMEs across Africa, Asia and Latin America are (temporarily) closed, and nine out of ten experienced a cash crisis. On top of that, developing economies now face record-breaking capital outflows.

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) 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 2019 as well as an outlook for 2020 and beyond. During 2019, the Fund achieved a positive return of 3.8%, whilst the annualized return since inception of the Fund stands at 3.8%. From an impact perspective, 2019 marks another year with growing MSME portfolios at the financial institutions in which the Fund is invested, 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 (Fund/AFIF, previously named ACTIAM Institutional Microfinance Fund III) aims to promote the benefits of responsible financial inclusion worldwide.

With the support of our investors, AFIF reached nearly 125,000 microfinance clients in 2019 and over 355,000 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 54 FIIs in 28 countries. Moreover, our portfolio FIIs provide loans to micro, small and medium enterprises (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.

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 2019, the Fund's adjacent space investment exposure remained at 19% of the net asset value of the Fund. The investments included three SME finance investments, one low-income housing finance investment, one investee covering both of these themes, and one investee covering SME and fintech.

Financial inclusion is a cross-cutting theme and connected to no less than 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

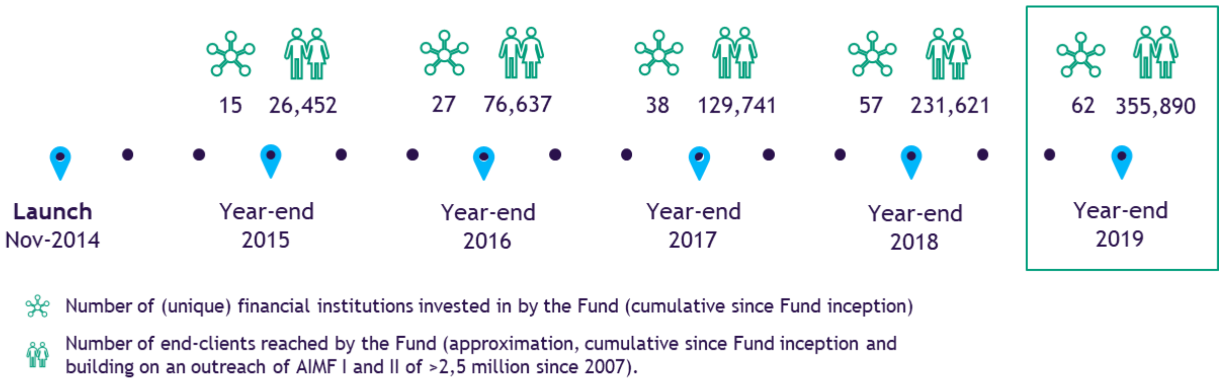
[1] https://sustainabledevelopment.un.org/?menu=1300

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.

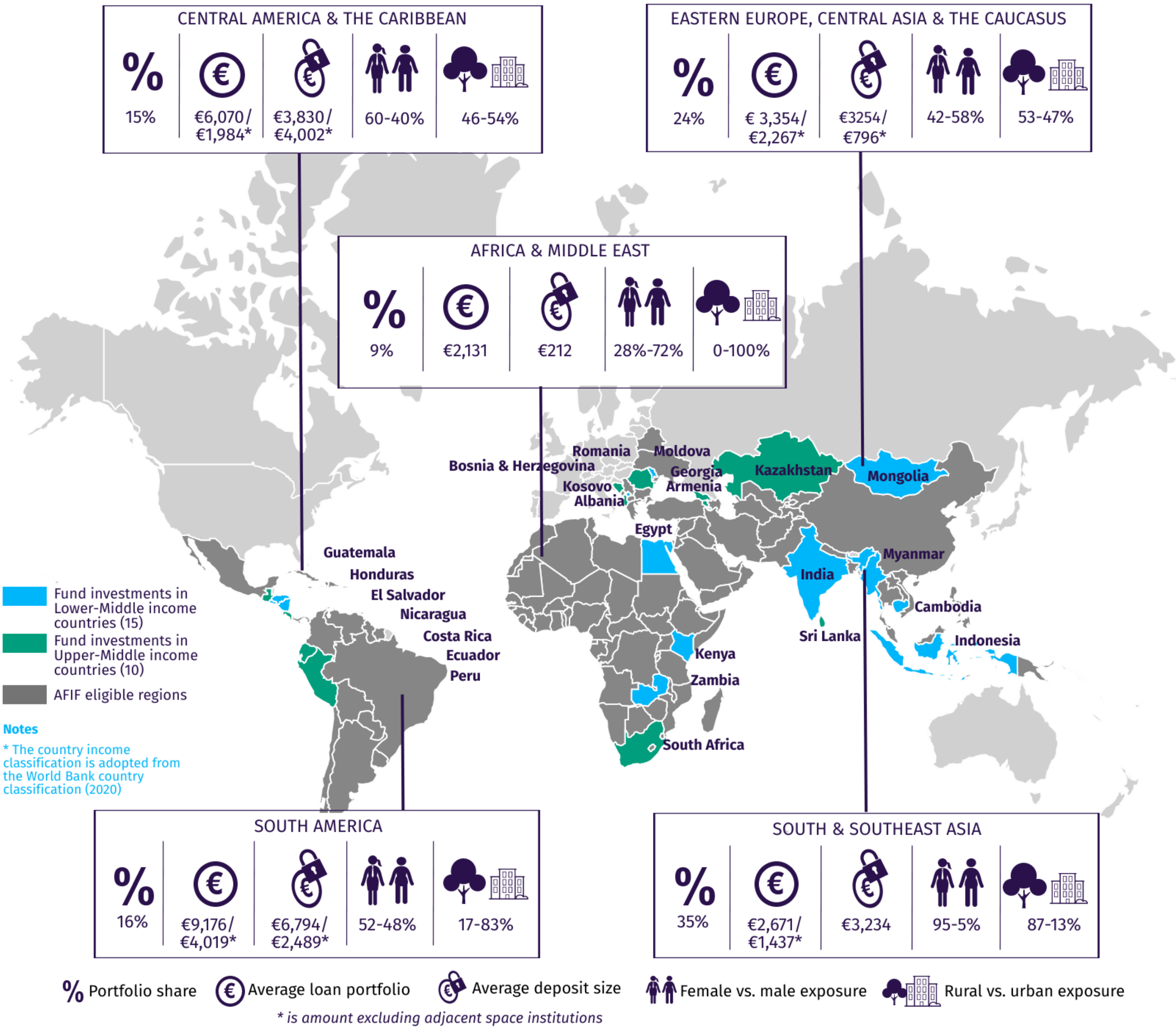
Finally, DWM and ACTIAM remain involved in sector initiatives to educate and further professionalize the industry. In 2019, multiple responsible industry initiatives were launched, further professionalizing the sector – the Principles for Investors in Inclusive Finance were embedded in the PRI, the SMART Campaign launched Digital Credit Standards and the GIIN launched impact management system IRIS+. Due to the COVID-19 pandemic, 2020 will be an unprecedented year and challenging time that will test all of us and especially the most vulnerable people and societies in the developing world. Given the stringent measures put in place by governments, resolute action from private investors is more essential than ever to support what are often vulnerable populations operating in informal, cash-based economies . Additional energy and efforts will be put in sector initiatives following COVID-19 pandemic.

Happy reading,

ACTIAM & DWM



3. PORTFOLIO HIGHLIGHTS[2]

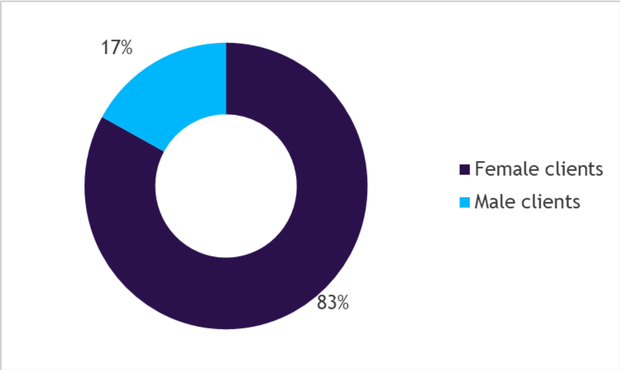


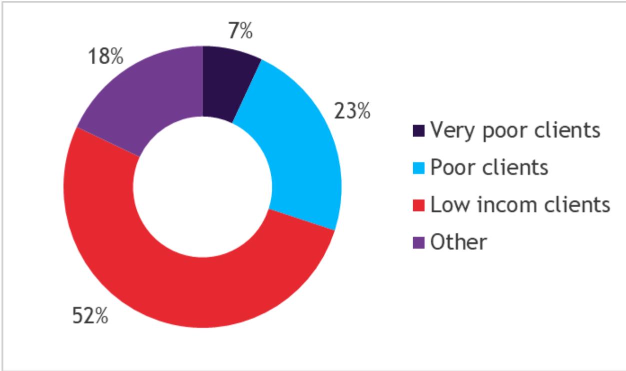
KEY FACTS

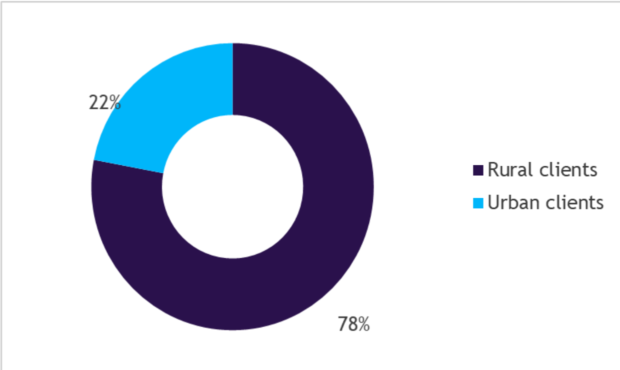
Nr of MFIs reached 2019	Nr of clients reached by the MFIs in 2019	Wgt. Average loan size	Wgt. Average deposit size	Female vs Male clients	Rural vs Urban clients
48	8,450,110	€4,352/ €2188*	€4,471/ €2,997*	83% vs 17%	78% vs 22%

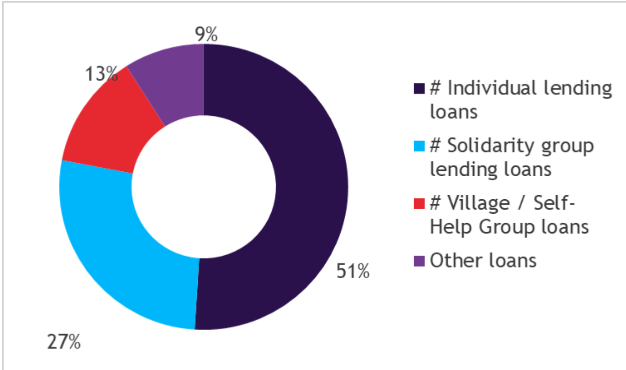
2 Please note that some of the FIIs did not report the numbers required to calculate some of the (weighted) averages and as such were not included in the calculation. The data is however still a very good representation of the portfolio.

End client exposure 2019[3]

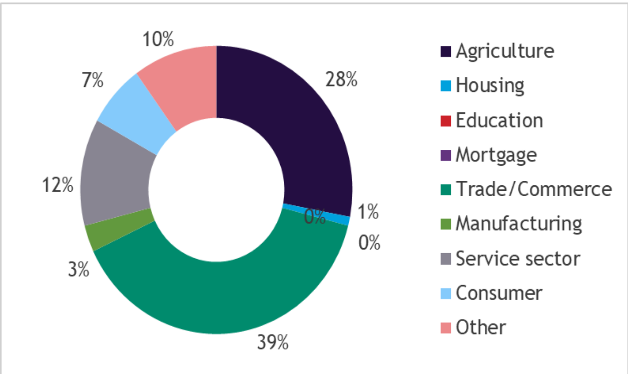




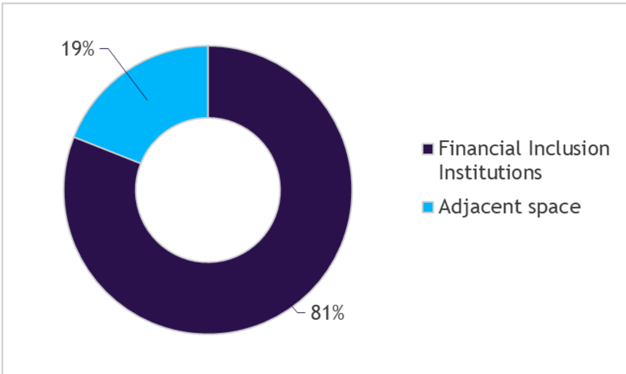




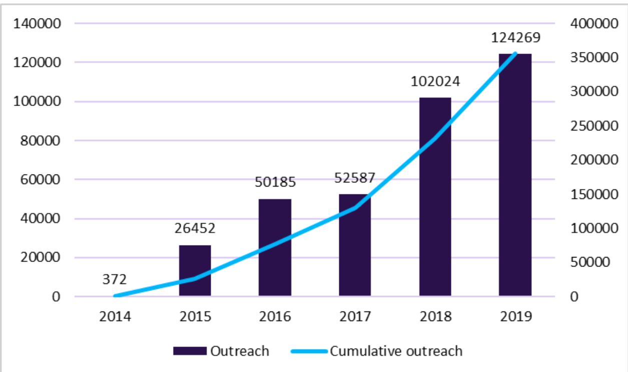
End client sector exposures 2019



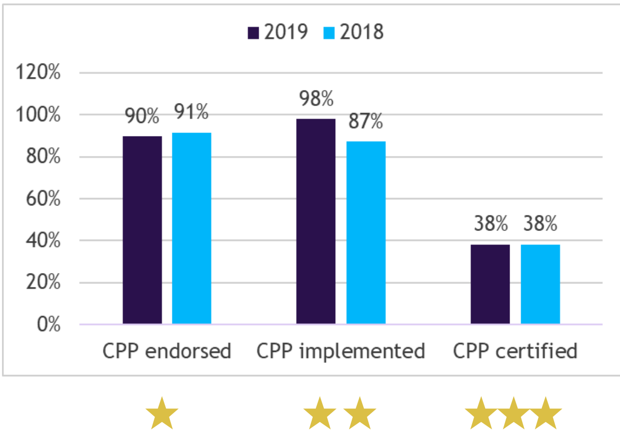
Type of investments (adjacent space investments)



Borrower outreach



Responsible lending practices[4]



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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.

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

4. FINANCIAL INCLUSION OF MICRO, SMALL AND MEDIUM ENTERPRISES

Assessing the impact of enabling access to finance on poverty alleviation and well-being remains challenging. Reported impact varies greatly across countries and 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. 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 as to catalyse equitable sustainable development by investing in local FIIs. 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 SDGs[5].

Impact themes

ACCESS TO FINANCE	CLIENT-CENTRIC APPROACH	ORGANISATIONAL DEVELOPMENT
Improving access to finance for low income people in emerging and frontier markets.	**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.**	**Prompting FIIs to improve the quality of their reporting on financial and nonfinancial performance according to generally agreed upon standards.**
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.	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.	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.

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

Social profile of the Fund FYE 2019[6]	Sustainable Development Goals					Fund impact themes		
Fund results contribution	Financial inclusion related SDGs							
(equal) access to finance | expand access to finance | MSME growth ➔ 355,890 micro entrepreneurs reached since Fund inception of which 124,269 during 2019 with an average exposure per borrower of € 4,352 and an average deposit size of € 4,471 ➔ Reached 48 FIIs in 25 countries in 2019 and 62 FIIs in 30 countries since Fund inception ➔ Exposures in 10 local currencies and 2 hard currencies	1	2	5	8	9	●	●	●
supporting men and women | equal access to finance | women empowerment ➔ 78% women, 22% men	1	2	5			●		
serving the poor | serving the vulnerable |equal access to finance |developing countries ➔ Socioeconomic category* 1. Very poor: 7% clients, 13% GLP 2. Poor: 23% clients, 25% GLP 3. Low income: 52% clients, 6% GLP 4. Other: 18% clients, 55% GLP ➔ 78% of exposure is to rural clients	1	2	5	9		●		
supporting agriculture ➔ 78% pf exposure to rural, 22% to urban clients	2					●		
financial risk protection ➔ 85% of FIIs offer savings products where regulations allow (48% of portfolio) ➔ 58% offers insurance ➔ 29% offers access to financial and non-financial services (e.g. business development training)	3					●		
enabling technology ➔ A growing number of FIIs are providing mobile banking	5					●	●	
formalisation of FIIs | capacity strengthening | regulation of FIs | monitoring of FIs ➔ 90% endorsed Client Protection Principles (CPP), 98% implemented CPPs, 38% is CPP certified ➔ 96% cooperates with other FIIs and/or credit bureaus to verify clients' debt level	8	10					●	●
small-scale enterprise ➔ Adjacent space bucket allows for SME lenders, 6 adjacent space of which 5 offer SME loans in portfolio	9					●		

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

[6] 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.

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 MSME 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 way of investing 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[7] 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)[8] 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)[9], 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 a desk research and an onsite due diligence visit to each FII prior to each investment. An integral part of the due diligence consists of visits to MSMEs, the ultimate benificials 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:

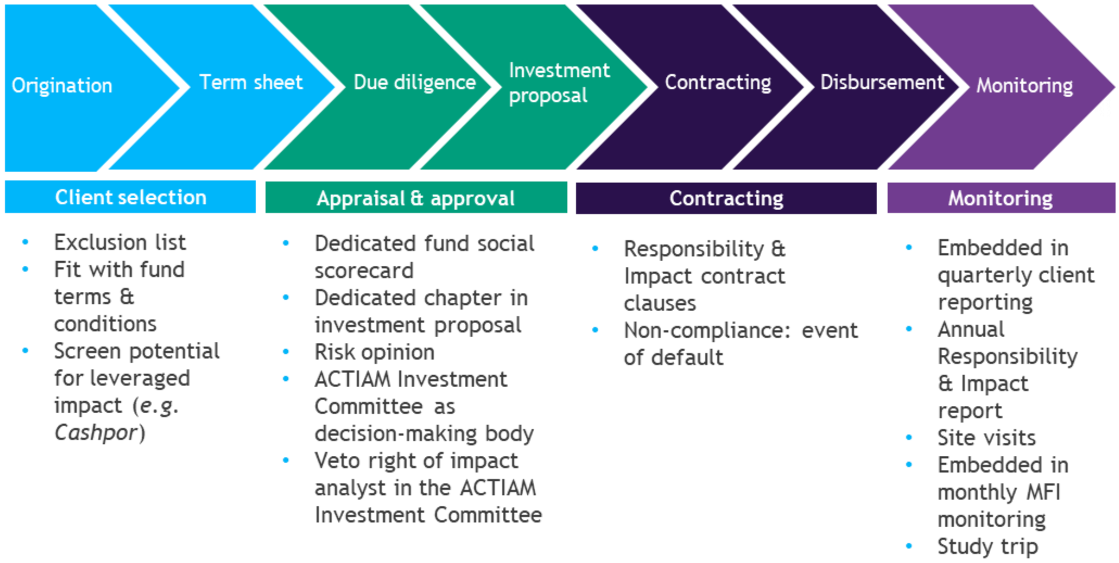
- Investment memo, risk opinion and relevant additional materials (such as country updates)
- Outcomes of the Impact Questionnaire & Scorecard
- Written answer by DWM to questions posed by ACTIAM Investment Committee (ACTIAM IC)
- Investment committee discussions (i.e. online meetings/conference calls between DWM and ACTIAM IC members)
- Relevant external sources

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

7 https://www.actiam.nl/nl/documenten/verantwoord/Documents/Fundamental_Investment_Principles_Companies.pdf
8 https://www.actiam.nl/nl/documenten/verantwoord/Documents/Fundamental_Investment_Principles_Companies.pdf
9 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

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

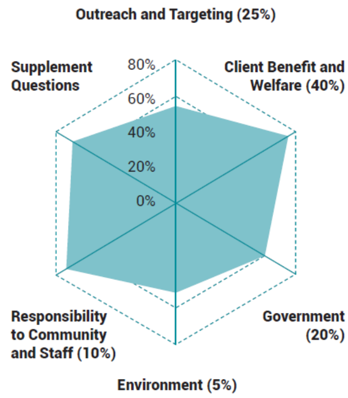
Figure 1 – AFIF investment process from responsibility & impact perspective



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. The tool contains approximately 60 indicators to evaluate impact across five dimensions and is 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 (40%)	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 (5%)	Internal environmental policies Environmental education & promotion
Governance (20%)	Mission and vision Salaries, remuneration & incentives



As part of our impact monitoring process in 2019, we asked each borrower to indicate whether it commissioned an external party or internal team to evaluate its impact outcomes. 27 out of 48 FIIs in the portfolio attest to conducting an external ESG report, and 13 others periodically provide internal reporting on their environmental and social impact. There were several impact rating agencies and frameworks used across the portfolio, but the two most frequently used in external reports were GIIRS and MicroFinanza Ratings. For internal studies of poverty levels of clients, Poverty Probability Index (PPI) was the most common tool employed. Findings from this exercise include the following:

- The most frequently used external study was the MFR social rating report. While the social rating across all reporting FIIs was broadly strong, the most common deficiency came in the formalization of goals, particularly the social goals of the lender. Lenders were thought to need more development of the social goals and when the goals were concrete, needed more defined targets and indicators of success. Analysis of the reports found that client drop-out rate was one of the most frequently used KPIs for understanding social success.
- One NBFI in South Asia conducted a social impact report to assess the positive impact of their lending and focused on inclusion by documenting the uptick in gender diversity and low socio-economic status borrowers, including first

time borrowers. This inclusion also focused on providing access through digitalization. They also investigated the indirect impact such as improved job creation and increased entrepreneurship.

- Another South Asian FII conducted a variety of studies including the Progress out of Poverty report, a client satisfaction report, and a staff satisfaction report. The staff satisfaction assessed the FIIs employee satisfaction and loyalty and addressed how the FII could improve in both these areas.
- An EECA based FII shared their internal ESG risk memo which provides guidance to loan officers in identifying, assessing and reporting ESG risks within the clients portfolio and based on performance, offers the loan officers a guide for re-assessing the client for ESG risks if and when the reapply for loans.
- Another EECA based FII conducted their social report as a means of tracking their fulfillment of their social objectives which focuses around expanding the depth and quality of their services. The report annually tracks and seeks improvement in percentage of clients in both socio-economic and demographic factors. It also tracks and seeks improvement in client satisfaction and access to services on an annual basis.
- One borrower in South America presented the specific verifications from its CPP certification, allowing for a transparent view into the company's practices. The report covered the following areas: suitability of products and client service, over-indebtedness prevention, transparency, responsible pricing, respect of clients, privacy of client information, and a mechanism for client complaints.
- One borrower in Central America commissioned an external review of a study tracking improvements in standards of living across a sample group of clients. In order to measure improvements in standards of living and to examine theories of change, the study measured 13 indicators and 15 questions across 4 dimensions – a) development of the client's business b) changes in household wealth c) changes in the degree of economic resiliency (which included a gender lens for some questions) and d) changes in conditions of health and sanitation.

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

PORTFOLIO HIGHLIGHT RESPONSIBLE INVESTMENTS IN PRACTICE: BANCO POPULAR

The last bullet point of the findings above reflects Banco Popular. Banco popular, with headquarters in the capital city of Tegucigalpa, is Honduras' leading microfinance institution providing credit and savings products to micro- and small business in the country. The Company was founded in 2004 and has operated as a fully regulated banking institution since 2011. Banco Popular offers a diverse suite of financial products available to clients that includes not only credit, but also savings and insurance and is largely oriented to productive microcredit and small business lending.

In the 2017 update of the Operational Plan, the organization committed itself to positively impact the well-being of Honduran families and communities and promoting the responsible use of resources. Several programs were put in place to work on this commitment.

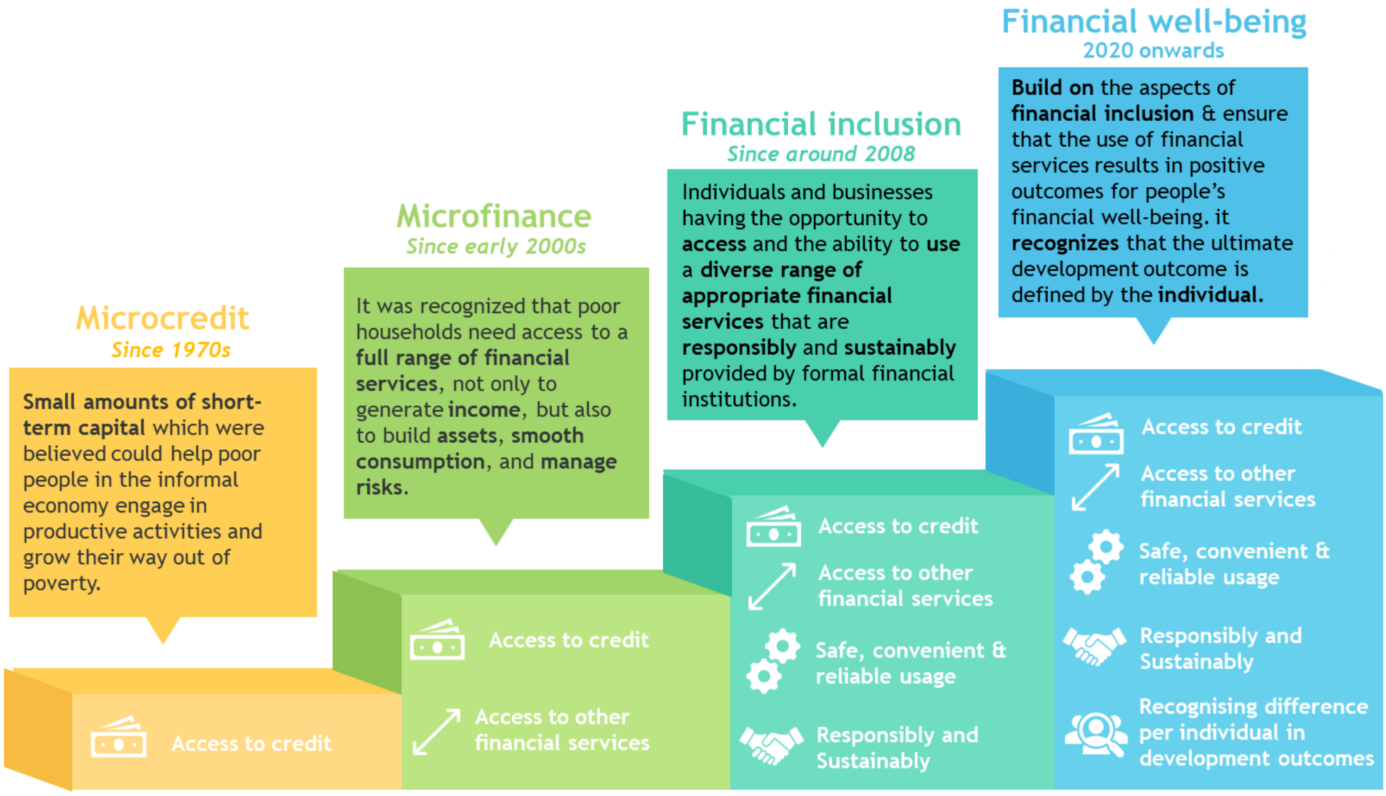
The Bank is now certified by an external rating agency on the Smart Campaign's Client Protection Principles. Banco Popular is also part of the Climate Change Committee which is led by the Global Alliance for Banking on Values (GABV) and of the core team of the PCAF Platform for Carbon Accounting Financials at a Latin American level. Within its own organization and with the support of the GABV, it is working on the implementation of a scorecard based on the principles of securities banking, which allows a holistic view of the bank's activities, valuing the intermediation of the real economy and financial economy (Triple Bottom Line) generating impact on people, the planet and prosperity through its business model.

Banco Popular employees contributed over 1100 hours of community service hours in 2019 on trips to clean beaches and promote reforestation.

UPDATING THE FUND'S RESPONSIBILITY AND IMPACT FRAMEWORK

In 2020, we started an update of the Fund's Responsibility and Impact framework, following lessons learned, sector developments and changes in the regulatory landscape. In terms of development outcome, we aim to move to a next paradigm in the development of the sector where we ensure that the use of financial services results in positive outcomes for people's financial well-being (figure 3). During the second half of 2020, we will finalize the conceptual framework and prepare an updated social scorecard, leading to an updated Responsibility & Impact Report in 2021.

Figure 3 – Towards financial well-being



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.[10]

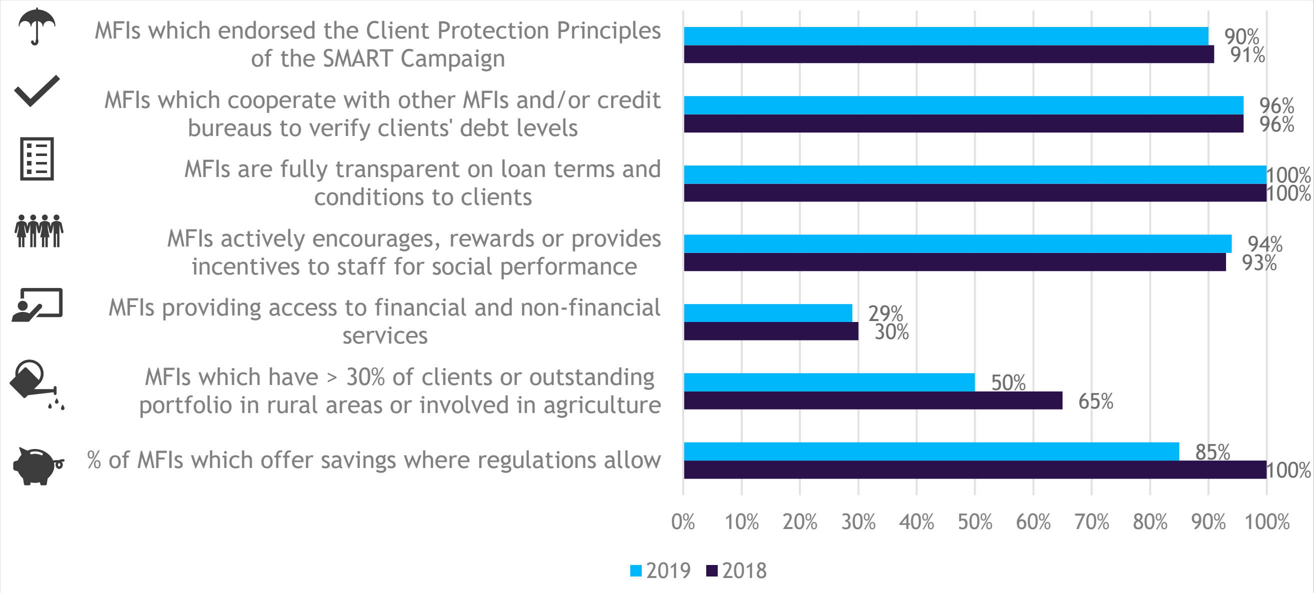
Inclusive finance is embedded in the primary reporting framework of the PRI, and in 2020 it was the first time reported accordingly. Results are expected to be published during the summer of 2020.

In the, last old-format, 2019 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

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

Finance approach (PIIF section). In comparison to 2018, the score remained unchanged. ACTIAM and DWM continue to be involved in and dedicated to the PRI.

Figure 2 - Translation of PIIF to Fund investees – year end 2019 results



INDUSTRY DEVELOPMENTS 2019 ACHIEVEMENTS

- **Principles for Responsible Investment (PRI)**

In February 2019 the PRI board, in consultation with PIIF signatories, has decided 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.

The move in 2019 to integrate inclusive finance into the PRI's core work streams includes producing guidance on inclusive finance – as the PRI does across other asset classes – and folding the previously distinct inclusive finance reporting into the primary PRI reporting framework. This will then be built on to roll out outcome-based reporting beyond inclusive finance to other thematic/impact investments in the reporting framework, based on areas covered by the Impact investing market map (of which ACTIAM is co-author of the financial inclusion theme). The PRI Market Map links 10 societal themes with specific SDGs and their respective targets indicators and provides information to improve knowledge and awareness of the impact investing sector. Its goal is to bring more clarity to the process of identifying mainstream impact investing companies and thematic investments so that asset owners and fund managers can better assess opportunities in this market. The PRI Market Map constitutes another milestone in a trajectory to further professionalise and mainstream the impact investing sector.

- **IRIS and the Global Impact Investing Network (GIIN)**[11]

The GIIN released the IRIS+ system in 2019. Designed with input from hundreds of leading impact investing practitioners from around the world, including ACIAM, IRIS+, is now a comprehensive self-guided system that will guide investors to core metrics sets by investment theme and SDGs as well as to how-to implementation guidance, templates, and other relevant resources. Key characteristics of core metrics sets:

  - Are built based on the evidence and best practice gathered by the Navigating Impact project and leverage the GIIN's decade of managing IRIS.
  - Are a critical element of establishing a shared language among impact investing actors - Core metrics sets outline the essential key indicators and metrics recommended to measure and describe impact alongside the "five dimensions of impact".

- **Smart Campaign**

The Smart Campaign launched the Consumer Protection Standards for Digital Credit (Digital Credit Standards for short) in June 2019, and incorporated the Campaign's expertise in consumer protection, field research by the Campaign and

11 May 2019, GIIN launched the IRIS+ several sources: https://iris.thegiin.org/, and https://iris.thegiin.org/history/

others, collaboration with digital financial service providers through the Fintech Protects Community of Practice and on-the-ground testing with digital credit companies. With an emerging consensus around the importance of responsible digital credit, demand is rising for a shared set of criteria to assess the practices of digital lenders. Investors and regulators want a way to evaluate consumer protection practices among the financial service providers they invest in or regulate. Digital financial service providers also want guidance to improve their practices and demonstrate that they are committed to putting responsible finance into action.[12]

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 2020, we expect to witness several industry updates and will keep fund participants informed about any (proposed) changes potentially affecting the fund in due time.

- **Joint Impact Model**

  We are participating in a pilot of 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. The resulting JIM will become publicly available for all impact investors and other interested parties after successful completing of the pilot (planning: September 2020).

- **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. Financial inclusion can help people facilitate investments in their health, education, and businesses and to manage financial emergencies more easily and as such, contributes to 7 of the 17 SDGs (figure 5). Figure 4 indicates the percentage of AFIF investees who identify their mission objectives with the SDGs[13]. By adopting impact-specific dedication clauses in the loan agreement and/or by partnering with organizations that have local networks, expertise and track record, societal and environmental results beyond inclusive finance outcomes can be achieved. As such, AFIF funding can have an additional positive impact linked to achieving the SDGs - for example in the areas of gender equality, safe sanitation, green leasing, etc. The client story following this chapter highlights CASHPOR. The Fund's firsts leveraged impact investment and disbursed early 2019.

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

SDG Combinations*	% of FIIs
SDG 1 or 8	96%
At least 1 SDG	100%
At least 1 Green SDGs (2,6,7,12,13,14,15)	71%
2 or more SDGs	94%
5 or more SDGs	65%

12 https://www.smartcampaign.org/storage/documents/Digital_Credit_Standards_June_2019.pdf
13 Figures are Self-Reported --- Borrowers are encouraged to list products and services as supporting evidence.

Figure 5 - SDGs linked to financial inclusion and to fund results FYE 2019

	Connection between the SDGs and financial inclusion	*Related fund results FYE 2019*
1 NO POVERTY	Global access to financial services by 2030, including all men and women and in particular the vulnerable	• 75% loans finance income generating activities • 69% FIIs have an average borrower exposure below GDP per capita
2 ZERO HUNGER	Secure and equal access to financial services as a means to double agricultural productivity and incomes of small-scale food producers by 2030	• 78% of client exposure is to rural clients • 28% of the FIIs portfolio is invested in agriculture • 29% incentivises rural outreach
3 GOOD HEALTH AND WELL-BEING	Financial risk protection against health related expenditures	• 42% of MFIs offer life insurance
5 GENDER EQUALITY	Equal access to economic resources and financial services and enhancing the use of enabling technology to promote empowerment of women	• 83% of client exposure is to women • 23% of FII have incentives that encompass female outreach • 31% of FIIs offer mobile banking services
6 CLEAN WATER AND SANITATION	UN SDGs do not list a contribution of financial inclusion to reach this goal. The Fund caters to this SDG through its leveraged impact investments.	• 35,000 toilets to be financed through FIIs
8 DECENT WORK AND ECONOMIC GROWTH	Formalization and growth of micro-, small- & medium-sized enterprises and capacity strengthening of domestic financial institutions to expand access to financial services	• 8.5 million clients reached by FIIs • 90% of FIIs endorsed the Client Protection Principles • 50% of final beneficiaries are microenterprises
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Increasing access to financial services for small-scale industrial and other enterprises, in particular in developing countries	• 39% of clients are active in the manufacturing, trade/ commerce or service sector • 5% of Gross Loan Portfolio is invested in SMEs
10 REDUCED INEQUALITIES	Social, economic and political inclusion of all. Encourages a reduction in costs of migrant remittances and regulation and monitoring of global financial markets and institutions	• 78% of client exposure is to rural clients • 65% of clients are considered low income • 13% of clients are considered poor or very poor • 29% offers remittance services

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

Pandemics hit the most vulnerable people and societies hardest. COVID-19 is no exception and is all about impact. Fighting it, recovering from it, and building a better, more resilient world after it are all about impact. The UN (2020)[14] has projected how the COVID-19 situation can affect each of the SDGs (figure 4), which in turn will have bigger ramifications on the global mechanisms of sustainable development. Almost all the SDGs will be detrimentally affected in more ways than one, cutting across issues of the economy, society and the environment. Perhaps the most striking example is the outcome of a report showing that the economic impact of COVID-19 could increase global poverty for the first time in three decades, pushing more than half a billion people – or 8% of humanity – into poverty. Reaching the SDGs however, makes families less vulnerable to pandemics as this one, it makes them better equipped to protect themselves and able to visit and afford qualified health practitioners in case needed.

The importance of impact investing as a tool to contribute to a more sustainable and equitable world is stressed more than ever in the wake of the COVID-19 outbreak. The resilience that financial inclusion can offer to low income households and (emerging) MSMEs is crucial in countries that have little public support to fall back on. Financial inclusion can provide the well-needed buffer to cope with the social and economic impacts of the pandemic. When executed in a responsible manner, financial inclusion can provide the resilience and can create opportunities to limit to long-term negative impact of the pandemic and contribute to people's wellbeing.

- **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,[15] 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 author of this statement.[16]

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

  Leading microfinance and impact fund managers have signed a MoU on debt refinancing coordination principles to support the sector during the COVID-19 pandemic. DWM, the investment manager of AFIF was one of the leading parties and initiators of this initiative, and it is both the belief of ACTIAM and DWM that such close coordination to support all stakeholders effectuates better outcomes for all parties:

  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

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

Figure 7 - COVID-19 AFFECTING ALL SDGS[17]

Source: UNDESA

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17 Source, UNDESA, SHARED RESPONSIBILITY, GLOBAL SOLIDARITY: Responding to the socio-economic impacts of COVID-19, March 2020

6. IMPACT CASE STUDY | CASHPOR MICRO CREDIT IN INDIA

FINANCING FOR INCLUSIVE SANITATION

Mrs. Nirma Devi lives in a village called Jogia, in the Uttar Pradesh (UP) state of India. UP is a state in Northern India and with roughly 200 inhabitants, the most populous and one of the poorest states in India and the world. She lives with her husband, their four children and her parents-in-law. Before 2007, they used to have a challenging financial situation till the point where they sometimes had to sleep without food. She became a regular member of CASHPOR Micro Credit (CASHPOR) in 2007 and now has a small house with two rooms and a buffalo at home. After some time, she became eligible to receive a Water Sanitation and Hygiene (WASH) loan with which she built a toilet inside her house. This increased the level of comfort, health and safety for her family and especially for her mother-in-law who has some health issues.

WATER, SANITATION & HYGIENE: A CONTEXT

Safe water, sanitation and hygiene (collectively known as WASH) is crucial for human health and well-being, declared a human right in 2010 and a facilitator of access to other rights and development goals. WASH is therefore both an end in itself - reflected in four out of seventeen SDGs - as well as a driver of broader SDG progress.

Human right to water

Obliges governments to ensure that people can enjoy clean, available, acceptable, accessible, and affordable water and sanitation. It is inextricably related to the right to the highest attainable standard of physical and mental health, as well as the right to life and human dignity (Human Rights Council).

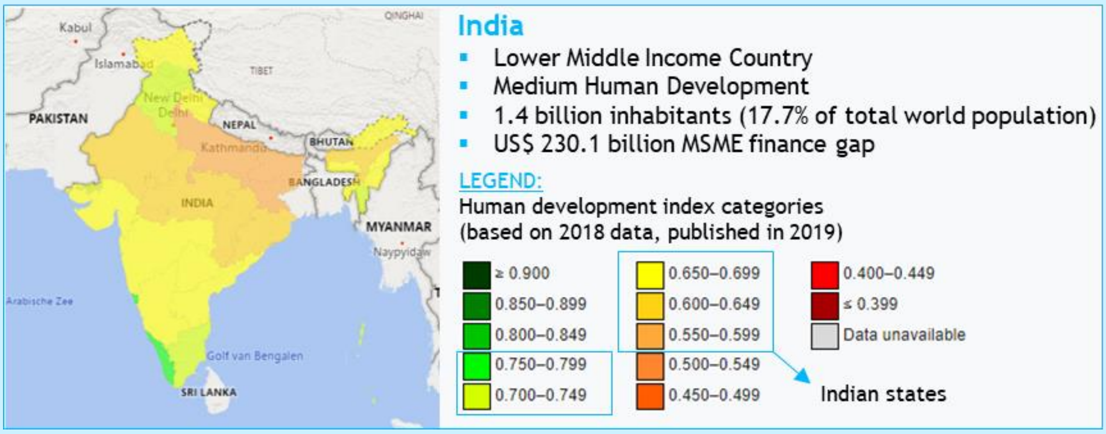
SDGs directly related to WASH

Universal adequate & equitable access

Provide safe learning environments for all

Equal rights to basic services

Access to quality essential health care services



CASHPOR

CASHPOR is a Tier I microfinance institution (MFI) operating across five states in India and through 639 branches serving almost 956,767 borrowers, who are mainly agricultural labourers, with almost 1.3 million loans outstanding. The company operates in some of the most economically marginalized Northern states in the country.

CASHPOR is one of the oldest MFIs in North India and has built a strong reputation as a poverty-alleviation focused MFI catering to the poorest districts of India. Its mission is then also to identify Below Poverty Line (BPL) women in the rural areas and deliver financial services to them so that they can lift themselves and their families out of poverty.

CASHPOR has grown into a self-sustained Micro Finance Institution which offers innovative products and services to underprivileged women to help them improve their financial situation and provide social security.

CASHPOR | INDIA		
	2019	
	4,398	Employees
	639	Branches
	US $ 158.1 mln	Gross loan portfolio
	US $ 11.7 mln	Net income
	US $ 143 mln	Average loan size
DWM arranged a total transaction of:		US $ 3.0 mln
AFIF Loan:		US $ 3.0 mln equivalent in INR

INNOVATIVE FINANCING

CASHPOR formed a partnership with FINISH in July 2012 when the need to upgrade the sanitation facilities in the operational areas was acknowledged by CASHPOR. An estimated 16%-24% of the population in rural areas has access to sanitation facilities and 1% to piped water.

The Fund provided a three-year loan to CASHPOR in 2019 which also serves as a pilot for the Sanitation Impact Bond (SIB) developed by Finish Mondial. The SIB pilot programme with CASHPOR is being implemented in four states of India, with an objective to add 35,000 toilets, and set out and test the contractual arrangements, the working of the bond structure, the capacity development measures, the measurement of the impact linked to loan conversion and toilet use. In addition to this leveraged impact angle, the MFI has a financial incentive to reach the impact (to be verified by FINISH and an external accountant) in the form of a 1% discount on the interest rate of the AFIF loan, provided by FINISH.

By year-end 2019, Cashpor had installed 173,960 toilets and sanitation systems. Although Cashpor noted at least 183,657 people were benefited by the program, there are likely more people benefiting due to limited data on how many family members live with each loan client. At Cashpor, there are 3,081 staff members supporting the loan program including employees who support the lending process as well as employees who create awareness for sanitation loans.

Similar partnerships with other FIIs and impact investors are underway, and the full SIB will aim to mobilize € 100 million from institutional investors and high net worth individuals. The intended impact is an additional 500,000 safe household sanitation systems built in 2 years, benefitting approximately 2.5 million more people.

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 take into account the borrower repeat rate (1- repeat borrower rate).

9. DISCLAIMER

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