responsAbility

RESPONSABILITY MICRO AND SME FINANCE DEBT FUND*

QUARTERLY REPORT Q2 2020

Market and Fund Review

The challenges of the first quarter of 2020 continued, to some extent, in the second quarter as the world sought to contain the spread of the COVID-19 virus. The rate of infections took varying paths in different countries and regions. Some emerging markets – such as China, Cambodia and Vietnam – were able to significantly flatten the curve of new infections. At the same time, governments and central banks mobilised strong support by implementing emergency measures, including monetary easing and fiscal stimulus packages. International agencies also stepped in, with the International Monetary Fund receiving requests for emergency financing from more than 100 countries and approving, at record speed, financing for more than 70 countries. For example, Georgia received additional financing under the current Extended Fund Facility arrangement, and Mongolia had a USD 99 million request for emergency financial assistance approved under the Rapid Financing Instrument. Monetary easing increased as central banks continued to cut interest rates during the second quarter after beginning the trend in the first quarter. The National Bank of Kazakhstan reversed its previous course, lowering interest rates quite aggressively, while the government opted for substantial fiscal stimulus amounting to around 9% of gross domestic product (GDP). Indonesia successfully raised USD 4.3 billion in a capital market placement, including the longest-dated US dollar bond ever issued by an Asian nation, with a 50-year maturity. This money was raised to help the government fund its battle against the coronavirus.

The reporting quarter saw a general shift in market sentiment towards risk assets again. The MSCI Emerging Markets Index recouped much of the first-quarter losses, gaining close to 20% during the second quarter. WTI and Brent oil prices both finished the quarter above USD 40 a barrel, supporting oil-exporting countries. Emerging market credit spreads narrowed to around 4%[1] as investors returned following massive capital outflows in the first quarter of 2020. This also positively impacted emerging market local currencies.

Overall, the quarter ended on a more positive note than it started. Even though many countries were still battling to bring down infection rates as global cases continued to rise, there was reason for cautious optimism, with some nations being less affected than expected and many resuming more normal business activity.

Investment activity in the second quarter of 2020 was muted – amounting to around USD 6 million – as we assessed the COVID-19 impact on our investment universe and managed our portfolio risk. Towards the end of the quarter, we cautiously re-engaged for potential investments as it became clearer that various of our partner institutions are resilient enough to operate in and withstand the current environment.

The US dollar net return of the I-II (USD) share class amounted to -0.89% for the reporting quarter. The main impact on the performance was the provision built in the portfolio to account for increased credit risk due to the COVID-19 pandemic. Severe restrictions to economic activity impacted micro and SME borrowers' income in many countries during the quarter. Hence some of our portfolio companies have needed to reschedule loans of their end-borrowers and, in turn, have engaged with our Fund and other lenders to reschedule their principal repayments. This doesn't mean the portfolio companies defaulted on their loan obligations or were under solvency stress. But it did result in an increased credit risk in the Fund, which was reflected by the provisions built during the quarter, which detracted -1.67% from the Fund's performance. Nevertheless, after extensive stress testing, we expect our portfolio of micro and SME financial institutions to demonstrate resilience.

The yield to maturity on the debt portfolio remained stable at an attractive level of 6.25%. As the Fund hedges most of the currency exposure stemming from debt investments that are not denominated in the Fund currency, foreign exchange moves did not materially affect the Fund's quarterly performance.

* For qualified and professional investors only.

[1] Bloomberg Barclays EM Bonds USD Aggregate Index, spread to swaps

The quarterly net returns of the I-II (EUR) and I-II (CHF) share classes were -1.17% and -1.22%, respectively. The difference between the performance of the EUR- and CHF-denominated share classes and the USD class has narrowed significantly, as the cost of hedging the Fund's US dollar exposure against these currencies has declined substantially compared with prior quarters and years.

Performance[1]	Q2 2020	Q2 2019
Quarterly return I-II (USD) class	-0.89%	1.43%
1 year return I-II (USD) class	3.14%	5.02%
1 year average of 3mths USD LIBOR	1.51%	2.54%

[1] Return figures are calculated under the assumption that the gross amount of income and/or capital gains distributed is immediately reinvested in the collective investment scheme without deductions. Past performance is not a guarantee or indicator of current or future performance. This performance data is calculated net of all fees and commissions but it does not take into account the commissions and costs incurred on the issue and redemption of units.

Debt Portfolio Key Figures	Q2 2020	Q2 2019
Maturity (years)	1.6	1.5
Duration	0.7	0.6
Yield to maturity	6.24%	6.82%

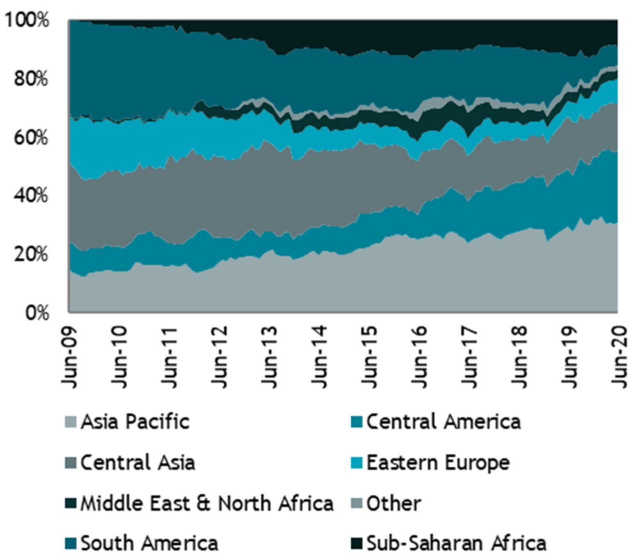
Fund Activity and Performance

Investment activity & portfolio composition	Disbursements during Q2 2020	Portfolio as at end of Q2 2020
Number of institutions	6	141
Number of countries	5	55
Largest disbursement/exposure to single institution [in % of NAV]	0.7%	3.1%
Average disbursement/exposure to single institution [in % of NAV]	0.3%	0.5%
Average disbursement/exposure to single country [in % of NAV]	0.3%	1.4%
Debt instruments with variable coupons [in % of disbursements/debt portfolio, respectively]	10.8%	42.8%

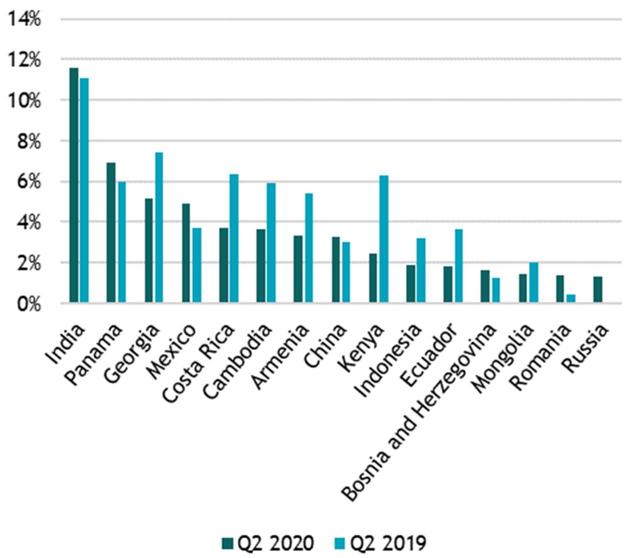
Geographical allocation	Disbursements during Q2 2020 [in million USD]	Portfolio as at end of Q2 2020 [in % of investments]
Asia Pacific	0.7	31.7%
Central America	1.5	24.9%
Central Asia	0.5	16.9%
Eastern Europe	3.5	8.5%
Sub-Saharan Africa	0.0	7.3%
South America	0.0	6.2%
Middle East & North Africa	0.0	2.8%
Other	0.0	1.6%
Total	6.2	

Asset classes	Disbursements during Q2 2020 [in % of total disbursements]	Portfolio as at end of Q2 2020 [in % of NAV]
Senior Debt	100.0%	66.5%
Subordinated Debt	0.0%	9.1%
Cash	n/a	21.9%
Other assets and liabilities	0.0%	2.6%

Development of geographical allocation



Development of country allocation



Correlation* (past 5 years) with	
Bloomberg Barclays EM USD Aggregate Total Return Index Value Unhedged	-0.23
Bloomberg Barclays Global Agg Corporate Total Return Index Unhedged USD	-0.38
Bloomberg Barclays Global High Yield Total Return Index Value Unhedged	-0.29
S&P/LSTA Leveraged Loan Index	-0.31
Bloomberg Barclays 1-3 Yr Gov Total Return Index USD	0.14

Risk-return indicators* (past 5 years)	
Monthly return volatility (annualised)	1.22%
Sharpe ratio	1.32
Maximum drawdown	-1.63%

*based on monthly USD net performance (1.2% TER) consisting of the actual net performance of the I-II (USD) share class since October 2018 and calculated for the periods prior to this (when a different fee level was applicable and/or a USD denominated share class was not yet available) as USD gross performance less 1.2% TER.

Impact Indicators

Themes		Key SDGs
BASIC NEEDS	Provide access to financial services for low-income households and SMEs	
DECENT WORK	Create jobs in the local economy, under fair and safe working conditions	
MARKETS, INFRASTRUCTURE & INNOVATION	Boost financial sector development and innovation	
Focus Topics		
GENDER EQUALITY	Empower women by providing them with financial services and supporting companies with female leaders	

Quarterly figures (Q2 2020)	174,538	Borrowers directly reached by the fund
	30,055,323	Total borrowers from portfolio companies
	69%	Rural borrowers from portfolio companies
	85%	Female borrowers from portfolio companies
	USD 2,411	Average loan size to borrowers
Annual figures (2019)	231,765	Staff
	30%	Rural staff
	35%	Female staff
	900,890	SMEs supported by portfolio companies
	21,959,386	Indirect jobs supported by portfolio companies (through SME financing)
Context (2019)	USD 40,115	GNI per capita in OECD countries
	USD 4,766	GNI per capita within the fund's investment universe
	USD 630 bn	Current supply of credit to Micro & SMEs within the fund's investment universe (excl. China)
	5.3%	Of which are supplied by portfolio companies

Outlook

The outlook for the coming quarter is one of cautious optimism. A rebound in GDP growth is widely anticipated in 2021 in many economies, and emerging markets should continue to show higher growth rates (5.9%) than advanced economies (4.8%).[2]

During the latest quarter, the focus was on managing our portfolio risk and assisting our investees through the challenging time in various ways, such as rescheduling our loans, wherever necessary. The goal here was to protect the Fund from credit losses by supporting the investees to the extent possible. By frequently leading restructuring cases and coordinating close dialogue between investees and lenders, we were able to further reduce risk. Towards the end of the quarter, the number of new restructuring cases was minimal. With business activity resuming and the collection rates of our partners increasing again, we plan to invest in the most resilient institutions. We expect that the virus will continue to impact regions and countries differently, so we will only pursue additional exposure in countries and investees on which we have made a prudent risk assessment. For instance, we see interesting investment opportunities in China, Colombia and Vietnam, among others.

Financial institutions that support micro, small and medium-sized enterprises (MSMEs) will be essential in helping to reboot economies after the COVID-19 crisis. Small businesses are a major source of economic growth and employment, especially in developing countries, where 70-95% of new jobs are supplied by SMEs.[3] Helping MSMEs to grow and recover will be crucial to an economic and employment rebound.

The Fund has been able to achieve a significant impact during times of crisis. Our investee companies help low-income households to build resilience, while nurturing job creation to stimulate an economic recovery. responsAbility funds have been at the forefront of support for microfinance and SME financial institutions since 2003. Our funds are essential in helping and scaling up these institutions, thus eliminating the scourge of financial exclusion. In doing so, our investors assist developing economies and boost nascent financial sectors, which are critical factors on the path to achieving the Sustainable Development Goals by 2030.

[2] World Economic Outlook Update, June 2020, IFC
[3] SME Finance overview, IFC

Risks

The risk and return profile of the fund does not reflect the risk under future conditions that are different from the situation in the past. Detailed description of the fund risks can be found in the prospectus.

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