FOUNDATIONS *of Impact*

MICROVEST 2022 IMPACT REPORT

MICROVEST
PURPOSEFUL INVESTING
A DAI Global Company

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We invest in Responsible Financial Institutions that promote positive impact for underserved entrepreneurs and small businesses in developing economies

MicroVest is an asset manager that specializes in allocating private debt capital to responsible microfinance and small and medium-sized enterprise (SME) financial institutions serving underbanked microentrepreneurs and small businesses in emerging markets. As one of the first U.S.-based microfinance investors, MicroVest has built a track record of investing in institutions whose interests are aligned with the borrowers and communities they serve.

Since its founding, MicroVest has disbursed more than $1.6 billion to over 200 micro and SME financial institutions in more than 60 countries.

MicroVest is a registered investment adviser, Certified B Corporation, and wholly-owned subsidiary of MicroVest General Partner Holding LLC, a Delaware statutory PBLLC whose public benefit purpose is *to create scalable investment opportunities that support enterprising ventures and projects in underserved or underfinanced sectors and communities worldwide*. MicroVest General Partner Holding LLC is wholly owned by DAI Global, LLC.

Our track record since inception

20
year track record of investing in responsible micro and SME financial institutions

$1.6B
Disbursed

>200
Micro and SME financial institutions invested

>60
Countries invested

Our partners

Certified B Corporation

Signatory of: PRI Principles for Responsible Investment

Signatory to: Operating Principles for Impact Management

GIIN MEMBER

2X GLOBAL

Gearing up for the next phase of growth

Joshua Moraczewski
Chief Executive Officer
& Chief Investment Officer

Dear Investors,

In uncertain economic times, investing in responsible micro and SME financial institutions that support underserved populations while providing stable, low-correlated returns is even more crucial.

In 2022, market and geopolitical volatility returned in force. As interest rates rose and global risk assets entered a decline, the MicroVest team doubled down on our core mission of mobilizing capital to underserved microentrepreneurs and small businesses while embarking on a new chapter for the firm with our parent company, DAI.

Our focus and persistence paid off. December 2022 was a record-breaking month for MicroVest—our Investment and Risk teams deployed $63 million in investments (42% of our annual disbursement total) to well-run micro and SME financial institutions whose interests are aligned with the end borrowers and communities they serve. Furthermore, our capital is now fully deployed in opportunities that will deliver significant impact and position our two flagship funds to generate meaningful returns.

A focus on people, process, and partnerships

MicroVest underwent significant internal transformation and improvement in 2022 as we worked to realize the partnership with DAI. This past year, we focused on the three core areas that will define the long-term success of MicroVest: People, Process, and Partnerships. We built a firm foundation for shared success by integrating systems between the two companies and enhanced our team by welcoming back two former MicroVest investment professionals, recruiting two seasoned investment and risk professionals, and hiring two new investment analysts. Both culture building and team cohesion have been key priorities, helping us become a more dynamic organization that is nimble in pursuing opportunities and fully utilizing our rigorous approach to due diligence and risk management. The results of our integration and team-building work over the past year is demonstrated in the record investments in December 2022.

In 2023, I look forward to deepening the partnership with our colleagues at DAI and leveraging the full breadth and depth of their expertise and geographic presence. In working with DAI, we will expand on our mission of mobilizing private capital for the world's underserved and providing more value to our investors.

Year one of DAI's ownership focused on integration, enhancing internal processes, and ensuring that our team was well positioned to fulfill the mandate entrusted to us by our investors. We laid the groundwork for collaborating more closely with DAI on new investment opportunities which will strengthen our ability to execute on our investment mandate. For example, during my recent due diligence trip to Nepal, a country in which MicroVest has never invested, our locally based DAI colleagues provided invaluable assistance in assessing the Nepali banking and microfinance sector as well as the country from a governance and macroeconomic perspective. This included arranging meetings with the central bank, industry leaders, the local IFC representative office and the US AID mission. There are countries where MicroVest has not invested, or invested recently, where DAI's strong local presence and networks will improve the speed and depth with which we understand the potential of a country for investment. What is great about the union with DAI is that their mission is aligned with ours, making our alliance mutually enhancing.

As we look towards 2023, MicroVest has built a strong foundation for growth that will help realize our combined organization's vision of shaping and facilitating a more inclusive world through purposeful investing. As we explore new geographies, we are also evaluating thematic areas of interest, most notably Climate and Gender. In both cases, we now have the resources and knowledge base to explore unique and innovative structures for mobilizing and deploying capital.

Whether global macroeconomics or international politics bring tailwinds or challenges, MicroVest and DAI's investment in people, processes and partnerships leaves me incredibly optimistic about what we can achieve together in 2023 and beyond. ■

Sincerely,

Joshua Moraczewski
Chief Executive Officer
& Chief Investment Officer

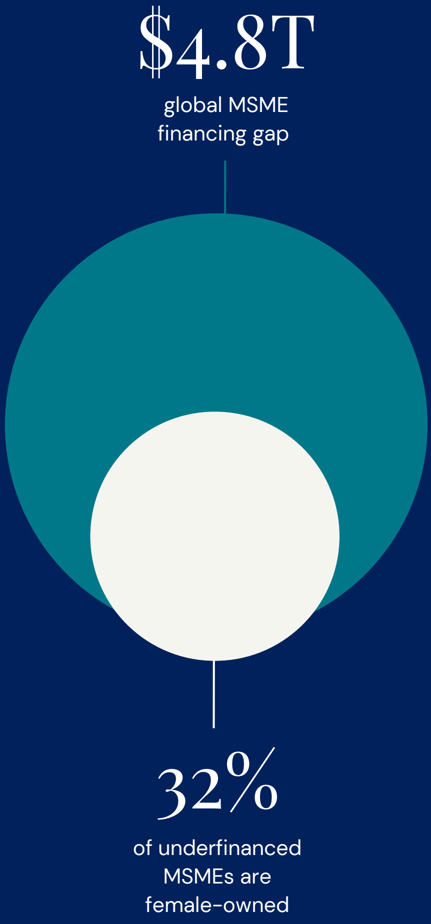
We help transform financial sectors in emerging markets

We fill gaps left by the formal financial system

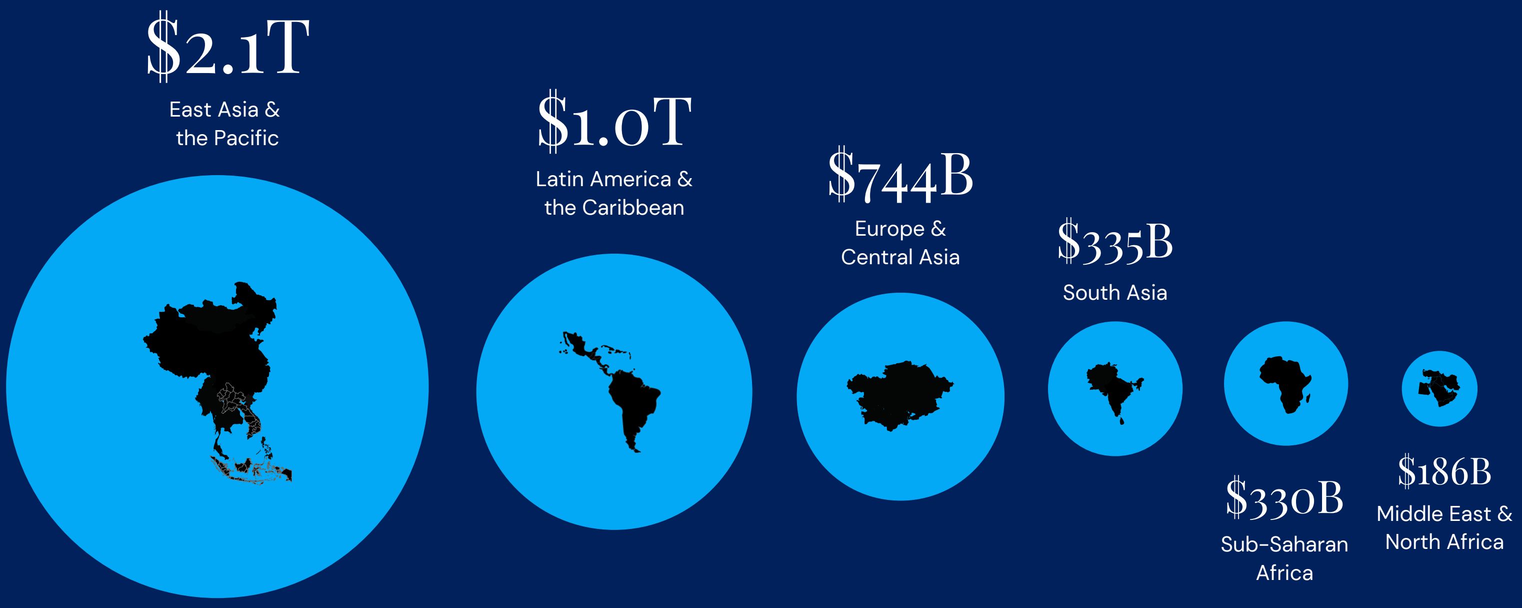
Micro, small and medium enterprises (MSMEs) are the lifeblood of the global economy, accounting for roughly 90% of businesses and generating more than half of the world's employment.[1] The contribution of formal SMEs in developing markets is even more important, driving nearly 40% of GDP and 70% of new job creation.

Yet, across frontier and emerging markets, more than 130 million MSMEs face onerous constraints in accessing finance, leading to unmet growth potential and unfulfilled aspirations. In aggregate, the unmet demand for finance among MSME borrowers in these markets amounts to $4.8 trillion,[2] with women-owned businesses constituting one-third of this total.

Financial inclusion is a goal that has a profound affect on the quality of life of individuals for generations. At MicroVest, we believe that providing MSMEs with access to *responsible* financial products and services can have a profound impact on economic growth. As business needs are financed, productivity rises and MSMEs contribute more valuable goods, services, and jobs to the local economy. When the underbanked become financially included, they are better equipped to manage day-to-day finances, build financial resilience, and knowledgeably use financial products and services to pursue their goals.



MSME financing gap by region



[1] World Bank. https://www.worldbank.org/en/topic/smefinance
[2] IFC, SME Finance Forum, MSME Finance Gap 2017, updated in 2018/19

We support financial sector development in growing economies

At its core, micro and SME finance is focused on promoting economic development.

In emerging markets, hundreds of millions of informal micro and small business owners constitute the lion's share of the economy. These entrepreneurs require financial services like bank accounts, loans, savings products and insurance to grow their businesses sustainably. Unfortunately, many emerging economies lack deep financial sectors, which inhibits access to capital for small borrowers with limited to no collateral.

Basic financial tools are fundamental to the establishment of efficient, formal financial institutions and helping them grow sustainably is critical to uplifting the entire economy. While financial sector development in many countries has improved, there is still unmet demand for capital from creditworthy borrowers, which creates potential for even greater social impact going forward.

For MicroVest, financial sector development happens as a result of our investments which in turn provide productive loans, savings, payment, and insurance products to clients previously excluded from the financial system. To ensure that these investments have a positive impact on the economy as a whole, MicroVest invests in financial institutions which have strong governance, talented management, robust IT systems, commitment to financial sustainability, and dedication to serving clients. These characteristics help ensure that the institutions are well-equipped to support economic activity.

Improving financial ecosystems requires building and supporting efficient institutions that are able to tailor their services to specific customer segments and have well-designed credit methodologies and effective governance structures. In the countries where MicroVest invests, the first financial intermediaries were often credit-only NGOs and finance companies. Some organizations have since evolved into regulated, deposit-taking institutions that offer a wide range of related products, such as savings and insurance.

By supporting the growth and development of these institutions, MicroVest aims to improve financial systems and increase access to responsible financial services. Our portfolio of micro and SME financial institutions are beginning to provide the types of digital tools that have been absent from the market. Healthy competition is driving interest rate spreads down while services are being delivered more efficiently as evidenced by falling cost-to-income ratios.

At the same time, MFIs are experimenting with innovative savings products, new payment mechanisms to reach rural and remote populations, and complementary life and credit insurance products. In support of this mission, MicroVest's due diligence and investment process is designed to identify and invest in financial institutions that have built a track record of success in these areas and have potential to scale their platforms to better serve unbanked and underbanked customers. ■

Our five dimensions of impact

1

What is MicroVest's goal?

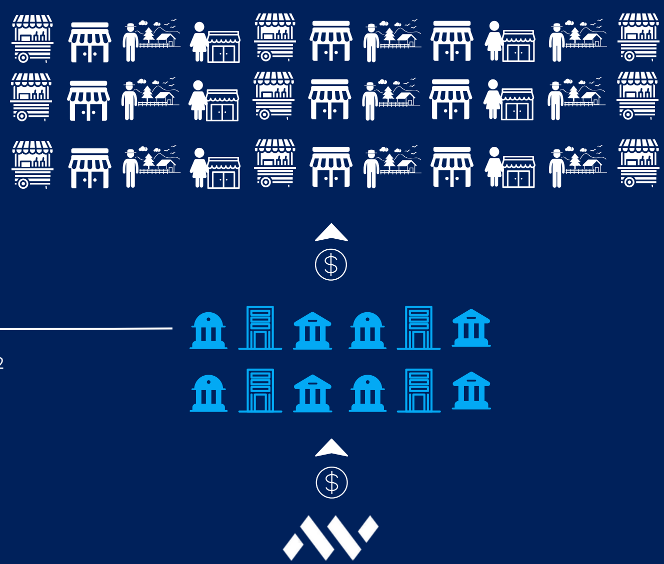
With over 1.4B unbanked adults worldwide and an estimated $4.8T funding gap to micro and small and medium (MSME) enterprises, MicroVest aims to promote financial inclusion for these segments by increasing the flow of capital to the institutions that bank them. Focusing specifically on emerging and frontier markets where these gaps are concentrated, MicroVest provides debt capital on commercial terms to responsible microfinance institutions (MFIs) and Small and Medium Enterprise (SME) Financial Institutions. Rooted in their communities, these institutions ethically and transparently provide loans to borrowers who are undertaking income-generating activities but are unable to access the traditional financial system.

1.4B

Unbanked adults worldwide [1]

$4.8T

MSME funding gap [2]



2

Who is affected?

By lending directly to MFIs and SME banks, MicroVest provides the loan capital that ultimately reaches small businesses and micro-entrepreneurs, many of which operate in rural areas and/or are owned by women. With this capital, entrepreneurs often hire employees and offer more products and services to communities.

3

How much change is happening?

See our impact at-a-glance on page 14 and a yearly comparison of our impact on page 31.

4

What is our contribution?

Beyond lending capital, MicroVest offers tailored loan structures that enable our portfolio companies to effectively manage their own balance sheets. Many traditional banks or local financiers often will not engage in this level of customization. Among our goals for 2023, MicroVest is also aiming to identify and implement technical assistance programs for our portfolio companies.

5

How do we assess risk?

Because many microentrepeneurs and SMEs have limited or no collateral, most lending to the underbanked ultimately relies on future cash flows for repayment. As a result, our underwriting and loan structuring process aims to identify financial institutions with strong credit profiles (low leverage and sufficient liquidity), sound operational practices and business models with favorable long-term strategic and financial prospects. Moreover, due to the position of trust that financial institutions occupy, MicroVest believes scaling institutions with integrity and fairness towards customers and employees is even more critical, and our diligence process looks for evidence of these values and their effective implementation in practice. We believe this leads to long-term sustainable value and impact.

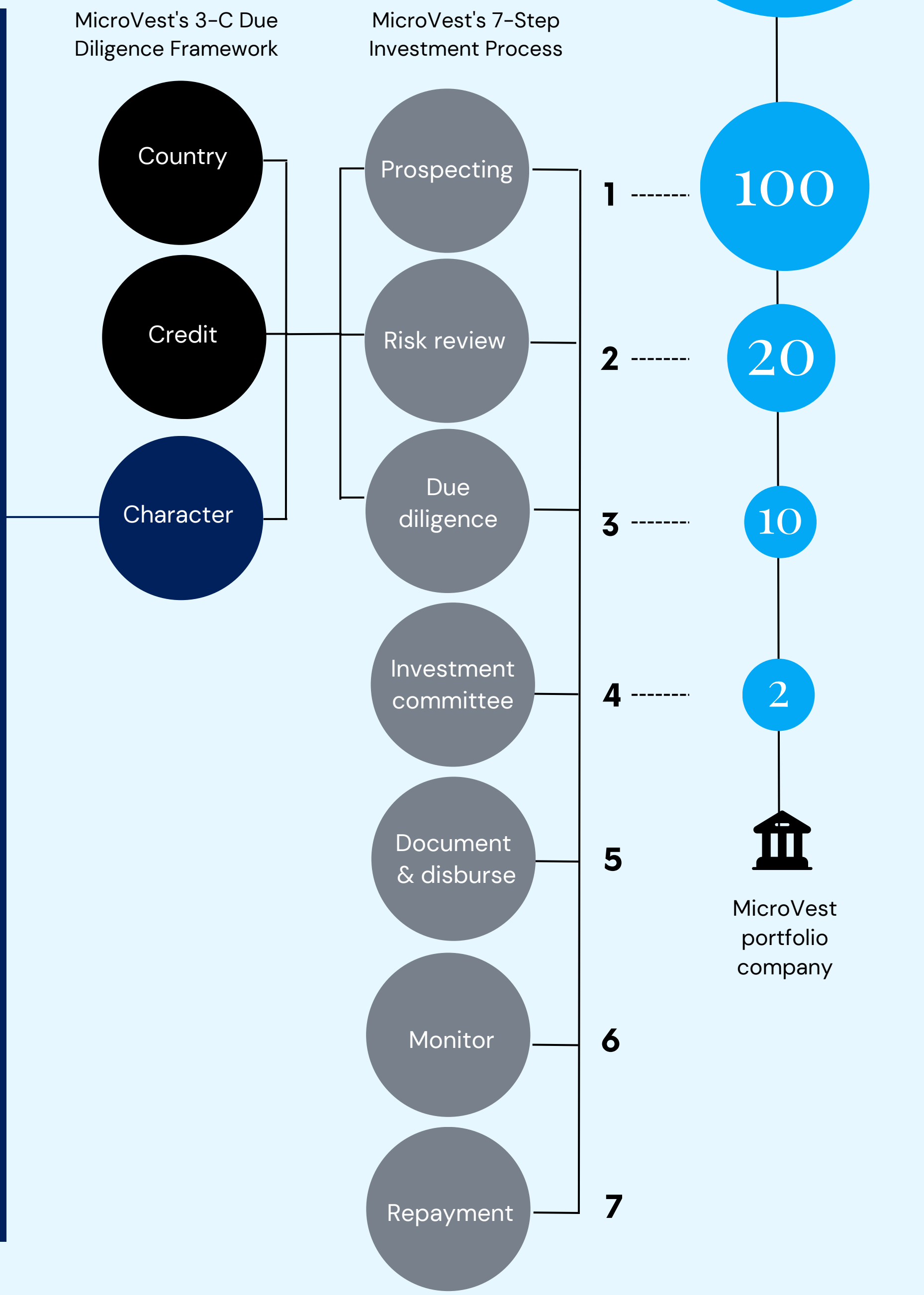
[1] World Bank Global Findex (2021)
[2] IFC, SME Finance Forum, MSME Finance Gap 2017, updated in 2018/19

Our selectivity fosters sustainability

MicroVest's due diligence and portfolio monitoring process ensures that our organization's financial capital creates strong impact and empowers financial institutions with the highest standards for ethics and fairness. We believe that these institutions can transform the financial sector by gaining market share against problematic actors. MicroVest refrains from lending to institutions that score poorly across our various impact criteria, as these risks often manifest themselves in ways that impair the value of our investment and threaten the wellbeing of the institution's end borrowers. MicroVest's 3C due diligence framework of Country, Character, and Credit guides our initial assessment of a financial institution before it enters the portfolio. While our investment and risk teams carefully assess operating and financial history, as well as country, macroeconomic, credit, and political risk, our Character underwriting helps us identify financial institutions that demonstrate a commitment to the communities they serve, which in turn, results in a more resilient and scalable portfolio.

In addition to investigating traditional financial and credit metrics, our due diligence process also verifies investee companies per the criteria below:

- Assessment of the professional reputation of Senior Managers, Board Members and Shareholders;
- Ensuring that the financial institution is primarily lending for productive purposes (i.e., business as opposed to consumer credit);
- Implementing an ALINUS assessment;
- Ensuring that no stakeholder, board member, employees or affiliates are included in the Office of Foreign Assets Control (OFAC) Sanctions List;
- Confirming that the institution does not lend to borrowers that are engaged in activities likely to have significant adverse impact on the environment;
- Certifying that the institution complies with applicable KYC/AML laws and US Development Finance Corporation's (DFC) Anti-Corruption Practices and Strategies;
- Verifying compliance with Restrictions on Use of Proceeds List, which prohibits lending to certain sectors, such as arms production, illegal trade, alcoholic beverages, gambling, tobacco, adult media, companies with monopolistic practices, etc.;
- Ensuring the institution's compliance with Guidelines on Worker Rights, specifically the International Finance Corporation's Performance Standard 2 on Labor and Working Conditions; and
- Verifying that the institution pays at least the official local minimum wage, among others.



[1] ALINUS is a publicly available social data collection tool for due diligence monitoring, based on the SPI4, the social audit tool to measure implementation of the Universal Standards for Social Performance Management. https://cerise-spm.org/en/spi4/

Our framework supports inclusive growth

1
Improve access to and use of responsible financial services for historically underserved populations

2
Support decent jobs and foster economic development

3
Support gender equality through financial inclusion

4
Improve financial health

5
Support rural economies through financial inclusion

Strategic goals

MicroVest and its portfolio companies play an important role in advancing the UN Sustainable Development Goals. Our Social Impact Framework consists of four core pillars (Impact Investing Leadership, Institution Building, Financial Inclusion, and Financial Health) that drive our activities and guide our progress toward the achievement of the SDGs.

IMPACT INVESTING LEADERSHIP + **INSTITUTION BUILDING** = **FINANCIAL INCLUSION** & **FINANCIAL HEALTH**

IMPACT INVESTING LEADERSHIP

As one of the first US-based microfinance investors, MicroVest has a 20-year track record as an industry leader that is committed to advancing the responsible investing agenda worldwide. We hold ourselves accountable and are proud participants and signatories of a number of impact investment-focused initiatives that support the growth and professionalization of the industry around the world.

INSTITUTION BUILDING

MicroVest's investments help RFIs invest in and offer innovative, safe financial products and fintech solutions that reduce the costs of loan origination, underwriting, and repayment to further expand the universe of credit-worthy businesses. RFIs enable small businesses to grow, hire more people, and invest in productivity-enhancing assets and technologies for the benefit of themselves, their community, and local economies.

FINANCIAL INCLUSION

The lack of access to responsible, formal-ized financial services hampers the ability of MSMEs and households to grow and generate wealth. Women also face greater barriers in accessing finance and formal jobs across emerging markets. Rectifying this inequity is core to our mission. We actively seek to promote financial inclusion and establish gender parity across the RFIs we invest in, to their end borrowers, and our firm itself.

FINANCIAL HEALTH

RFIs facilitate entrepreneurship and job creation that unlocks productivity, enabling broader segments of the population to earn a living wage and pull themselves out of poverty. By expanding access to financial services, MicroVest strives to create a world in which families and MSMEs can effectively manage their day-to-day finances, protect themselves from unanticipated risks, and plan and invest for the future.

17 PARTNERSHIPS FOR THE GOALS

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

8 DECENT WORK AND ECONOMIC GROWTH

5 GENDER EQUALITY

1 NO POVERTY

10 REDUCED INEQUALITIES

2022 Impact at-a-glance

The impact metrics listed here are portfolio level statistics across two of MicroVest's flagship funds and are based on self-reported data by MicroVest's portfolio companies as of 6/30/2022. The data reflects the aggregate weighted averages, total, or percentage of MicroVest's portfolio of reporting companies and does not reflect MicroVest's actual investment in the portfolio companies.

44
Financial institutions invested

46.5%
Microfinance institutions

44.2%
SME finance institutions

9.3%
Alternative finance institutions[1]

24
Countries invested in 2022

$1B
Avg. gross loan portfolio

20%
Avg. annual portfolio growth

46%
Deposit-taking institutions

8.5%
Avg. operating expense ratio

20%
Avg. portfolio yield

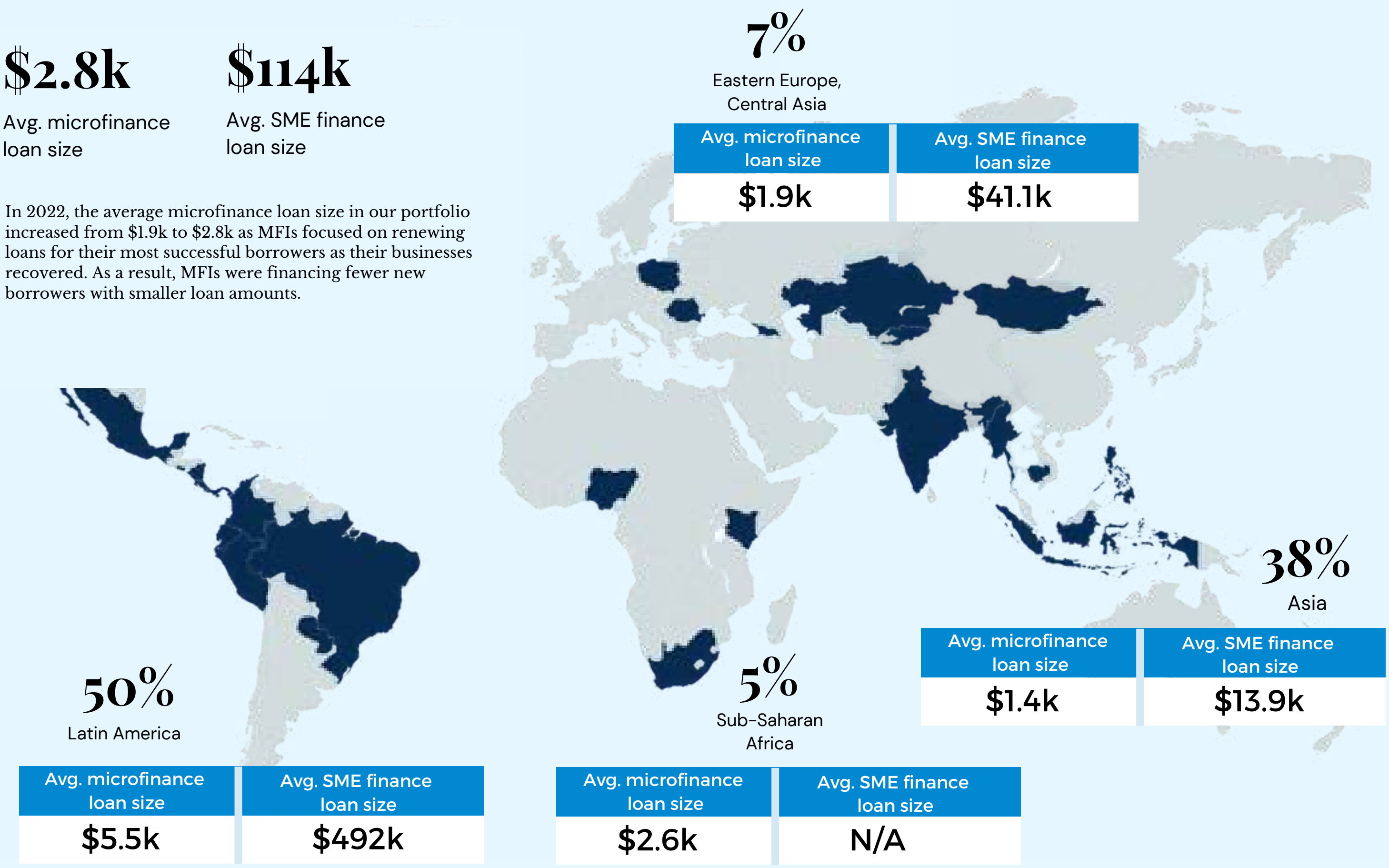
2%
Write-offs/avg. gross loan portfolio

2022 Regional Exposure & Average Loan Sizes

$2.8k
Avg. microfinance loan size

$114k
Avg. SME finance loan size

In 2022, the average microfinance loan size in our portfolio increased from $1.9k to $2.8k as MFIs focused on renewing loans for their most successful borrowers as their businesses recovered. As a result, MFIs were financing fewer new borrowers with smaller loan amounts.



[1] Alternative Financial Institutions encompass education finance, housing finance, payment & remittance transfer providers and other portfolio companies.

Workforce inclusivity

52k
Full time staff employed at MicroVest's portfolio companies

25%
Female senior management

28k
Loan officers employed

19%
Female board members

Facilitating financial inclusion for hard working entrepreneurs

9.6m
Active borrowers

$114k
Avg. SME finance loan size

53%
Female borrowers

$2.8k
Avg. microfinance loan size

35%
Rural borrowers

3.6m
Savers/depositors

68%
Productive loans

Deepening our impact with global expertise, presence, and partnerships

MicroVest was founded in 2003 with a goal of supporting financial inclusion and poverty alleviation for the world's unbanked.

For the past two decades, we utilized a commercial approach to invest in the world's most responsible micro and SME financial institutions–many of whom serve as the first provider of formal credit to entrepreneurs and small businesses in emerging markets. Our model of balancing purpose with investment discipline has served as a blueprint for the evolution of today's microfinance investment industry and so far we have channeled more than $1.6 billion in private capital to responsible financial institutions to support financial inclusion, job creation, and poverty reduction in developing markets.

Since our inception, the impact investing industry has seen significant growth in assets under management, and promoting financial inclusion has become a primary investment objective. As the industry evolved, so did the needs of underserved microentrepreneurs and small businesses in our target markets.

While capital is essential for responsible micro and SME financial institutions to reach more underserved borrowers, it is not the only crucial element. Achieving significant scale also necessitates robust organizational structures, effective governance, a positive company culture, strategic investments in technology, and ongoing improvements in customer service.

Partners in Purpose

In December 2021, MicroVest was acquired by DAI, a leading global development firm. Based on shared values, this partnership enables us to enhance our impact by providing more resources and a broader range of expertise to our investors, portfolio companies, and stakeholders. The acquisition will also help realize our vision of a more inclusive world where entrepreneurs and businesses have access to quality financial services to invest in themselves and their futures. Heading into 2023, we expect to take full advantage of this momentum and demonstrate the full benefits of this partnership to our stakeholders. ■

Combined synergies, added value

1

Expertise

DAI has more than 50 years of experience providing technical assistance, project design, and implementation services across disciplines including climate, digital acceleration, economic growth, governance, education, environment, fragile states, global health, and sustainable business. DAI's expertise allows MicroVest to offer 360-degree development solutions with on-the-ground insights and networks in addition to capital. Together we provide a comprehensive range of support to our portfolio companies in local markets.

2

Presence

DAI's extensive in-country networks provide valuable local context and relationships for MicroVest's investment and risk management teams.

5,000	200+	16	80+
Worldwide staff	Active projects	Corporate offices	Current countries

3

Partnerships

DAI's clients include governments, multilateral development banks, bilateral donor agencies, development finance institutions (DFIs), major philanthropies, private corporations, and investors in frontier and emerging markets. Some of these clients may also be partners to MicroVest's investees, providing additional capital and technical assistance and offering guidance on regulatory and policy matters. These relationships can support and amplify MicroVest's impact for years to come.

2022 Investment highlights

In 2022, MicroVest deployed $149 million in investments that brought both positive impact and returns for investors. December 2022 was a record-breaking month, our team deployed $63 million in investments to micro and SME financial institutions whose interests are aligned with the communities they serve.

$149m
Disbursed

20
Financial institutions

14
Countries

Example of deals completed in 2022

Supporting access to affordable leasing solutions for Colombia's SMEs with Rentek

Boosting access to finance for Nicaraguan SMEs with Financiera FAMA

Supporting trade development in the Dominican Republic with Banreservas

Facilitating home ownership for Panama's low income populations with Banco La Hipotecaria

Helping Ecuador's small businesses access working capital post-COVID with Banco Solidario

Expanding access to finance for Ecuador's rural populations with Jardin Azuayo

Jumpstarting inclusive growth for women-owned MSMEs in Ecuador with Fundacion Espoir

Bridging the SME financing gap in the Kyrgyz Republic
with Salym Finance

Facilitating agricultural microlending in Georgia
with Credo Bank

Supporting SME development in Mongolia
with Khan Bank

Supporting women's economic empowerment in India
with Sonata Finance

Expanding women's access to microfinance in Cambodia
with LOLC Cambodia

Financing access to quality education in India
with Varthana

Meeting the financing needs of civil servants in Africa, Latin America
with Bayport Management

Our work empowers a new generation of small business owners

Starting small, aiming big: How a local dentist built his practice from the ground up

Interview with **Mr. Chea Sophanna**, **Dentist & dental practice owner**
Client of MicroVest portfolio company, **Amret**
This interview was conducted during MicroVest's due diligence visit to Cambodia in 2022. It has been translated from Khmer to English and edited for clarity.

My name is Chea Sophanna, and I am the owner and operator of my dental practice outside of Phnom Penh. I have been a client of the MicroVest portfolio company, Amret for six years and have consistently received excellent service from them. Their processes are efficient, they communicate with me regularly, and I receive funding promptly. The loans I obtained from Amret were used to purchase supplies and materials for my dental practice and to keep up with innovations to keep the practice up-to-date, which is essential for dentistry.

When I first established my dental practice, I began by renting a small space. With additional funding, we gradually constructed our own space. Initially, I only had basic equipment such as cabinets and chairs, but I did not have any advanced dental equipment. Over time, we were able to acquire cameras and disinfectants to upgrade the quality of the practice. We also installed air conditioning to enhance the patients' comfort. In the near future, I plan to purchase diagnostic machinery, such as an X-ray machine.

Without the support of Amret, I would not have been able to acquire the necessary equipment for my practice and my family would not be in a better financial position. We would have had to rely on borrowing money from relatives, which would have been challenging.

When I think back on the past 10 years, I am proud of the progress I have made. It was not easy to reach this point. In addition to Amret's assistance by lending money to establish my practice, I have invested a lot of hard work and effort to build it from scratch. Achieving something through hard work and determination makes my business even more valuable to me. Reflecting on my life, I came from humble beginnings. I didn't have parents who provided me with any advantages. I am the first dentist in my family, the first employee, and never thought I could reach this level but I started and succeeded. ■

Photographed by Jason Loughnane, MicroVest.

Investing in

Digital Microfinance

Over the past several decades, micro and small and medium-sized enterprise (SME) financial institutions (MFIs) have demonstrated their ability to establish strong, long-term relationships with low-income borrowers while achieving low default rates through robust underwriting methodology. Being deeply rooted in their communities, MFIs operate within a pre-existing regulatory framework and have strong incentives to work with customers over long periods who may require more flexible repayment terms. Their traditional "brick and mortar" presence enables them to offer a wider range of banking services beyond lending and serves as a platform for launching digital financial services.

In recent years, digital financial services platforms, or Fintechs, have also brought basic banking services, payments, and lending to many emerging and frontier markets. Fintech is as much a set of tools and methods as it is a distinct type of company. Many of the best MFIs are utilizing these tools and methods, and the COVID-19 pandemic further accelerated the digitization and technological innovation of MFIs. Through MicroVest's global network of MFI relationships, we have a unique perspective on how this dynamic is evolving and where it can have the greatest impact for end borrowers and their communities.

Software and data can play a significant role in reducing barriers to financial products for low-income households and SMEs. More traditional MFIs have been inspired to adopt many positive attributes of Fintech start-ups, like user-friendly interfaces, automated processes, innovative data usage, and digital distribution channels. These elements will continue to be important, regardless of whether a lender identifies as a Fintech company. MFIs are also increasingly hiring in-house development teams to build their own products or digitize existing products in ways that would be indistinguishable from a Fintech start-up.

In India for example, Annapurna Finance, a microfinance organization serving over 2.3 million clients, introduced an in-house Geospatial Information System (GIS) that generates and analyzes data using interactive maps and spatial analysis of rural communities where its borrowers reside and work. The GIS team at Annapurna is an essential part of the company, producing analysis that informs decisions on risk management and operations, and building automated tools to widely disseminate data and analytics throughout the organization. With this tool, Annapurna can simulate >>

the impact of a cyclone on a specific group of borrowers, allowing management to proactively identify interventions or products that would help minimize the financial disruption to clients while also preserving the value of Annapurna's lending portfolio.

In Cambodia, microfinance institution LOLC Cambodia, has developed its own proprietary banking app, iPay. The app is linked to an interest-bearing deposit account that supports KHR, THB, and USD currencies. iPay allows users to access their bank account and view details of their outstanding loans on a 24/7 basis. They can also perform fee-free account transfers, and make everyday payments such as mobile top-up and bills.

We see numerous examples of this across our portfolio, with a majority of financial institutions in MicroVest's portfolio offering some form of digital service to their clients. We anticipate that the utilization of technology will continue to grow in the future.
MFIs are increasingly partnering with digital platforms to support distribution or underwriting through tech-enabled systems and processes. Tech-enabled lenders are increasingly seeking the stability and track record that MFIs have established over many years. Digital platforms can offer better data, an agile approach to product development, and proficiency in low-cost digital distribution channels, while microfinance banks with deposit-taking authority have lower funding costs and a deeper understanding of specific industry sectors and communities.

Many Fintechs today are venture capital-backed and have been rewarded with high valuations for showing top-line growth, but this often comes at the expense of long-term underwriting performance which can harm borrowers. For some borrowers, taking a loan from a Fintech start-up may have worked out well, as they could often obtain a larger loan amount with less restrictive and time-consuming approval processes. However, these restrictions are intended as safeguards for the borrower. Fintech loans often comes with a trade-off of paying higher interest rates (around 108%[1] per year vs. around 25%[2] per year for MFIs). Fintech-first lenders may also struggle to serve those who are most financially excluded. Apps designed to run on smartphones may not be accessible to borrowers who cannot afford these devices or live in very rural areas with poor connectivity. Additionally, many borrowers may lack the understanding to comprehend loan terms when they are only presented on the page, without someone to walk-through of the process or have the opportunity to ask questions. In the worst-case scenario, the pressure to grow can lead Fintechs to make loans that ultimately default, which harms borrowers' credit scores and results in long-term negative consequences for the borrower. How the microfinance industry builds on these core strengths will be crucial in distinguishing the best-in-class MFIs from the rest in 2023. MicroVest is observing our portfolio of microfinance and SME Finance Institutions continue to innovate. There is still more work to be done—MFIs need to further digitize collections, ensure customer protections are on par with loans originated through traditional channels, and integrate other financial services such as low-cost insurance and savings accounts.

In many cases, these institutions' knowledge of their customers and communities will guide how to best make use of digital tools. We look forward to a future where, instead of traditional MFIs and Fintechs, financial institutions use software, data and agile processes to build and deliver truly inclusive products at scale. ■

[1] https://www.safaricom.co.ke/personal/m-pesa/credit-and-savings/m-shwari & https://www.moneymax.ph/personal-loan/articles/tala-loan-philippines
[2] https://microvestfund.com/whats-in-a-microfinance-interest-rate/

Benefits of MFIs

- Ability to establish strong relationships with low-income, rural-based borrowers
- Lower interest rates
- More flexible repayment terms
- Availability of brick-and-mortar locations
- Regulatory supervision

Benefits of digital lenders

- Transactional
- Speed of approval
- Ability to obtain potentially higher loan amounts
- Efficient digital platform
- Less onerous documentation requirements

+ +

- -

Cons of MFIs

- Slower approval processes
- More bureaucratic
- Slower with digital uptake

Cons of digital lenders

- Less safeguards to protect borrowers
- Charges higher interest rates (108% per month on average vs. 25% per year on average for MFIs)
- Untested business model for higher interest rate market
- Limited services
- Unregulated in many markets

We give people agency over their lives

Transforming education finance in India with tech-enabled products

*How **Varthana** is driving differentiation through digitization*

33%

of eligible students in India are enrolled in higher education (vs. 88% in the US)

$281

(Rs 23,000) per month is the average household income of 69% of Indian households

Solving the challenges of Higher education enrollment in India

In the United States, 88%[1] of eligible students are enrolled in higher education, compared to 33% in India, (below the global average of 38%). The Government of India aims to increase enrollment to 50% by 2030. Financial insecurity is a key obstacle to higher education in India as 69% of households earn an average of $281[2] per month. Public sector banks are active in student lending, but tend to focus on students attending premium colleges, leaving low-income students without access to loans.

Satmeet Singh Narray, Varthana's Head of Business for the Student Loan said "where many saw only risks and downsides, Varthana, which had historically focused on lending to India's Affordable Private Schools (APS), decided that it could leverage technology to create a student loan product that met the needs of low-income students without adding on additional risk."

Finding product market fit

Yogesh Mashalkar, Varthana's Chief Technology Officer, attributes the successful launch of the company's digital student loan product to a combination of strong technical development, business model focus, and product design.

For many students across India, higher education means pursuing technical and vocational training. These programs are less expensive than a traditional university (~$800/year), and students tend to secure jobs in fields like information technology, animation, aviation, homebuilding, or skill trades >>

Varthana's digital student loan product enables students from low-income backgrounds to access education and build career options that were once out of reach.

[1] UNESCO Institute for Statistics (UIS). UIS.Stat Bulk Data Download Service. Accessed October 24, 2022. apiportal.uis.unesco.org/bdds. https://data.worldbank.org/indicator/SE.TER.ENRR?name_desc=false
[2] https://www.money9.com/news/exclusive/average-indian-family-earns-rs-23000-per-month-money9-survey-103511.html

with a well-defined training-to-job trajectory. From the perspective of a lender, this lowers the required loan amount, speeds up the time to job placement, and lets underwriters make more confident assumptions about the risk of default.

Product design

Though demand is strong for graduates of many vocational programs, Varthana did not leave that to chance. The team partnered with hundreds of skill development centers throughout India, who are willing to guarantee jobs to students who successfully graduate from their programs. Furthermore, Varthana was innovative on the structure of the loan itself; if the borrower is not earning income during their studies, Varthana brings other family members, usually a parent, into the loan structure as guarantors. With at least one signatory earning income, a loan from Varthana starts repaying before the student graduates, unlike traditional student loans. This provides an additional backstop if the student does not graduate or fails to secure employment and helps to limit overindebtedness.

A fully digital experience

When Varthana CTO Yogesh Mashalkar joined the company seven years ago, borrower information was still collected in paper form and loans were processed manually. Varthana had strong competencies in data and managing financial operations, but Yogesh knew that for this product to gain broad adoption, it would need to be 100% digital. To achieve this goal while fully controlling the end-to-end user experience, Yogesh opted to build the entire technology stack internally, including identity verification, underwriting, decisioning, disbursement and collections. He hired a development team with an agile and iterative mindset and built steadily over a two-year period. "If we had developed and launched a fully mature product, it would never see the light of day," said Yogesh. "We decided to break the whole platform into smaller modules and then built those that were essential for operations as we started it, and, iteratively, we started adding new elements to the platform. "Most non-bank financial institutions and microfinance banks built their technology platforms with external support or by partnering with fintech systems whereas Varthana did all of it, in-house. Varthana designed its application to be simple and employs human assistance for the Know Your Customer (KYC) and underwriting process at the start of the loan application process, which is then completed digitally. "The customer segment Varthana targets is typically not fully adapted to automated interfaces and is not really versed in how to even apply for loans," said Yogesh. "Also, the infrastructure where they are geographically present limits them to use the technology to the fullest so it is necessary to make the loan application process approachable while at the same time, digital."

Looking ahead

Varthana has already seen significant adoption and growing comfort with digital finance across its customer base, which it hopes will serve as a gateway for consumers to eventually engage other financial services that are useful to realize their goals and participate in their communities. ■


We drive women's
economic empowerment

Progress towards women's financial inclusion

In emerging countries where MicroVest invests, women are often forced into entrepreneurship due to structural constraints that keep them from equal participation in the labor market. At the same time, traditional banks do not serve many women-owned enterprises or female entrepreneurs, and this creates opportunity for micro and SME financial institutions to step into this market gap.

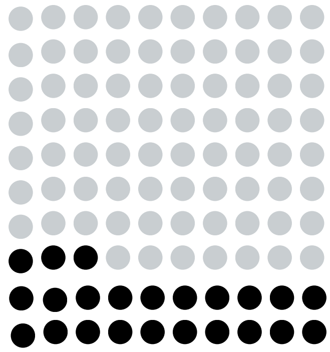
Female-owned businesses often encounter challenges in obtaining financing. These businesses comprise 23% of MSMEs worldwide but account for 32% of the approximately $4.8 trillion MSME funding gap.[1]

The COVID-19 pandemic also dealt a setback to pre-pandemic trends which saw a steady increase in financial inclusion for women. Approximately 740 million[2] women worldwide work in the informal economy, and during the first month of the pandemic, their income fell 60%. Furthermore, the UN estimated that 47 million women[3] and girls were pushed into extreme poverty since the pandemic started, partly due to female over-representation in sectors of the economy that were service-oriented and consumer-facing.

MicroVest makes a concerted effort to target two of the key themes in Gender Lens Investing (GLI): 1) investing in products and services targeted to women (e.g. group micro-loans) and 2) increasing capital allocation to women. By investing in financial institutions that share these priorities, MicroVest is seeking to responsibly support women who are providing valuable goods and services to their communities. To better understand and assess gender parity throughout our portfolio, MicroVest integrates gender inclusive metrics into its investment process and portfolio construction. We invest in institutions >>

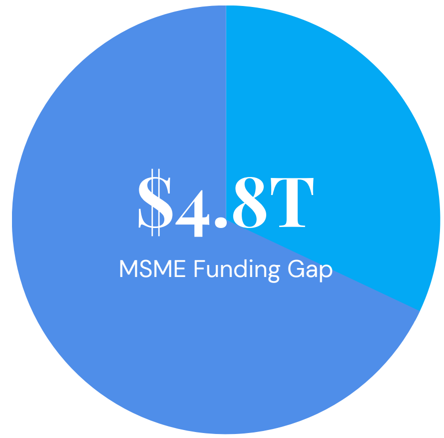
23%

of MSMEs worldwide are female-owned



32%

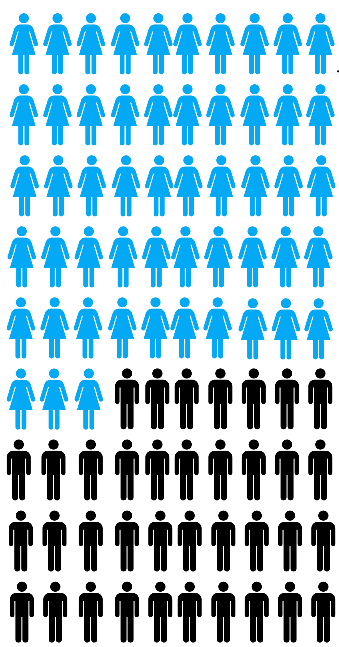
Female owned businesses



Our targeted themes for Gender Lens Investing:

Investing in products & services targeted to women

Increasing capital allocation to women



53% (5.0m)[4]

Female end borrowers in MicroVest's portfolio

Portfolio workforce[4]

25%

Female senior management

19%

Female board members

[1] SME Finance Forum, MSME Finance Gap https://www.smefinanceforum.org/data-sites/msme-finance-gap
[2] International Labor Organization (ILO), https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_627189/lang--en/index.htm
[3] UN Women: https://www.unwomen.org/en/news/stories/2020/8/press-release-covid-19-will-widen-poverty-gap-between-women-and-men
[4] The metrics listed here are based on self-reported data from MicroVest portfolio companies across its two flagship funds as of 6/30/2022.

that are committed to improving women's economic empowerment and inclusion. When the female end borrowers or our Portfolio Companies succeed, they have the capacity to generate employment and have greater resources to invest in the education, health and overall well-being of their own families.

In an effort to measure a portfolio company's emphasis on gender equity in the workplace and in its customer reach, MicroVest collects and tracks data on the composition of a portfolio company's board members, female senior management, and female borrowers. MicroVest believes that a gender smart approach, especially when it includes women in senior leadership roles, helps firms become more productive and innovative while creating workplaces that attract and retain high quality employees. We believe that success in these metrics also improves key traditional financial measures.

While microfinance institutions continue to have a greater representation of female borrowers than SME banks, we continue to work proactively to identify more female-led firms and work on ways to uncover opportunities that meaningfully move the needle on women's access to finance. ■

2022 Impact metrics

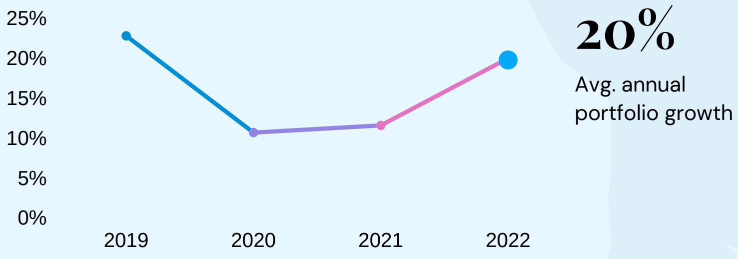
The impact metrics that MicroVest collects from its portfolio companies span a broad range of indicators and provide insight into an institution's financial and social performance over the life of the investment. Many of these data points offer directional evidence in support of MicroVest's financial inclusion thesis. When this data is aggregated at the portfolio level, it helps inform the development impact that our portfolio is creating and can be compared against aggregate estimates of the financial inclusion gap and the size of the unbanked and underserved population for a given country and sub-region.

The following metrics are based on self-reported data from MicroVest portfolio companies across its two flagship funds as of 6/30/2022. The average portfolio company is weighted by portfolio exposure at cost as of 6/30/2022 and exclude any company that did not report the metric.

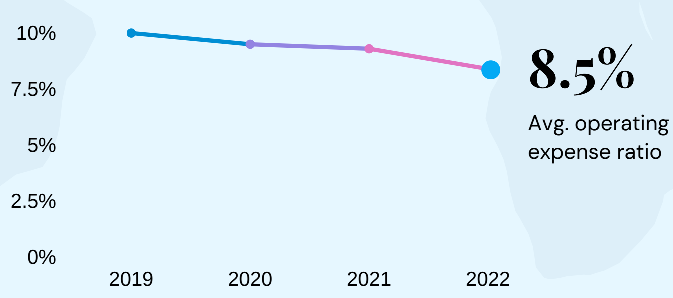
		20-Jun	21-Jun	22-Jun
MicroVest Portfolio Composition	# of Institutions Financed	56	52	44
	Microfinance	50.0%	51.9%	46.5%
	SME Finance	42.9%	40.4%	44.2%
	Alternative[1]	7.1%	7.7%	9.3%
	Number of Countries[2]	28	26	24
Portfolio of Financial Institutions	Gross Loan Portfolio (GLP)	395,902,049	519,457,020	1,045,455,150[3]
	Annual Portfolio Growth	10.7%	11.6%	20.1%
	Portfolio Yield (YTD annualized)	23.5%	19.7%	19.8%
	Operating Expense Ratio	9.5%	9.3%	8.5%
	Write-offs/Average GLP (TTM)	2.0%	3.1%	2.0%
	PAR>30 & Restructured Loans/GLP[4]	9.0%	21.1%	9.7%
Portfolio Workforce of Financial Institutions	Full-time Employees	64,430	59,326	52,321
	Loan Officers Employed	31,952	30,464	27,680
	% Female Senior Management	25.1%	26.1%	24.6%
	% Female Board Representation	15.9%	17.8%	19.4%

Average annual portfolio growth

Portfolio growth is returning to pre-pandemic levels, demonstrating a rebound in the underlying economic activity of MSMEs.



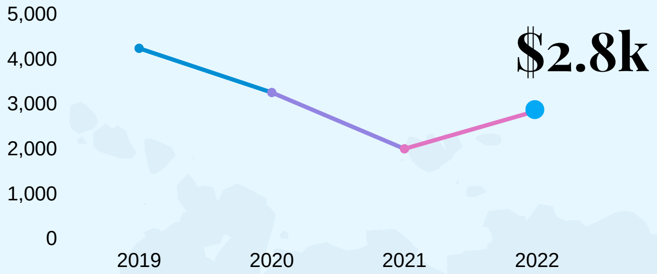
Operating expense ratio



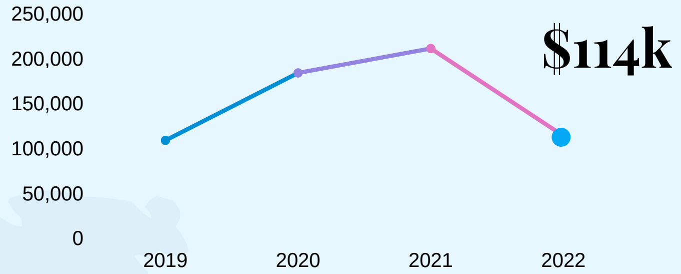
[1] Alternative includes education finance, housing finance, payment & remittance transfer providers and other portfolio companies.
[2] Prior to 2020, this number Included "global" and "regional SSA" as individual countries. As of 2020, this number excludes "global" and "regional SSA" as individual countries.
[3] The 101% increase in GLP in 2022 was due to the addition of one portfolio company in Cambodia with a $6B GLP.
[4] PAR>30 & Restructured Loans: (2020) Excludes loans that were restructured or under payment holiday related to COVID. (2021) Includes restructured loans that are overdue or have made full and on-time payments for less than six months. If bifurcation was not available, this number includes all restructured loans.

2022 Impact metrics

Average microfinance loan size



Average SME loan size



		20-Jun	21-Jun	22-Jun
Portfolio End Borrowers	Total # of Active Borrowers	10,205,808	10,125,068	9,585,729
	% Rural Borrowers	40.0%	36.9%	34.9%
	Average # of End Borrowers	376,321	421,823	513,645
	Microfinance	628,541	696,288	792,929
	SME Finance	56,263	77,852	156,799
	Alternative	6,922	8,232	9,218
	% Female Borrowers	56.0%	50.4%	53.1%
	Microfinance	69.0%	61.5%	63.3%
	SME Finance	33.0%	31.8%	37.0%
	Alternative	57.0%	46.9%	46.5%
	Number of Savers or Depositors	4,870,190	3,251,414	3,567,544
	Average Loan Size (US$)	70,088	75,088	40,284
	Microfinance	3,251	1,997	2,846
	SME Finance	184,372	211,557	114,292
	Alternative	43,122	48,132	48,216
	# of Loans Outstanding	13,127,500	11,935,522	11,872,758
	Microfinance	12,233,670	11,002,794	10,458,733
	SME Finance	859,635	894,847	1,371,006
	Alternative	34,195	37,881	43,019
	% Productive Loans[5]	76.0%	72.7%	67.8%
	Microfinance	80.0%	75.8%	71.7%
	SME Finance	81.0%	83.6%	82.5%
	Alternative	28.0%	26.3%	25.0%

[5] Productive loans are those that go toward enterprises such as manufacturing and production, agriculture and livestock, commerce and trade, services, education, and renewable energy. Sectors that are excluded from MicroVest's classification of a productive loan include housing, consumer, and other sector loans.

One woman's store allows her to balance work and family

Interview with **Mrs. Srey Leakh**, **Convenience store owner**
Client of MicroVest portfolio company, **Amret**
This interview was conducted during MicroVest's due diligence visit to Cambodia in 2022. It has been translated from Khmer to English and edited for clarity.

My name is Srey Leakh and for the past five years, I have been running my own convenience store located outside of Phnom Penh. Prior to managing the store, I had held various odd jobs. Through running the store, I have been able to provide for my aging mother and now, my family is actively involved in assisting me with the business.

When I first opened my store, I only sold canned goods. However, after analyzing market demand, we realized that it would be beneficial to expand our offerings to include fresh produce, fish, vegetables, and meat. As customer requests grew, we organically expanded our inventory to meet their needs.

I have been a long-time customer of Amret. I believe that my store has greatly benefited from the loan I received from them, as the interest rate was low, and it has allowed our capital to continue growing.

We have also utilized loans from Amret to expand the store. Recently, we used it to refill the soil and expand our backyard. We plan to build a fence and make other improvements to the store in the future. Without the loan, it would have been difficult to rely solely on our own funds and savings to establish and run the business, so the loan has been extremely helpful in getting our business off the ground.

In the future, I plan to expand the store by adding more products and possibly opening a second location. ■

Photographed by Jason Loughnane, MicroVest.

People and purpose[1]

MicroVest's portfolio is managed by a core investment team that possesses a unique combination of experience, industry knowledge, and extensive local networks that help us identify microfinance investment opportunities, conduct due diligence, invest, and monitor the portfolio with prudence. Our investment professionals are both fluent in the languages spoken in many of the countries in which we invest, in addition to being familiar with the cultures having either grown up in or lived in these countries and/or regions. MicroVest's investment professionals are supported by a team of portfolio and risk professionals. The Risk team includes seasoned credit and risk professionals with decades of experience overseeing and managing key functions related to investment and portfolio management processes, such as conducting credit review of investments, managing problem credits, identifying and tracking fund portfolio risk, and managing FX risk, among others. MicroVest's legal team also provides legal counsel to, as well as legal support for MicroVest's activities, including governance, fund management, investment advisory operations, strategic partnerships, and global investments.

22
Employees

41%
Female employees

31%
Female risk/investment professionals

10
Nationalities represented

13
Languages spoken fluently

33%
Female board members

43%
Employees that self identify as person of color

25%
Female senior management

[1] The number of nationalities represented, languages spoken, and percentage of employees that self identify as a person of color were obtained from an optional staff demographic survey conducted in October 2022.

Thank you to our investors

The success of MicroVest's mission to generate positive social impact is only achievable through the trust and support of our investors. Your confidence in us allows us to expand our reach and assist underprivileged communities in obtaining essential financial services, achieve their small business aspirations, break the cycle of poverty, and live with dignity.

@microvestfund

/microvestfund

This report was written, designed and produced by Leela Vosko, MicroVest

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