responsAbility

Briefing
Global Micro and SME Finance Fund
11 December 2019

NAME CHANGE – SINCE WHEN AND WHY?

Since 1 November 2019, the Fund is once again called responsAbility Global Micro and SME Finance Fund. By re-inserting "Global" to the Fund's name, we emphasize the worldwide impact of our investments and re-establish the Fund's well-known brand.

STRONG PERFORMANCE

As of the end of November 2019 the fund reached a performance[1] of 5.17% net in USD and 2.02% net in CHF. The following factors contributed to this good performance:

- **Continuous high yield on debt investments:** While the USD interest rate environment is important for the fund, and rates have been falling recently, we continue to achieve high absolute yields for the financing of Micro and SME Finance institutions across many different developing countries.

- **Strong performance of equity investments:** Most of our equity investees show solid growth rates and strong profitability in 2019. This is reflected in an annualized IRR of 19% of the equity portfolio, substantially supporting the overall fund return.

- **Limited risk:** Thanks to our active credit management we see strong returns also on a risk-adjusted basis. The Fund has experienced low provisions on the debt portfolio amounting to around 0.45% of NAV year to date, which is below the historical average of 0.55% per annum over the last 10 years.

OUTLOOK - WHY INVEST / REMAIN INVESTED IN THE FUND?

Strong financial contribution

- **Stable performance**: Since inception over 16 years ago, the Fund has exclusively experienced years of positive performance in USD. CHF returns have been slightly negative in 2017 and 2016 due to very high hedging costs between the fund currency USD and the CHF. Since August this year, these hedging costs have started to recede along with the reductions in the USD reference interest rates. The Fund has proven to be resilient even in severe market turmoil, such as

[1] **Share classes Bc-II USD: 5.17%; Hch-II CHF: 2.02%**

in the financial crisis in 2008/09. We expect similar returns (around 5% in USD) and volatility levels in 2020, regardless of the market phase. The Fund currently shows a volatility of 1.2% per year over the last 5 years, which are very strong numbers compared to other asset classes

- **Benefits of diversification:** The Fund invests in fundamentally different markets and sectors than traditional asset classes. This results in a correlation to Equity or Bond Markets that is statistically insignificant, and thus offers excellent diversification for investors. For investors with a preference for value generation over the long term, this Fund is a particularly good addition to the investment portfolio, given that in times of value corrections in other assets classes (which some believe lie ahead of us), the performance of the Fund will remain largely unaffected.

- **Our long-standing risk management expertise:** Since the launch of the Fund we have continuously enhanced our credit risk analysis methodology on financial institution borrowers and the developing countries they are based in. We believe that this will allow us to continue delivering strong risk-adjusted returns for investors.

Financial return with a clear and measurable impact

- The Fund makes a **clear contribution to the United Nations' Sustainable Development Goals**, in particular with its impact on low-income populations (SDG 1), on job creation and economic empowerment (SDG 8) and on financial system building (SDG 9).

- While a lot of progress in these areas has been made over the last years, still approximately 1.7 billion people around the world remain unbanked today. Moreover, there is financing gap of close to a USD 5 trillion for MSME in developing countries. This translates into 131 million or 41% of formal MSMEs in developing countries which have unmet financing needs (source: IFC).

- In 2018, the Fund's investees addressed those gaps by providing financial services to 74m clients as well as 1.3m SMEs in developing countries. The newly available responsAbility Impact Report 2019 exemplifies, in particular, the role that access to financial services plays in strengtheing resilience of lower-income populations in the face of climate change.Thus financial inclusion still has a long way to go, and investing in the growth of financial sectors in emerging markets continues to be an attractive investment opportunity.