RESPONSIBILITY AND IMPACT REPORT 2020

ACTIAM-FMO SME Finance Fund I

Content

ACTIAM-FMO SME FINANCE FUND I

Closed-end fund for joint account

1. About

Fund Manager	Investment manager
ACTIAM N.V.	**FMO Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.**
De Entree 95 1101 BH Amsterdam P.O. Box 679 3500 AR Utrecht The Netherlands	Anna van Saksenlaan 71 2593 HW The Hague P.O. Box 93060 2509 AB The Hague The Netherlands

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 engagement program since 1995. With over 100 staff we manage € 58.1 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.

FMO NEDERLANDSE FINANCIERINGS-MAATSCHAPPIJ VOOR ONTWIKKELINGSLANDEN N.V.

FMO is the Investment Manager of the Fund. FMO is the Dutch entrepreneurial development bank. As a leading impact investor, FMO supports sustainable private sector growth in developing countries and emerging markets by investing in ambitious projects and entrepreneurs. FMO believes that a strong private sector leads to economic and social development and has a 50-year proven track-record of empowering people to employ their skills and improve their quality of life. FMO focuses on three sectors that have high development impact: financial institutions, energy, and agribusiness, food & water. With a committed portfolio of EUR 9.3 billion spanning over 80 countries, FMO is one of the larger bilateral private sector developments banks globally.

Some of FMO's investment management activities for the Fund are performed by FMO Investment Management B.V. (FMO IM). FMO IM is an investment firm that creates access for investors to invest in FMO's deal flow of sustainable emerging market investments. FMO IM matches investor appetite with FMO's expertise. The resulting fund propositions in private debt have the size and institutional quality required by professional investors. The portfolios FMO IM advises on or manages aim to generate an attractive financial return and meaningful development impact. FMO's profitable long term track record proves that these two can go hand in hand.

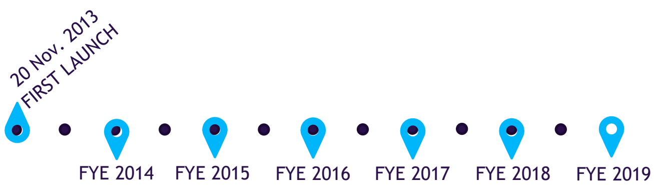
2. Management Note

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 small- and mdium entreprises (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 FMO continue to support emerging market SMEs through continued investments within the Terms & Conditions of the ACTIAM-FMO SME Finance Fund (the Fund/SMEFF) in order to help them overcome the current crisis. We believe continued support of the MSMEs enables better outcomes for both financial and social returns.

In this seventh 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. Despite the COVID-19 crisis the Fund showed a net positive return of 0.8% and an IRR since inception of 2.6%, slightly below its long-term targets. From an impact perspective 2020 marks another year with a growing SME portfolio at the financial institutions invested in, in line with the impact strategy of the Fund.



2019 results *(1-1 / 31-12)*

Number of countries	29
Number of financial institutions	46
Number of SMEs supported by the institutions	370,059
Aggregate SME portfolio	€ 13.2 billion
SMEFF investments	€ 30.2 million
SME share in the SME Bank's portfolios	44%
Fund's estimated outreach	819
Jobs supported	5704

The Fund invested €345 million over the lifetime of the Fund till year-end 2020 and was invested in 28[1] countries and 45[2] financial institutions at year-end 2020. These institutions together finance over 250,000 SMEs. The aggregate outstanding portfolio of SME loans at the financial institutions invested in, amounts to € 13.2 billion (down € 2,5 billion from 2019), representing on average 42%[3] of their loan portfolios. In 2020, the Fund has provided access to finance to an estimated additional 712[4] SMEs, resulting in a cumulative Fund outreach of 7,619 SMEs. At the same time, the Fund supports over 10,700 jobs with the new participations over the past year and around 65,000 since 2015.

The Fund (re-)invested just over €30 million during 2020 (same as in 2019) and witnessed growth of the SME portfolio in 59% of the institutions invested in. During 2020, the aggregate SME portfolio of the financial institutions invested in, grew by 12%. Over the lifetime of the Fund, this amounts to an 33% increase. This growth enables local SME companies to attract suitable finance to support the development of their business. Furthermore, all investments comply with applicable internationally accepted social and environmental standards as mentioned in the terms and conditions of the Fund and

[1] Please note that three entities in the Fund have regional exposure hence indirectly the Fund is invested in more than 29 countries.
[2] Please note that Chase Bank is not included in any of the calculations in the report as this entity is valued at 0.
[3] Please note that the SME percentage has been revised after the publication of the annual report, causing a change of 0.03% and tipping it from 43% to 44%.
[4] Please note that the Fund outreach has been revised after the publication of the annual report, causing a change from 846 to 819.

adhere to the funding condition of implementing an Environmental & Social Action Plan to improve Environmental & Social (E&S) management, if required.

This year's report highlights Access Bank Ghana, a subsidiary of Nigerian Access Bank Plc with offices across Africa. The bank provides tailored services to SME clients across Ghana, which through its "W-Initiative", positions itself as the bank of choice for women. The Fund supports Access Bank Ghana to strengthens the Banks loan book. Wherein a portion of the facilities are set aside exclusively for female-led SME's.

We look forward to building on the results achieved so far by continuing to invest in promising financial institutions with significant exposure to the local SME sector in developing countries. As such, we direct our efforts to make a positive contribution to decent work and economic growth as represented by Sustainable Development Goal (SDG) 8. Increasingly, Fund investments are aligned with not only providing finance to SMEs but realising additional impact by incorporating SDG 5 (gender equality) and SDG 10 (reduced inequalities) and support innovation, linking to SDG 9 (industry, innovation and infrastructure), for example through FMO's FinForward platform. This has increased relevance in today's context, as reaching the SDGs - and financial inclusion as a means to reaching the SDGs - can help families and businesses to protect and equip themselves for external shocks such as a pandemic. With the Fund we unabatedly work on contributing to close the finance gap for SMEs in order to reach these goals. Having said that, we also need to face the reality of a likely lower return over 2021 due to the pandemic and of a natural decrease in investment pace for the Fund in 2021 and beyond. Since November 2020, the remaining Fund term is less than 5 years, which means we can only invest in FMO loans with a tenor shorter than 5 years. As most FMO loans have a tenor of 5 years or longer, the Fund has entered into its wind-down phase and is increasingly redistributing cash to Participants. The investees of the Fund can continue to support their clients in overcoming these challenging times by the funding provided.

Happy readings,

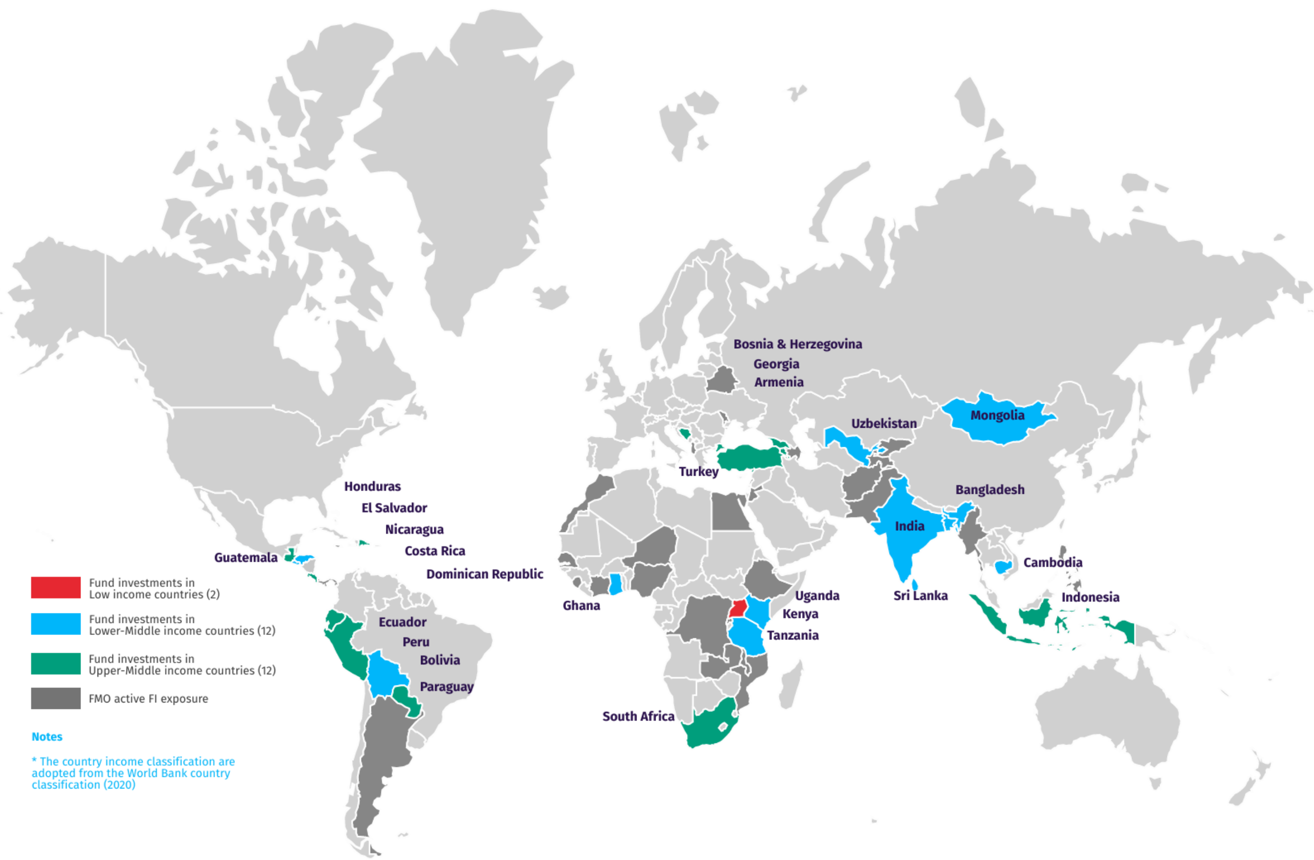
ACTIAM & FMO

2020 results *(1-1 / 31-12)*

Number of countries	28
Number of financial institutions	45
Number of SMEs supported by the institutions	256.504
Aggregate SME portfolio	€ 13.2
SMEFF investments	€ 36 million
SME share in the SME Bank's portfolios	42%
Fund's estimated outreach	712
Jobs supported	10700

3. Portfolio Highlights

Figure 1 – Fund portfolio country exposure overview as per year-end 2019



	% of portfolio	Outstanding SME portfolio	Number of FIs	Estimated SME outreach	Jobs supported
LATIN AMERICA					
2020	41%	7,332	20	121	8593
2019	49%	6,000	19	287	1999
AFRICA					
2020	10%	1,763	6	0	372
2019	13%	1,739	6	126	187
EASTERN EUROPE AND CENTRAL ASIA					
2020	14%	969	7	198	284
2019	15%	3,167	10	178	2724
ASIA					
2020	22%	3,096	11	393	1470
2019	22%	4,729	10	228	794

= % of portfolio in the region = Outstanding SME portfolio of the financial institution (€ mln)
= Number of portfolio financial institutions in the region = Estimated Fund SME outreach in the region of 2019 new investments
= Jobs supported

4. Client story | Investing with impact

Stuck in the micro bubble

Located on the West Coast of Africa and bordering Benin, Togo, and Burkina Faso, Ghana was the first Sub-Saharan African country to regain its independence in 1957. Thanks to its steady increase in production of cocoa, oil, and gold, Ghana has been named the world's fastest-growing economy according to the International Monetary Fund. The country has around 30 million inhabitants and what makes Ghana remarkable is that it champions all other countries by having the highest percentage of female business owners at 46.4%. In fact, the women labor force participation rate is 96.1%, challenging the preconceptions many might have of African countries.

That said, it is not all good news. While Ghana's business ecosystem is indeed significantly powered by female entrepreneurs, it is estimated that around 80% of all the entrepreneurs in Ghana are unable to escape the "micro bubble". With limited access to credit options and financial technology, combined with lacking infrastructure, the possibility of growing their business beyond a micro enterprise remains limited for most entrepreneurs. Should a business prove to be successful, expanding from their own home or small kiosk is challenging, if not impossible. With interest rates sometimes as high as 50%, capitalizing on one's initial success remains a pipe dream for most MSME businesses.

Being the bank of choice

Access Bank Ghana is a subsidiary of Nigerian Access Bank Plc, a full-service commercial bank with over 500 branches across Nigeria and offices across Africa with whom FMO has partnered for over 15 years. They provide comprehensive banking and financial services on a personal, business, and corporate level. Access Bank Ghana offers tailored services to SME clients across the country. What makes Access Bank truly stand out is its "W-Initiative", which aims to position Access Bank Ghana as "the bank of choice for women". By offering both (digital) financial and non-financial services, particularly aimed towards women, the W-Initiative has helped Access Bank Ghana position itself as a "one-stop shop" providing invaluable solutions and expertise to an underserved market. As barriers are reduced, it is likely that the percentage of women entrepreneurs will accelerate.

The FMO Loan

Since Access Bank Ghana's launch in 2009, they have had a close relationship with FMO. The most recent loan was a USD 25 mln senior loan facility, with the goal of strengthening the bank's loan book. A portion of the facility was set aside exclusively for female-led SMEs, further solidifying Access Bank Ghana's efforts to better serve and reach the growing women entrepreneurship field.

"Being a bank is more than providing financial services"

5. Closing the finance gap for SMEs

In both developed and developing countries, SMEs generally represent more than 90% of enterprises. They play a major role in most economies, particularly in developing countries. Formal SMEs contribute up to 45% of total employment and up to 33% of national income (GDP) in emerging economies. These numbers are almost doubled when accounting for the sheer number of informal businesses with nine out of ten new jobs worldwide being created by small businesses. We need nearly 3.3 million jobs every month in emerging markets by 2030 to absorb the growing workforce. SMEs are more likely to generate jobs, and at a faster pace, when they have access to finance. All the while, lack of access to finance is one of the biggest hurdles small businesses face that prevent them from growing and creating jobs.

Banks play a key role in providing this much needed financing to SMEs. At the same time, an increasing number of innovative players is entering the market space, offering new products and services to the SME clientele. Paragraph 1.10 of the annual report 2020 presents a Fund specific overview of developments and an outlook with regards to reducing inequalities through access to finance.

5.1 OVERCOMING BARRIERS TO SME GROWTH

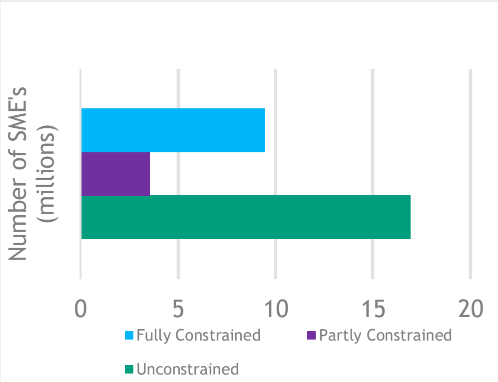


Figure 2 - Financially constrained SMEs (mln.)(IFC, 2020)

One of the key barriers to SME growth in lower income countries remains insufficient access to finance. SMEs often face difficulties in securing bank loans as their financing needs are often too large and too complex to qualify for microfinance. Regular banks are also reluctant to engage with SMEs due to higher transaction costs and the lack of adequate collateral. On average, 32% of formal SMEs in all developing countries are fully constrained, 12% are partially constrained and 57% are unconstrained to access to formal financial credit (IFC, 2019). Most recent estimates present the SME finance gap at US$ 4.1 trillion. The unmet demand from SMEs is 55% of the potential demand for this segment, valued at US$ 8.6 trillion. SMEs represent 13% of the number of formal credit constrained MSMEs in developing countries, but account for 86% of the MSME finance gap in US$ terms.

5.2 DEDICATION TO SME FINANCING AND A STRATEGIC INTENTION TO GROW IN THIS SEGMENT

The Fund was launched in order to capitalise institutional investments with the intention to support further development of the SME sector in emerging countries. By providing financing for SMEs with a long-term character, ACTIAM and FMO aim to provide growth capital to those SMEs facing difficulties when obtaining access to capital. Therefore, three impact themes are formulated.

- Realisation of social-economic impact through facilitating and contributing to improved access to finance for SMEs (i.e. closing the financing gap);
- Realisation of economic impact through the financing of economic activities through local banks, which in turn results in private sector development and employment creation;
- Realisation of social impact in the SME sector by financial institutions through capacity building and quality improvement regarding responsible business development. This is realised as a result of support activities by FMO.

REFLECTING ON STRATEGIC INTENTIONS & PORTFOLIO CONTRIBUTION TO CLOSING THE FINANCE GAP

The Fund solely invests in debt instruments issued by financial institutions that provide access to finance for SMEs in developing and emerging economies. In doing so, the Fund aims at providing investors with a market-based financial return, while at the same time contributing to closing the finance gap for SMEs by making socially and environmentally responsible investments. This is intended to foster a dynamic SME sector which is considered to be a primary driver for job creation and economic growth.

The Fund invested € 351 million over the lifetime of the Fund till year-end 2020 and was invested in 28 countries and 45 financial institutions at year-end 2020. These institutions together finance over 250,000 SMEs. The aggregate outstanding portfolio of SME loans of the financial institutions invested in amounts to € 13.2 billion (down € 2.5 billion from 2019), representing on average 42% of their loan portfolios. In 2020, the Fund has provided access to finance to an estimated 712 SMEs, resulting in a cumulative outreach of more than 7,600 SMEs (figure 3). At the same time, the Fund will be able to support over 10,700 jobs with the new participations entered over the past year, resulting to over 64,000 jobs since 2015 (figure 4).

Figure 3: Estimated SME outreach of the Fund

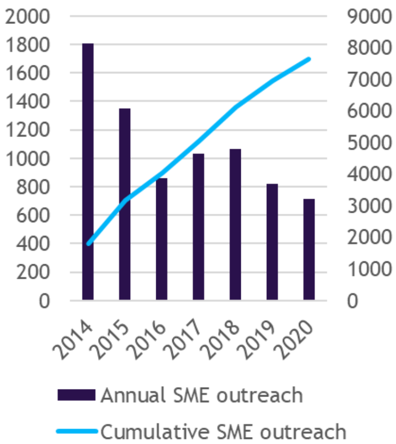


Figure 4: Estimated jobs supported by the Fund

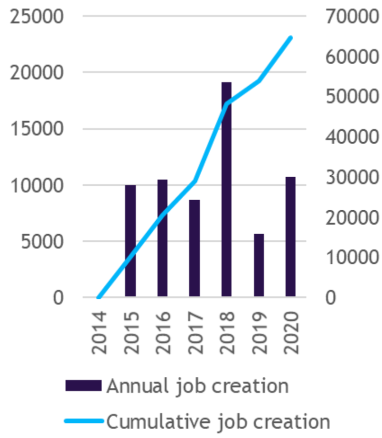


Figure 5: Growth of the loan portfolios of the Fis invested in

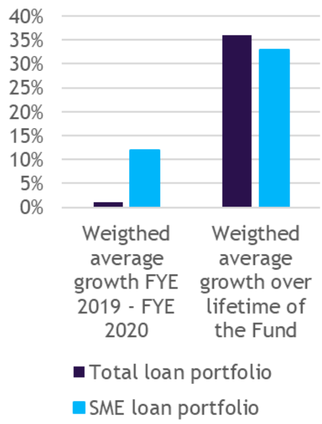


Figure 5 presents the growth of the total loan portfolios and the SME portfolios of the financial institutions between the year these institutions entered the Fund and year-end 2020. Based on these data, we can assess the strategic intention of the financial institutions in the Fund's portfolio to grow their SME portfolio. In addition, we can assess how the Fund has fulfilled its strategic intention to support SMEs in emerging markets and developing countries. Two important remarks should be made:

- Loans to financial institutions have an average tenor of 5-7 years. Therefore, the developments over the limited lifespan of some of the Fund investments to date may provide a short-term impression which not always reflects long-term strategic intentions.
- Developments in the SME portfolios of the financial institutions usually do not reflect a change in strategic intention: market developments, economic growth/decline and currency depreciations/appreciations can significantly influence the absolute portfolio growth or decline.

> *During 2020, the SME portfolio of the financial institutions invested in, grew by 12%. Over the lifetime of the Fund, this amounts to a 33% increase.*

In 2020, the SME portfolio of the financial institutions invested in, grew by 12%. Over the lifetime of the Fund, the overall increase amounts to 33%. This indicates that, over the lifespan of the Fund, the selected financial institutions on average lived up to their strategic intention to grow their SME portfolio. This growth enables local SME companies to attract tailor-made financing to support the development of their business.

Besides assessing the potential of a financial institution to contribute to the development of the local SME sector, FMO and ACTIAM assess both financial risk aspects as well as environmental and social practises during due diligence. In case the financial institution does not meet the minimal Environmental & Social requirements of FMO and ACTIAM but is willing to improve beyond that level, FMO will provide support and in some cases financial support (capacity development) as well to develop or improve the financial institution's E&S Risk Management. This will be elaborated upon in the next chapter.

SDGS IN PRACTICE

The SDGs recognise the role of SMEs to “promote strong, inclusive and sustainable economic growth” and “decent work for all” (SDG 8 and 9). Access to finance is a one major challenge for SMEs and the SDGs contain a call for development-oriented policies that encourage their growth and formalisation (SDG 8.3). It also calls for the integration of small-scale firms, from developing countries, into global value chains (GVCs) (SDG 9.3) (OECD, 2017). Figure 6 provides an overview of the Fund’s contribution to a number of key SDGs.

Figure 6 – Overview of the Fund’s contribution to the SDGs

	% of the portfolio institutions contributing to the SDG	How the financial institutions invested in contribute to the SDGs
8 DECENT WORK AND ECONOMIC GROWTH	100% (100%)	The Fund invests in financial institutions in Lower and Upper Middle Income countries targeting SMEs. SMEs are often considered to be the engine of economic growth as nine out of ten new jobs worldwide are created by small businesses.
10 REDUCED INEQUALITIES	33% (24%)	Some of the financial institutions invested in have specifically developed products targeting groups that generally have more difficulty to access financial products and services. Examples are loans targeting rural SME’s or women-owned SME’s. Also, general SME financing in leas-developed countries (LDC’s) qualify as supporting SDG 10.
13 CLIMATE ACTION	13% (15%)	Several financial institutions invested in offer specific products that stimulate ‘greening’ of the economy. Examples are financing of an electric vehicle fleet or loans for energy efficiency projects.
17 PARTNERSHIPS FOR THE GOALS	100% (100%)	The partnership between FMO and ACTIAM enables FMO to deploy more private capital to its clients than it would have without the Funds investments.
5 GENDER EQUALITY	6% (9%)	Some of the financial institutions invested in offer specific products for female entrepreneurs or companies with >50% female employees.

FIELD EXAMPLE: ARARATBANK

10 REDUCED INEQUALITIES

ARARATBANK OJSC is a mid-sized universal bank in Armenia focusing on micro, SME and retail customers. The bank operates the 5th largest branch network in the country and employs around 1025 staff. Araratbank is an existing client of FMO and in the Fund since 2014 in the area of funding and technical assistance. The funding will a.o. be used to finance eligible micro, youth, women and agricultural customers of the bank, supporting our impact goal of reducing inequalities. MSME’s are the core of the Armenian economy. The private sector in Armenia is dominated by MSME’s, making up about 98% of total registered enterprises. However, they contribute only for 25% of GDP and 19% of employment (source: EU4Business report June 2019). Access to credit remains critical for further development of the MSME segment, specifically the most underserved segments of micro clients and women/youth/agriculture clients of the bank. Additionally, the funding supports job creation and maintenance in a Low to Middle Income Country (LMIC) where 42% of the population live below the poverty line (Worldbank, $5.50/day poverty.

ARARATBANK

6. Socially and environmentally responsible investments

The Fund aims to support the SME sector in an environmentally and socially responsible manner. Given that the Fund reaches SMEs through local financial institutions, the environmental and social risk management and corporate governance (ESG) of the institution is assessed by the investment committee. Every financial institution should conduct its business in accordance with the defined minimum standards in relation to issues such as human rights, environmental impact or corruption. FMO has long-term experience and builds on a broad and in-depth internal expertise in its engagement with its clients to stimulate the application of the highest ESG standards.

6.1 ENVIRONMENTAL AND SOCIAL PROFILE OF THE PORTFOLIO

SME portfolios generally witness little exposure to environmentally or socially sensitive activities such as infrastructure, mining or large-scale textile industry. Hence the majority of the Fund's portfolio is classified in the E&S risk category FI-B (medium risk - 26 institutions) or FI-C (low risk - 13 institutions). The portfolio contains five institutions with an elevated E&S risk profile (category FI-A - high risk). For high risk entities, the portfolio snapshot (chapter 7) presents further detail on the risk management and if an E&S action plan is part of the loan documentation. The appendix presents details on E&S categorisation and the Responsibility & Impact policy of the Fund.

6.2 ADDING VALUE ON E&S

Dedicated E&S specialists within FMO engage actively with all E&S category FI-A and where warranted, category FI-B clients. The level and exact focus of engagement depends on the type and severity of impact and/or the extent to which they pose a risk to the client, FMO and the Fund. Since FMO launched its latest human rights position statement in September 2017, FMO has further strengthened its due diligence process specifically around contextual risks. Since 2020 also for FI clients a human rights implementation handbook has been developed as part of the due diligence and review processes.

6.3 CLIENT PROTECTION

Although the Fund targets SMEs as end beneficiaries of its investments, the intermediary financial institutions to which this financing is provided, have a broader client base. This indirectly exposes the Fund to other ESG related risks, of which consumer protection is considered the most substantial one. Providing financial services to natural persons adds another dimension to responsible banking, because consumers as well as micro entrepreneurs are in a more vulnerable position compared to enterprises. For Fund investments with 50% or more of their portfolio outstanding in the retail and microfinance industry, we therefore also report on client protection as a relevant issue. At year-end 2020, 6 out of the 45 Fund investments exceeded the 50% threshold. Most of these have been elaborated on in the previous Responsibility and Impact Reports of the Fund. During 2020, one entity with a large portion of microfinance and retail activities was added to the portfolio and is discussed in more detail below. There are no material findings with regards to client protection over the course of the previous year.

Sathapana

Generally, as an MFI, Sathapana has the SMART Campaign's Client Protection Principles (CPP) embedded throughout the organization and continues to do so in the personal loans and SME financing. For example, following the lending practises; loan amount is capped to a maximum of 70% of disposable income and no loan is provided to clients borrowing from two other institutions already. The National Bank of Cambodia has a regulation on general consumer protection. Sathapana has been CPP Smart Campaign certified until 2019 and Sathapana is currently working on the renewal of the license.

ធនាគារ ស្ថាបនា
SATHAPANA BANK
Makes Your Life Better

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)[5] has projected how the COVID-19 situation can affect each of the SDGs (figure 7), 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,[6] 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.[7]

- **FMO’s COVID-19 response package**

  FMO is providing support to clients and partners that are suffering from the impact of the COVID-19 pandemic. The package, which encompasses three pillars has been designed to ensure that clients can continue serving vulnerable client segments and vital economic sectors. The three pillars include:

  1. Remote advisory services, covering crisis management, business continuity counselling and leadership coaching;
  2. A learning & exchange platform to bring together clients in webinars;
  3. Emergency grants (*work in progress*)

  Additionaly, FMO is working with the DFI Alliance[8] to help resolve current liquidity issues in financial sectors, support the viability of existing companies impacted by the virus, and promote new investment in goods and services necessary to global health, safety, and economic sustainability.

---

[5] https://www.un.org/sites/un2.un.org/files/sg_report_socio-economic_impact_of_covid19.pdf
[6] NpM is a member platform for Dutch investors in the worldwide inclusive finance sector, https://www.inclusivefinanceplatform.nl/
[7] https://www.inclusivefinanceplatform.nl/news/npm-members-issue-investor-statement/
[8] *The U.S. International Development Finance Corporation (DFC), FinDev Canada, and the Association of European Development Finance Institutions (EDFI*), currently counting 15 “bilateral” member institutions within the field of development finance for the private sector in emerging and frontier markets, formed the “DFI Alliance” in 2019 as a framework for their active cooperative engagement. These DFIs all hold high standards for corporate governance, sustainability and impact management, and seek to act as role models for other investors.*

Figure 7 – COVID-19 affecting all SDGs[9]

Source: UNDESA

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

7. Enclosure - Responsibility & impact guidelines of the Fund

The Fund does not only concentrate on realizing an attractive financial return. It also aims to make socially and environmentally responsible investments, hereby providing investors with an attractive financial return while at the same time contributing to fostering a dynamic SME sector in developing and emerging economies. Accountability is a key feature with respect to all businesses and products operated by ACTIAM and FMO. Therefore, all of the Fund's investments should, as a minimum, comply with the ACTIAM Fundamental Investment Principles[10] and as a minimum, make sure that all financial institutions invested in operate in line with applicable international standards, such as the ILO Fundamental Labour Conventions[11] and the IFC Performance Standards[12].

Screening of financial institutions and their SME portfolios on environmental and social performance is an integral part of the investment selection process. In order to ensure that the Fund can measure and monitor the environmental and social performance the financial institutions underlying the Fund Investments should commit themselves to the following requirements:

- Systematic management of the environmental and social performance based on a policy framework that is guided by national laws and/ or the IFC Performance Standards; and
- Systematic environmental and social risk assessment, monitoring and reporting with respect to the SME portfolios.

In addition to the environmental and social screening the Fund will also 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 responsible impact investor:

- Realization of social-economic impact through facilitating and contributing to improved access to finance for SMEs;
- Improvement of the financial institution's management of environmental and social risk and performance as a result of support activities by the Investment Manager;
- Realization of economic impact through the financing of economic activities through local banks, which in turn results in private sector development and employment creation; and
- Realization of social impact in the SME sector by financial institutions through capacity building and quality improvement regarding responsible business development.

The Fund Manager will report on these themes at least on an annual basis. Finally, the Fund is aligned with FMO's E&S approach for Financial Institutions[13] which follows the EDFI Harmonized E&S Procedures and Standards for Financial Institutions. Key to this policy is the categorisation of its investments in different levels of Environmental and Social (E&S) risk, similar to IFC's approach to E&S risk categorization, which is also used by all European Development Finance Institutions (DFIs). For direct investments (project and corporate finance), risk categorization is based on the client's activity, IFC Performance Standards triggered transactions [14]and prevailing country specific ESG challenges. With regard to financial institutions the risk categorization is made on the basis of the banks existing or proposed portfolio, IFC Performance Standards triggered transactions and prevailing contextual risks[15] including Human Rights related risks[16]. The following E&S risk-categories are distinguished (following the IFC's Environmental and Social Risk Categorization Framework):

---

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

[11] "ILO Fundamental Conventions" means the requirements as applicable to the Borrower on child and forced labour, discrimination and freedom of association and collective bargaining, stemming from the ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998 and covering: (i) freedom of association and the right to collective bargaining, (ii) the elimination of forced and compulsory labour, (iii) the abolition of child labour and (iv) the elimination of discrimination in the workplace. Please refer to www.ilo.org

[12] "IFC Performance Standards" means the framework on IFC's Performance Standards (PS) on Social and Environmental Sustainability (including the technical reference documents known as World Bank Group Environmental, Health, and Safety Guidelines);

- all IFC Performance Standards (2012), and
- all World Bank Group Environmental, Health, and Safety Guidelines

[13] https://bit.ly/2JnkAt1

[14] Project Finance/long-term corporate finance with a tenor of not less than 36 months and funding of defined assets as part of a project/transaction amounting to

a) at least USD 10 million of total capital cost (applicable to Project Finance and Project Related Corporate Loans) or
b) a loan size of at least USD 5 million (applicable to Project Finance, Project Related Corporate Loans and non- project-related corporate loans.

[15] E.g. Indigenous people / Land rights / Water / Deforestation

[16] https://www.fmo.nl/l/library/download/urn:uuid:c0240734-e58f-49d3-b5b3-8f88d8c20ab0/position+statement+human+rights.pdf?format=save_to_disk&ext=.pdf

FMO's E&S categorization of financial intermediaries			
	Financial Institutions High Risk (FI-A)	**Financial Institutions Medium Risk (FI-B)**	**Financial Institutions Low Risk (FI-C)**
Category definition	FIs1 with business activities or projects with significant potential adverse social or environmental impacts or risks.	FIs with business activities or projects with limited potential adverse social or environmental impacts or risks	FIs with business activities or projects with minimal or no adverse social or environmental impacts or risks.
Basic categorization criteria	High E&S risk sector / activity2 exposure is > 20%.	High E&S risk sector / activity exposure is < 20%.	FIs with a predominant focus (> 80 % of total portfolio) on retail clients or micro businesses

8. Disclaimer

ACTIAM N.V. endeavours to supply accurate and up-to-date information from sources deemed to be reliable. However, ACTIAM N.V. cannot guarantee the accuracy and completeness of the information contained in this presentation and/or this document, referred to below as 'the Information'. The Information may contain technical or editorial inaccuracies or typographical errors. ACTIAM N.V. gives no express or implied guarantees that the Information contained in this presentation and/or this document is accurate, complete or up to date. ACTIAM N.V. is not obliged to update or correct errors or inaccuracies in the Information. The Information is based on historical data and is not a reliable basis for predicting future values or equity prices. The Information is similar to, but possibly not identical to, the information used by ACTIAM N.V. for internal purposes. ACTIAM N.V. does not guarantee that the quantitative yields or other results from the Information will be the same as the potential yields and results according to ACTIAM N.V.'s own price models. Comments about risks pertaining to any Information should not be regarded as a complete disclosure of all relevant risks. The Information should not be interpreted by the recipient as business, financial, investment, hedging, commercial, legal, regulatory, tax or accounting advice. The recipient of the Information is personally responsible for the way in which the Information is used. Decisions made on the basis of the Information are at the expense and risk of the recipient. Accordingly, the recipient cannot derive any legal rights from the Information.

actiam

ACTIAM N.V.

Bezoekadres
Graadt van Roggenweg 250
3531 AH Utrecht

Postadres
P.O. Box 679
3500 AR Utrecht

+31-(0)20-543 6777
marcom@actiam.nl
www.actiam.nl