

## Sample - "ABC" Fund

Luxembourg | October 2011

Legal name: **ABC Fund**  
 Registered domicile: **ABC Location**  
 Legal structure: **ABC**  
 Asset class: **Open-ended hybrid MIV**  
 Inception date: **February XX, 20XX**  
 Maturity date: **None**  
 Fund manager: **ABC Manager**  
 Investment advisor: **ABC Advisor**  
 Sponsor: **ABC Sponsor**  
 Custodian: **ABC Bank, XYZ Bank**  
 LuxFLAG labeled<sup>1</sup>: **Yes**  
 Share classes: **12 institutional/retail classes are offered<sup>2</sup>**  
 Target annual return: **6-9%**  
 Open to new investors: **Yes**

### About The Fund

Launched in early 20XX, the Fund aims to increase access to financial services for low-income people in developing countries by providing loans and equity to microfinance institutions (MFIs) and seeks to achieve an attractive financial return for investors.

The Fund is organized as an open-ended fund and is one of two so-called "Sub-Funds" of a larger "Umbrella Fund", ABC Fund. This organizational arrangement enables the Fund Manager to maintain two distinct investment portfolios, each with its own objectives, target markets, and risk profiles, while benefitting from shared administrative costs.<sup>3</sup>

During 20XX, the Fund's net assets grew by 52.5% to €XXX million, consisting of 26 holdings in 18 countries in Latin America, Asia, Africa and Eastern Europe.

The Fund is managed by ABC Management (the ABC Advisor). The ABC Advisor is an experienced microfinance investment manager with approximately €XXX million in microfinance assets under management and has been providing capital to the microfinance sector since 19XX.

### Investment Approach

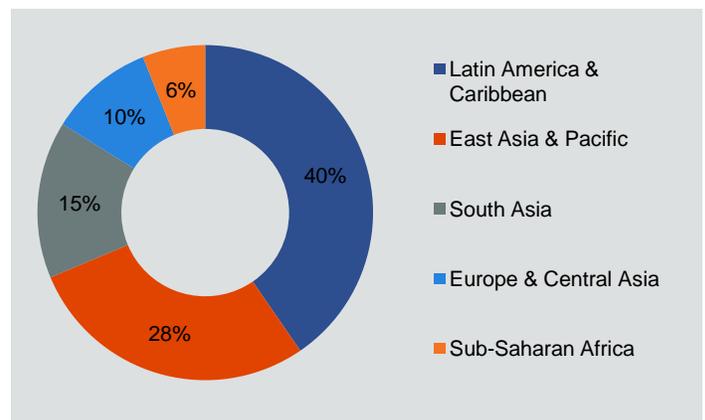
The Fund invests, directly or indirectly, in the equity, subordinated debt, senior debt and other debt instruments of qualifying MFIs and other applicable financial institutions that have a track record, have gone through the first phase of rapid growth and are financially sustainable. The Fund may also invest in Greenfield MFIs.

Debt financing is structured in local currency, U.S. dollars, and euros. Equity investments are primarily denominated in local currency. Investments in local currencies may be hedged at the Fund Manager's discretion (up to 60% may be unhedged).

### MIV Classification

Debt	Hybrid	Equity	
			Large(>\$200m)
			Mid (\$30-200m)
			Small (<\$30m)

### Regional Breakdown (% of Portfolio)



# Performance

## Rationale

While the Fund is relatively new, having been launched in 20XX, results to date have been encouraging despite a host of political, competitive, credit, and capital market related challenges. Much of the credit for the positive performance is due to the experience of the management team and good expense controls - expense levels are among the lowest in the peer group, which is impressive since the fund is still relatively young and has yet to achieve its intended target size of €XXX million.

## Strengths

- + Positive operating results since 20XX launch
- + Very strong follow-on subscription results despite challenging market conditions
- + Excellent expense management

## Weaknesses

- Some recent deterioration in borrower delinquency statistics in the MFI loan portfolio
- Foreign exchange/equity investment earnings volatility

## FINANCIAL RESULTS<sup>4</sup>

Since its inception in February 20XX, the Fund has posted positive returns; return on assets (ROA) for fiscal year end (FYE) 2010 were a strong 4.9% as the Fund benefitted from significant unrealized gains on its equity investments. Even the results during the start-up year (20XX) produced an ROA of 1.2% - this reflects positively on the organizational capabilities of the ABC Advisor.

Overall, the 2010 performance is indicative of the Fund's top tier performance potential, particularly if the Fund's equity investments continue to perform well. Hence, overall, the results thus far are encouraging.

- Over the mid to long term (approximately 7 years) targeted annual asset returns are 6-9%. Assuming continued solid portfolio performance, these targets appear to be achievable.
- The Fund has grown rapidly since inception. It was €XXX million as of December 31, 2010, and is projected to grow to €XXX million by year end 2011.

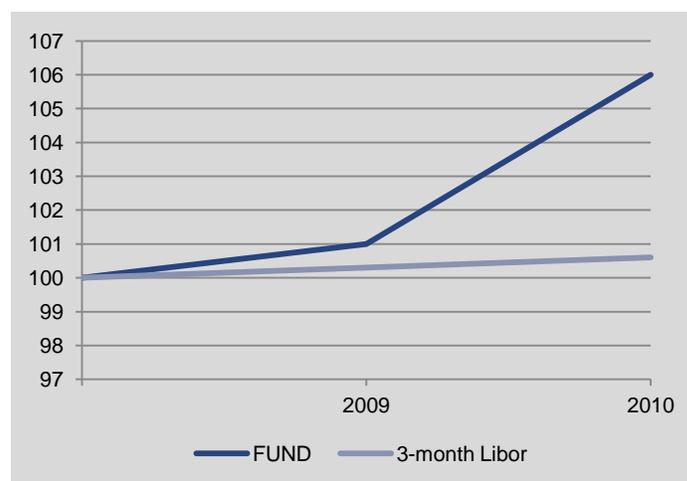
This level of asset inflows should support continued positive returns as well as the achievement of targeted rates, provided the growth does not significantly diminish portfolio quality.

- Portfolio MFIs have not gone completely unscathed during the global economic crisis. The Fund's investments in India (3.9% of portfolio) are an area of particular concern due to the political and regulatory challenges facing the country's largest microfinance market, Andhra Pradesh (see Sovereign Risk). Additionally, loan delinquencies have risen in Indian and Peruvian MFIs during 2010 as growth moderated somewhat in many developing economies.
- Since its inception, the Fund has posted cumulative realized and unrealized foreign exchange (FX) related losses of €XXX,000. While swings in FX results can be expected, the losses represent a substantial percentage (XX%) of the cumulative reported pre-tax profits of the Fund to date; these results are well below peer averages.

**Figure 1: Financial Highlights**

	Dec-08	Dec-09	Dec-10
Total assets (\$)	-	XXX	XXX
Portfolio (\$)	-	XXX	XXX
Cash (\$)	-	XXX	XXX
Total liabilities (\$)	-	XXX	XXX
Total equity (\$)	-	XXX	XXX
Net income (\$)	-	XXX	XXX

**Figure 2: Annual Return**



**Figure 3: Performance Summary**

	YTD	1 yr	3 yrs	5 yrs	10 yrs	Since inception (27-Feb-09)
<b>Return (%)</b>	5.0	5.0	-	-	-	3.0
<b>+/- Peer group (%)</b>	-	-	-	-	-	-
<b>Return on assets (%)</b>	-	-	-	-	-	-
<b>+/- Peer group (%)</b>	-	-	-	-	-	-

**EARNINGS QUALITY**

The Fund has experienced positive, but varied results since inception. During 2010, earnings were supported by €XXX million in unrealized gains on equity investments – a sign the Fund is off to a good start. MicroRate notes however that equity investments can be a volatile earnings source. Had these gains not occurred, asset returns would have been in the 2% range during 2010 (as opposed to reported results of 4.9%).

- The Fund’s “core” 2010 profitability of 2% (based solely on the interest earnings generated by the Fund’s investments net of operating expenses, as a percentage of total assets) shows good progress from 2009 results of 1.2%. During 2010, new subscriptions caused the Fund’s assets to swell by 52%. Nevertheless, the Fund also managed to channel much more of its funds to productive investments – holdings of low yielding cash equivalents as a percentage of total assets fell from 43% at the end of 2009 to 19%.
- Investment income from collateral and cash accounts grew from €XXX million in 2009 to €XXX million during 2010. As the Fund’s plans call for continued growth in assets under management (the Fund is only 65% of the way to its target size of €XXX million), this growth trend should continue to improve over the near term.
- The Fund has experienced moderate losses relating to FX management. During 2010, losses totaled €XXX in spite of realized gains of €XXX. The decision to realize some gains on existing FX contracts is an indication that the Fund may have decided to reduce the overall level of local currency hedging (perhaps due to continued strengthening of emerging market currencies against the U.S. dollar and the euro).
- While the Fund expressed concerns in its 2010 annual report with respect to its equity investments in the Indian state of Andhra Pradesh, to date, the Fund has

yet to record a single provisioning expense related to its loan portfolio, which represents a majority of its total investments (80%)

**Figure 4: Earnings Indicators (% of total assets)**

	Dec-08	Dec-09	Dec-10
Portfolio income (%)	-	2.3	8.2
FX income (%)	-	-0.4	-1.2
Other income (%)	-	0.5	0.3
Operating expense (%)	-	1.5	2.3
Interest expense (%)	-	0.0	0.0
Provision expense (%)	-	0.0	0.0
Return on assets (%)	-	1.0	4.9

**EFFICIENCY**

For two straight years, the Fund has kept its total expense ratio (“TER”) at or below 2%. Indeed, this is one of the lowest TERs in the industry and an impressive result for a Fund which commenced operations recently and has yet to reach its target asset size.

- The ABC Advisor receives management fees of up to 2.5% for retail share classes issued and outstanding and up to 1.75% for institutional share classes issued and outstanding.
- Program expenses (Audit, Accounting, Tax, Other) appear to be below peer averages due to scale economies achieved by the ABC Advisor.

**Figure 5: Fees & Expenses**

	Fund	Peer group
Total expense ratio (%)	1.9	-
Front end sales charges	None	-
Deferred sales charges	None	-

## Risk

### Rationale

The Fund benefits from lower than average sovereign risk, an absence of debt, and good liquidity. On the other hand, the fund is subject to redemption risk and has the ability to incur significant open local currency risk. Overall, this equates to an above average risk score.

### Strengths

- + Lower overall sovereign risk compared to peers
- + Above average portfolio loan quality vs. peers
- + Payment performance track record (zero defaults to date)
- + Good liquidity position
- + Absence of short/long term debt gives Fund investment flexibility

### Weaknesses

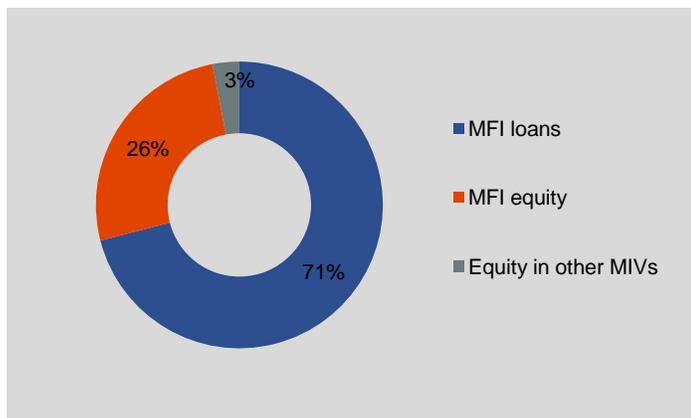
- Redemption risk
- Potential local currency risk

## PORTFOLIO COMPOSITION

The portfolio is composed of €XXX million of loans and €XXX million in equity investments to 26 entities around the world.

The majority of institutions are medium sized MFI's serving lower-middle income and upper-middle income countries.

Figure 6: Portfolio composition (% of portfolio)



## SOVEREIGN RISK

The loan and equity investment portfolio is spread across 18 countries mainly from the regions of Latin America and the Caribbean, East Asia and the Pacific, and Europe and Central Asia.

- The Fund's weighted average sovereign rating is BB- (S&P scale), which denotes below average country risk compared to other MIVs.
- Notably, there is no exposure to the high risk country of Nicaragua. However, India (3.9%) and Bosnia and Herzegovina (1.7%) have recently experienced adversity. While the Fund also has exposure to Country3 (11.8%), which has also experienced stress, to date, investments here have performed well. Country4 and Country5 have been strong microfinance markets for several years but could be somewhat overbanked and poised to moderate.
- It is important to note that sovereign ratings alone do not capture all the risks of MFIs' operating environments. Therefore, as a complement, the MicroScope Index<sup>5</sup> is also used to help more fully gauge the country risk and investment climate specifically for microfinance. According to this scale, the Fund's weighted average score was 53, which is well above average (again indicating a more favorable sovereign risk profile compared to its peers).
- The Fund adheres to its own internal guidelines of diversification by country. Its Herfindahl-Hirschman Index (HHI) is 0.XX, which suggests greater geographic dispersion than its peers.<sup>6</sup>

Figure 7: Top 10 Countries

	% of portfolio
Country1	21.3
Country2	20.3
Country3	11.8
Country4	10.4
Country5	4.6
Country6	4.2
Country7	4.2
Country8	3.9
Country9	3.2
Country10	3.0

## PORTFOLIO RISK

The Fund primarily targets larger, well established institutions with successful track records as commercial funders. As such, the obligors are generally medium risk MFIs located in lower risk countries.

- The weighted average financial strength rating (FSR) of the Fund's MFI partners is  $\beta$ , which indicates moderate institutional credit risk.
- Exposure to high risk institutions with FSRs of  $\beta$  or below in countries with sovereign ratings of B or below comprise 10.3% of the portfolio, which compares favorably to peers.

**Figure 8: FSR versus Sovereign rating** (% of portfolio)

AAA to BBB-	BB+ to B+	B to D	
	9%	2%	$\alpha+$ to $\alpha$ (low risk)
18%	48%	3%	$\alpha-$ to $\beta+$ (average risk)
3%	16%	5%	$\beta$ to $\gamma$ (high risk)

- Similar to its country concentration limits, the Fund adheres to single-institution diversification limits that apply across all funds under management by the ABC Advisor.
- Although the Fund's top 10 holdings account for 66.8% of the total portfolio, the Fund's HHI score of 0.06 for single name exposure is very sound, indicating significantly lower than average overall client concentration when compared to peers.

**Figure 9: Top 10 Holdings**

	% of portfolio
Holding1	15.3
Holding2	9.8
Holding3	7.2
Holding4	6.0
Holding5	5.8
Holding6	5.2
Holding7	5.2
Holding8	4.6
Holding9	4.2
Holding10	3.6
Rest of portfolio (16 holdings)	33.2

## LIQUIDITY / ASSET-LIABILITY MANAGEMENT

With no debt outstanding and very modest liabilities related to foreign exchange contracts, the Fund has zero asset-liability management (ALM) financing issues - no maturity mismatches exist through the life of the assets. However, with respect to structure, redemption risk (see Structural Risks) is a potential material source of ALM risk.

- The weighted average tenor of the Fund's loan portfolio is 69 months from issue, or 61 months remaining as of 2010 year-end. This is somewhat greater than peer funds, whose loan maturities are closer to the 36 month range. Given the Fund's lack of borrowing, it has the capacity to offer flexible loan terms to its clients, but longer dated loans may lead to increased credit risks over time.
- The Fund maintains a substantial (15.9%) portion of its assets in cash and cash equivalents. This is above peer averages. The Fund's stated policy is to maintain a minimum of 10% in liquid assets at all times or, alternatively, to arrange for other forms of liquidity which can act as a substitute (e.g. standby liquidity facilities provided by commercial banks).
- Because the fund has no outstanding debt at this time, interest coverage metrics are not applicable. Also, as an open end fund, all Fund capital is comprised of paid-in capital (unfunded capital commitments are commonly associated with closed end funds and private equity funds).

**Figure 10: Liquidity Indicators**

	Dec-08	Dec-09	Dec-10
Interest coverage ratio	-	n/a	n/a
Cash ratio (%)	-	43.0	15.9
Paid-in capital / committed capital (%)	-	100.0	100.0

## LEVERAGE

To date, the Fund has not employed the use of leverage. As an open-end fund with no debt or unfunded commitments and positive earnings to date, the Fund maintains a very strong capital position consisting of €XXX million in capital (accumulated net subscriptions and retained earnings).

**Figure 11: Leverage Indicators**

	Dec-08	Dec-09	Dec-10
Debt / equity	-	n/a	n/a
Debt / available capital	-	n/a	n/a

## MARKET RISK

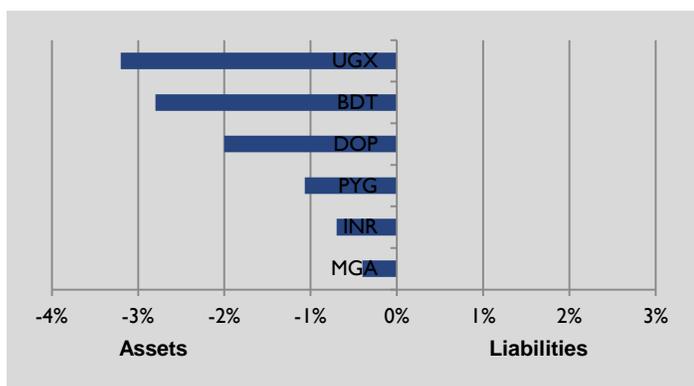
### CURRENCY RISK

The Fund has significant latitude with respect to currency hedging – while the Fund states that local currency will generally be hedged, the investment policy permits up to 60% of the Fund’s local currency investments to be non-euro hedged.

As of FYE 2010, 24.9 % of the Fund’s investments were made in local currencies, of which 58.7% were unhedged – hence, 10.3% of the Fund’s portfolio was exposed to open currency risk. The largest unhedged local currency exposures include Country1 (3.2%), Country2 (2.8%), and Country3 (2.0%).

The Fund has experienced losses relating to its FX currency management. During 2010, realized gains of €XXX were more than offset by €XXX million in unrealized losses.

**Figure 12: Net currency exposure** (% of assets)



## INTEREST RATE RISK

- The Fund takes significant interest rate risk. Its policy is to make fixed rate loans, funded with fixed rate term funding. However, the term of the funding is 5-10 years, whereas the loans may be of shorter maturity. Should the prevailing market rates for loans decrease, the margin over the cost of funds could diminish, and *vice versa*.
- The current yield on loans is 5.6% blending the higher yielding subordinated loan yields with the lower yielding senior loans; this is approximately equal to the fund’s cost of borrowing. However, given the low leverage, net interest and dividend income provides for a high net yield on investments of 5.5%.

## STRUCTURAL RISKS

### REDEMPTION RISK

Because the Fund has an open-end structure, it is expected to accommodate occasional shareholder redemption requests (closed-end fund structures are not required to accommodate early redemption requests and typically only accommodate redemptions in an emergency and at a hefty exit cost). While the open-end architecture provides liquidity advantages for shareholders, due to the inherent illiquid nature of the majority of the Fund’s investments it also places a significant burden on management to maintain sufficient liquidity to promptly satisfy any such request and thus represents a material structural risk for the Fund.

To date, the Fund has experienced only €XXX in redemptions versus €XXX million in new subscriptions.

## COVENANT COMPLIANCE

The Fund’s stated policy is to maintain a minimum of 10% in liquid assets at all times or, alternatively, to arrange for other forms of liquidity which can act as a substitute (e.g. standby liquidity facilities provided by commercial banks).

## PAYMENT PERFORMANCE

The Fund has experienced no loan defaults since inception. This is encouraging, especially given recent challenging global economic conditions, and consistent with the strong overall asset quality metrics noted in the Risk section of this report. The performance is also a reflection of the management team’s extensive microfinance experience.

**Figure 13: Payment Performance**

	Amount in default (P+I)	Loss realized	Recovery status
-	-	-	-
-	-	-	-

## Social

### Rationale

*Although the Fund is somewhat less socially oriented than several peers, the Fund nevertheless exhibits very good social performance results which are consistent with its triple bottom line mission and objectives. Overall, the fund demonstrates a high level of commitment to fully integrating its social mission.*

### Strengths

- + Triple bottom line social mission
- + Outreach results align with mission (MFI tier level and geography)
- + Management commitment to Client Protection Principles (CPP) and Principles for Investors in Inclusive Finance (PIIF)
- + Strong internal social metrics scoring process

### Weaknesses

- MFI clients are not required to have a social rating nor endorse the CPP

## SOCIAL MISSION

The Fund has a broad social mandate - it aims to increase access to financial services for low-income people in developing countries by providing loans and equity to MFIs that have a track record, have gone through the first phase of rapid growth and are financially sustainable. The Fund benefits from its affiliation with ABC Bank, which contributes expertise and experience as a small scale lender to strengthen the governance and transfer triple bottom line practices of the Fund's microfinance clients.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

*Corporate Social Responsibility (CSR) relates to the standards of corporate behavior to which the institution subscribes and seeks to enforce such as client protection, transparency, and environmental protection.*

The Fund conducts itself in a highly ethical manner and complies with the majority of CSR principles and best practices.

- The Fund has signed and committed to the CPP – an ethical code with the objective of protecting microfinance clients for their benefit and the benefit of the microfinance sector as a whole. However, presently, the Fund does not require its clients to endorse these principles or obtain a social rating.
- In early 2010, a group of investors that included ABC Management and Country1 took the initiative to set up ABC Program in order to contribute to the embedding of socially responsible investment in this sector.
- The Fund's sponsor, ABC Management, in conjunction with the XYZ and PQR took the initiative in 2010 to investigate the extent of over indebtedness in a number of markets. The study was conducted by the University of XYZ and published in January 2011.

**Figure 14: Client Protection**

MFI Endorsement of the Client Protection Principles	No
Tracking of the Client Protection Principles	Yes
MIV Endorsement of the Principles for Investors in Inclusive Finance	Yes
Tracking of the Principles for Investors in Inclusive Finance	Yes

## SOCIAL PERFORMANCE MANAGEMENT (SPM)

*Social Performance Management (SPM) relates to the processes and procedures employed by the Fund ensure that its mission and values are translated into practice*

### SOCIAL PROCESS/ORIGINATION

The Fund has a high-level commitment to its social mission.

The Fund's investment advisor has developed a Sustainability Management System as part of its investment process to help clarify the social and environmental performance of clients as well as their attitude towards over-indebtedness and transparency.

The Sustainability Management System classifies MFIs in terms of four dimensions: products & services, responsible banking, environment, and social responsibility. The score indicates the extent to which the MFI has a clear vision and objective for each of these dimensions, the degree to which these are embedded in processes and systems and how this is expressed in their day-to-day operations.

**RESULTS VERIFICATION AND REMEDIAL ACTION**

The Fund’s investment partners are required to report on financial as well as non-financial indicators on a both a quarterly basis. The reports include social indicators such as number of voluntary savers, number of women active borrowers, rural versus urban clients. On an annual basis the Fund’s investment officers evaluate indicators including as variety of financial and non-financial services offered, and policies regarding fair pricing, transparency, the environment, and prevention of over-indebtedness.

**SOCIAL RESULTS**

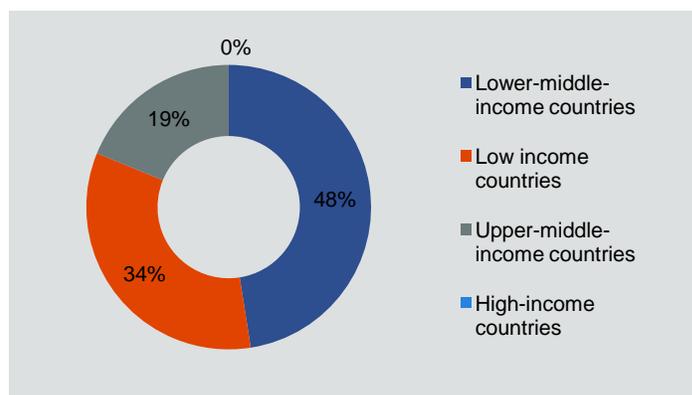
*Social Results focuses on the demographic and geographic outreach results of the MIV’s process, and then evaluates the extent to which it measures and achieves its desired social/economic outcomes.*

- Since its inception, the Fund has disbursed €XXX million to 25 MFIs and 1 microfinance investment fund in 18 countries. Currently, the average deal size is just over €XXX million, which is above average (typical MIV deal size is around \$1 million). The discrepancy is due to (1) the Fund’s overall size/successful capital raising activities, and (2) a large equity investment in XYZ Bank, based in Country1, which is viewed by the Fund as one of the worldwide leaders in sustainable microfinance.
- The average loan size/GNI per capita (91%) is one of the higher results observed among peers. This suggests the Fund is reaching its targeted MFIs which are often established, commercially successful entities serving underserved microentrepreneurs.
- The Social Dollar Index™<sup>7</sup> of XXXX is well above peer results and suggests that the fund is in fact achieving its stated social mission despite targeting more established, commercially successful MFIs.

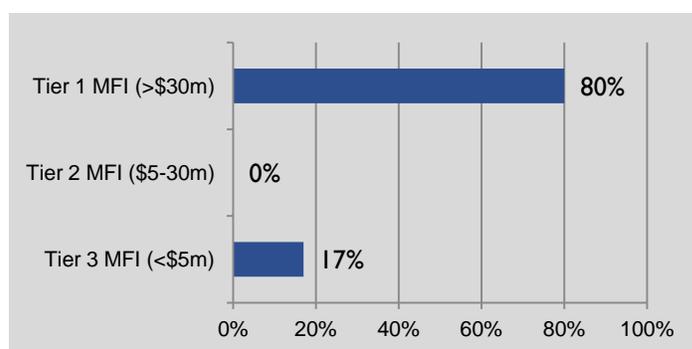
**MARKET LEADERSHIP/ OUTREACH**

Figures 15 and 16 illustrate the social success the Fund has realized. A rather modest percentage of funds are being directed at the neediest MFIs (17% to Tier 3, which is below peer averages). However, a majority of funds are being deployed in the poorest countries (82% to lower-middle and lower income countries). Additionally, a majority of the Fund’s clients offer multiple financial services/products to the local customer base.

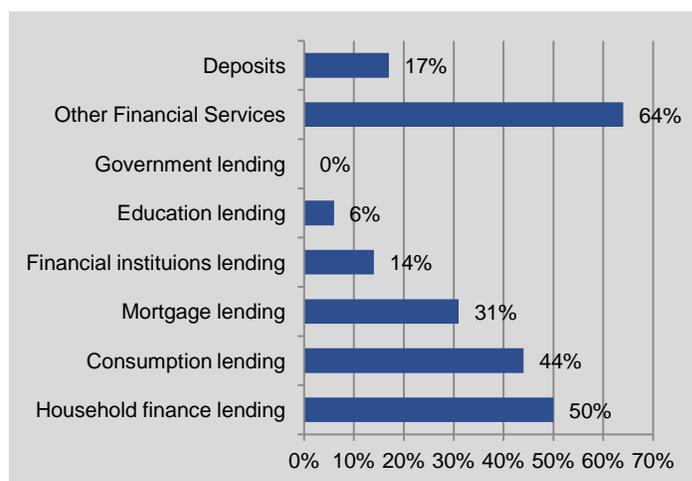
**Figure 15: Country Wealth Breakdown (% of portfolio)**



**Figure 16: MFI Type**



**Figure 17: % of portfolio MFIs offering the following:**



# Management

## Rationale

*The Fund benefits greatly from the Investment Advisor's experience, rigorous investment process, and prudent risk management it adheres to for all funds under management. Overall, it ranks above its peers.*

## Strengths

- + Experienced management and staff with a successful long-term track record
- + Robust on site/desk due diligence
- + Prudent portfolio monitoring and risk management

## Weaknesses

- Board lacks shareholder representation

## GOVERNANCE

The Fund is governed by a five-member Board comprised of a Chairman, one independent member, two ABC Bank employees, and one ABC Management employee. Collectively, the Board members have as much as or more direct microfinance experience as any specialized microfinance fund. The Board has broad authority to undertake any necessary steps to achieve its investment objectives.

- As is typical of many retail oriented open-end funds, the Board lacks shareholder representation and is dominated by employees of the Fund's investment advisor and ABC Bank, which is a concern.
- The Fund is dependent upon the expertise of a few highly experienced individuals who also help to co-manage other funds for the investment advisor. Fortunately, staff turnover has not been an issue for the Fund's advisor over the past several years.
- Annual reports and annual accounts are audited by an external auditor, currently ABC Auditor.

Figure 18: Management

<b>Investment advisor</b>	ABC Advisor
<b>Other funds managed</b>	20 mutual funds for private and institutional investors (Funds invest in: Climate and Energy, Arts and Culture, Food and Agriculture, Sustainable Real Estate, Emerging Markets, Socially Responsible Investments).
<b>Total AUM</b>	€XXX billion
<b>Total staff</b>	15
<b>Portfolio manager</b>	ABC
<b>Active since</b>	February 20XX (since inception)
<b>Education</b>	Masters in XX, University of XYZ
<b>Other funds managed</b>	None
<b>Total AUM</b>	€XXX million

## PORTFOLIO MANAGEMENT

The ABC Advisor, a wholly owned subsidiary of ABC Bank, is a leading microfinance investment firm with a proven ability to generate consistent returns while maintaining a lean staff and low cost structure. The latter is attributable to the economies of scale it achieves by managing 20 funds with a combined value of nearly €XXX billion.

The firm's four MIVs often share many of the same portfolio holdings and can thereby leverage the available capital to negotiate favorable terms and conditions. The experience and dedication of the ABC Advisor in microfinance investing has played a significant factor in the Fund's ability to generate positive returns. ABC Management provides the Board with advice, reports, and recommendations in connection with the management of the assets and has discretion to purchase and sell assets as it deems appropriate.

The investment team is comprised of fifteen key staff members with responsibility for three other microfinance funds with approximately €XXX million in combined assets.

- The Fund's Portfolio Manager, ABC, is a seasoned microfinance professional who joined the team in 20XX from XYZ Bank, where she held several management positions. Prior to her present position, Ms. ABC served as Fund Manager for XYZ Fund, a debt-equity based MIV.

- Ms. ABC is supported by three senior executives and nine investment officers. The senior executives include the Managing Director of the ABC Advisor, the ABC Advisor's Risk Manager, and the Deputy Director for the ABC Advisor's microfinance portfolios.

## INVESTMENT PROCESS

The Fund employs a rigorous process of investment evaluation with on-the-ground due diligence a prerequisite for all potential investments and on-site visits performed at least annually for existing holdings.

All aspects of the investment process are in line with best practices.

## PORTFOLIO MONITORING

Overall, the fund benefits from very sound portfolio monitoring procedures, which are made possible due to the substantial scale and resources of the Fund's ABC Advisor.

- Portfolio monitoring is a continuous process.
- Investees submit to quarterly financial reporting that is processed by the ABC Advisor's monitoring and data collection software. In case of a breach, the ABC Advisor requests the investee to submit monthly reports so that the situation can be monitored closely.
- In the case of equity and subordinated debt investments, Board participation is required to align management interests with the Fund's goals.
- In practice, while portfolio monitoring is rigorous, the Fund's loan classification and provisioning policies are more subjective and flexible.

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the 12 different share classes offered and are not reflected in these Figures.

5 The Microfinance Microscope is a collaboration between the Economist Intelligence Unit (EIU) and the Inter-American Development Bank (IDB).

6 The Herfindahl-Hirschman Index is a commonly accepted measure of market concentration which takes into account the relative size and distribution of risk exposures and approaches zero when the exposures are comprised of a large number of entities of relatively equal size.

7 Average amount the MIV invests in each micro-entrepreneur that borrows from the MFI's in the MIV's portfolio.

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<sup>1</sup> In September 2010, the Fund obtained the LuxFLAG Microfinance Label. The purpose of the Label is to promote the raising of capital in microfinance by reassuring investors that the MIV really invests in microfinance. The LuxFLAG Microfinance Label is intended for MIVs which have a commercial objective.

<sup>2</sup> The Fund currently has 12 separate classes of shares outstanding denominated in either British pounds or euros and made available to a variety of institutional and retail investors.

<sup>3</sup> ABC Fund currently allocates investments among two "Sub-Funds": PQR Fund and XYZ Fund.

<sup>4</sup> All performance results provided in Figure 1-4 reflect the Fund's balance sheet performance. Individual share class results vary among