SIFEM SWISS INVESTMENT FUND FOR EMERGING MARKETS

Annual Report

2013

2013 Financial Highlights

	2013*	2012*/**
Commitments and cash flows (in USDm)		
Total commitments made to date	567.8	517.0
Total active commitments	502.8	471.0
Uncalled commitments	146.9	130.1
Cumulative paid-in capital to date	414.9	379.4
Cumulative reflows received to date	320.2	289.6
Cumulative net cash flow to date	– 94.7	– 89.8
New investment commitments	48.2	29.0
Reflows from investments	30.6	47.9
Investment portfolio valuation		
Net Asset Value (USDm)	255.6	259.6
Internal Rate of Return (%)	8.71 %	9.81 %
Total Value over Paid-In (%)	139 %	145 %
Annual results (in CHFm)		
Investment profit (loss)	– 9.6	2.8
Operating result	– 13.5	– 3.1
Total comprehensive income	– 29.9	– 17.2
Balance sheet (in CHFm)		
Balance sheet total	483.2	509.5
Cash and cash equivalents	254.2	260.3
Cash available for new investments	123.2	141.2
Financial assets	227.8	237.5
Long-term liabilities	368.1	364.4
Shareholder's equity	114.8	144.7
Equity ratio (%)	23.8 %	28.4 %
Development effects		
Number of companies financed	307	312
Number of jobs created and supported***	over 250,000	over 222,000

* *Annual result and balance sheet figures per IFRS account; investment portfolio valuation based on rolled-forward data as of Sep 30.*

** *Comparability for operations and portfolio figures with previous reports is not given due to change in methodology. This also applies to the figure for "Cash available for commitments", which is calculated using portfolio data.*

*** *Job numbers are only collected for investments made since 2006.*

Jean-Daniel Gerber
Chairman of the Board of SIFEM

Dear Reader,

In the shareholder letters of the last two years, I highlighted that SIFEM's core mandate consists of providing growth capital to SMEs and fast-growing businesses in developing countries, which do not yet have sufficient access to financial and capital markets. SIFEM is very proud to have demonstrated the social rewards of this strategy: in total, the investments in SIFEM's portfolio have contributed to supporting and creating a total of over 250,000 jobs to date. This is underscored by SIFEM having met or exceeded all of the developmental objectives set by the Federal Council for the period 2010-13. In addition, SIFEM is also a very cost-effective instrument of the Swiss development assistance: as opposed to most other instruments, SIFEM's investments generate direct reflows, which can be reinvested into new projects.

However, venturing off the beaten track also requires SIFEM to take risks from which mainstream investors would generally shy away. Since SIFEM's portfolio companies are relatively small and mostly unlisted, SIFEM typically cannot recover its money until they have grown and matured sufficiently to refinance themselves on the market. This can take five to seven years, or even more. In the meantime, SIFEM's investments are exposed to economic volatility and their value may vary considerably. In short, SIFEM is bound to experience paper gains in some years and paper losses in others, as well as substantial volatility of cash reflows – but such effects can usually be expected to average out over the long term.

Since the global financial crisis of 2008-09, the investment environment has remained challenging. Diversification across all emerging regions of the world has helped SIFEM stabilise its results, and even produce a small positive portfolio performance in 2012. However, when emerging market crises are imminent, investor confidence is affected and company valuations suffer simultaneously in several target countries. This happened in late 2013, resulting in the weakest financial performance of SIFEM since its establishment in 2011. In 2013, SIFEM experienced an operating loss of CHF 13.5m and a total comprehensive loss of CHF 29.9m. Further details and explanations are provided below.

In times of economic headwinds and corresponding paper losses, it is helpful to keep SIFEM's long-term financial performance in mind. We find it comforting to see that the overall net IRR of SIFEM's investment portfolio remains more or less stable at 8.7%. In this sense, we are confident that the paper losses of 2013 may be offset by paper gains in future years.

In close cooperation with Obviam – the emerging market investment company mandated to manage SIFEM's investment and business operations – we have monitored the performance of the investment portfolio while working on exciting new investment projects. We have also invested considerable effort in assisting the shareholder representative, the Swiss State Secretariat for Economic Affairs (SECO), to define SIFEM's strategic positioning for the period 2014-17. The resulting strategic objectives, as defined by the Federal Council in November 2013, broadly confirm SIFEM's investment approach. At the same time, they also raise the level of ambition both in terms of development impact and financial return. We gladly accept this challenge, even if trade-offs between financial and social goals will make it more challenging for SIFEM to meet all its objectives. Meanwhile, we remain in discussion with SECO regarding a potential capital increase, which would make it considerably easier for SIFEM to meet its financial objectives while maintaining strong developmental performance.

Last but not least, I would like to express our thanks to the two Board members who will leave the Board in the coming year, Iain Tulloch and Ivo Germann. We deeply regret their departure and would like to thank them again for their contribution to the establishment of SIFEM during the past years. We look forward to working with the new Board members to be nominated by the Federal Council in the coming weeks.

Yours faithfully,

Jean-Daniel Gerber
Chairman of the Board of SIFEM

Claude Barras
CEO of Obviam, the investment manager of SIFEM

Dear Reader,

As central banks in developed countries have recently started rolling back the extraordinary liquidity measures introduced during the global financial crisis, global capital flows have started to reverse, and more and more investors are turning their backs on emerging markets. Past experience suggests that a market correction might be underway, and even a full-fledged emerging markets crisis cannot be ruled out.

While this is a dire short term outlook, the inherent structural weaknesses and the volatility of financial markets in developing countries constitute the very 'raison d'être' of SIFEM as a long term-oriented and developmentally-minded investor. In a downturn SMEs and fast-growing companies are typically the first to lose access to risk capital. Together with its fellow development finance institutions (DFIs), SIFEM seeks to prevent risk capital markets from entirely drying up. Moreover, as evidenced by SIFEM's portfolio, emerging market crisis years can be attractive investment vintages for patient, counter-cyclical investors.

Nonetheless, as highlighted by SIFEM's Chairman, market downturns are fully reflected in valuations of long-term illiquid investments, such as those in SIFEM's portfolio. Accordingly, the IFRS accounts for 2013 show a weak performance driven by downward revaluations of SIFEM's equity investments and lower investment reflows. These paper losses caused a net loss from investment operations of CHF 9.6m (USD 10.2m). After subtracting SIFEM's operational costs, this resulted in an operating loss of CHF 13.5m (USD 14.4m). The difference between the operating loss and the total comprehensive loss of CHF 29.9m (USD 29.3m) is made up of a fictional interest cost and foreign exchange book losses on the shareholder loans from the Swiss Confederation.[1]

Looking deeper into the portfolio to better understand the root causes of last year's underperformance yields interesting insights: provisions made for SIFEM's large legacy portfolio positions[2] in China and India amounted to CHF 19.6m (USD 22.0m), and therewith exceeded SIFEM's operating loss. While it may be surprising that China and India continue to account for a large proportion of SIFEM's portfolio, this is simply a reflection of the long lifecycles of SIFEM investments in these countries, dating back to 1997–98, when China and India were still priority countries of Swiss economic development cooperation. On a more positive note, this also means that the rest of SIFEM's portfolio has remained stable, even producing an operating profit in what is a difficult environment.

2013 has also been an active year with respect to new investments. Eight transactions, with a total commitment amount of CHF 56.0m (USD 62.9m) received final approval during the year. Since the formal closing of some projects was delayed into 2014, the effective commitments came in a bit lower, at CHF 42.9m (USD 48.2m). From a geographic perspective, the new investments are well diversified across Latin America, Africa and Asia, and cover numerous priority countries of the Swiss development cooperation. Beside the sector-agnostic risk capital funds for SMEs and fast-growing companies, SIFEM has also committed to new projects in microfinance and renewable energy.

Another focus area was the implementation of the recommendations emanating from the recent independent evaluation of SIFEM's development effectiveness conducted in 2012. In particular, SIFEM has improved its process of categorizing investments in accordance with their expected development impact, and has added new development indicators to its monitoring system. In order to better illustrate the impact of SIFEM's investees, for the first time in this year's Annual Report, we have included three case studies of companies in

Cambodia, India and Cote d'Ivoire, each active in a different economic sector. Taking a deeper look at SIFEM's impact on the ground, these real-life examples complement the statistical data provided on aggregate development effects. Moreover, the entire Obviam investment team has undergone training in environmental, social and governance (ESG) matters, which will help to address ESG risks and opportunities more proactively in SIFEM's portfolio.

Finally, collaboration with fellow members of the Association of European Development Finance Institutions (EDFI) has been deepened during the year. Following my election to the Board of EDFI in 2013, I look forward to reinforcing the Swiss support of the organisation's harmonisation efforts, to which SIFEM and Obviam continue contributing in various technical working groups. We are also working on organising the 2014 Annual General Meeting of EDFI, which we will have the pleasure to host in Switzerland.

I would like to use this occasion to express my gratitude for the excellent cooperation with the Swiss Federal Administration, and in particular with the State Secretariat for Economic Affairs (SECO). I would also like to thank the Board of SIFEM for the valuable and constructive guidance we have received during the last year, as well as the Obviam staff, portfolio fund managers and portfolio companies for their active engagement in building the SIFEM portfolio, creating value and contributing to economic and social progress in our target countries.

We look forward to an exciting new strategic objective period of 2014-17. We hope that confidence in economic development and social progress will be restored across the developing world, which would in turn support employment and value creation in our portfolio companies.

Sincerely,

Claude Barras
CEO of Obviam, the investment manager of SIFEM

[1] *SIFEM is entirely financed by the Swiss Confederation at zero cost of capital. Nonetheless, IFRS requires that SIFEM account for fictional interest charges on the shareholder loans. Furthermore, as prescribed by IFRS, SIFEM uses the USD as functional base currency, whereas the shareholder loans are denominated in CHF. Hence, even small foreign exchange rate movements can lead to large paper losses. These effects account for more than half of SIFEM's total comprehensive loss for the year in the IFRS accounts.*

[2] *As part of its establishment in 2011, SIFEM has taken over the portfolio of investments made by SECO since the mid-1990s. The pre-2005 investments, in particular those in China and India, were made using a different set of investment guidelines.*

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1. Normative Framework for SIFEM's Operations

As the Development Finance Institution (DFI) of Switzerland, SIFEM constitutes a key pillar of Switzerland's economic development cooperation and promotes long-term, sustainable and broad-based growth in developing, transition and emerging economies, while also contributing towards their integration into the global economic system.

SIFEM provides long-term finance to risk capital funds and financial institutions in emerging markets. SIFEM's primary focus is on institutions investing in the small and medium enterprise (SME) sector, as well as other fast-growing companies. On a selective basis, SIFEM also invests in microfinance. SIFEM's investment philosophy is guided by the belief that investing in commercially viable emerging market SMEs can generate sustainable, long-term development effects in local communities as well as over time provide investors positive financial returns. SIFEM is fully owned by the Swiss Confederation and managed by Obviam, a privately owned management advisory group.

The State Secretariat for Economic Affairs (SECO) has, within its economic and trade policy framework in the field of development assistance, supported investment projects in developing and transition economies for the past two decades. The portfolio of investments developed by SECO in this manner has been transferred to SIFEM as part of its establishment in 2011. The rationale for outsourcing portfolio management was to increase operational efficiency, attract and retain necessary know-how and allow co-investments with private investors, while reducing liability and reputation risks for the Swiss Confederation. By establishing SIFEM as a government-owned DFI, the Swiss Confederation has also followed the best practice of other European countries. SIFEM has joined its peers in the Association of European Development Finance Institutions (EDFI) and works in close collaboration with other EDFI members.


DELHI PUBLIC SCHOOL, AHMEDABAD
DELHI PUBLIC SCHOOL

1.1 SIFEM's Legal Framework

SIFEM's role as the Swiss DFI is legally anchored in the following ordinance of the Swiss Federal Council: Verordnung vom 12. Dezember 1977 über die internationale Entwicklungszusammenarbeit und humanitäre Hilfe.[3] On 5 March 2010, the Federal Council defined SIFEM's corporate structure and governance model, determined its initial set of strategic objectives, specified the profile of qualifications for Board members, and mandated SECO to prepare and submit a detailed proposal for its establishment. On 1 April 2010 the Federal Council changed the above ordinance to include a new paragraph 8 (Articles 30a to 30d), stating that the Swiss Confederation shall form a limited company under private law with the purpose of holding its developmental investment portfolio and promoting economic development in partner countries.[4] As a basis for SIFEM's activities in transition countries in Eastern Europe, the same provisions were inserted as of 1 April 2010 in the following ordinance: Verordnung vom 6. Mai 1992 über die Zusammenarbeit mit den Staaten Osteuropas.[5]

As an Aktiengesellschaft (AG) formed under the Swiss Code of Obligations (SCO), SIFEM is subject to Swiss commercial law. One exception was made with respect to taxation. Due to its public ownership and developmental mandate, SIFEM is exempt from regular communal, cantonal and federal company taxes. This was confirmed by the Tax Administration of the Canton of Bern in their ruling dated 16 March 2010. However, since 1 July 2012 SIFEM is subject to stamp duty despite of its developmental mandate.

1.2 Corporate Structure and Governance

The Board of SIFEM is responsible for investment decisions and other executive management tasks. As per its Organisational Regulations, the Board has formed two committees: the Investment Committee and the Audit Committee. Investment and divestment decisions are delegated to the Investment Committee. The Audit Committee validates valuations of SIFEM investments, reviews SIFEM's financial accounts and related matters, and liaises with the auditor. SIFEM does not have any employees beside the part-time Board secretary.

The management of SIFEM's investment portfolio and its day-to-day operations have been delegated to Obviam, an independent company established specifically for this purpose, under two contracts pertaining to the management of the portfolio and of daily business activities. The core management team of emerging market finance specialists at Obviam has managed the investment operations of SIFEM's portfolio since 2005, previously as advisors to SECO. As part of the establishment of SIFEM, the team created Obviam as a new and independent company. This facilitates the raising of third-party capital by Obviam, thus fulfilling SIFEM's objective of mobilising private investments into target countries, while shielding SIFEM and the Confederation from liability risks. The contractual framework between SIFEM and Obviam, which was prepared under SECO's guidance prior to SIFEM's establishment, is in line with international best practice for private equity fund managers, while assuring that the standards of the Swiss Confederation are applied.

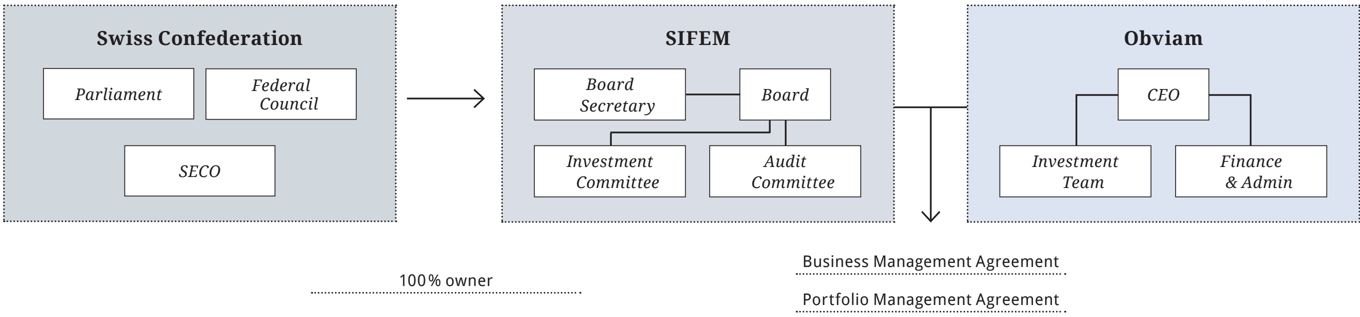
The corporate structure of SIFEM assures consistency with the principles of the Corporate Governance report of the Federal Administration and reflects a suitable vehicle for safeguarding, complementing and capitalizing on the know-how and quality of networks acquired over the past years in the area of risk capital for developing and transition economies.

3 *Translation: ordinance on international development co-operation and humanitarian aid of 12 December 1977, SR 974.01*

4 *This ordinance is based on the following Swiss federal act: Bundesgesetz vom 19. März 1976 über die internationale Entwicklungszusammenarbeit und humanitäre Hilfe (Swiss Federal Act of 19 March 1976 on international development co-operation and humanitarian aid, Art. 15, SR 974.0)*

5 *Translation: ordinance on co-operation with Eastern European countries of 6 May 1992, SR 974.11; based on the following federal act: Bundesgesetz vom 24. März 2006 über die Zusammenarbeit mit den Staaten Osteuropas (Federal Act of 24 March 2006 on co-operation with Eastern European countries, Art. 14, SR 974.1)*

Figure 1: SIFEM's corporate structure and governance



1.3 Strategic Objectives and Guiding Principles

SIFEM's mission as established by the Federal Council is to invest in sustainable private sector development projects, demonstrate the economic viability of such projects, and mobilise private investments into them.

SIFEM's strategic objectives are typically defined by the Federal Council for four-year cycles. The first period, during which the objectives largely focused on maintaining portfolio quality and development effects throughout SIFEM's establishment, was originally envisaged to end in 2012. The Federal Council has decided to extend the validity of the same strategic targets until the year-end 2013. A catalogue of operationalized objectives was defined based on these strategic objectives, the actual performance against which is set out in more depth in section 5.1 of this report.

The new strategic objectives for the period 2014-2017 have recently been set by the Federal Council. The fundamental drivers of SIFEM's mandate remain unchanged, but the level of ambition has been increased both in financial and developmental terms. In addition, the insights gained from the independent evaluation of SIFEM's developmental performance conducted in 2012 served as a basis to introduce a number of new impact measurement tools. As part of the consultation process preceding the adoption of the new strategic objectives by the Federal Council, the Board spent considerable time reviewing and commenting on this new set of objectives.

Based on these strategic objectives, SIFEM's investment guidelines describe the instruments to be used by SIFEM. SIFEM contributes to long-term economic growth in developing and transition countries by:

- investing primarily in funds managed by financial intermediaries and in other financial institutions (e.g. banks, leasing companies, investment funds, guarantee funds, structured credit vehicles) providing access to capital and know-how to local, growth-oriented businesses;
- investing directly in sustainable private businesses; and
- mobilizing private sector resources (finance and know-how), and channelling these resources to the private sector in SIFEM target countries.

SIFEM investments are development-oriented and therefore aim to achieve a broad set of objectives beyond the financial rate of return. In order to achieve these objectives, SIFEM observes the following broad guiding principles:

- Leverage: SIFEM seeks to optimise the flow of additional capital from private and other institutional investors for the target countries and beneficiary companies. To this end, in accordance with its mandate, SIFEM AG will bear a portion of the political or commercial risks and conversely will share the returns from the investments with the private and institutional investors.
- Subsidiarity: SIFEM AG will provide financing which is either unavailable on the market or not available at reasonable terms and conditions, or in sufficient amounts or maturity.
- Complementarity/Additionality: SIFEM AG will carry out investments that not only fill a gap in financing but also include tangible value add, particularly in the form of know-how transfer and technical support for financial intermediaries and companies.
- Sustainability: in its investment activity SIFEM AG will adhere to the basic principles of financial, economic, social and environmental sustainability.

2. Governance and Policy Actions

Following the establishment and operationalization efforts of the past two years, the Board focused on SIFEM's future strategy during 2013. In total the Board and its sub-committees held 17 meetings in 2013. The Investment Committee provided concept approval to nine new investments, and eight new investments received final approval. The Audit Committee reviewed SIFEM's financial and management accounts, budgets, risk management and external controls, and provided recommendations and support to the Board in financial matters.

2.1 Actions of the Board

At the beginning of 2013, the Board met for an off-site retreat to discuss how SIFEM's investment strategy should be fine-tuned to optimise SIFEM's development impact while assuring the financial sustainability of its investment operations. As noted in the last annual report, SIFEM's development effects in the years 2003-2011 had been evaluated independently in 2012. The evaluation report confirmed the relevance, effectiveness, efficiency, sustainability and proper implementation of SIFEM's approach to development financing. The report further underlined that SIFEM had met or exceeded all its developmental objectives in said period, but also made several suggestions with the objective of further improving SIFEM's development effectiveness as well as the quality of reporting on developmental outcomes.

The Board was pleased to note the overall positive conclusions of the evaluation on SIFEM's work and its effectiveness as an instrument of Swiss economic development cooperation. The Board also took note of the various technical recommendations such as suggested revisions to SIFEM's classification system for investee funds and new data points to be included in SIFEM's development impact monitoring system. In 2013, the Board and Obviam have worked together on implementing these technical recommendations, successfully completing this exercise.

A few of the evaluators' recommendations, however, concerned the manner in which SIFEM selects its target fund investees. In the Board's view the implementation of these recommendations would have resulted in an increasing risk profile of SIFEM's investment activity. Nonetheless, the evaluation report provided a welcome opportunity for the Board to review SIFEM's investment approach. While the Board is open to testing new concepts of impact investing, it does not wish to jeopardise SIFEM's chances of becoming financially sustainable. Given the high level of satisfaction with the development impact produced by SIFEM to date, the Board is keen to maintain consistency with SIFEM's established investment approach. [6]

This evaluation set the stage for discussions between the Board and SECO relating to the revision of SIFEM's strategic objectives for the period 2014-2017. In late November 2013, the Federal Council adopted this new set of objectives. While they also broadly confirm SIFEM's investment approach and guiding principles, a number of target indicators or threshold levels were revised in consideration of the recommendations made by the independent evaluator. As a result, the new set of objectives is more ambitious than the previous one, both on the developmental and financial fronts. While this makes it more difficult for SIFEM to meet most objectives as it did in the past, it also challenges both SIFEM and Obviam to deliver the best possible performance. The Board will now start working on further refining SIFEM's investment strategy in order to assure the best possible fit with the new objectives. In the future, SIFEM will seek to continue investing in high-impact sectors and with fund managers intending to create social impact, while the financial risk level of overall portfolio should at the same time be lowered.

Moreover, the Board remains of the view that an increase of SIFEM's annual commitment capacity, accompanied by a corresponding capital increase, is required to strengthen SIFEM's financial position and maintain its operational sustainability in the medium term. The discussions with SECO in this respect have continued during 2013. A decision by the Federal Council is expected in 2014.

The Board continued devoting much attention to SIFEM's investment portfolio and its performance in 2013. After several challenging years since the global financial crisis, 2013 turned out to be yet another difficult year. Legacy investments in China and India, which are no longer priority countries for new investments, suffered particularly from macroeconomic challenges. The Board reviewed and introduced a new risk management system for SIFEM, analysed the lessons learned from different problematic investments, and also revisited its strategy with respect to certain types of risky exposures. In addition, the Board conducted an in-depth review of SIFEM's portfolio in Latin America. The Board noted the constraints imposed on investment selection by SIFEM's mandate, which bars it from participating in a number of attractive countries. In view of these constraints, SIFEM's relative exposure to Latin America is unlikely to increase significantly and a more flexible approach with respect to country exposures may be chosen for regional projects. Other topics discussed by the Board in 2013 included SIFEM's communication strategy and a public tender conducted in order to appoint SIFEM's new accountant.

The Board would like to thank the two Board members who will leave the Board in the coming year. We deeply regret their departure and would like to thank them again for their contribution to the establishment of SIFEM during the past years. Iain Tulloch is reducing his commitments after a long and successful career in private equity. Ivo Germann, who represented the Swiss Confederation in the Board, will not stand for re-election. The Federal Department of Economic Affairs, Education and Research, which is in charge of representing the Confederation as investor in SIFEM, has come to the conclusion that a representation of the shareholder in the Board is no longer required after the completion of the start-up period. The complete separation of responsibilities between the shareholder and the Board is in line with best practices of corporate governance and has become a standard of the Swiss Confederation. The existing steering mechanisms will be strengthened to ensure the appropriate flow of information and the continuation of the fruitful cooperation between SIFEM and its shareholder. The Federal Council will nominate the new members of the Board to be elected at the General Assembly on 1 May 2014.

2.2 Investment Committee

In 2013 the Investment Committee met eight times to review transactions presented by Obviam. Concept approval was granted for nine new transactions, allowing Obviam to conduct due diligence on these deals and submit them to the Investment Committee for final approval. Eight transactions, including some that had received concept clearance in 2012, were re-submitted following due diligence and received final investment approval from the Investment Committee. For further details on the new transactions closed during the year, please see Section 3.6.

2.3 Audit Committee

The Audit Committee held three meetings in 2013, and examined a wide range of topics from portfolio performance and valuations to financial accounts, management accounts and budget, risk management and performance of the accountants, auditors and custodians. The Audit Committee recommended that the Board approve SIFEM's financial accounts. The introduction of IFRS accounting at SIFEM was the overarching topic and absorbed much time. The Audit Committee also met with SIFEM's auditor and accountant to receive comfort on internal controls and cash management policies, as well as portfolio valuation. Moreover, the Audit Committee supported the Board in a number of areas related to remuneration and auditor appointment among others.

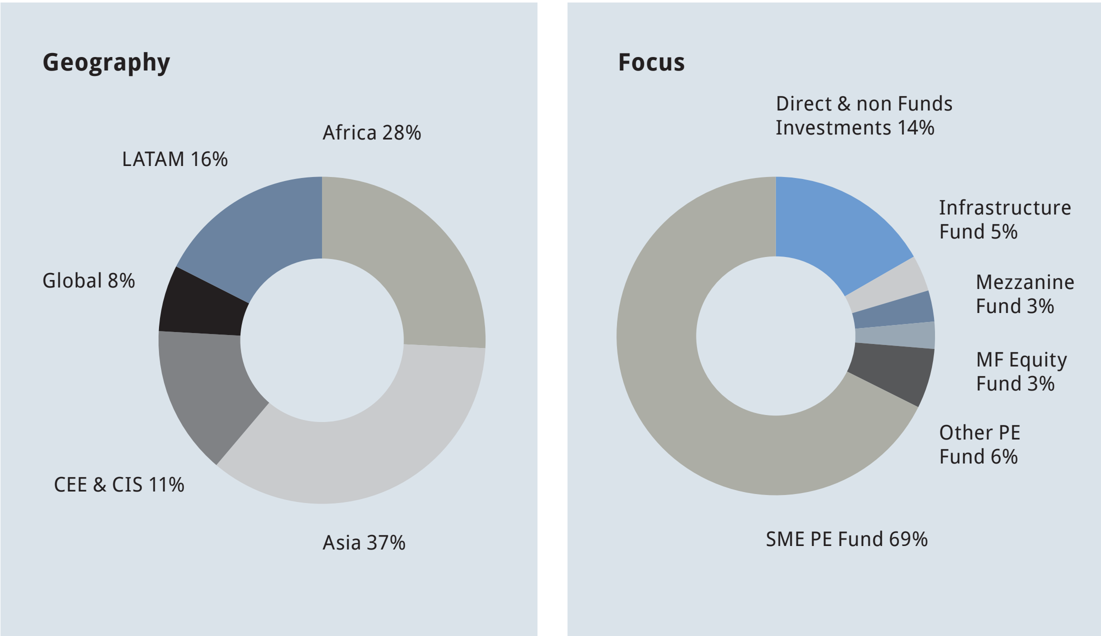
[6] *The Board's detailed response to the external evaluation can be found under: http://www.sifem.ch/development-effect/independent-evaluation/.*

3. Performance of the Investment Portfolio

3.1 Portfolio Construction

SIFEM's portfolio was developed over a period of one and a half decades, with the first investment dating back to 1997. Historically, SIFEM has committed USD 567.8 million (CHF 506.1m) to 89 investments spread over 50 countries in Africa, Asia, Eastern Europe and Latin America. While Asia historically has been the largest region, its share of the total portfolio has been slowly declining as China and India (where SIFEM has two of its largest exposures) ceased to be priority countries. Likewise, Eastern Europe's share of the portfolio has diminished as the ten countries which joined the EU in 2004 and 2007 were removed from the list of target markets at the time of their accession. Africa and Latin America's share of the portfolio has been slowly growing.

Figures 2 and 3: SIFEM portfolio by geography and focus as of 31 December 2013



The portfolio consists primarily of private equity funds investing in growth companies and SMEs (69%), infrastructure (5%), mezzanine (3%), and other private equity instruments (6%), and (3%) in microfinance funds. Direct equity and debt investments in financial institutions comprise 14% of the portfolio. SIFEM's investee funds have benefited more than 300 companies in a variety of sectors. This shows that over the years, the portfolio has been assembled with a high degree of consistency in terms of investment guidelines and priorities, thereby providing long term capital to SMEs and growth companies, mobilizing private investors and acting in a manner subsidiary to the market. More recently SIFEM has seen the emergence of new investment themes, such as clean energy, education and healthcare, and has invested in a number of such high-impact areas.

3.2 Valuation Guidelines

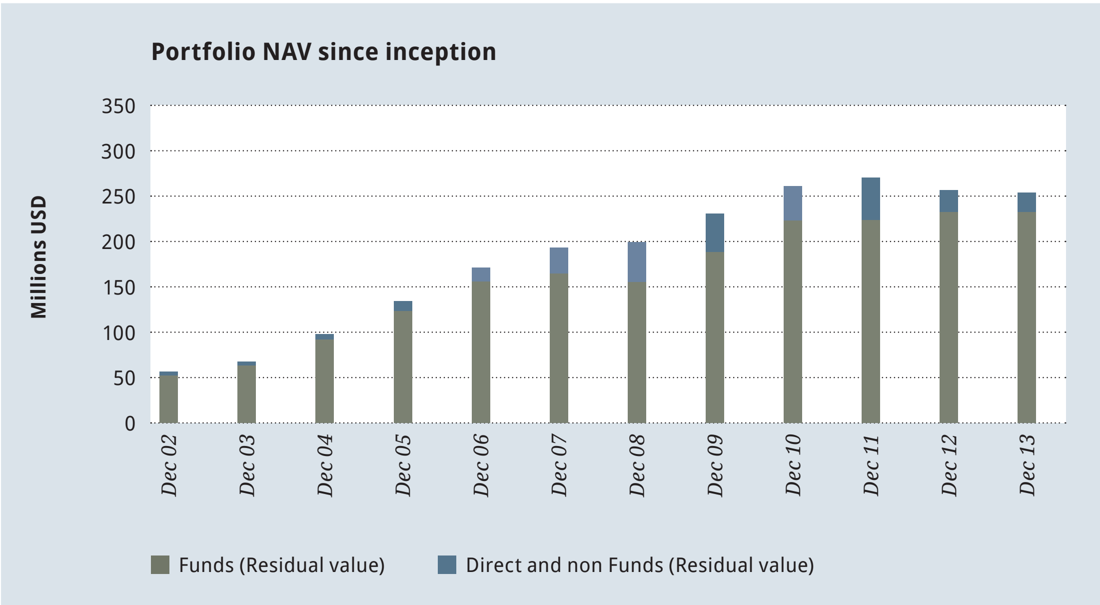
For investment performance measurement purposes, SIFEM uses the current market value of the investments in the portfolio, with the key benchmark being the historical cost of investments (prior to the transfer). To determine market values, SIFEM applies the IPEV Guidelines.

SIFEM's financial statements 2013 needed to be audited by early March 2014 so that they could be consolidated in the Swiss Confederation's accounts. However, this does not leave sufficient time to collect and integrate the audited accounts of all portfolio companies. Hence, SIFEM has used the latest available valuations (as of September 2013) and rolled them forward to the year-end. This methodology has been accepted by the auditors and any differences are unlikely to be material.

3.3 Evolution of Key Performance Benchmarks

As of 31 December 2013, SIFEM's total active commitments were USD 502.8 million (CHF 448.1m). SIFEM's net asset value (NAV) amounted to USD 255.6 million (CHF 227.8m), a decrease of USD 4.0 million or -1.5% compared to 31 December 2012. The NAV as of 31 March 2013, 30 June 2013 and 30 September 2013 amounted to USD 257.8 million, USD 270.7 million and 258.2 million, respectively. Changes in the portfolio value are driven by changes in the value of the underlying investments on the one hand and the inflows and outflows of cash by doing new investments and by exiting investments, respectively.

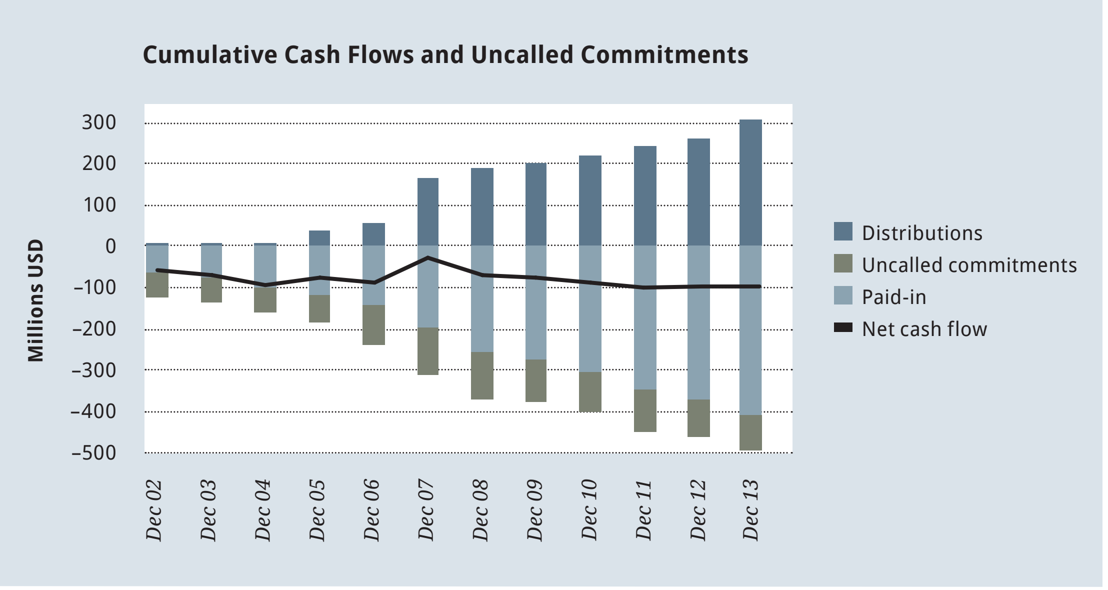
Figure 4: SIFEM portfolio NAV since inception



Since inception, USD 414.9 million (CHF 369.8m[7]) has been drawn down from the SIFEM investment portfolio and SIFEM received USD 320.2 million (CHF 285.4m[7]) of reflows. SIFEM continued to be cash flow negative through 2013, posting USD –94.7m in cumulative net cash flow since inception – this is a combination of its expanding portfolio, the long-term patient capital nature of its investments and the slow exit environment in the aftermath of the global economic crisis.

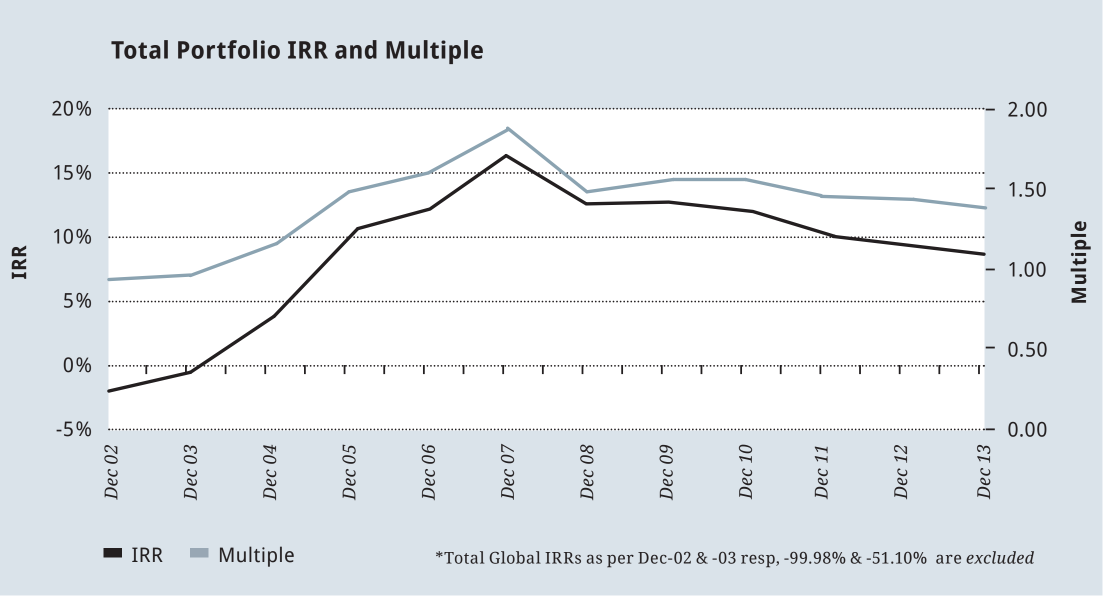
[7] *Converted at current exchange rates.*

Figure 5: SIFEM cumulative cash flows and uncalled commitments (in mioUSD) since inception



As of 31 December 2013, SIFEM's portfolio IRR was 8.71%. The IRR as of 31 March 2013, 30 June 2013 and 30 September 2013 were 9.53%, 9.55% and 8.89% respectively. The IRR calculation is performed since inception of the investment portfolio. The SIFEM portfolio is a vehicle with no fixed-life investment pool; it is "evergreen" as reflows from past investments can be reinvested.

Figure 6: SIFEM total portfolio IRR & multiple since inception



The internal rate of return (IRR) is tracking the performance of the portfolio since inception. In 2013, the IRR continued to decrease from 9.81% (in 2012) to 8.71%. The decrease reflects the downward adjustments of the value of certain investments which became necessary due to the challenging macroeconomic environment, declining market valuations and poor performance of individual portfolio companies, mostly in China and India. The downward revisions of company values have to be seen in the light of the global financial crisis as well, and it is not untypical that a decrease in value of portfolio companies materializes only with a certain time lag after an economic crisis, particularly for private equity investments such as those of SIFEM. Hence the negative mid-term trend observed in the above graph.

3.4 Currency Effects

Using the US Dollar for performance measurement purposes allows SIFEM to analyse the performance of its portfolio free of the impact of the Swiss Franc's volatility. This reduces the importance of currency markets as a driver of SIFEM's portfolio performance. While the depreciation of the Euro against the US Dollar weighed on mid-year results, those currency effects almost fully disappeared at year-end with the Euro moving even higher than its January levels against the US Dollar at the end of 2013 (+4.3% over the year). Further positive currency effects were recorded with regards to the Chinese Yen (+3.3% 1.0% over the year against the US Dollar), the second currency to which SIFEM has significant direct exposure. The third major currency in SIFEM's portfolio is the South African Rand (ZAR) which weakened for the third consecutive year, from 0.1179 USD per ZAR at the beginning of 2012 to 0.0953 at year-end, representing a considerable decline of over 19%.

Figure 7: Currency movements EUR/USD and ZAR/USD in 2013 (Source: Oanda)

For funds denominated in USD or EUR, the devaluation of domestic currencies – the accounting currencies of the companies in which the funds are invested – mostly led to lower valuations of their portfolio positions. Most of these losses may be of a temporary nature as domestic currencies tend to revert to the mean or – if not – are likely to increase the competitiveness of domestic economies and thus usually accelerate economic growth. It is difficult to quantify the aggregate loss stemming from these indirect currency exposures because investee fund accounting is only available in the funds' denomination currencies, i.e. USD and EUR.

3.5 Regional Portfolio Trends

Africa

In the North African region political instability and social tensions remain elevated three years after the onset of the Arab Spring. The outlook varies across countries: some like Morocco offer positive prospects, while others such as Tunisia appear to have reached a favourable turning point, and yet others such as Egypt remain uncertain. Investors continue to hold a prudent approach to the region. Indeed, in 2013 MENA represented just 1.6% of emerging market PE funds raised, versus 4.4% in 2010. In this context, DFIs, including SIFEM, continue to play a critical role in maintaining investment activity. In 2013, SIFEM committed EUR 8m to a generalist SME private equity fund that invests growth capital in medium-sized enterprises in Morocco and opportunistically in other North African countries.

Going forward, SIFEM expects to continue its efforts of supporting the region: a total of 12 fund proposals were reviewed in 2013. A number of these are expected to reach critical mass in 2014. In light of the elevated risks, any new SIFEM investments in the region will involve a selective approach that favours seasoned teams and established platforms. Overall, the turbulent environment has not put SIFEM's MENA portfolio at risk, although sales at a number of investees have been fairly flat relative to expectations, and the value-creation and exit schedule has been delayed for a number of funds. The exception has been in Egypt where SIFEM has experienced underperformance.

In SSA, the very challenging fundraising environment has persisted. SIFEM invested only USD 7 million in a generalist mid-market private equity fund in South Africa. Two more planned investments, a generalist SME fund covering East and West Africa and a mid-market credit fund for Sub-Sahara Africa, did not achieve critical mass in 2013 and a first close is expected to happen in 2014, if at all. These initiatives are just two examples out of many more showing the considerable risk first close investors encounter when supporting teams with limited track records or first time teams early in their fundraising process. Going forward, SIFEM needs to be even more selective in supporting such teams in first closings, and close coordination with other potential investors is key. A fourth investment SIFEM was considering during 2013 into a West Africa focused SME fund investing in agribusinesses, was abandoned because the risk profile of this particular fund was considered unsuitable for SIFEM. Not only first time teams, but also more mature teams struggle to reach critical mass. While there is an increasing interest in SSA private equity, it hasn't yet translated into firm commitments. While the majority of the SME and mid-market PE funds in SSA are still too small to accommodate institutional investors' large commitment tickets, there is now considerable interest from private impact investors as well. However, these impact investors often have an interest in a particular sector and are usually less attracted by generalist SME or mid-market PE funds. Moreover, their risk/return expectations are not always aligned with SIFEM's. Hence, private impact investors can be a welcome, yet still small, source of additional funding.

Despite these challenges, the deal-flow in SSA continued to be healthy. SIFEM reviewed 49 fund proposals. The majority of these were generalist PE funds focusing on SMEs or the mid-market, although the number of sector specific funds (microfinance, agriculture and forestry, healthcare, infrastructure and renewable energy) is growing. Again, a large number of these proposals involve first time teams and many of these initiatives will never achieve a first close. Going forward, SIFEM will reconsider the balance between first time funds and teams who are now raising their second or third fund and have a limited track record. SSA as such is still considered "the final frontier" by many commercial investors and more often than not the track record of these second time funds is not yet compelling enough for private investors. Many commercial investors also expect a premium compared to other EMs in order for them to warrant investing in SSA which is often not realistic. Hence, IFIs/DFIs still have an important role to play in supporting promising PE teams to further build their track record.

Looking at the SIFEM portfolio in SSA, a common theme is the slow deployment of capital and long holding periods for portfolio companies. One of the reasons for this situation could be the strong bias in SIFEM's portfolio towards first time funds (9 out of 15 active funds in SSA). Often it takes these new fund managers a long time to generate quality deal-flow and build a credible pipeline of investments. Moreover, in the aftermath of the financial crisis SSA experienced a period of low capital deployment rates; this was in particular strong and persisting in South Africa where deal activity plummeted from 834 PE investments at the peak in 2007 to just 484 in 2012. First indications are that a slow recovery has started during 2013.

Asia

In 2013, SIFEM closed two transactions worth USD 19 million, both in first-time private equity funds - one focusing on SMEs and fast-growing companies in Indonesia and the other on renewable energy generation projects across Southeast Asia. Screening over 100 funds and direct transactions in 2013, most of which were generalist, Obviam focused on impact-specific sectors such as renewable energy, agribusiness/forestry and healthcare. Most of the generalist funds reviewed focused on non-priority countries, especially China and India, where the bar for SIFEM to play an additional and subsidiary role to the market is higher than in South and Southeast Asia, where financial markets are less developed.

While the existing Asian portfolio is well diversified across vintages, due to the legacy of SIFEM's investment mandate (large pre-2000 investments in then-priority countries China and India) it remains geographically weighted towards China and India which account for 20% of the total SIFEM portfolio and roughly half of SIFEM's Asia exposure. Between 2000 and 2007 most new investments were concentrated in few SECO priority countries, with a strong focus on Vietnam. Since 2007, the exposure has been more broadly diversified across Asia, with the inclusion of new countries such as Indonesia, Cambodia, Laos and Mongolia. While these markets have been growing during 2013, China and India have been hit hard by the global emerging market slowdown.

The Indian rupee depreciated by 12.6% over the year. In addition to currency effects, the tightening of monetary policy in India has resulted in increasing interest cost and reduced profitability for most Indian portfolio companies. Finally, the slowing market dynamics in both China and India have caused revenues to drop significantly for a number of portfolio companies. Combined, all these effects in China and India have caused paper losses of approximately USD 22.0 million (CHF 19.6m) for SIFEM in 2013. This is the main driver behind SIFEM's weak financial performance for the year. Despite all the negative developments in India and China, it is comforting to note that the aggregated IRR on the entire Asia portfolio remains at 13.24% down from 14.89% the year before.

Given the sheer size of the Asian continent and the diverse stages of development among Asian countries, SIFEM continues to focus its efforts both on countries with less developed financial infrastructure and on underdeveloped sectors with a large potential impact in more advanced economies. In addition, if the capital flight from emerging markets observed in mid-2013 and early 2014 continues at the current pace, new opportunities for counter-cyclical investments might arise, which are both attractive in developmental and financial terms.

Eastern Europe and the CIS

No new investments were made in the CEE/CIS region by SIFEM. The region is still struggling to recover from the economic crisis which has hit Eastern Europe strongly. In such an environment, few investment opportunities materialize. The few managers who are active in fund raising are operating out of Russia and are typically covering countries that have become members of the European Union and are thus no longer eligible under the SIFEM mandate. This increasingly becomes an issue when screening regional funds which tend to cover the whole of the Balkan region.

Investment opportunities may arise in the debt financing sector as many international banks are curbing their lending activities in the region or even shutting down their operations in CIS/CEE. Smaller regional banks may eventually take over this business, but SMEs in particular will find it hard to raise bank financing for quite some time. In line with this theme, an interesting opportunity was found and pursued in the specialized sector of trade finance in the Caucasus region. The project is in advanced stage of negotiations and is expected to be closed in 2014.

The existing portfolio continues to shows signs of stress to varying degrees. In Ukraine, the older PEFs will most likely record losses, while the more recent ones seem to be coping better. The evolution of the political situation will obviously be of critical importance in determining the fate of these investments. The situation is more favourable in the Balkan region, where all the active funds in the SIFEM portfolio are likely to yield a positive return. SIFEM's loans to Azeri banks have been paid back in full in a timely manner.

Latin America

Due to various transaction delays SIFEM closed only one deal in 2013 in a regional microfinance debt fund. In addition SIFEM completed due diligence of two Central America-focused private equity funds, one executing mezzanine investments in infrastructure, and the second investing small-scale SMEs. These transactions are expected to close in the first half of 2014. Obviam screened 24 direct transactions and 37 funds in 2013, most of which were generalist funds, with some sector trends in infrastructure and energy. The region's middle/high income status continued to restrict SIFEM's investment scope as the largest South American markets such as Brazil and Mexico are not eligible for SIFEM investments. This resulted in SIFEM's Central America allocation, and involvement in microfinance industry, which is also well developed in its priority countries of Bolivia, Colombia and Peru.

The existing Latin American portfolio is young and thus showing moderate performance. The profitability is weighed down on the one hand by the negative performance of the first generation funds of early 2000s vintages, and on the other hand by the relatively young, unrealized portfolio of later vintage investments. Moreover, the early vintage funds focused on the challenging small-SME sector, where companies took long lead times for growth, were characterized by family ownership and informal governance, required several rounds of funding and rarely grew big enough to be attractive to strategic buyers. While showing strong fund manager value-add and positive development effects of supporting small local SMEs, most of these funds have not fared as well financially. Meanwhile, the post-2007 fund vintages have targeted more mature mid-sized SMEs, with sizeable and stable revenue and EBITDA streams, most of which are on a path of positive growth and show promising, though unrealized financial returns.

One important theme shows the difficulty of investing in Central America, where markets are small, informal and fragmented. With only one promising investee to date, both the early vintage funds and the more recent investments have been struggling, particularly in pursuit of SME private equity solutions. SIFEM continues collaborating with other DFIs and IFIs in finding innovative financing solutions to suit the local conditions, and has recently ventured into infrastructure-based sectors such as renewable energy, in which the region shows some promising fundamentals. Yet, even in these sectors the region faces some operating challenges due to the various dichotomies of its complex social landscape.

As the microfinance industry is well developed in Latin America, SIFEM has invested in several microfinance debts funds in order to diversify its private equity, as well as geographic exposure, with some of these funds having a global scope. All these facilities are performing on-track with the exception of one. The Tier I microfinance market is saturated both on the whole-sale level (i.e. MFIs receiving very cheap loans), and on the retail level with issues such as client over-indebtedness a prevalent problem in markets like Peru. For this reason SIFEM now looks at opportunities in Tier II and III MFIs with seasoned managers such as its recent investment in 2013. Finally, SIFEM has loans outstanding to two financial institutions – a Nicaraguan bank and a regional infrastructure financier. Both are compliant with their covenants and current on interest payments.

3.6 New Investments Concluded in 2013

New commitments in 2013 were worth a total of USD 48.2 million (CHF 42.9m[8]), showing a significant increase from 2012 commitments of USD 29.0 million (CHF 26.5m[8]). 2013 was a typical year in terms of target commitment amounts, as in 2012 SIFEM was lagging in commitments due to postponed investments. The 2013 commitments consist of four private equity funds, a microfinance fund, and a debt finance facility. Their regional breakdown is one global project, one in Latin America, two in Africa and two in Asia. Three investments were sector agnostic funds and three focused on renewable energy and microfinance.

The new portfolio positions are as follows:

- **Falcon House Partners Indonesia Fund I** (USD 12m committed): a USD 212 million PEF investing in mid-sized, fast-growing companies, primarily in Indonesia with a focus on consumer-related and other domestic demand businesses;

- **Interact Climate Change Facility** (EUR 5m committed): a EUR 404 million joint investment facility for financing climate change and climate efficiency projects in developing countries, backed by European Development Finance Institutions (EDFIs). The facility provides long-term loans, guarantees and mezzanine finance of up to EUR 45 million to private sector projects that reduce climate change by cutting greenhouse gas emissions;

- **Capital North Africa Venture Fund II** (EUR 8m committed): a EUR 72 million PEF investing growth capital in Morocco and opportunistically in other North and West African countries. The fund is expected to make investments in medium-sized companies in sectors such as food processing, packaging, distribution and logistics, chemical and electrical industries, as well as health, education and agriculture;

- **Armstrong South East Asia Clean Energy Fund** (USD 7m committed): a USD 164 million PEF investing in renewable energy and energy efficiency projects in Southeast Asia, with a focus on Indonesia, Thailand, the Philippines and Vietnam. The fund seeks to develop clean energy sectors nascent in the region like photovoltaic solar, wind power and to a lesser extent mini-hydro;

- **Medu Capital Fund III** (USD 7m committed): a USD 82 million PEF in South Africa targeting investments of USD 7-47m in medium-sized businesses with the aim of increasing portfolio company earnings, giving strategic advice, and improving business operations through value enhancing ESG initiatives including Black Economic Empowerment;

- **Locfund II** (USD 5m committed): a USD 32 million debt fund providing local currency loans, to Tier II and III microfinance institutions (MFIs) in Latin America. Locfund II also provides technical assistance in the areas of asset/liability and risk management, corporate governance and capital market access to its partner MFIs. On a selective basis Locfund II stimulates local debt capital markets via MFI loan securitizations.

[8] *Converted at the respective year-end exchange rate.*

4. Financial Results

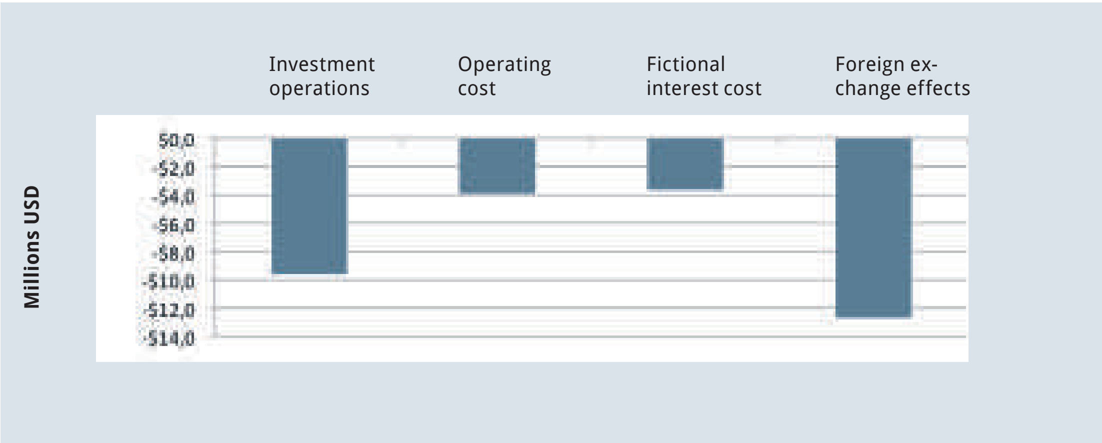
4.1 SIFEM Result for 2013

In 2013, under IFRS accounting standards SIFEM produced a net loss of CHF 29.9 million. These figures only partially reflect the underlying performance of SIFEM, however, as significant accounting effects are distorting the picture.

The investment portfolio of SIFEM shows an overall negative performance for the year in form of a net loss of CHF 9.6 million (as compared to a gain of CHF 2.8m in 2012). After consideration of the operating expenses of CHF 3.9 million, SIFEM shows an operating loss of CHF 13.5 million. The difference between this operating loss and the total comprehensive loss of CHF 29.9 million is entirely explained by paper losses (fictional interest charges and exchange rate losses, cf. following section) on the interest-free loans obtained from the shareholder.

Looking deeper into the portfolio to better understand the root causes of last year's underperformance yields interesting insights: provisions made for SIFEM's large legacy portfolio positions in China and India amounted to CHF 19.6m (USD 22.0m), and therewith exceeded SIFEM's operating loss. While it may be surprising that China and India continue to account for a large proportion of SIFEM's portfolio, this is simply a reflection of the long lifecycles of SIFEM investments in these countries, dating back to 1997-98, when China and India were still priority countries of Swiss economic development cooperation. On a more positive note, this also means that the rest of SIFEM's portfolio has remained stable, even producing an operating profit in what is a difficult environment.

Figure 8: Key contributing factors of the 2013 total comprehensive loss



Since roughly 70% of SIFEM's investments are denominated in USD, the Dollar plays a prominent role in measuring SIFEM's investment performance and in preparing its accounts. In compliance with the requirements of IFRS, the USD was therefore determined to be SIFEM's functional currency for both its accounting and performance measurement. All CHF figures provided in this report and in the accounts are translated from the underlying USD accounts.

4.2 Notes on SIFEM Results under IFRS accounting

IFRS dictates the use of fair market valuation and allows SIFEM to use USD as functional base currency. Thereby, IFRS more transparently reflects the movements in the unrealised value of SIFEM's portfolio investments, and the operating result reflects well the performance of SIFEM's investment activities.

However, IFRS is less well suited to reflect the liabilities side of SIFEM's balance sheet. SIFEM is entirely financed by the Swiss Confederation at zero cost of capital. Nonetheless, IFRS requires that SIFEM account for fictional interest charges on the shareholder loans. In addition, since the shareholder loans are denominated in CHF, even small foreign exchange rate movements can lead to large paper losses. These effects, as reflected in SIFEM's financial result under IFRS, account for more than half of SIFEM's total comprehensive loss for the year.

4.3 Notes on SIFEM Results under SCO accounting

Although SIFEM adopted IFRS, the reporting under SCO accounting standards is continued in parallel, primarily for compliance and statutory purposes. Under SCO accounting rules, SIFEM recorded a loss of CHF 17.9 million in 2013.

While the liabilities side of SIFEM's balance sheet is accurately reflected in the SCO accounts, the SCO accounting standards require SIFEM to hold the investment portfolio at values considerably below fair market valuations, which is more conservative but also much less accurate. The appreciation of investments is typically only recognised at the time of realisation.

4.4 Federal audit

In 2013, SIFEM was audited by the Swiss Federal Audit Office (SFAO). The audit focussed on an ex-post assessment of SIFEM's establishment in 2011, as well as SIFEM's financial and accounting system. The audit report provided a number of helpful recommendations for improving SIFEM's accounting system, which will be implemented in 2014. The SFAO report concluded that the recommendations issued after their previous audit in 2010 had been largely implemented.

5. Development Impact

SIFEM's performance and development impact are defined by an operationalized catalogue of strategic objectives, whereby the general framework is set by the Federal Council every four years, while the specifics are defined annually by the Board based on progress and completion. The catalogue is split into four thematic groups: development impact, with particular focus on job creation, financial sector development, environmental and social aspects; financial sustainability based on critical size and sufficient return to bring SIFEM to long-term financial sustainability; compliance with investment mandate and other policies; and institution building via appropriate management and governance structures. The progress on these objectives is expanded in detail in the following section. In addition, SIFEM presents an overview of its development impact methodology, and the findings of its latest development impact report. In order to better illustrate SIFEM's development impact on company level the last section proposes a selection of case studies.

5.1 Performance against Operationalized Objectives

SIFEM has met 11 out of the 12 objectives in accordance with the benchmarks set by its shareholder. The only target missed by SIFEM relates to the rate of reflows from investments, which remained depressed in the aftermath of the global financial crisis and throughout the entire validity period of the strategic objectives. This reflects SIFEM's careful approach in balancing developmental and financial objectives, the investment selection skills of Obviam's team, as well as the hands-on approach in ensuring continued compliance with requirements and maximisation of developmental and financial outcomes.

As the new strategic objectives for the period 2014–2017 were adopted by the Federal Council in November 2013, the validity period of the strategic objectives 2009–2012 was extended until the end of 2013. The following table lists the operationalized objectives 2009–2013 alongside the most recent measurement figures relevant to each one.

Goals	Sub-goals	Targets	Relevant Measurements
1. Development impact	1.1 Positive overall development effect by internationally agreed standards	In ex-post measurements, 60% of SIFEM's investments shall score "good" or better in the development monitoring system accepted as best practice among European Development Finance Institutions (EDFI).	**Objective surpassed:** As per the GPR report issued in June 2013 (2012 data), 92% of SIFEM's investments received a development effects score of "good" or better overall in ex-post measurements.
	1.2 Company-level job creation	At least half of SIFEM's indirect investees have witnessed job increases over the time of investment	**Objective surpassed:** As per the GPR report issued in June 2013 (2012 data), 71% of SIFEM's indirect investees (underlying fund portfolio companies) witnessed job increases over the time of investment.
	1.3 Aggregate job creation	On a three-year floating average, the aggregate number of jobs in all of SIFEM's indirect investees (excluding new investees added during the period) shall witness a net annual increase	**Objective surpassed:** On a weighted 3-year floating average, the aggregate number of jobs in all of SIFEM's indirect investees grew by 10'874 annually (excluding new investees added during the period).
	1.4 Financial sector development	Every SIFEM investment in some way contributes to diversifying the financial sector or credit allocation in target countries	**Objective achieved:** All of SIFEM's investments contribute in some way to the diversification of the financial sector or the credit allocation in the target countries. This includes all GPR-rated investments (since 2005).
	1.5 Positive environmental and social impact of investments	All SIFEM investees have committed to implement SIFEM's environmental and social standards	**Objective achieved:** All SIFEM investee funds committed to implementing SIFEM's environmental and social standards (start of measurement in 2008).

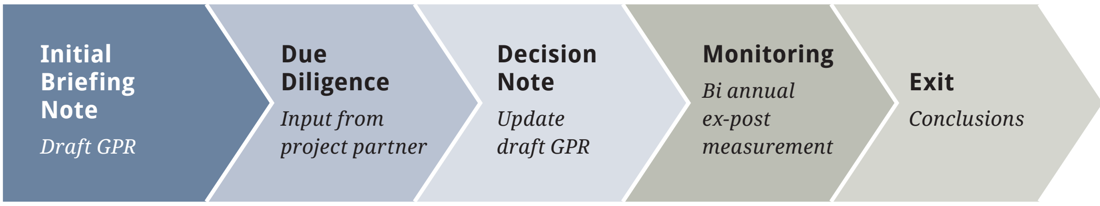
Goals	Sub-goals	Targets	Relevant Measurements
2. Financial sustainability	2.1 Positive return on investments	On a five-year floating average, the annual investment reflows shall exceed all expenses and fees of SIFEM plus CHF 25 million	**Objective missed:** The weighted five-year floating average reflow from investments between 2009 and 2013 is CHF 26.6m. The threshold defined would translate to roughly CHF 30m.
	2.2 Sufficient annual commitments	On a 3-year floating average, SIFEM shall commit at least CHF 25 million per year	**Objective achieved:** The weighted three-year floating average annual commitment rate between 2009 and 2013 is CHF 37.3m.
3. Compliance with operational principles	3.1 Investing in priority countries of the Swiss development cooperation	60% of SIFEM's commitments shall be directed toward priority countries of the Swiss development cooperation	**Objective surpassed:** 86% of SIFEM's commitments made are directed toward priority countries of the Swiss development cooperation, as defined in the investment guidelines of SIFEM at the time of investment.
	3.2 Subsidiarity and Additionality	At least 80% of SIFEM's investments shall be expected to have "positive" or "very positive" effects in terms of both Subsidiarity and Additionality at the time of investment	**Objective achieved:** In 85% of the investments made between 2009 and 2013, the Decision Notes state that both Subsidiarity and Additionality effects are expected to be "positive" or "very positive" at the time of investment.
	3.3 Mobilisation of private capital for development	In at least half of the funds in which SIFEM invests, every dollar invested by SIFEM shall mobilise at least two dollars of private investments	**Objective surpassed:** In 70% of the fund investments made between 2009 and to date, every dollar invested by SIFEM mobilised more than two dollars of private investment ($4.12 on average).
4. Institution building	4.1 Appropriate management and governance structure	SIFEM shall implement and maintain a proper risk management system	**Objective achieved:** SIFEM has met the Swiss Code of Obligation audit requirements in terms of risk management and internal control system. The new risk management system is fully implemented.
	4.2 Professional cooperation with Federal Administration		**Objective achieved:** SIFEM and Obviam have upheld a high standard of professionalism in their cooperation with the Federal Administration, all requests were answered swiftly.

5.2 SIFEM's Development Impact

Measurement System

In order to assess the development effects of SIFEM's investments, Obviam has been using the GPR (Corporate-Policy Project Rating Tool) tool developed by the German DFI DEG (Deutsche Investitions- und Entwicklungsgesellschaft). This tool is used by several other European DFIs in different forms, which to a certain extent facilitates implementation and comparability. This tool focuses on such areas as job creation and support, training, value-added support to investee companies, financial market deepening and development and many others. The GPR tool is used throughout the life cycle of each SIFEM investment and consists of eight different development indicators and 42 sub-indicators.

Figure 8: The GPR tool covers the entire life cycle of an investment



In order to track progress of an investment over time, a benchmark is established at the investment appraisal stage to reflect the expected development effects of a PEF or FI investment (GPR ex-ante process). After an investment is made, GPR data is collected every second year to track and monitor actual development effects when they occur (GPR post-investment process). For PEF investments, the post-investment process is done until the end of the investment period. For FI investments, post-investment GPRs are done until maturity, prepayment, or divestment. As job creation is an important objective for SIFEM, the job data of each investment is collected and assessed annually, on portfolio company level for PEFs and at the sub-borrower level for FIs.

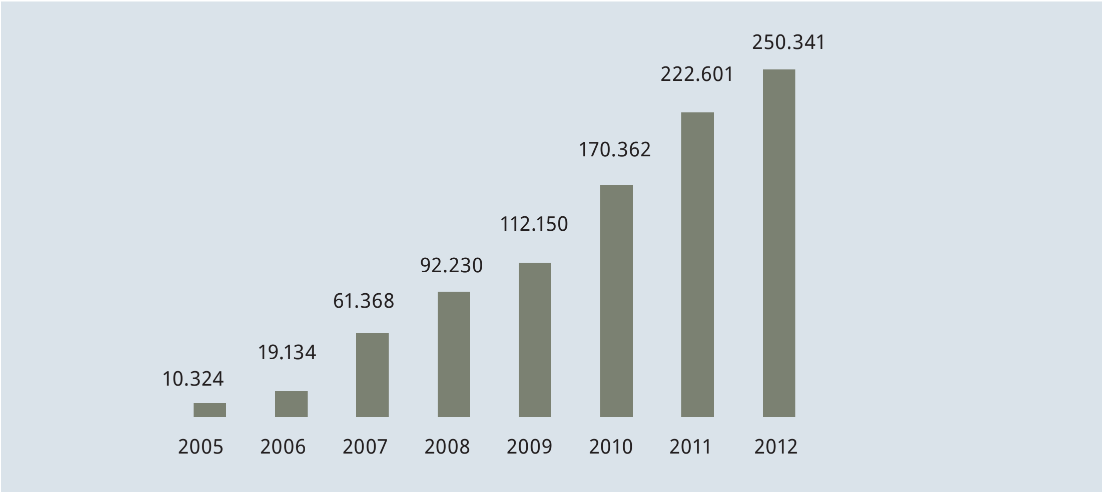
Annually, Obviam compiles GPR data and reports the expected development effects of SIFEM's new commitments. It also compares the expected versus actual development effects of investments measured in ex-post data collections every two years. For those investments that reach the end of the GPR process in any given year, a summary conclusion report is presented as part of the respective annual GPR report.

Development Highlights[9]

SIFEM's investment philosophy is guided by the belief that investing in commercially viable developing country SMEs and growth companies can over time provide investors positive financial returns, as well as generate sustainable, long-term development effects in local communities. SIFEM seeks to drive entrepreneurship, create and support jobs, deepen and strengthen the financial sector, and drive economic growth.

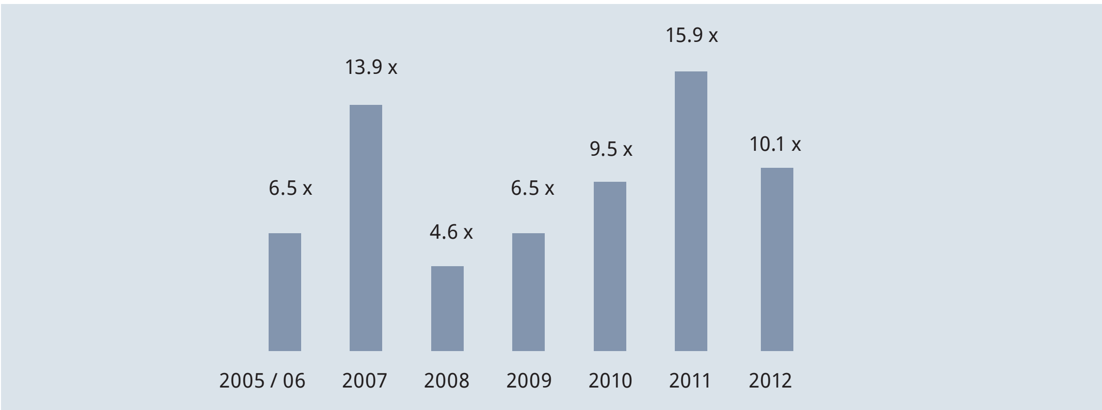
[9] *Since development effects data for the year is gathered in the 1st half of the antecedent year, in 2013 Obviam gathered and consolidated the data for the year-ended 2012.*

Figure 9: Jobs supported by SIFEM since inception[10]



One of the most relevant and at the same time most tangible indicators for measuring SIFEM's impact on development is the number of jobs supported or generated by the portfolio. Employment is critical for development; it helps reduce poverty and its far-reaching consequences such as malnutrition, disease and other such burdens on next generations. Higher levels of employment improve GDP per capita, living standards, as well as education and economic development. For most people a remunerated job is the only or the best way out of the vicious cycle of poverty. Since its inception in 2005, SIFEM together with other investors has contributed to creating and supporting over 250'000 jobs in developing countries.

Figure 10: Additional finance leveraged by SIFEM since inception



Inadequate access to financing continues to be one of the most significant impediments to the creation of SMEs, as well as their survival and growth. In many emerging and frontier markets, the financial sector is characterized by a narrow range of institutions, weak competition, low penetration and lack of client focus. SIFEM seeks to address these issues by mobilizing additional capital from other private and institutional investors into target countries. In accordance with its mandate SIFEM operates in difficult, underdeveloped markets which are often avoided by private investors. It is SIFEM's mission to act as a pioneer, pave the way for other investors and demonstrate that achieving developmental results can also yield positive financial returns.

[10] *Measured as total number of jobs in all SIFEM portfolio funds and companies. Direct attribution to an individual investor is very complex, as it would require subjective judgement at several levels. From 2014 onward, this number will be complemented with a simple pro-rata measurement of jobs supported.*

With its 2012 PEF investments, each dollar invested by SIFEM was matched by 10.1 dollars from other investors. The mobilization of capital is of high relevance because, in the medium to long term, projects cannot count on public money and will have to refinance themselves via private investors. Furthermore, SIFEM was actively involved in organizing technical assistance for different investee companies to improve their business development as well as their management of environmental and social aspects. This is just one example of how SIFEM contributes to the establishment of sustainable financial intermediaries on the ground.

Furthermore, SIFEM is strongly committed to being an active investor with a hands-on approach when it comes to managing its portfolio. Particularly PEFs are benefitting from SIFEM's support in different areas such as the reinforcement of organization and management, improvement of information and control systems, as well as risk management or implementation of an environmental and social risk monitoring system. SIFEM's dedication to responsible investment demands strong involvement on the part of its financial intermediaries as well, so that they can in turn assist their investee companies with valuable advice and support. The GPR tool evidences that all investments assessed for 2012 have benefitted from SIFEM's expertise and assistance.

Finally, 97% of SIFEM's fund managers have contributed to the development of the local companies, for example by providing consulting and technical support, guidance on strategic decisions, introducing environmental and social monitoring systems, improving accounting and reporting. Furthermore 94% of all investments had positive effects on the training and up-skilling of the local staff or the community. The training of "human capital" is considered to be one of the most important production and location factors for portfolio companies. Training and further education increase productivity and the income of employees accordingly which is significantly contributing to poverty alleviation.

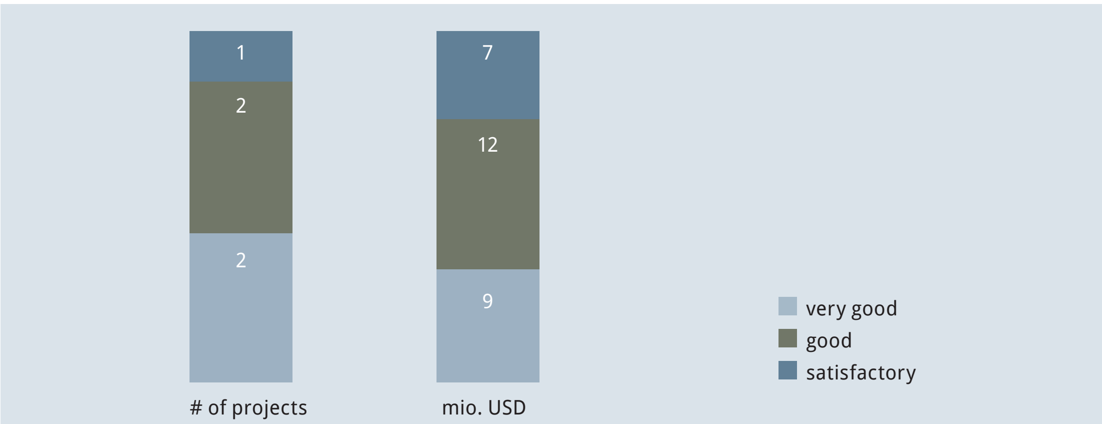
Highlights of the latest GPR Report

As mentioned above, the GPR tool looks at investments by vintage year. Below, please find an overview of the latest available data.

GPR ex-ante: expected development effects of new commitments in 2012

In 2012 SIFEM made five new fund investments totalling USD 29 million. Overall SIFEM expects good development effects from its 2012 investments, as supported by high aggregate development effects scores.

Figure 11: Expected development effects of 2012 investments



According to the development effects assessment, two of the five investment commitments in 2012 are expected to generate "very good" development effects, two are expected to have "good" development effects and one "fully sufficient" development effects.

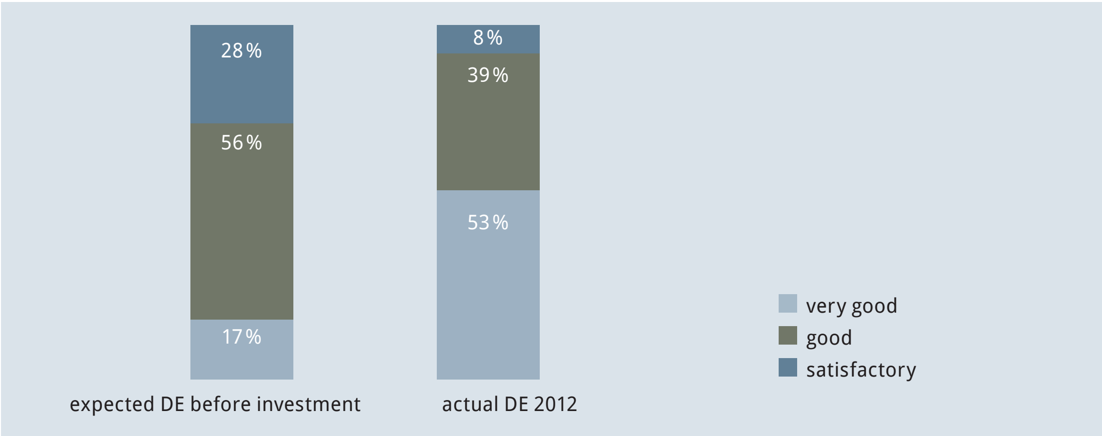
In terms of aggregated development effects, the average score of SIFEM's 2012 investments stands at 97, which is the second highest score achieved since vintages 2005/6. The average development effect scores obtained over the past seven years can all be classified as "good".

In particular SIFEM's 2012 investments are expected to:
- Support a total of 32 direct jobs and 6.137 indirect jobs over the life of the investments;
- Deliver positive gender effects (one project, while the others are gender neutral);
- Provide training to staff (all projects are expected to provide internal training, most on an organization wide basis) and to a broader audience external to the organization (two out of five projects);
- Mobilise local capital (all projects);
- Contribute to local financial sector diversification (three out of five projects);
- Improve credit and capital allocation diversification (all projects);
- Support institution building at PEF managers (all projects); and
- Assist investee companies in improving operational excellence (all projects).

GPR post-investment: overview of actual development effects of SIFEM's investments 2005–2010

Comparing the expected development effects of the SIFEM portfolio versus effects observed post-investment, we note that the investments have generally outperformed the ex-ante benchmark. On average, investments scored 89 ex ante and 101 post investment by year-end 2012. This is a significant improvement allowing a general upgrade from a portfolio with "good" development effects to a "very good" portfolio.

Figure 12: Actual vs. expected development effects ratings 2012



The reasons for these positive results are the following:
- Employment effects have exceeded expectations;
- Observed local financial sector diversification is more important than forecasted;
- Observed credit and capital allocation diversification has outperformed the anticipated estimate;
- Observed institution building has materialized above expectations; and
- Observed company development has exceeded projections at time of investment.

The development effects of SIFEM's portfolio in 2012 can be summarized as follows:
- Support of over 250.000 jobs
- Positive gender effects (4 out of 36 projects)
- Strong support of training (35 out of 36 projects)
- Strong mobilization of local capital (33 out of 36 projects)
- Significant contribution to local financial sector diversification (30 out of 36 projects)
- Strong effects regarding credit and capital allocation diversification (all projects)
- Strong contribution by Obviam to PEF and FI institution building (all projects)
- Strong drive to improvement in investee company operational excellence (35 out of 36 projects)

5.3 Development Impact Case Studies

WESTLINE EDUCATION GROUP

Westline offers international standard level K-12 education and adult English education for the low to middle-income classes.

Location:	Phnom Penh, Cambodia
Sector:	Education
Investment Year:	2011
Fund intermediary:	Cambodia-Laos Development Fund
Size:	7 schools, 1 education center, 700+ employees, 7000+ students
Website:	www.westlineschool.org

Cambodia's Education Challenges

Cambodia is considered a Least Developed Country (LDC) according to the United Nations, which means that the country achieves the lowest ratings regarding its socio-economic development and with over half of the population living on less than 2 USD per day Cambodian people are among the poorest in the world. Roughly 80% of Cambodians are dependent on subsistence farming and although Cambodia's constitution stipulates that the state shall ensure quality education for all the education system is not up to speed: overall literacy levels remain below 75%.[11]

Legacy of the Khmer Rouge

The legacy of the Khmer Rouge regime still heavily weighs on Cambodian society, which has to re-establish among others, a functioning education system. The educational human resources of Cambodia were lost due to the systematic elimination of intellectuals and educated people between 1975 and 1979 in the attempt to build a new Cambodia without disturbances by the old elements of its society. In 1979, after the Khmer Rouge regime fell, the national education system essentially started from zero, and has gradually been developed until present day. Nevertheless, Cambodia still lacks experienced and educated teachers, who are crucial for the development of the education system and the broader economy of the country.

Daily challenges

The daily realities are equally challenging for both teachers and students in the Cambodian schools. Teachers face inadequate salaries which puts them in situations where they need to charge students fees for services to make ends meet. Students face issues of inadequate facilities, large classroom sizes, insufficient or outdated school materials and sometimes long travel times to nearby villages or towns. All in all, this results in high costs for the families, although education should be accessible and free of charge for everyone.

Pech Bolene,
Founder of Westline Group:

"Cambodia needs to rebuild its education system on a model where the key is quality."

[11] *The World Fact Book: Cambodia, viewed 16.12.2013 https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html*

SIFEM's Investment

The Cambodia Laos Development Fund (CLDF) invested USD 800.000 into Westline in 2011. This allowed the school to open three new branches in 2012, bringing it one step closer to the aspiration of becoming the leading educational institution in South East Asia. CLDF's investment has also triggered a lot of attention from the local media and the government, which further simplifies cooperation between different actors to improve education quality and human resources in Cambodia. Hence Westline has been able to become an industry leader not only according to size but also by implementing advanced standards and procedures: be it by teaching an internationally recognized curriculum, adopting an evacuation plan and a safety policy or introducing best practices regarding tax compliance and good governance.

Contribution from the Fund / Obviam

Westline has grown considerably over the past couple of years and the management had to be reorganized and further trained in order to cope with the growing demands of a rapidly expanding company. With the full centralisation of key support functions such as Education, Finance & Accounting, HR & Admin, the company is achieving high levels of efficiency and unified, standard operations across the network. However the company still struggles with issues emerging from rapid growth, such as adjusting to newly-required best practice standards.

In order to facilitate that transition, Obviam has organized technical assistance via SECO which was used for an advisory project regarding tax and corporate compliance. Since Westline is one of the first private schools in Cambodia, common practices with regards to taxes and corporate compliance have not yet been established. The objective is to assess the unclear tax obligations for the education sector and adopt a proactive approach to planning and adjusting measures.

A second technical assistance project has been arranged for the establishment and implementation of a Safety Management System including an emergency evacuation plan for the schools, which was non-existent before. The goal is to implement a school safety program and promote a safety culture across the schools. Yet another project is being initiated to train the staff in the area of best practice child care.

Quality Schools Embedded in the Communities

Westline offers international standard level K-12 education and adult English education for the low to middle-income classes at affordable prices of USD 300 – 1000 per year. Westline operates small, community-based schools which bring many advantages such as a great connection to the respective communities and the ability to upgrade school branches as communities become more prosperous. This allows children to be closer to home and walk to school rather than having to pay for transportation, a significant additional financial burden for lower income families. Moreover, the schools' proximity provides for better parental involvement in

student and school life. Other key factors which put Westline ahead of most public schools are its professional management, highly competent and experienced teachers, dual Khmer and US curricula, advanced learning materials, extra-curricular activities like arts and sports and last but not least, ensuring a disciplined, proactive and motivating learning climate. Different facilities are available to improve the students' learning environment including a library, a media centre, a computer lab, a cafeteria, a playground, and a health care centre.

Social Work at the Heart of the School's Philosophy

Social community work is central to Westline's extra-curricular activities. The main objective besides service to the community is to teach children a culture of sharing and provide on-the-ground examples of leadership. Creating socially-minded, ethical leaders is an essential objective of the school, and seen as critical to strengthening Cambodia's society. The company also hopes to motivate other private institutions to join their efforts in order to support the government in building a striving, well-educated, prosperous society. Westline's students are involved in social projects via volunteer work. The school also donates materials to local communities.

> *"We gain from society;*
> *this is why we should give something back to society."*

Training for Teachers and Professionals

Through its quality teaching Westline improves the literacy levels of thousands of students, giving them the tools for pursuing further education. Moreover, the school's mobile libraries bring books to communities without access to literature and introduce all people in the communities to the pleasures of reading and learning.

Quality teachers who are devoted to their task of transferring knowledge and life skills to their students are at the heart of the schools. Westline stresses the competence and the qualification of its faculty and empowers them with continuous mentoring and training opportunities. The Westline training facility is also open to a wider public and thus helps to improve the education of teachers and professionals on a broader scale. Westline believes that the teachers' role goes beyond making sure that they deliver on curriculum content to playing a crucial role in preparing their students for life beyond the classroom in order to become active, productive members of their community which can improve their own economic situation. Westline supports teachers' everyday efforts by providing favourable working conditions which enable faculty to fully focus on teaching and student matters rather than worry about their personal financial situation or deal with various administrative and logistic tasks. Westline thus helps to valorize the teacher profession by giving it the necessary attention and support in a society which is in dire need of empowered, devoted and competent teaching professionals.

Hygiene and Health

By providing health services to their students and teaching healthy habits and basic hygiene from an early age Westline helps improving the long term health and wellness of the children, their families and communities. Good health begins with clean water, clean hands and clean teeth, therefore lessons on oral hygiene and hand washing are not only given in school but also during community work or via the school's newspaper and radio show. What might seem obvious is not necessarily the case for everyone and these small changes in habits can make a big difference.

Development Effects

Westline schools address one of Cambodia's main social challenges: the lack of affordable quality education for the low and middle income classes as well as training for professionals. As the parents of the emerging middle class see their spending power increase, education becomes an important social good to move their families further out of poverty and they demand better quality education for their children. Westline offers these families an affordable alternative to the existing schools which might either not live up to their quality expectations or be too expensive.

Education is a top agenda item for the government and private sector partnerships are strongly encouraged. Westline follows the national curriculum as well as an English training program and offers additional extra-curricular activities to equip students with leadership skills and encourage community engagement. It is expanding its education concept to other schools in Cambodia and its academic quality is recognized by local and international companies, organizations, and governmental institutions. This is why Westline can also act as a role model for the public institutions. If Westline successfully implements a new concept or educational approach in a cost-effective way, chances are the public institutions will emulate it, which will benefit the entire population.

SAI SUDHIR INFRASTRUCTURES

Sai Sudhir is an engineering, procurement and construction services company in the infrastructure space, which was founded in 1998 by an Indian government employee who saw an opportunity in satisfying the pressing need for basic infrastructure all over India, particularly in the rural areas. Sai Sudhir is building infrastructure to address irrigation, water supply & sanitation requirements. These projects are mostly promoted and financed by the state.

Location:	Hyderabad, India
Sector:	Infrastructure
Investment Year:	2008
Fund intermediaries:	VenturEast Proactive Fund / BTS India Private Equity Fund
Employment:	1000+ direct employees, 700+ indirect jobs created
Website:	www.saisudhirinfra.com

The Situation in India

- Even if access to safe, clean, drinking water and sanitation is a human right, over two thirds of India's population still lives without proper sanitation. This figure further increases to more than three quarters in rural areas. In the case of drinking water, one in ten is lacking a source of clean drinking water, with the number climbing to one in eight in rural areas.
- As the population grows and industrialization increases, adequate water supply and sanitation becomes even more crucial as the demand-supply gap for these basic social goods widens.
- The Indian population still mainly lives in rural areas, but rural infrastructure has been largely overlooked by the big infrastructure companies.

Development Effects in a Nutshell

- To date Sai Sudhir has built water infrastructure for around 550 small towns and villages in India, which represents over a million of beneficiaries served.
- In 2007, Sai Sudhir was a relatively small company unable to find investors who shared its vision and were willing to provide it with the necessary capital to expand and grow. Thanks to the investment of VenturEast and BTS India among others the company has been able to continuously expand to meet acute, local needs. Sai Sudhir has recently confirmed orders to the state of Karnataka to provide water supplies to 202 villages and has won a tender from Rajasthan to provide 17 water treatment plants in the state.
- Thanks to Sai Sudhir, rural people are getting access to clean water, which most importantly improves their health, but also frees up time previously spent to fetch the water for productive activities, in order to take care of their houses and children and gives them a chance to put their land to use for agricultural purposes by means of irrigation.
- Access to safe drinking water significantly improves the health and hygiene conditions of the entire community and ultimately enhances their socio-economic living conditions.
- Having running water directly in their homes particularly empowers the women in the community as fetching water is typically a women's duty in rural India. The direct access to water spares them from this very strenuous task and frees up time for more appreciated occupations.

Virbhanji Kheda is a village in rural Rajasthan, home to around 1’000 people mainly living from agriculture. Up until the water treatment system was built by Sai Sudhir, water had to be drawn by hand from hand-pumps, which was a laborious task and didn’t provide water of drinking quality. Since Rajasthan is a dry land access to water and irrigation is a real challenge.

Women had to fetch water over 10 times a day in order to meet the needs of their families and livestock. In addition the farmers had to buy the water at USD 6 for 4’000 liters, which is a significant amount for local circumstances. This meant that after using water for their livestock and basic irrigation of their crops, they never had enough for the household activities.

Sai Sudhir’s solution for Virbhaj Kheda was the construction of a water storage and treatment system which has a capacity of 17 million liters per day. Access to affordable, clean water has improved all aspects of life for the villagers. They are now free of all illnesses due to contaminated water and can focus on their work, keeping their houses and looking after their children while still having some time to labor and irrigate their fields. The new access to clean water represents a major step towards a better quality of life for the entire community.

> *“I would go to fetch water at 5am, there was usually a queue. Sometimes I would get water and sometimes I wouldn´t.”*

EXAT AGRICULTURE

EXAT agriculture is a rubber planting and processing company which was founded in 2002 by a local entrepreneur. Until 2008, EXAT was only acting as a raw material supplier for industrial rubber companies, but since 2008, EXAT has expanded into the natural rubber transformation by investing in a coagulum-processing plant, thus providing jobs for over 240 local people.

Location:	Grand-Domaine (San Pedro area), Côte d'Ivoire
Sector:	Agribusiness
Investment Year:	2012
Fund intermediaries:	Africinvest Fund II
Employment:	244 employees

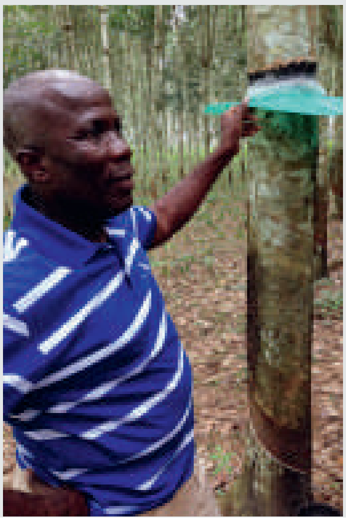
The Situation in Cote-d'Ivoire

- With a GDP per capita of USD 1'700 Côte d'Ivoire belongs to the poorest countries in the world (number 197 out of 229).
- In terms of life expectancy Côte d'Ivoire ranges at the lower end of the table (198 out of 229).
- Cote d'Ivoire's long-term challenges also include political instability and degrading infrastructure.
- Roughly 68% of the population of Côte d'Ivoire engages in agriculture and related activities.
- Approximately 35% of school-aged children work in order to support their families instead of going to school.
- This very low school enrolment rate also manifests itself in an adult literacy rate of only 56.9%.
- In short, Côte d'Ivoire needs to improve all socio-economic aspects of its society. People need jobs in order to get out of poverty and the state requires revenues to develop its infrastructure.

Development Effects in a Nutshell

- Natural rubber is a renewable resource that EXAT produces in an ecological and socially sustainable way.
- Rubber trees are highly efficient in binding Green House Gases which contributes to global CO2 reduction.
- Planting trees and harvesting the sap enables local people in remote areas to make a fair living by either selling their products to EXAT or working on their plantations and in the rubber processing plant. Thus EXAT provides the villagers a steady source of income, as rubber can be harvested almost year-round.
- EXAT is working on certification procedures for Michelin, Bridgestone and Continental, which attests the quality of its products to international sustainability standards and gives it direct access to steady sales channels.
- By professionalizing rubber tapping, EXAT contributes to make it more efficient and increases the quality of the product which helps build the entire industry.
- EXAT has many social programs in the surrounding communities: it is providing training to the villagers on how to plant and harvest rubber and food crops in a sustainable manner, but is also building a school in Grand-Domaine, so the children don't have to walk to school so far and will encourage them to actually attend school.
- A new production line will be added to the plant, which will double the total effective production capacity as well as the workers needed to operate it.

“We look after our land and our people, it’s natural.”



6. Risk Management

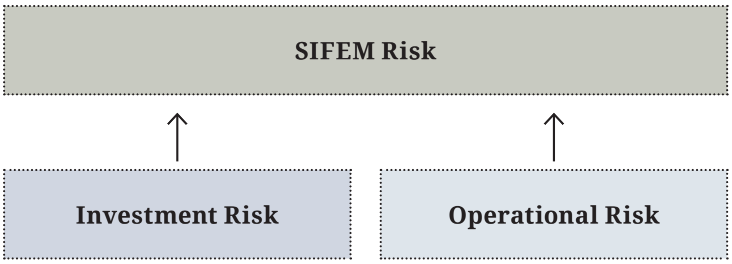
Identifying, mitigating, monitoring and managing risks is one of SIFEM's core duties, as these risks could potentially affect SIFEM's financial health and sustainability, its ability to generate development impact and its reputation. Reputation risk is of particular importance for SIFEM for two main reasons (a) due to its public ownership, SIFEM is under close scrutiny by its shareholder as well as stakeholders and is being held to the highest standards; and (b) SIFEM operates in an emerging market environment, where corporate governance tends to be weak and the risk of incidents is comparatively high.

SIFEM relies on a comprehensive Manual of Procedures which was approved by its Board and contains all the relevant policies, procedures and guidelines for operations. The Manual details the ways in which Obviam implements the Portfolio Management Agreement, and in particular how risks are identified, mitigated, monitored and managed.

In 2012 Obviam developed and implemented a comprehensive portfolio-wide internal risk-rating system for all SIFEM investments, which is a useful tool for detecting, monitoring and managing the numerous risks inherent in SIFEM's investment activities.

SIFEM's potential risks can be divided in two main areas: first, the SIFEM portfolio risk and second, the operational risk for SIFEM.

Figure 13: SIFEM risk components



The monitoring of risk on each level follows specific procedures and processes applied throughout SIFEM's operations, which ensure that the regulatory requirements are fulfilled. At each stage, the objective consists of reducing the risks for SIFEM to the minimum possible under the given investment guidelines. The risks addressed are monitored on a continuous basis. Any significant risk events such as violations of prudential limits or investment guidelines, non-compliance with policies, events of fraud, significant deviations from set targets or changes in risk assessments or definitions are duly reported to the Board with proposals on how the risks can be mitigated.

6.1 Operational Risk Management and Internal Control System

SIFEM AG submits itself to a full audit according to the Swiss Code of Obligations. Since the 2008 revision of the Swiss Code of Obligations, companies undergoing such a full audit are required to demonstrate the existence of an Internal Control System (ICS). The Board of Directors and the executive management in a company are required to grant due attention to the quality and documentation of their ICS.

The Procedure Manual serves as SIFEM's Internal Control System. It covers all of the operational processes and controls in depth. The accounting and financial reporting processes have been outsourced to the bank acting as custodian and administrator, and to an external bookkeeping agent.

6.2 Investment Risk Management

SIFEM's portfolio is a clear reflection of the institution's developmental mandate, as it primarily consists of investments in countries and projects with a structurally high risk. Therefore it is essential to have an adequate risk management system that takes account of risk capacity in order to control these risks and by doing so, ensure that the business outcome safeguards SIFEM's ability to maintain and expand its development capabilities.

The investment risk management is based on three pillars:
– Portfolio Risk Management
– Treasury Management
– ESG Risk Management

Portfolio Risk Management
Obviam is responsible for identification, evaluation and selection of investment opportunities for SIFEM, as well as the monitoring of SIFEM's investments. At each stage of the investment process, Obviam applies specific tools and follows pre-defined procedures.

Furthermore, Obviam actively monitors the portfolio, focusing in particular on the change in risk ratings, valuations, reporting, performance of the investees and compliance with the various applicable policies and guidelines. Any violation of applicable policies or guidelines is reported to the Board, together with proposed actions to rectify the situation.

Obviam uses its in-house risk rating tool which has been validated by SIFEM's auditor. Each investment is rated on an annual basis. A comprehensive description of the tool is provided in section 6.3 and a portfolio risk analysis in section 6.4.

Treasury Management
Obviam is responsible for ensuring compliance with liquidity risk limits. The calculation of the liquidity ratio and review of compliance with the limits are carried out by the custodian bank under the supervision of Obviam. Periodical cash flow forecasts are generated to ensure liquidity. Safe keeping of cash reserves that are not needed at short term for investment operations is done with the Federal Finance Administration and the Swiss National Bank, adding an important layer of security. Unfunded commitments are backed by cash reserves in matching currencies in order to avoid currency risks.

ESG Risk Management
Environmental, Social and Governance (ESG) matters are of increasing importance to investors, companies and society. As a responsible investor, SIFEM is committed to invest according to international best practice ESG standards in order to contribute to sustainable development in its target markets.

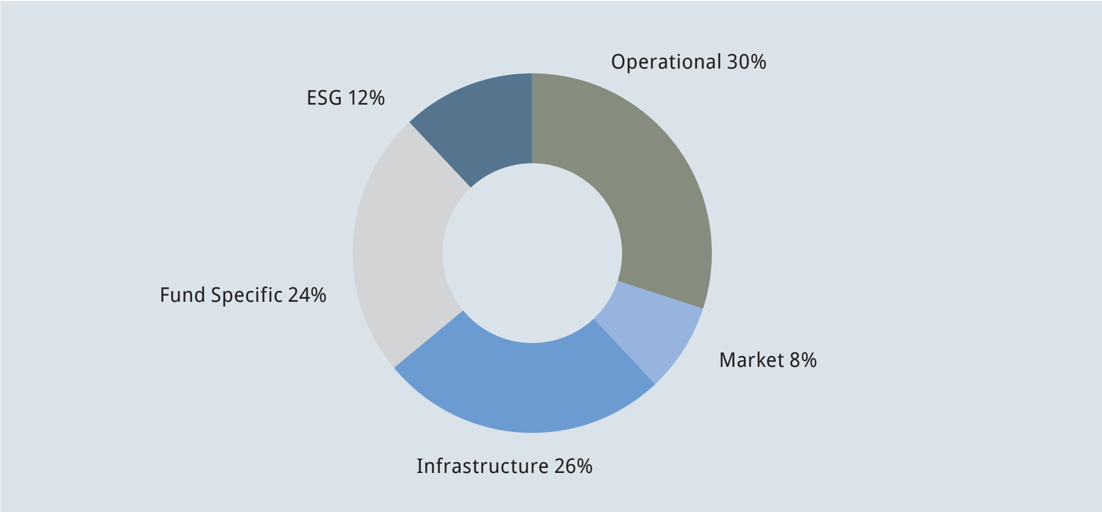
SIFEM benefits from Obviam's comprehensive approach to responsible investment: this includes a Responsible Investment Policy which contains a policy statement on responsible investment, an Exclusion List, and descriptions of ESG requirements and implementation. In order to monitor ESG risk SIFEM's portfolio is subject to an annual ESG risk rating review. Enhanced support is provided for investments where serious ESG issues and/or insufficient ESG management systems were detected. ESG incidents are captured in a Management Information System and a watch list is generated periodically to ensure an early recognition of potential risks. An overview of ESG risk distribution of the portfolio is generated annually.

All active portfolio companies in the SIFEM portfolio have been individually rated for ESG risk. Moreover all ESG Management Systems of portfolio funds have been individually rated according to quality since 2005. When a problem is identified SIFEM becomes proactive. It coordinates with DFI co-investors to find a way to remedy the situation and help the company comply with ESG best practices. From time to time TA funding is mobilized from SECO to reach that goal.

6.3 Portfolio Risk Rating Tool

In 2012 Obviam developed and implemented a comprehensive in-house risk rating system for the SIFEM portfolio, which was also validated by SIFEM's auditor. The system includes different rating metrics for PEFs, FIs and debt funds in microfinance or other asset classes. It primarily measures financial risk, but also considers other dimensions such as environmental, social and reputation risks. The system comprises of 30+ risk indicators that capture operational, market, infrastructure and ESG risks, as well as fund, debt instrument and FI-specific risks.

Figure 14: Risk weighting in SIFEM's risk rating tool



These data are aggregated and weighted into a risk score for every investment. The scores are then adjusted by some quantitative factors derived from their historical financial performance. In cases of microfinance or other debt funds with limited upside, further adjustments are made to cater for the different risk profiles of SIFEM's investment instruments.

The risk rating system is used throughout Obviam's investment process, with first risk assessments performed ex-ante during due diligence of potential investments. Post-investment, each project is re-rated on a regular basis to capture and monitor the evolution of risks.

The individual rating of each investment is rescaled into a risk score ranging from 1 (very high risk) to 5 (very low risk). Risk scores of 4 or 5 classify an investment as low risk or even very low risk, respectively, while a risk score of 3 indicates a moderate risk. A risk score of 2 however puts an investment on the watch-list, which necessitates increased supervision. Finally, a risk score of 1 means that an investment is a work-out case for which a clear action plan needs to be drawn and implemented.

6.4 SIFEM Portfolio Risk Ratings Overview 2013

As per December 2013, the stratification of the SIFEM portfolio in terms of investments per risk category looks as follows:

Figure 15: Number of SIFEM investments per risk category as of December 2013

Very low risk (Risk score 5)	10	15%
Low risk (4)	6	9%
Moderate Risk (3)	21	31%
High risk (2)	14	21%
Very high risk (1)	16	24%

The largest concentration of investments is found in the moderate risk categories. These are mainly investments which perform according to expectations or are too recent to be meaningfully assessed. The relative high amount of riskier investments is founded in SIFEM's developmental mandate. Projects in the high or very high risk category mainly do not meet the expected performance or their risk score is affected by a higher macroeconomic and market risk. Investments in the low risk or very low risk categories are mainly projects which exceed their expected performance.

To warrant the overall financial sustainability of SIFEM, there is a need for constant monitoring by the Board and Obviam to ensure an appropriate balance of risks for all of the investments. One important possibility to attain a balanced portfolio is given by the variety of investment categories. For example, as shown in Figure 16 and expected due to the nature of their underlying assets, debt instruments have a relatively lower risk.

Figure 16: Number of SIFEM investments per risk category and type as of December 2013

	Funds		Dept Instruments		Direct Investments	
Very low risk (Risk score 5)	8	15%	2	17%		
Low risk (4)	1	2%	4	33%	1	33%
Moderate Risk (3)	18	35%	3	25%		
High risk (2)	12	23%			2	67%
Very high risk (1)	13	25%	3	25%		

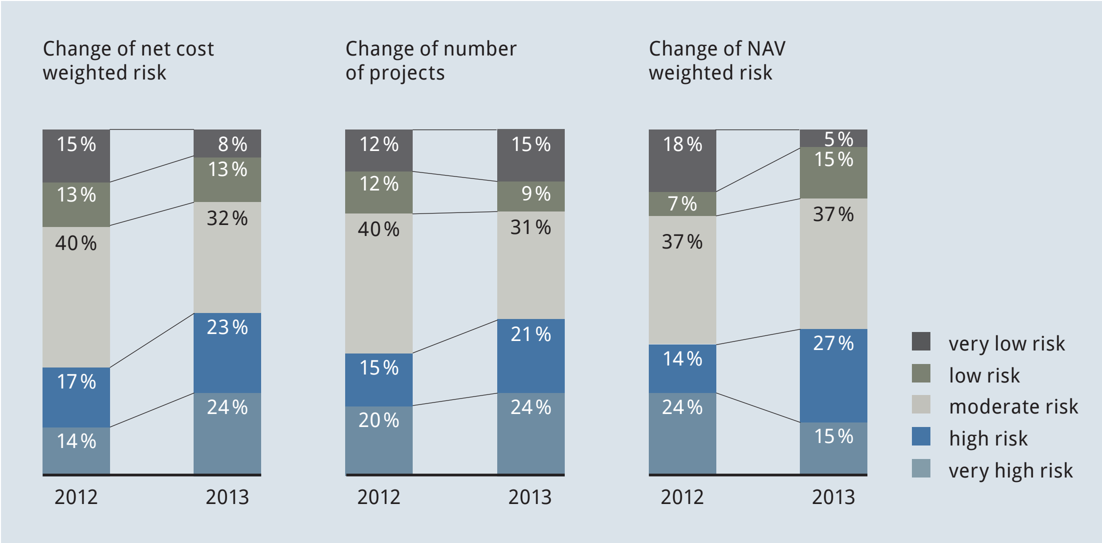
Weighting the risk score of the projects by net cost invested and value is important to obtain the effective USD amounts invested per risk category. After the emphasis it can be shown that the overall allocation of the risk in the portfolio slightly shifts to the middle risk categories. Exemplary, looking at the NAV for "very low risk" risk projects decrease from 15% to 6% for funds, and from 17% to 1% for debt investments. In the same time, "very high risk" projects in the fund category decrease from 25% to 18%, and more importantly, from 25% to 4% for debt instruments. This distribution shows the importance of debt instruments in mitigating overall portfolio risk, as these tend to be larger and less risky exposures. For the portfolio weighted by net cost of investment, the risk shift towards the moderate risk category is less distinctive for funds but seems to be important for debt instruments.

Figure 17: Number of projects, net cost and NAV of SIFEM portfolio as a percentage per risk category and investment type as of December 2013

Funds	Projects	Net cost	NAV
Very low risk (Risk score 5)	15 %	9 %	6 %
Low risk (4)	2 %	4 %	6 %
Moderate Risk (3)	35 %	37 %	43 %
High risk (2)	23 %	22 %	27 %
Very high risk (1)	25 %	29 %	18 %
Debt Instruments			
Very low risk (Risk score 5)	17 %	7 %	6 %
Low risk (4)	33 %	59 %	63 %
Moderate Risk (3)	25 %	24 %	27 %
High risk (2)			
Very high risk (1)	25 %	9 %	4 %
Financial Institutions			
Very low risk (Risk score 5)			
Low risk (4)	33 %	41 %	39 %
Moderate Risk (3)			
High risk (2)	67 %	59 %	61 %
Very high risk (1)			

Overall, during 2013 the risk of the SIFEM portfolio has increased. This is attributed to the down-grading of projects that have not performed as well on the one hand, and to projects being affected by declining macroeconomic conditions in some target countries on the other hand. Finally, the decrease in the very low risk category is attributed to the maturity of several low-risk debt instruments in the portfolio. This trend is expected to continue into 2014 as more low-risk debt exposures mature, necessitating a more balanced approach towards portfolio construction going forward. Figure 18 shows the risk changes during 2013.

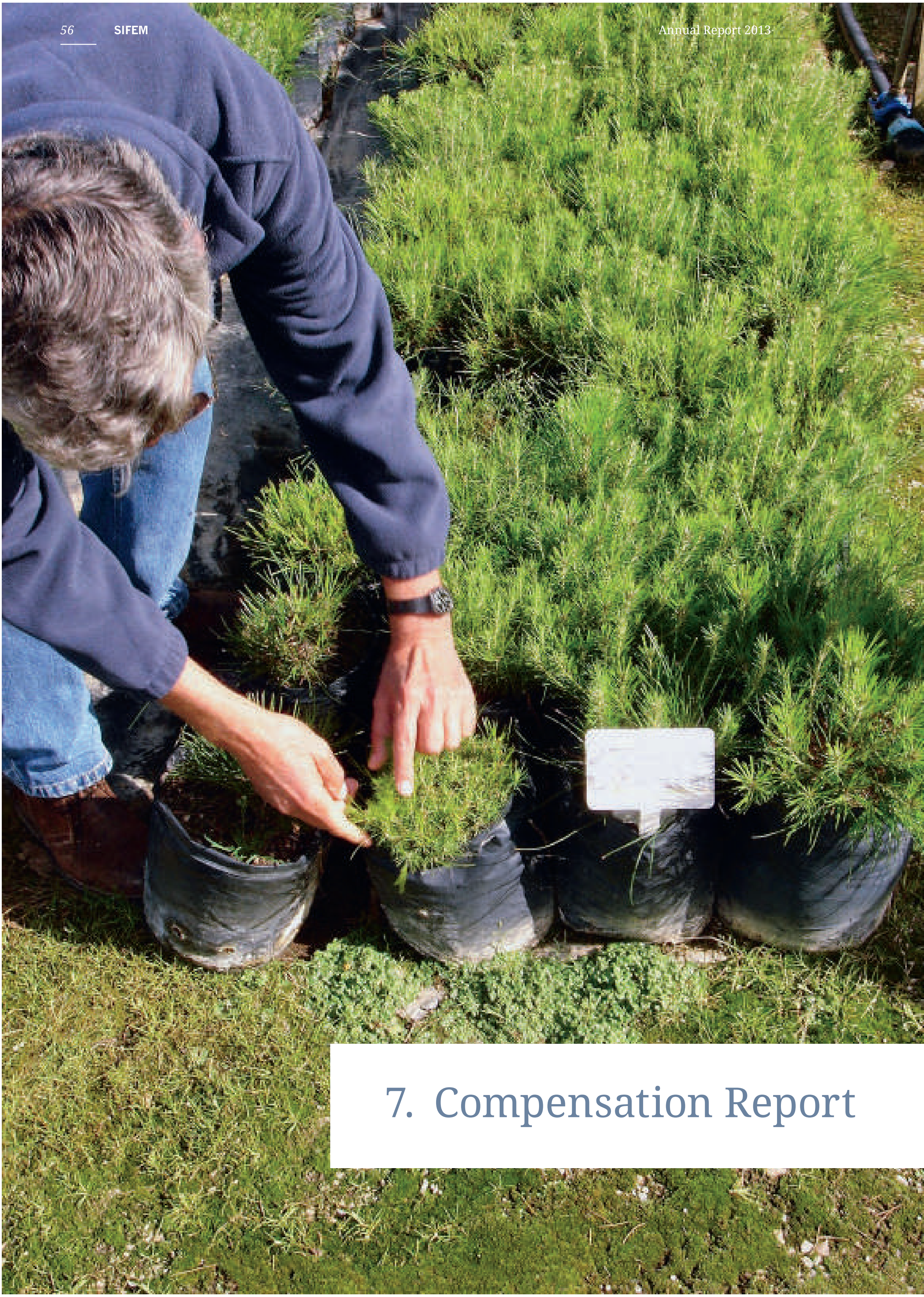
*Figure 18: Change in net cost, number of projects and NAV of SIFEM portfolio per risk category and investment type as of December 2013**



6.5 Concluding remark: A word of caution

Despite all the risk assessments described above and the implementation of a risk management system in line with best practices. SIFEM will in the future continue to experience a certain failure rate of projects, as well as related losses. The potential reputational issues of some projects are also of relevance, since such issues can occur anytime and are mostly out of SIFEM's control. All these risks are an integral part of the very nature and purpose of SIFEM, i.e. to be active in difficult countries, regions and sectors where foreign stakeholders and the private sector are still hesitating to enter. SIFEM's task is to pave the way for them, thus contributing to an improvement in the investment climate and job creation. Were these risks not existing, the very raison d'être of SIFEM would be obsolete.

* *Limited comparability to 2012 annual report risk figures due to subsequent consideration of Sino Swiss Partnership Fund*



7. Compensation Report

7.1 Board Compensation

From the establishment of SIFEM in August 2011, the members of SIFEM's Board received an allowance for the extraordinary efforts during the two-year start-up phase. This start-up phase ended in August 2013, and the Board remuneration has hence slightly decreased this year. The fixed annual compensation for the entire Board of SIFEM amounted to CHF 229,375 gross of social expenses. From 2014 onward, the start-up allowance will be entirely phased out, and the total Board remuneration will drop to CHF 207,200 in accordance with the Organisational Regulations, assuming no changes in the constitution of the Board.

The Chairman of the Board received total gross compensation of CHF 50,247 in 2013. This consists of a base compensation of CHF 30,000 for his role as Chairman of the Board and CHF 14,000 for his role as Chairman of the Investment Committee, as well as the start-up allowance of CHF 6,247 for the period January to August 2013.

The representative of the Swiss Confederation does not receive any compensation from SIFEM for his membership in the Board.

Excluding the Chairman and the representative of the Swiss Confederation, the other SIFEM Board members on average received CHF 35,826 of gross compensation, including compensation for work in Board subcommittees and the start-up allowance for the period January to August 2013.

7.2 Compensation of Obviam

The compensation of Obviam is determined in accordance with the Portfolio Management Agreement and the Business Management Agreement. Under both agreements, Obviam is compensated for actual costs incurred, within a budget that is approved annually in advance by the Board.

The original wording of Clause 4 of the Portfolio Management Agreement is as follows:

a. SIFEM will pay the Portfolio Manager an annual management fee (the "Management Fee") equal to an amount agreed before the end of the previous year by the Board and the Portfolio Manager.

b. The amount of the Management Fee shall be calculated using an annual budget to be approved by the Board, consisting of the expected human resource and other expenditure directly attributable to the services provided under this Portfolio Management Agreement, and a pro-rata share of the general expenses (not directly attributable to any mandate) of the Obviam Group. For the avoidance of doubt, the share of general expenses to be borne by SIFEM shall be calculated in accordance with the pro-rata share of SIFEM's active commitments against the total active commitments on all mandates of the Obviam Group [...]

j. [...] At the end of a business year, the Management Fee paid to the Portfolio Manager according to the annual budget shall be compared with the actual costs of the Portfolio Manager. If the Management Fee paid is in excess of the total effective cost of the Portfolio Manager for the management of the Portfolio, the amount in excess shall be returned to SIFEM [...]

The original wording of Clause 9 of the Business Management Agreement is as follows:

SIFEM shall compensate the Business Manager with an allowance for its expenses, calculated ex ante on the basis of an annual budget of the business management to be prepared by the Business Manager and approved by the Board of SIFEM. The expenses comprise any and all management costs, particularly secretarial work, copies, mailing costs, IT costs, telephone, travel costs, etc. [...] If the allowance paid is in excess of the actual costs of the Business Manager for the business management of SIFEM, the amount in excess shall be returned to SIFEM [...]

The Board of SIFEM agreed to the annual budget proposed by Obviam for 2013 under the aforementioned agreements, with a few small amendments. For the entire year 2013, the total budget for Obviam under both agreements was CHF 4,827,410 (including VAT and accruals for variable compensation). This represents a 1.2% increase compared to 2012. It also corresponds to 1.09% of the total active commitments of SIFEM.

However, it is important to note that Obviam rarely spends its full budget. In 2013, the estimated effective expenses amounted to CHF 3,637,048, or 81% of the total budget. This corresponds to 0.82% of the total active commitments of SIFEM. In comparison with the previous year, the effective expenses decreased by 10.8%.

Including all other administrative expense items such as administration and custodian fees and Board compensation, the 2013 estimated effective total administrative costs of SIFEM account for 1.07% of total active commitments. The corresponding previous year figure is 1.19%.[12] The threshold for total administrative expenses set by the Federal Council is 1.5% of SIFEM's total active commitments.

Obviam has complied with Clause 16 of the Portfolio Management Agreement, the original wording of which is repeated below:

> The Portfolio Manager [Obviam] undertakes to ensure that in the Obviam Group the proportion of the highest individual fixed salary which results from this Portfolio Management Agreement does not exceed salary class 32 of the Swiss Confederation. For the avoidance of doubt, this shall include any residence allowance and pension treatment that an employee of the Swiss Confederation earning salary class 32 would be entitled to.

As per Clause 4 of the Portfolio Management Agreement, the original wording of which is repeated below, the incentive system for Obviam is designed as follows:

e. The Board will allocate a performance bonus (the "Performance Bonus") equal to an amount up to 20% of the annual fixed salary costs indicated in the annual budget prepared in accordance with Clause 4 (b) of this Portfolio Management Agreement for the year in question. The objectives to be attained by the Portfolio Manager [Obviam] shall be specified yearly by the Board and agreed with the Portfolio Manager in the framework of the yearly budget process.

f. One third of such Performance Bonus shall be disbursed annually to the Portfolio Manager at the beginning of the year following the year in question (the "Immediate Bonus") depending on the progress made in a given year in attaining objectives specified annually in advance by the Board according to the operational objectives set out in the Supervision and Controlling Concept agreed between SIFEM and the Swiss Confederation.

g. Two thirds of such Performance Bonus shall be disbursed to a blocked account at the beginning of the year following the year in question (the "Retained Bonus"). Such Retained Bonus payments shall be retained on the blocked account, with the total amount on the blocked account to be disbursed to the Portfolio Manager at the beginning of the year following the expiry of the strategic objectives, depending on the progress made in attaining the objectives specified in advance by the Board in line with the strategic objectives. For the avoidance of doubt, any undisbursed amount remaining on the blocked account after such period due to non- or partial fulfilment of the agreed objectives shall be returned to SIFEM. Due to the fact that the current strategic objectives are valid until end-2012, the first disbursement of the Retained Bonus shall occur in early 2013. After the first disbursement, the Retained Bonus shall be paid out every four years, in line with the four-year duration of the strategic objectives.

[12] *Due to a change in accounting policies related to accruals and deferrals during the year 2013, the accounting figures do not reconcile with effective cost numbers, cf. IFRS financial statements, note 19.*

As mentioned previously, the Federal Council decided to extend the validity of SIFEM's previous strategic objectives into 2013, and to delay the start of the next four-year cycle to 2014. Hence, the Board decided to treat 2013 as an individual year in this incentive system, to ensure that the next four-year cycle coincides with the new strategic objective period 2014-17. Based on a detailed review of Obviam's performance against both the annual and strategic objectives, the Board approved the disbursement of two different bonus components:

- Given Obviam's strong performance against its quantitative annual objectives for 2013, the Board approved the full non-discretionary part of the immediate bonus to be paid out. In addition, the Board approved 75% of the discretionary part of the immediate bonus. In total, the immediate bonus for 2013 amounted to 6.25% of Obviam's annual fixed salary cost.

- Furthermore, Obviam fulfilled all but one of its twelve operationalized strategic objectives for the extended period 2009–13 (see section 5.1). For the reasons mentioned above, 2013 was treated as an individual one-year cycle. Therefore, the Board approved the disbursement of a retained bonus equal to 12.22% of Obviam's annual fixed salary cost.

8. Outlook for 2014–2017

With the new set of strategic objectives, the shareholder has given a clear indication of SIFEM's expectations for the 2014-2017 period. In 2014 Obviam, in close collaboration with SIFEM's Board, will prioritize various operational measures aimed at reaching the goals set by the Federal Council. The strategic objectives are ambitious, in particular in light of the uncertain economic and financial outlook for emerging markets, but also stimulating as they will further contribute to position SIFEM as a meaningful niche player with clear developmental and financial purposes.

The Board has recently also decided to increase SIFEM's annual investment volume. This step is required because the size of the funds SIFEM invests in has grown over time: the average project size has doubled in the past 10 years, and the median size has even tripled in the same timeframe. This development is welcome in view of the professionalization of fund management in the target countries, and SIFEM cannot avoid participating in larger projects. For this reason, the average amount invested per project needs to increase. In order to avoid a loss of portfolio diversification, SIFEM needs to increase its commitment rate to around USD 70m per annum, which will allow it to maintain the current risk profile of its investment activities in light of the available cash reserves. As evidenced by the weak financial results of recent years, the financial risks in SIFEM's business model are non-negligible under the current investment strategy. We therefore hope that SIFEM's shareholder will agree to a capital increase, which would allow SIFEM to markedly increase ticket sizes in projects with lower financial risk, and therewith lower the overall risk profile of the investment portfolio.

Historically SIFEM has predominantly been an equity investor since equity best enables the company to fulfil its development agenda. However, this exposes SIFEM's financial results and cash flows to a high level of volatility. In this context, SIFEM will evaluate possible inflections of the investment strategy to bring more financial stability to the portfolio, for instance by increasing the share of fixed-income investments. In terms of sector priorities, the strategic objectives 2014–17 follow in the footsteps of the activities carried out thus far. Support to SMEs and fast growing companies will remain the centre of attention, as well as operations in high impact sector such a clean energy, health, education, infrastructure, food security and microfinance, but without neglecting growth projects with an above average financial return.

2013 Financial Statements – IFRS

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Report of the auditor on the financial statements
to the Board of Directors of

SIFEM AG, Bern

As mandated by you, we have audited the accompanying financial statements of SIFEM AG, which comprise the balance sheet, statement of comprehensive income, cash flow statement, statement of changes in equity and notes for the year ended 31 December 2013.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law, the Swiss Standards on Auditing (SA) and International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Emphasis of matter

As indicated in Note 9, the financial statements include unquoted investments stated at their fair values of CHF 227.8 million. Because of the inherent uncertainty associated with the valuation of such investments and the absence of a liquid market, these fair values may differ from their realisable values, and the difference could be material. The determination of the fair values of these investments is the responsibility of the Board of Directors. The valuation procedures used are disclosed in Note 9 of the financial statements. We have reviewed the procedures in valuing such investments and the underlying documentation.

While in the circumstances the procedures appear to be reasonable and the documentation appropriate, the determination of fair values involves subjective judgment which cannot be independently verified. Our opinion is not qualified in respect of this matter.

Zurich, 5 March 2014

BDO Ltd

Markus Eugster	ppa. Tobias Schüle
	Auditor in Charge
Licensed Audit Expert	Licensed Audit Expert

Statement of financial position

	Note	31.12.2013	31.12.2012
		in 1000 CHF	in 1000 CHF
Assets			
Cash and cash equivalents	7	254.151	260.319
Other receivables and accrued income	8	1.287	11.710
Total current assets		**255.438**	**272.029**
Direct Investments	9		
Equity Instruments		4.935	5.262
Debt Instruments		29.693	33.346
Investment Funds	10	193.168	198.883
Total non-current assets		**227.797**	**237.491**
Total assets		**483.235**	**509.520**
Liabilities and equity			
Trade payables		28	28
Other liabilites and accrued expenses		276	324
Total current liabilities		**304**	**352**
Loans and borrowings	10	368.091	364.446
Total non-current liabilities		**368.091**	**364.446**
Total liabilities		**368.395**	**364.799**
Share capital		100.000	100.000
Capital reserve (additionally paid in capital)		75.218	75.218
Legal reserve		20	20
Translation reserve		10.725	13.137
Retained earnings		–71.121	–43.653
Total equity	**11**	**114.842**	**144.722**
Total liabilities and equity		**483.235**	**509.520**

Statement of comprehensive income

	Note	31.12.2013	31.12.2012
		in 1000 CHF	in 1000 CHF
Interest income	12	2.357	3.205
Dividend income	13	156	62
Income from realized gains on Investments	13	6.189	21.196
Revenue from advisory services		32	71
Net foreign exchange gains on cash and cash equivalents and on direct debt investments	16	941	2.908
Net changes in fair value of investments at fair value through profit or loss	17	–19.291	–24.687
Total net income (loss)		**–9.616**	**2.756**
Investment management fee	14	–2.824	–4.891
Administration and custodian fees	15	–387	–257
Personnel expenses		–287	–312
Administration expenses		–299	–137
Advertising expenses		–51	–64
Other operating result		–62	–189
Operating result		**–13.526**	**–3.094**
Financial income	18	0	2
Financial expense	18	–13.942	–11.181
Total loss for the year		**–27.468**	**–14.273**
Other comprehensive income			
Items that are or may be reclassified to profit or loss Currency translation effect from translation to presentation currency		–2.412	–2.960
Total comprehensive income		**–29.880**	**–17.233**

Statement of changes in equity for the years ended 31 December 2013 and 2012

(in 1000 CHF)	Share Capital	Additional paid in capital	Legal reserves	Translation reserve	Retained earnings	Total
Total comprehensive income for the year						
Loss for the year					–14.273	–14.273
Foreign currency translation differences from translation to presentation currency				–2.960		–2.960
Total other comprehensive income for the year				–2.960	0	–2.960
Total comprehensive income for the year	**0**	**0**	**0**	**–2.960**	**–14.273**	**–17.233**
Transactions with owners of the Company. recognised directly in equity						
Other capital contributions		2.321				2.321
Total transactions with owners of the Company	**0**	**2.321**	**0**	**0**	**0**	**2.321**
Balance at 31 December 2012	**100.000**	**75.218**	**20**	**13.137**	**–43.653**	**144.722**
Total comprehensive income for the year						
Loss for the year					–27.468	–27.468
Foreign currency translation differences from translation to presentation currency				–2.412		–2.412
Total other comprehensive income for the year				–2.412		–2.412
Total comprehensive income for the year	**0**	**0**	**0**	**–2.412**	**–27.468**	**–29.880**
Transactions with owners of the Company, recognised directly in equity						
Other capital contributions						0
Total transactions with owners of the Company	**0**	**0**	**0**	**0**	**0**	**0**
Balance at 31 December 2013	**100.000**	**75.218**	**20**	**10.725**	**–71.121**	**114.841**

Statement of cash flows

	Note	31.12.2013	31.12.2012
		in 1000 CHF	in 1000 CHF
Cash Flow from operating activities			
Loss for the year		–27.469	–14.273
Adjustments for:			
Interest income	12	–2.357	–3.205
Dividend	13	–156	–62
Income from realized gains on Investments	13	–6.189	–21.196
Interest expense	10	3.644	3.497
Net foreign exchange gain / loss		9.369	4.772
Changes in fair value of investments at fair value through profit or loss	17	19.291	24.687
Changes in:			
Other receivables. prepayments & accrued income		–970	177
Trade liabilities		0	–16
Other liabilities and accrued expenses		–42	232
Purchase of investments		–33.251	–32.974
Proceeds from sale of investments		21.671	18.414
Interest received		2.714	2.609
Dividend / other investment income received		156	12.714
Income from realized gains on Investments received		14.617	62
Net cash flow from operating activities		**1.028**	**–4.564**
Net cash flow from investing activities		**0**	**0**
Proceeds from issue of shareholder loans		0	60.423
Net cash from financing activities		**0**	**60.423**
Net increase in cash and cash equivalents		**1.028**	**55.859**
Cash and cash equivalents at 1 January	7	260.319	206.690
Effect of exchange rate flucutations on cash and cash equivalents		–7.197	–2.230
Cash and cash equivalents at year-end	**7**	**254.151**	**260.319**

Notes to the IFRS Financial Statements

1. Reporting entity

SIFEM AG – Swiss Investment Fund for Emerging Markets ("SIFEM" or the "Company") is a company domiciled in Switzerland. The address of the entity's registered office is c/o Obviam DFI AG, Bubenbergplatz 11, 3011 Bern. The Company's shares are fully owned by the Swiss Government.

SIFEM is the Development Finance Institution (DFI) of Switzerland. It is primarily involved in specialized investment funds to finance small- and medium-sized enterprises (SMEs). These are predominantly private equity or mezzanine funds. But the portfolio also includes some direct investment in financial intermediaries and structured products. On a selective basis, SIFEM also invests in microfinance. SIFEM's investment philosophy is guided by the belief that investing in commercially viable emerging market SMEs can provide investors with risk adjusted return, and generate sustainable, long term development effects in local communities.

Both the investment activities and the day-to-day business administration of the Company are delegated to Obviam DFI AG (acting as Portfolio Manager and Business Manager).

2. Basis of preparation

(a) Statement of compliance
The financial statements of the Company as at and for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) in addition to the statutory financial statements which are prepared in accordance with the Swiss Code of Obligation (CO).
The financial statements were authorised for issue by the Board of Directors on 5th of March 2014.

(b) Basis of measurement
The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value.

(c) Functional and presentation currency
These financial statements are presented in Swiss francs. The functional currency of the entity is US Dollar. All financial information presented in Swiss francs has been rounded to the nearest thousand.

3. Changes in accounting policies

(a) Presentation of items of Other Comprehensive Income
As a result of the amendments to IAS 1, SIFEM has modified the presentation of items of Other Comprehensive Income (OCI) in its statement of comprehensive income, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(b) Fair value measurement
IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs. As a result, SIFEM has included additional disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, SIFEM has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of SIFEM's assets and liabilities.

(c) Disclosure of interests in other entities
As a result of IFRS 12, SIFEM has expanded its disclosures about its interests in its Investments.

(d) Investment Entity
SIFEM has early adopted the Investment Entities amendments to IFRS 10, IFRS 12 and IAS 27 (the ''Amendments'') which are effective 1 January 2014. The amendments to IFRS 10 define an investment entity and introduce an exception from the consolidation requirements for investment entities. The amendments did not have any effect on the financial statements or the performance of SIFEM.

SIFEM meets the definition of an "Investment Entity", which is defined through the following criteria:
– the entity obtains funds from one or more investors to provide them with investment management services
– funds are invested to receive returns through capital appreciation and/or investment income
– performance of substantially all investments is measured and evaluated at fair value

SIFEM also fulfils all typical characteristics of an investment entity with the exception of only having a single investor. As that single investor is a government, the exception for entities with a government as single investor applies. The waiving of consolidation of investments has no material impact on SIFEM's performance as only one investment in the portfolio would require consolidation if SIFEM was not classified as Investment Entity.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency
Transactions in foreign currencies are translated into USD at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into USD at the exchange rate at that date.

Non-monetary assets and liabilities in foreign currencies that are measured at fair value are translated into USD at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on translation are recognised in profit or loss as net foreign exchange gain / loss, except for those arising on financial instruments at fair value through profit or loss, which are recognised as a component of net gain from financial instruments at fair value through profit or loss.

For the translation to the presentation currency all assets and liabilities are translated at the exchange rate at the balance sheet date. All equity items other than the profit or loss for the period are translated to the presentation currency at the historical exchange rate. Income, expenses and cash flows are translated using the average exchange rate of the reporting period. The exchange differences on translating balance sheets and income statements are debited or credited as a translation adjustment in the statement of comprehensive income. Exchange differences on translating cash, cash equivalents and related cash flows are separately disclosed in the cash flow statement as exchange effect on cash and cash equivalents.
The following exchange rates were applied:

		2013		2012
	Balance sheet rate	Average rate	Balance sheet rate	Average rate
USD / CHF	1.122000	1.06503	1.092477	1.055287
USD / EUR	1.376400		1.318401	
USD / ZAR	0.094993		0.117863	
USD / CNY	0.165150		0.160505	
CHF / USD	0.891266		0.915351	

(b) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in the fair value, and are used by the Company in the management of its short-term commitments.

(c) Other receivables
Other receivables are classified as loans and receivables and are measured at amortised cost (see accounting policy (f)).

(d) Financial assets
Financial assets are classified either as “at fair value through profit or loss” or “loans and receivables”. The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of financial assets at the time of acquisition. Trade date accounting is applied for routine purchases and sales of financial assets. Financial assets at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in profit or loss. The Company and its subsidiary meet the criteria for an investment entity in accordance with IFRS 10 Consolidated Financial Statements. As per 1 January 2013, the Company therefore applies the exception to consolidation for investment entities included in IFRS 10, as amended, and continues measuring its investments at fair value through profit or loss.
Financial assets not at fair value through profit or loss are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition. Financial assets are partially or fully derecognised if SIFEM’s contractual rights to the cash flows from the financial assets have either expired or were transferred and SIFEM is neither exposed to any risks arising from these assets nor has any entitlement to income from them.

Subsequent measurement – financial assets at fair value through profit or loss
Subsequent to initial measurement, all financial assets at fair value through profit or loss are measured at fair value. All changes in fair value, other than interest and dividend income and expense, are recognised in profit or loss as part of net change in fair value of investments at fair value through profit or loss.

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, SIFEM measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If market for a financial instrument is not active, then SIFEM establishes fair value using a valuation technique appropriate for the circumstances. Valuation techniques include comparison to similar instruments for which observable prices exist and other valuation models. The chosen valuation technique makes maximum use of relevant observable inputs, relies as little as possible on unobservable inputs and estimates specific to SIFEM, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. SIFEM calibrates valuation techniques and tests them for validating using prices from observable current market transactions in the same instrument or based on other available observable market data.

The Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which SIFEM has access at that date. The fair value of a liability reflects its non-performance risk. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only observable inputs. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any differences between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss.

Subsequent measurement – loans and receivables

Subsequent to initial measurement loans and receivables are measured at amortised cost. The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment.

Impairment

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s), and that loss event(s) had an impact in the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes significant difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of amounts due or terms that SIFEM would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, or adverse changes in the payments status of the borrower.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest in the impaired assets continues to be recognised. For debt instruments, when an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Direct investments

This position includes direct investments in financial intermediaries and structured products. These can be in form of equity participations or loans to the entities. Equity instruments are accounted for at fair value through profit or loss and debt instruments at amortised cost.

Investments in funds

This position consists of investment in private equity or mezzanine funds to finance small- and medium-sized enterprises (SMEs). These investments are accounted for as at fair value through profit or loss.

(e) Investments in associates and jointly controlled entities

Investments in associates and jointly controlled entities are accounted for as venture capital investments and carried at fair value through profit or loss.

(f) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

(g) Loans and borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the statement of comprehensive income over the period of the loans and borrowings using the effective interest method.

(h) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

(i) Interest income, dividend income and Income from realized gains on Investments
Interest income is recognised in profit or loss, using the effective interest method. It includes interest income from cash and cash equivalents and from debt securities included in direct investments.
Income from realized gains on Investments is the cumulative income resulting mainly from exits in funds at a price higher than the paid in price. Realized gains occur when exits are disbursed at a level that exceed its cost of book value or other gains are paid out by the fund the investors.
Dividend income is recognised in profit or loss on the date that the right to receive payment is established.

(j) Fees and commission expense
Fees and commission expenses are recognised in profit or loss as the related services are received.

(k) Tax
As an incorporated company formed under the Swiss Code of Obligations, SIFEM is subject to Swiss commercial law. One exception was made in respect to taxation. Due to its public ownership and developmental mandate, SIFEM is exempt from regular communal, cantonal and federal income taxes.
However, some dividend and interest income received by SIFEM are subject to withholding tax imposed in certain countries of origin. Income that is subject to such tax is recognised gross of the taxes and the corresponding withholding tax is recognised as other operating expenses.

(l) New and revised standards and interpretations not adopted
The following new, revised and amended standards and interpretations have been issued until the date of approval of the 2013 financial statements, but are not yet effective and are not applied early in these financial statements. Their impact on the financial statements of SIFEM has not yet been systematically analysed. The expected effects as disclosed below the table reflect only a tentative first assessment.

	Expected Effect	Effective date	Planned application by SIFEM
New Standards or Interpretations			
IFRS 9 Financial Instruments	***	1 January 2017 at the earliest	to be determined
Revisions and amendments of Standards and Interpretations			
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	*	1 January 2014	2014
Annual Improvements to IFRSs 2010–2012 Cycle	***	1 July 2014	2015
Annual Improvements to IFRSs 2011–2013 Cycle	***	1 July 2014	2015

* *No, or no significant, impact is expected on the financial statements of SIFEM.*
** *Mainly additional disclosures or changes in presentation are expected in the financial statements of SIFEM.*
*** *The impacts on the financial statements of SIFEM can not yet be determined with sufficient reliability.*

5. Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are reviewed and in any future periods affected.
The following estimates used and assumptions made in applying the accounting policies could result in a material adjustment in the financial statements ending 31 December 2014:

(a) Determination of fair values
The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risk affecting the specific instrument. Refer also to notes 3 (d) and 9.

(b) Determination of functional currency
Functional currency is the currency of the primary economic environment in which SIFEM operates. When indicators or the primary economic environment are mixed, management uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. Management has determined that the functional currency of SIFEM is the US Dollar.
Since globally active private equity funds-of-funds like SIFEM tend to be highly diversified, this factor does not give a clear indicator of SIFEMs functional currency. However, the US Dollar is the single most important currency affecting the pricing of transactions, not only for SIFEM but for the entire emerging markets private equity industry. Furthermore, SIFEM reports its investment performance to its investor in US Dollar only.

6. Financial risk management

SIFEM has exposure to the following risks from financial instruments:
- Credit risk,
- Liquidity risk,
- Market risk, and
- Operational risk.

Risk management framework
Identifying, mitigating, monitoring and managing risks is one of SIFEM's core duties, as it affects its financial health and sustainability and its ability to generate development impact. For this purpose, SIFEM relies on a comprehensive manual of procedures which describes how the business is conducted. It has been approved by SIFEM's Board of Directors, as a document detailing how its investment manager implements the Portfolio Management Agreement, and in particular how risks are identified, mitigated, monitored and managed. All the relevant policies, procedure descriptions, and guidelines are an integral part of this manual.

The monitoring of risk on each level follows specific procedures and processes applied throughout the operations, which ensure that the regulatory requirements are fulfilled. At each stage, the objective consists of reducing the risks for SIFEM to the minimum possible under the given investment guidelines. The risks addressed are monitored on a continuous basis. Any significant risk events such as violations of prudential limits or investment guidelines, or non-compliance with policies, events of fraud, or significant deviations from set targets or changes in risk assessments or definitions are duly reported to the Board of Directors.

SIFEM's portfolio is a clear reflection of the institution's developmental mandate, as it primarily consists of investments in countries and projects with high structural risks. Therefore, it is essential to have an adequate risk management system that takes special account of risk capacity in order to control these risks and by doing so, ensure that the business outcome safeguards SIFEM's ability to maintain and expand its development capabilities.
The portfolio risk management is based on four pillars:
- Investment Risk Management
- Environmental, social and Governance matters (ESG) Risk Management
- Treasury
- Investment management support through financial expertise

Investment Risk Management
Obviam is responsible for the identification, evaluation and selection of investment opportunities for SIFEM, as well as the monitoring of SIFEM's investments. At each stage of the investment process, Obviam applies specific tools and follows pre-defined procedures. Furthermore, Obviam actively monitors the portfolio, focusing

in particular on the change in risk rating, valuations, reporting, performance of the investees and compliance with the various applicable policies and guidelines. Any violation of applicable policies or guidelines is reported to the Board, together with proposed actions to rectify the situation. The approach to portfolio risk management is determined by an annual updated risk rating tool for each investment. Obviam uses its in-house risk rating tool which was partially developed in a joint venture with other European DFIs, such as BIO from Belgium and Finnfund from Finland.

Classification of financial instruments

The table below provides a reconciliation of the line items in SIFEMs statement of financial position to the categories of financial instruments.

in 1000 CHF	Designated as at fair value through profit or loss	Loans and receivables	Other liabilities at amortised costs	Total Carrying amount	Total Fair Value
31 December 2012					
Cash and cash equivalents		260.319		260.319	260.319
Other receivables and accrued income		11.563		11.563	11.563
Direct Investments					
– Equity instruments	5.262			5.262	5.262
– Debt instruments		33.346		33.346	33.346
Investment funds	198.883			198.883	198.883
Total	**204.145**	**305.228**	**0**	**509.373**	**509.373**
Trade payables			28	28	28
Other liabilities and accrued expenses			309	309	309
Loans and borrowings			364.446	364.446	364.446
Total	**0**	**0**	**364.783**	**364.783**	**364.783**
31 December 2013					
Cash and cash equivalents		254.151		254.151	254.151
Other receivables and accrued income		1.268		1.268	1.268
Direct Investments					
– Equity instruments	4.935			4.935	4.935
– Debt instruments		29.693		29.693	29.693
Investment funds	193.168			193.168	193.168
Total	**198.103**	**285.112**	**0**	**483.214**	**483.214**
Trade payables			28	28	28
Other liabilities and accrued expenses			257	257	257
Loans and borrowings			368.091	368.091	368.091
Total	**0**	**0**	**368.376**	**368.376**	**368.376**

The table above only includes financial instruments. Other receivables and accrued income do therefore not include tax receivables and prepaid costs (TCHF 19). The position other liabilities and accrued expenses do not include tax payables and advances received (TCHF 19).

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with SIFEM, resulting in a financial loss to SIFEM. It arises principally from debt securities held, other receivables and accrued income and cash and cash equivalents and results in earnings volatility due to losses.

Management of credit risk

The approach to credit risk management is determined by its annual updated risk rating tool for financial institutions. Furthermore, Obviam regularly monitors the ability and willingness of an issuer to service its financial obligations in full and on a timely basis. The risk rating tool for financial institutions is capable to incorporate the following risk factors with the respective weightings:
- Financial Institutions Operating risks, 34%
- Financial Institutions financial risks, 26%
- Market risks, 6%
- Infrastructure risks in target region/country, 28%
- ESG risks, 6%

Each of these risk factors is divided in several sub-categories. A significant shift in the risk rating will be reported to the Board of Directors and a yearly risk report will be issued to the shareholders.

In case of a major event the risk rating will be adjusted to reflect to the current inherent risk of the given investment. SIFEM's investment positions are monitored on a quarterly basis by the Finance and Risk Manager and the Investment Team.

SIFEM's maximum credit exposure at the reporting date is represented by the respective carrying amounts of the relevant financial assets in the statement of financial position and amounts to TCHF 285,131 as of 31 December 2013 (31 December 2012: TCHF 305,228).

Concentration of credit risk

Obviam's investment team reviews credit concentration of direct investments held based on geographical and counterparty allocations. There was no significant concentration in this portfolio of credit risk to any individual issuer or group of issuers at 31 December 2013 or 31 December 2012.
SIFEM's cash and cash equivalents are held with a Swiss bank, which is rated as an A based on the rating of Standard and Poor's, as well as with the Swiss Federal Finance Administration and the Swiss National Bank.

Liquidity risk

Liquidity risk is the risk that SIFEM will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

SIFEM's policy and Obviam's approach managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damages to SIFEM's reputation.

SIFEM's liquidity risk is managed on a quarterly basis by Obviam's finance department and the custodian bank in accordance with policies and procedures in place. A detailed Cash Management policy is part of Obviam's procedure manual.

The overall liquidity risk is monitored on a quarterly basis by the Board of Directors. The Cash Management result is monitored by the Audit Committee every six months.

Maturity analysis for financial liabilities

in 1000 CHF	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 year	1 to 5 years	later
31 December 2012					
Trade payables	28	28	28	0	0
Other liabilities and accrued expenses	309	309	309	0	0
Loans and borrowings	364.446	364.446	0	364.446	0
Total	**364.783**	**364.783**	**337**	**364.446**	**0**
31 December 2013					
Trade payables	28	28	28	0	0
Other liabilities and accrued expenses	257	257	257	0	0
Loans and borrowings	368.091	368.091	0	368.091	0
Total	**368.376**	**368.376**	**285**	**368.091**	**0**

The table above shows the undiscounted cash flows of SIFEM's financial liabilities on the basis of their earliest possible contractual maturity. The gross amount includes interest payable when appropriate. SIFEM's expected cash flows on these instruments may vary significantly from this analysis as it is assumed that existing loan contracts with the Swiss Confederation will be extended upon maturity.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's credit standing) will affect SIFEM's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Management of market risk

SIFEM's strategy for the management of market risk is driven by its investment objective. SIFEM is a key pillar of the Swiss Confederation's efforts to promote sustainable private sector-led growth in developing and transition economies with a view towards reducing poverty and contributing to increased living standards in these countries.

SIFEM invests in a commercial way in companies that are most likely to be commercially viable and hence sustainable. Furthermore, SIFEM's investments are development-oriented, aiming to achieve a broad set of objectives beyond the financial rate of return. SIFEM aims to develop a comprehensive portfolio of equity participations in private equity funds targeting small and medium enterprises (SMEs). SIFEM may also act as co-investor in the underlying portfolio companies of its private equity funds, and make other direct investments.

In order to manage the market risk SIFEM's investment management team constantly monitors the financial markets globally and in the relevant target markets, although its investments are private and rather illiquid, and verifies if actual movements in the financial markets would influence the risk of the underlying investments consequently shifting the overall risk of the portfolio.

As part of the market risk management approach a yearly risk assessment is performed using the risk rating tool for fund investments, mostly exposed to market risk, which is capable to incorporate the following risk factors with the respective weightings:
- Fund operations risks, 20%
- Market risks, 10%
- Infrastructure risks in target region/country, 32.5%
- Fund specific risks, 30%
- ESG risks, 7.5%

Each of these risk factors is divided in several sub-categories. A significant shift in the risk rating will be reported to the Board of Directors and a yearly risk report will be issued to the shareholders.

In case of a major event the risk rating will be adjusted to reflect the current inherent risk of the given investment. SIFEM's investment positions are monitored on a quarterly basis by Obviam's finance department and investment team based on the quarterly financial reporting provided by the underlying investments. Moreover, in order to reduce the market risk by increasing transparency and quality of financial data, the finance department supports the investment team regarding technical issues of reporting or requests further information for reporting in case available information is insufficient. A performance report is sent to the Board of Directors on a quarterly basis.

An overview of SIFEM's investment portfolio as at 31 December 2013 is set out in Appendix 1 (unaudited).

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

SIFEM's exposure to interest rate risk is limited as SIFEM holds only limited interest rate bearing instruments which are mostly fixed-rate instruments.

As of the balance sheet date, SIFEM's interest rate profile was as follows (interest-bearing financial instruments):

in 1000 CHF	31. 12. 2013	31. 12. 2012
Direct investments	7.247	10.204
Fixed-rate instruments (assets)	**7.247**	**10.204**
Cash and cash equivalents	254.151	260.319
Direct investments	22.447	23.142
Variable rate instruments (assets)	**276.598**	**283.461**
Fixed rate loans and borrowings	368.091	364.446
Fixed-rate instruments (liabilities)	**368.091**	**364.446**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by TCHF 2,768 (31 December 2012: TCHF 2,835). This analysis considers only floating-rate instruments and assumes that all other variables, in particular the foreign exchange rates, remain constant.

Currency risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

SIFEM invests in financial instruments and enters into transactions that are denominated in currencies other than its functional currency, primarily in Euro (EUR), Swiss Franc (CHF) and South African Rand (ZAR). Consequently, SIFEM is exposed to the risk that the exchange rate of its currency relative to other foreign currency may change in a manner that has an adverse effect on the fair value or future cash flows of that portion of SIFEM's financial assets or liabilities denominated in currencies other than the US Dollar.

SIFEM does not hedge its foreign currency exposure due to the fact that future investment obligations are covered and kept in cash on the investment accounts. At the time of origination of the investment obligation the respective amount will be deposited on the investment account and is subject to differed disbursements in the future.

SIFEM's currency position and exposures are monitored on a quarterly basis by Obviam's finance department and SIFEM's Board of Directors. At the reporting date the carrying amount of SIFEM's net financial assets and liabilities in individual foreign currencies expressed in CHF were as follows:

in 1000 CHF	31.12.2013	31.12.2012
EUR	49.575	36.922
ZAR	4.171	1.909
CHF	–345.065	–218.165
Total net exposure	**–291.319**	**–179.334**

The following sensitivity analysis shows the impact on the income statement should the CHF/USD, the EUR/USD or the ZAR/USD exchange rates change by 5% in the applicable exchange rate at 31 December 2013 and 31 December 2012, with all other variables held constant:

in 1000 CHF	31.12.2013	31.12.2012
Income impact on balance sheet items		
EUR	+/– 2.479	+/– 1.846
ZAR	+/– 209	+/– 95
CHF	+/– 17.253	+/– 10.908

A strengthening of the US Dollar against the above currencies would have resulted in an equal, but opposite effect to the amounts above.

Other market price risk

At the reporting date the carrying amount of SIFEM's Equity Instruments in Direct Investments and Fund Investments in CHF were as follows:

in 1000 CHF	31.12.2013	31.12.2012
Equity Investments - Direct Investments	4.935	5.262
Fund Investments	193.168	198.883
Total exposure in Equity Instruments	**198.103**	**204.145**

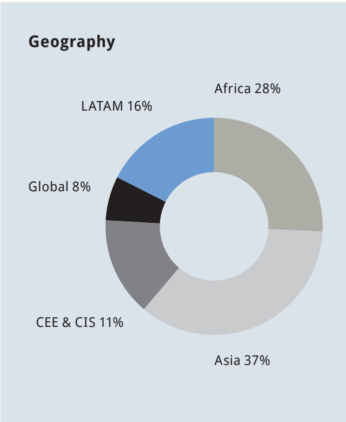
Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk and currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

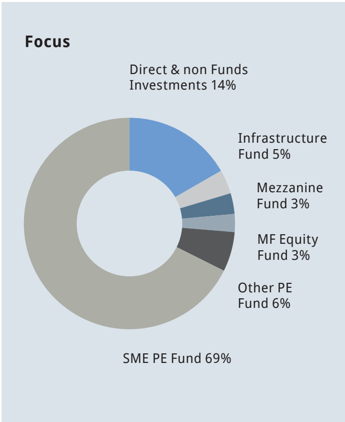
Price risk is managed by the investment manager by diversifying the portfolio.

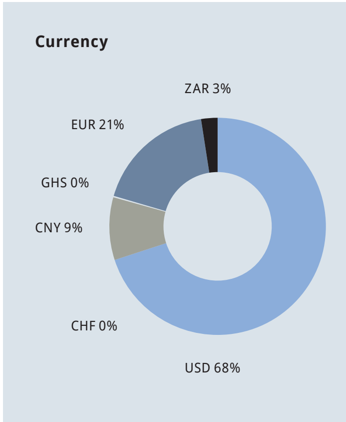
Apart from the detailed information in the quarterly report concerning the investments and their performances, the distribution of the portfolio with respect to continents, currencies, types of funds and main industrial sectors covered by the direct primary investments in each fund is provided in the quarterly reports. Investments with a very high or high risk rating are subject to a constant monitoring.

The internal procedures require the investment manager to manage price risk continuously but at least on a quarterly basis based on the financial statements as well as valuations provided by underlying investments. In case of subsequent events action is taken immediately. SIFEM's procedures require price risk to be monitored on a quarterly basis by its board of directors.

Where the price risk is not in accordance with the investment policy or guidelines, the investment manager is required to rebalance the portfolio upon request of the Board of Directors within a given period of time.
The following charts sets out concentration (per active commitment, debt and equity investments) of the investment assets at 31 December 2013:







For limiting the overall risk, the SIFEM portfolio is well diversified across the eligible geographic regions and sectors and to some degree across currencies. Most of the investees are in a development stage, however, disclosing accumulated deficits and little or no revenues. Their ability to continue as a going concern may depend on additional funding. These investments offer the opportunity of significant capital gains, but involve a high degree of business and financial risks that can result in substantial losses, including the risk of a total unrecoverability of an investment. The financial risk management objectives and policy of SIFEM are to minimize dilution by structuring the initial investment accordingly. Other protective measures such as liquidation preferences are also part of the Company's policy. However, the operational risk remains. For not publicly listed investments a quantitative sensitivity analysis for the price risk is not meaningful as the performance is linked to fundamental data (technology, management, milestones, etc.) and therefore such an analysis is not presented.

Operational Risk Management

SIFEM bears operational risks which are inherent in the type of operations in which it is involved. A systematic review of operational risks and mitigants is presented in the manual of procedures. It identifies the type of risks SIFEM is exposed to and the actions to be taken to mitigate and manage them. Among the most pertinent risks are the general portfolio risk due to the inherently high risks of private equity investments in emerging and frontier markets, the ESG risks (environmental, social and corporate governance risks) and thereto linked the reputational risks which are typically high in those markets".

Capital management
In 2011 and 2012 SIFEM has received a capital contribution (share capital and shareholder loans) per year from SECO. No new capital contributions have occurred in the year 2013 and none are foreseen for 2014. Future capital contributions are currently being considered by SECO but are not expected to occur before 2015 or may not occur at all. Therefore, any assumptions for portfolio growth are based on the availability of existing reserves and reflows from maturing investments. The business plan for new investments is based the availability of uncommitted capital and the forecasted reflows from historic investments. The volatility and relatively high unpredictability of reflows from historic investments require a frequent adjustment of the business plan for new investments.

Reflows are forecasted but subject to changes due to their volatility. It is difficult to attach probabilities to the different scenarios until SIFEM's older investments reach their final stages in the coming few years. SIFEM aims to maintain enough uncommitted capital to meet the business plan targets.

The private equity funds in which SIFEM is investing are typically not drawing down the total amount of committed capital and in particular not all of these funds are likely to call the maximum of committed capital at the same time. This leads to a situation of permanently high cash holdings at SIFEM. However, the investment policy of SIFEM does not allow for over-commitments. A continued high cash ratio is therefore to be expected.

7. Cash and cash equivalents

in 1000 CHF	31.12.2013	31.12.2012
Cash at Bank	244.517	145.749
Swiss Federal Finance Administration	9.634	114.571
Total cash and cash equivalent	**254.151**	**260.320**

Cash and cash equivalents are denominated in CHF (9%), in USD (75%), in EUR (15%) and in ZAR (2%) as of December 31, 2013. (31 December 2012: CHF (52%), USD (37%), EUR (10%), ZAR (1%)). TCHF 185'151(31 December 2012: TCHF 91'226) of Cash at Bank is placed at the Swiss National Bank.

8. Other receivables and accrued income

At 31 December 2013, other receivables and accrued income mainly include management fee reimbursement for 2013 ((TCHF 1'055) and interest receivables due from direct investments (TCHF 223).

9. Financial Investments

in 1000 CHF	31.12.2013	31.12.2012
Debt investments	29.693	33.346
Equity investments	4.935	5.261
Direct investments	**34.628**	**38.608**
Fund investments	193.168	198.883
Fund investments	**193.168**	**198.883**
Total Financial Investments	**227.796**	**237.491**

Valuation of financial instruments

SIFEM's accounting policy on fair value measurement is disclosed in the accounting policies (note 4).

SIFEM measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1: Quoted price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation technique based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

The financial investments of SIFEM are typically not traded in active markets and therefore their fair value assessment cannot be based on quoted prices or dealer price quotes. For determining the fair value of financial instruments SIFEM applies valuation techniques following the best practices as described by the International Private Equity Valuation (IPEV) Guidelines. These valuation techniques are based on comparison to similar instruments for which observable prices exist and other valuation models. Typically, discounts for lack of liquidity of 20% are applied. The objective of these valuation techniques is to arrive at a fair value determination which reflects the price of the financial instruments at the reporting date that would have been determined by market participants acting at arm's length.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and selection of appropriate discount rates.

SIFEM has an established control framework with respect to the measurement of fair values. This framework is based on the critical analysis (by SIFEM's representatives on the advisory committees or similar governing bodies of the portfolio investment vehicles) of the fair value determination, verification of observable pricing inputs and performance of model valuations; a review and approval process for new models and changes to such models, calibration and back testing of models against observable market transactions, analysis and investigation of significant valuation movements, review of unobservable inputs and valuation adjustments, and reporting of significant valuation issues to the Board of Directors. The Audit Committee of the Board of Directors, who has the overall responsibility for significant fair value determination, finally challenges these valuations on an independent basis and eventually proposes them to the Board of Directors for approval.

The table below analyses financial instrument measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

in 1000 CHF	Level 1	Level 2	Level 3	Total
31 December 2012				
Direct investments	0	0	5.262	5.262
Fund investments	0	0	198.883	198.883
	0	**0**	**204.145**	**204.145**
31 December 2013				
Direct investments	0	0	4.935	4.935
Fund investments	0	0	193.168	193.168
	0	**0**	**198.103**	**198.103**

The following tables show a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

in 1000 CHF	Direct Investments	Fund Investments	Total
Balance as at 1 January 2013	**5,261**	**198,883**	**204,144**
Total gains / losses recognised in profit or loss	– 578	– 18.713	– 19.291
Purchases	380	29.987	30.367
Sales	0	– 11.782	– 11.782
Transfers into Level 3	0	0	0
Transfers out of Level 3	0	0	0
Foreign currency exchange differences	– 128	– 5.208	– 5.337
Balance as at 31 December 2013	**4.935**	**193.168**	**198.103**
Total gains or losses for the period included in profit or loss relating to assets and liabilities held at the end of the reporting period	– 578	– 18.713	– 19.291

Although SIFEM believes that its estimates of the fair values are appropriate, the use of different methodologies or assumptions could have lead to different measurements of fair value. We refer to note 6 Financial Risk Management, where we performed a quantitative sensitivity analysis.

Valuation technique used to derive Level 2 and Level 3 fair values
Obviam undertakes a detailed process of multiple reviews before any fund value is accepted by the board.
All investments held by SIFEM's underlying funds report fair value using guidelines in compliance with the International Private Equity Valuation Guidelines ("IPEV"). These guidelines have been developed by the global Private Equity Associations and are the standard by which all Institutional Private Funds are valued.

These guidelines provide the underlying Fund Managers the framework upon which they exercise judgment in selecting the appropriate valuation methodology for each investment. This Framework covers the valuations for:

(i) **Quoted Equity Investments:** In respect of actively publicly-traded investments, the fair value is determined by the bid price on the reporting date of such investment as is readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency.

(ii) **Unquoted Equity Investments:** In respect of unquoted investments, the fair value is determined using the most appropriate of the following methodologies or combination thereof: (a) Price of Recent Investment (b) Earnings Multiple, (c) Net Assets, and (d) Discounted Cash Flow.

The valuation is generally based on the latest available net asset value ("NAV") of the fund reported by the corresponding Fund Manager provided that the NAV has been appropriately determined by using proper fair value principles in accordance with IFRS 13. The Fund Advisory Board which is comprised of Investor representatives, including SIFEM's Investment Advisor Obviam reviews and approves the NAV provided by the Investment Manager.

In general, NAV is adjusted by capital calls and distributions falling between the date of the latest NAV of the fund and the reporting date. In addition, the valuations of listed underlying investee companies which are valued at mark-to-market by the fund manager are adjusted to reflect the current share price on their primary stock exchange as of the reporting date. The adjusted net asset method is the single technique used across all fund investment types (Buyout, Venture, Special Situations). Other reasons for adjustments include but are not limited to the following:

– Obviam becoming aware of subsequent changes in the fair values of underlying investee companies;

- Features of the fund agreement that might affect distributions; Inappropriate recognition of potential carried interest;
- Market changes or economic conditions changing to impact the value of the fund's portfolio;
- Materially different valuations by fund managers for common companies and identical securities;
- NAV reported by the fund has not been appropriately determined by using proper fair value principles in accordance with IFRS 13.

In addition, SIFEM has the following control procedures in place to ensure that the NAV of the underlying fund investments is calculated in a manner consistent with IFRS 13:
- Thorough initial due diligence process and ongoing monitoring procedures;
- Comparison of historical realizations to last reported fair values;
- Qualifications, if any, in the auditor's report or whether there is a history of significant adjustments to NAV reported by the fund manager as a result of its annual audit or otherwise.

Once the Advisory Board approved the valuations, they are included into the fund accounts and presented to the Fund Auditors for Audit.
Before any of these Fund valuations are entered into SIFEM's accounts, the Obviam CFO will review the valuation presented by the Fund. This includes review of the valuation material as well as discussions with Obviam Investment Managers where needed. The CFO then presents the combined valuations to Obviam's CEO for a last review, before they are presented to the Audit Committee of the SIFEM Board which is comprised of experienced Investment Professionals who review and challenge Obviam on the valuations. Based on this review, the valuations could be adjusted if needed. Once approved, the valuations are presented to the SIFEM board for approval.
The final, board approved valuations are included in SIFEM's accounts.

Sensitivity Analysis Level 3 fair values
SIFEM utilizes a methodology that uses as key input NAV ("adjusted net asset method"). Thus, the key "unobservable input" would be NAV itself. No reasonably possible change in the inputs used in determining the fair value would cause the fair value of Level 3 financial instruments to significantly change.

10. Loans and borrowing

in 1000 CHF	31.12.2013	31.12.2012
Loan A	187.772	185.912
Loan B	122.130	120.921
Loan C	29.141	28.853
Loan D	29.048	28.760
Total non-current liabilities	**368.091**	**364.446**

The Swiss Confederation granted SIFEM four interest-free loans which are measured at amortised cost.

IFRS requires the initial recognition of financial assets and liabilities at their fair value, whereas the fair value of an interest free loan is the present value of all future cash flows under the loan agreement, discounted using a market interest rate. A discount rate of 1% was applied to determine the present value of all loans. The discount rate to be used is the prevailing market rate for a similar loan, i.e. the rate that a third party would charge the borrower for a loan with otherwise similar terms (currency, maturity, collateral, etc). The application of the effective interest method resulted in an interest expense of TCHF 3'644 (2012: TCHF 3,497).

The loans have a minimum term until 17 August 2015 (loans granted in 2011) and 19 December 2015 (loans granted in 2012) respectively. The term of the loans is extended for an additional four years on an ongoing basis unless either party cancels a loan one year in advance. For more information please refer to note 6 – risk management – and note 18 – related parties.

11. Equity

Share capital: On 31 December, 2013, the number of outstanding shares amounted to 10,000,000 shares (31 December 2012: 10,000,000). As per 31 December 2013 SIFEM did not hold any treasury shares (31 December 2012: 0). All shares issued by the Company were fully paid in.

Dividends: The amount available for dividend distribution is based on the available distributable retained earnings of SIFEM AG, determined in accordance with the legal provisions of the Swiss Code of Obligations (CO). The Company did not distribute a dividend in 2013 and 2012. At 31 December 2013 the Company has an accumulated deficit in its financial statements prepared in accordance with CO and therefore does not have distributable retained earnings.

Capital reserve: The capital reserve relates to capital contributions which arose from interest free shareholder loans and from the sale of the investment portfolio from the shareholder to the Company below fair value.

Translation reserve: The translation reserve comprises all foreign currency translation differences arising from the translation of the Company's financial statements from its functional currency (USD) into the presentation currency (CHF).

12. Interest income

in 1000 CHF	2013	2012
Interest income from cash and cash equivalents	191	232
Interest income from direct debt investments	2.166	2.973
Total interest income	**2.357**	**3.205**

At 31 December 2013, an amount of TCHF 223 (2012: TCHF 577) has not been received yet in cash and is included in other receivables and accrued income.

13. Dividend income and Income from realized gains on Investments

In prior years the other investment income was shown as dividend income. To increase transparency other investment income is now reported separately from dividend income. The new item reports income other than income from dividends and interest is labelled "Income from realized gains on investments"

14. Investment Management Fee

The Investment Management Fees contains mainly fees from Obviam DFI AG for Portfolio Management and Business Management. SIFEM has delegated these functions to Obvaim.

15. Administration and Custodian fees

On 2 December 2011, the Board of Directors accepted and signed a Custodian Agreement with Credit Suisse AG, as well as a new Administration Agreement with Credit Suisse Funds AG. Credit Suisse receives a fee in arrears at an annual rate of 7 basis points for the first TCHF 200 of NAV, 6 basis points for the second TCHF 200, and 5 basis points thereafter. Under the custodian agreement, Credit Suisse receives a fee of 3 basis points for the first TCHF 200 of NAV, and 2 basis points thereafter. A transaction and settlement fee arises per incident on the custodian mandate. The administration fee for the financial year 2013 amounted to TCHF 197 (2012: TCHF 176) and the custodian fee for the financial year 2013 amounted to TCHF 161 (2012: TCHF 72). The administration and custodian fees for the second semester 2013 have not been paid yet and are included in other liabilities and accrued expenses. The Custodian and Administration Agreement can be terminated by SIFEM at any time.

16. Net foreign exchange gains / (losses)

in 1000 CHF	2013	2012
Net foreign exchange gain / (loss) from cash and cash equivalents	– 301	2.714
Net foreign exchange gain / (loss) from direct debt investments	1.242	194
Total net foreign exchange gains/losses	**941**	**2.908**

17. Net changes in fair value of investments at fair value through profit or loss

in 1000 CHF	2013	2012
Increase in fair value of direct equity investments	39	2.248
Increase in fair value of fund investments	14.147	12.466
Decrease in fair value of direct equity investments	– 618	
Decrease in fair value of fund investments	– 32.859	– 39.401
Net changes in fair value of investments at fair value through profit or loss	**– 19.291**	**– 24.687**

18. Financial income / expense

in 1000 CHF	2013	2012
Foreign exchange gain	0	2
Financial income	**0**	**2**
Interest expense	3.644	3.497
Foreign exchange loss	10.297	7.680
Charges	1	4
Financial expense	**13.942**	**11.181**

Interest expense arises from the application of the effective interest rate method on the shareholder loans (refer note 10). The foreign exchange loss in 2013 and 2012 arose from the shareholder loans granted in Swiss francs (2013: TCHF 10,297, 2012: TCHF 7,680).

19. Related party transactions

Shareholder

SIFEM is fully owned by the Swiss Confederation. The Swiss Confederation comprises the various departments and administrative bodies of the Swiss Confederation, governmental agencies and other companies controlled by the Confederation.

The Swiss Confederation granted SIFEM interest free loans in the total amount of TCHF 374,444 (refer note 10). SIFEM on the other hand holds a deposit account with the Swiss Federal Finance Administration (refer note 6). The interest rate is at arm's length.

All other transactions with the government, governmental agencies and companies controlled by the Swiss Confederation are conducted on the basis of normal relationships with customers and suppliers and on conditions applicable to unrelated third parties, in particular the interest payment on the deposit account SIFEM holds with the Swiss Federal Finance Administration.

Portfolio and business manager
SIFEM appointed Obviam DFI AG, a specialised emerging market investment management company incorporated in Switzerland, as its portfolio and business manager. The compensation of Obviam is determined in accordance with the Portfolio Management Agreement and the Business Management Agreement.

Under both agreements, Obviam is compensated for the actual cost incurred, within a budget that is approved annually in advance by the Board of Directors. The fee approved for 2013 amounts to 1.08% (2012 1.12%) of SIFEM's total active commitments as of 30 September of the same year. The combined portfolio and business management fee budgeted for the financial year 2013 amounted to TCHF 4,827 (2012: TCHF 4,769). The investment management contract can be terminated by SIFEM at any time. The increase from the previous year is directly linked to SIFEM's new corporate structure.

Total administrative expenses (investment management fee, administration and custodian fees, personnel expenses, administration expenses and advertising expenses) in 2013 amount to 0.86% (2012: 1.34%) of SIFEM's total active commitments as of 30 September of the same year. The threshold for total administrative expenses set by the Federal Council is 1.5% of SIFEM's total active commitments, whereby a certain degree of flexibility is applied until the current uncommitted cash reserves are committed to new investments.

Due to a change in accounting policies related to accruals and deferrals during the year 2013, the accounting figures do not reconcile with the effective cost numbers. Whereas 2012 overstated the true cost (using budget figures), 2013 understates the true cost (using estimates minus retrocession from 2012). The estimated effective total administrative costs 2013 of SIFEM account for 1.05% of total active commitments as per 31 December 2014 (2012: 1.19%)

Key management personnel compensation
As opposed to the Investment Committee members, the Audit Committee members were not remunerated in 2011. Since the workload for the Audit Committee turned out to be more substantial than expected, SIFEM requested the Federal Council to approve the introduction of remuneration for the Audit Committee. This was approved and introduced in 2012, the fixed annual compensation amounts to CHF 229,375 for the entire Board of SIFEM (2012: CHF 242,700).

The representative of the Swiss Confederation does not receive any compensation from SIFEM for his membership in the Board.

The Chairman of the Board received total compensation of CHF 50,247 in 2013 (2012: 54,000). This consists of a base compensation of CHF 30,000 (2012: 30,000) for his role as Chairman of the Board and CHF 14,000 (2012: 14,000) for his role as Chairman of the Investment Committee, as well as compensation for the extra effort in the start-up period of CHF 6,247 (2012: 10,000.)

20. Capital commitments

As of 31 December 2013 the Company had capital commitments with direct investments and funds which were not yet called by the relevant investment manager for TCHF 130,970 (31 December 2012: TCHF129,996).

21. Subsequent event

No events occurred between 31 December 2013 and 5th of March 2014 that would require adjustments to the amounts recognised in these financial statements or would need to be disclosed under this heading.

2013 Swiss Code of Obligations Financial Statements

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Report of the statutory auditor
to the general meeting of

SIFEM AG, Bern

As statutory auditor, we have audited the accompanying financial statements of SIFEM AG, which comprise the balance sheet, income statement and notes for the year ended 31 December 2013.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended Balance Sheet date comply with Swiss law and the company's articles of incorporation.

Emphasis of matter

The financial statements include unquoted investments valued at CHF 200.6 million. Because of the inherent uncertainty associated with the valuation of such investments and the absence of a liquid market, these values may differ from their realisable values, and the difference could be material. The determination of the values of these investments is the responsibility of the Board of Directors. We have reviewed the procedures in valuing such investments and the underlying documentation.

While in the circumstances the procedures appear to be reasonable and the documentation appropriate, the valuation involves subjective judgment which cannot be independently verified. Our opinion is not qualified in respect of this matter.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

Zurich, 5 March 2014

BDO Ltd

Markus Eugster

Licensed Audit Expert

ppa. Tobias Schüle

Auditor in Charge
Licensed Audit Expert

Balance Sheet

	31.12.2013 CHF	31.12.2012 CHF
ASSETS		
Current assets		
Cash & cash equivalents	254.150.332	260.319.527
Bank	244.516.469	145.748.600
Swiss Federal Finance Administration (Shareholder)	9.633.864	114.570.927
Other receivables	11.635	73.030
Withholding tax	11.635	73.030
Deferred income	1.275.530	11.637.222
	255.437.497	**272.029.780**
Fixed assets		
Financial assets	200.579.486	201.943.922
Direct investments	32.393.449	35.701.152
Investments in funds	101.665.138	97.752.752
Substantial equity interests	66.520.899	68.490.017
	200.579.486	**201.943.922**
	456.016.983	**473.973.702**

Balance Sheet

	31.12.2013 CHF	31.12.2012 CHF
LIABILITIES		
Debt capital		
Trade liabilities	28.437	28.570
Payables, third parties	28.437	28.570
Other short-term liabilities	10.230	5.474
Social insurances	10.230	5.474
Accrued expenses	265.355	318.440
Long-term liabilities	374.444.018	374.444.018
Shareholder loans	374.444.018	374.444.018
	374.748.040	**374.796.502**
Equity		
Share capital	100.000.000	100.000.000
Statutory reserves	20.000	20.000
Retained earnings	– 18.751.057	– 842.800
Profit carried forward	– 842.800	– 10.721.077
Annual result	– 17.908.257	9.878.276
	81.268.943	**99.177.200**
	456.016.983	**473.973.702**

Income Statement

	2013 CHF	2012 CHF
Operating income		
Revenue from services	32.371	70.553
Income from services	32.371	70.553
Costs for third party services	–2.824.285	–4.928.973
Third party services	–2.824.285	–4.928.973
Gross profit 1	**–2.791.914**	**–4.858.420**
Personnel expenses	–287.330	–317.353
Salaries	–22.759	–24.606
Board compensation	–231.941	–244.876
Social security cost	–22.741	–38.776
Other personnel cost	–9.890	–9.095
Gross profit 2	**–3.079.244**	**–5.175.772**
Operating expenses		
Property insurances. fees	–54.082	–75.889
Administrative expenses	–245.272	–63.172
Fiduciary expenses	–103.956	0
Auditor's costs	–92.021	–63.172
Other administrative expenses	–49.295	0
Carried forward	**–3.378.599**	**–5.314.833**

Income Statement

	2013 CHF	2012 CHF
Carried forward	**–3.378.599**	**–3.329.304**
Advertising expenses	–50.364	–64.430
Sponsorship. membership contributions	–50.364	–64.430
Operating earnings before interest and depreciation	**–3.428.963**	**–3.393.734**
General financial result	–10.877.743	–26.230
Financial income	190.433	226.055
Financial losses	–387.410	–252.285
Foreign exchange income	2.334.761	0
Foreign exchange losses	–13.015.526	0
Financial result from direct investments	2.412.715	4.607.446
Distributions	1.122.953	4.722.853
Expenses	–706	–15.180
Capital gains	769.258	0
Capital losses	0	–100.227
Foreign exchange income	521.210	0
Financial result fund investments	–2.156.933	16.470.550
Distributions	7.388.643	19.132.190
Expenses	–12.507	–76.710
Capital gains	2.790.642	0
Capital losses	–13.555.180	–2.584.929
Foreign exchange income	2.499.714	0
Foreign exchange losses	–1.268.246	0
Fx Result of Currency Change USD to CHF	–3.808.947	–5.698.747
Operating result	**–17.859.871**	**11.959.285**
Extraordinary result		
Extraordinary result	0	–77.408
Extraordinary income	0	38.000
Extraordinary losses	0	–115.408
Annual result before taxes	**–17.859.871**	**11.881.877**
Taxes (Stamp Duty)	–48.386	–18.072
Annual result	**–17.908.257**	**11.863.805**

Notes to the SCO Financial Statements

	31.12.2013 CHF	31.12.2012 CHF
Substantial equity interests	66.520.899	68.490.017
Overview provided on following pages		

Risk assessment

The Board of Directors has carried out adequate risk assessments on a periodic basis and introduced any resultant arising in order to ensure that the risk of material misstatements in the submission of the financial statements is to be categorised as small.

Overview of contingent obligations (Commitments)

		31.12.2013		31.12.2012
Investments				
European Financing Partners SA / Loan (EFP II)	EUR	1.047.222,60	EUR	2.151.961,07
European Financing Partners SA / Loan (EFP III)	EUR	5.000.000,00	EUR	5.000.000,00
European Financing Partners SA / Loan (EFP IV)	EUR	5.000.000,00	EUR	5.000.000,00
Interact Climate Change Facility / Loan	EUR	2.564.315,17	EUR	3.612.524,71
E+Co / Loan	USD	2.300.000,00	USD	2.300.000,00
Emergency Liquidity Facility / Loan	USD	500.000,00	USD	500.000,00
HEFF / Equity	USD	1.779.240,00	USD	-
HEFF / Loan	USD	800.000,00	USD	-
Locfund II (Debt)	USD	3.822.866,00	USD	-
Locfund II (Equity)	USD	795.330,00	USD	-
Funds				
7L Capital Partners Emerging Europe L.P.	EUR	251.897,24	EUR	446.880,32
AfricInvest Fund II	EUR	953.950,00	EUR	2.271.950,00
Balkan Financial Sector Equity Fund	EUR	594.170,42	EUR	662.871,42
Capital North Africa Venture Fund	EUR	767.545,00	EUR	1.460.431,46
Capital North Africa Venture Fund II	EUR	7.707.427,00		0,00
Maghreb Private Equity Fund II	EUR	238.792,14	EUR	498.715,25
Maghreb Private Equity Fund III	EUR	2.868.724,69	EUR	5.307.554,69
SEAF South Balkan Fund	EUR	609.082,00	EUR	628.918,00
African Infrastructure Fund	USD	604.495,77	USD	604.495,77
Altra Private Equity Fund I L.P.	USD	142.017,51	USD	258.304,51
Armstrong South East Asia Clean Energy Fund	USD	6.610.494,10		0,00
ASEAN China Investment Fund	USD	1.347.187,57	USD	1.428.332,84
Aureos Central America Fund	USD	1.235.092,39	USD	1.245.887,39
Aureos East Africa Fund	USD	62.750,90	USD	62.750,90
Aureos Latin America Fund	USD	172.013,95	USD	189.092,56

Overview of contingent obligations (Commitments)	31.12.2013		31.12.2012	
	CHF		CHF	
Funds (continued)				
BTS India Private Equity Fund	USD	2.081.635,00	USD	2.244.900,00
Cambodia-Laos Development Fund S.C.A., SICAV-SIF	USD	1.345.400,00	USD	1.947.050,00
Catalyst Fund I	USD	5.263.122,00	USD	6.177.534,00
Central American Small Enterprise Investment Fund II	USD	529.494,82	USD	1.438.446,24
CoreCo Central America	USD	2.956.728,57	USD	3.545.693,53
Europe Virgin Fund	USD	2.176.365,56	USD	3.306.190,56
Euroventures Ukraine II	USD	230.022,53	USD	297.896,04
EV Amadeus Asian Clean Energy Fund L.P.	USD	5.399.476,00	USD	5.399.476,00
Evolution One	USD	2.219.630,26	USD	2.545.066,69
Falcon House Partners	USD	7.969.851,99	USD	0,00
Fidelity Equity Fund I	USD	500,00	USD	500,00
Fidelity Equity Fund II	USD	1.046.820,00	USD	1.111.820,00
GEF Africa Sustainable Forestry Fund	USD	2.457.325,00	USD	4.055.225,00
GroFin East Africa Fund	USD	192.511,00	USD	0,00
JS Private Equity Fund I	USD	5.205.292,03	USD	5.879.866,00
Kaizen Private Equity	USD	5.570.517,18	USD	5.960.000,00
Kendall Court Mezzanine (Asia) Bristol Merit Fund	USD	622.808,00	USD	3.309.614,00
Latin Renewables Infrastructure Fund	USD	5.692.523,79	USD	6.109.090,22
Medu III Interenational Partnership L.P.	USD	5.958.160,74	USD	0,00
Mongolia Opportunities Fund I	USD	3.031.484,19	USD	3.960.816,35
NAMF II	USD	9.003.630,00	USD	9.610.669,00
Progression Eastern African Microfinance Equity Fund	USD	3.516.025,75	USD	0,00
rABOP	USD	841.140,26	USD	1.010.274,00
SEAF Blue Waters Growth Fund	USD	1.970.132,00	USD	1.970.132,00
SEAF Central and Eastern European Growth Fund	USD	407.468,00	USD	407.468,00
SEAF Central Asia Small Enterprise Fund	USD	399.954,00	USD	399.954,00
SEAF LATAM Growth Fund	USD	1.213.135,00	USD	1.356.908,00
SEAF Trans Andean Fund	USD	197.083,65	USD	182.853,27
Sphinx Turnaround Fund	USD	6.752.750,00	USD	7.046.484,00
VenturEast Proactive Fund LLC	USD	668.246,00	USD	1.067.605,00
VI (Vietnam Investments) Fund II	USD	4.125.000,00	USD	5.250.000,00
Horizon Equity III	ZAR	9.946.172,35	ZAR	12.624.253,80
Vantage Mezzanine Fund	ZAR	3.538.431,00	ZAR	3.054.518,00

No further details in accordance with Art. 663b OR (Swiss Code of Obligations) are required.

Substantial equity holdings 2013

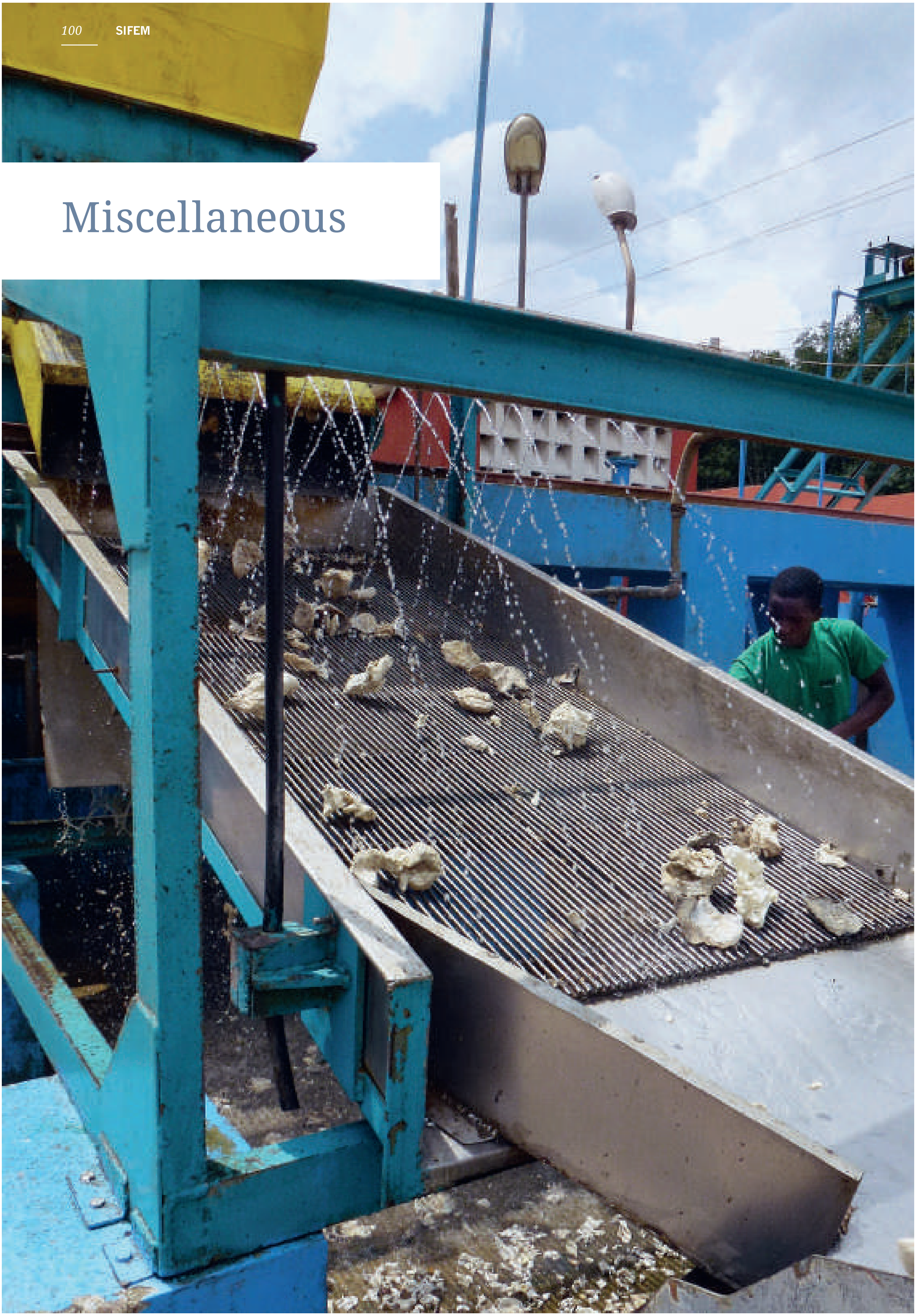
	Book value Fx	Book value in CHF	SIFEM's Commitment	Fund Size	Share %
Sino Swiss Partnership Fund	CNY 218.017.987,31	USD 32.090.615,52	CNY 268.850.270,00	CNY 383.035.322,00	70,19%
SwissTec	USD 1.858.624,99	CHF 1.701.294,24	USD 21.500.000,00	CHF 21.502.930,00	99,99%
SEAF Central+Eastern Europ. Growth Fund	USD 1.473.846,00	CHF 2.024.749,09	USD 4.500.000,00	CHF 20.600.000,00	21,84%
SEAF Central Asian Small Enterprise Fund	USD 783.894,00	CHF 774.038,20	USD 4.600.000,00	CHF 10.958.000,00	41,98%
Fidelity Equity Fund 1	USD 1.014.250,00	CHF 305.756,05	USD 4.000.000,00	CHF 8.500.000,00	47,06%
ASEAN China Investment Fund	USD 1.378.794,02	CHF 1.373.209,73	USD 15.997.058,00	CHF 75.997.258,00	21,05%
SEAF South Balkan Fund	EUR 1.552.117,03	CHF 2.073.252,27	EUR 3.282.420,00	EUR 10.756.175,00	30,52%
SEAF Blue Waters Growth Fund	USD 3.927.169,00	CHF 4.108.236,25	USD 7.000.000,00	CHF 25.000.000,00	28,00%
Aureos Latin America Fund	USD 10.132.754,89	CHF 8.923.868,31	USD 10.000.000,00	CHF 35.353.535,00	28,29%
Altra Private Equity Fund I L.P.	USD 7.857.982,49	CHF 7.086.368,71	USD 8.000.000,00	CHF 18.556.701,00	43,11%
SEAF Trans Andean Fund	USD 2.252.838,93	CHF 1.978.303,88	USD 5.000.000,00	CHF 12.620.000,00	39,62%
SEAF LATAM Growth Fund	USD 4.641.016,00	CHF 4.242.857,84	USD 7.000.000,00	CHF 17.000.001,00	41,18%
Kaizen Private Equity Fund	USD 2.187.524,00	CHF 1.867.316,04	USD 8.000.000,00	CHF 35.080.000,00	22,81%

Proposal for the Application of the Retained Earnings

The Board of Directors proposes that the retained earnings be allocated as follows

	2013	2012
	CHF	CHF
Profit carried forward	–842.800,22	–10.721.076,52
Annual result	–17.908.256,80	9.878.276,30
Retained earnings	**–18.751.057,02**	**–842.800,22**
Dividends	0.00	0.00
Allocation to the statutory reserve	0.00	0.00
Allocation to the free reserve	0.00	0.00
Carried forward to the new account	**–18.751.057,02**	**–842.800,22**

Miscellaneous



Market Trends Affecting SIFEM's Investment Portfolio

2014 Global Themes

The global economy is expected to return to higher growth in 2014 with global GDP growth forecast to accelerate to 3.2% in 2014 (from 2.6% in 2013). Developed markets, particularly in Europe, are expected to continue recovering, which will be key to sustaining global growth. Nonetheless, they remain vulnerable to a deflationary shock given that economic growth is still below potential and monetary and fiscal measures have already been stretched, while in some cases further deleveraging is required. Recovery is also underway in the US, where labour market improvements, a domestic energy revolution and monetary stimulus could avert a drag on GDP growth. For emerging markets ("EM"), the 2014 outlook is mixed. In the wake of the financial crisis of 2007-08, capital flooded into emerging markets, in part because their economies lacked many of the problems seen in the developed world and in part because central banks in rich countries had slashed interest rates. As this money flows back again, emerging-market currencies are coming under pressure. Major EM currencies sold off sharply mid-2013, following expectations that the US Federal Reserve would end its quantitative easing policies. While the subsequent surprise policy reverse gave EM a reprieve, the sell-off continued in early 2014 with several emerging markets opting to increase interest rates to stem the flow. While the majority of EM are expected to improve their economic performance, growth will continue to be lower than in recent years, especially in China. Indeed Chinese economic data showed signs of weakness, with the purchasing managers' index for manufacturing dropping to 50.5 in January 2014, its lowest level in six months. Moreover, the credit boom in several major EMs such as China and Indonesia is looking increasingly unsustainable, which makes a return to the spectacular growth rates of the past less likely. The 2014 outlook is also rather cautious for Turkey, Argentina and Brazil, which will face more acute market pressures as external financing vulnerabilities clash with domestic policies and the prospect of tapering by the US Federal Reserve.

Despite these challenges GDP growth in EM will continue to outperform developed states during the coming years. Indeed, EM are expected to expand by 4-5% of GDP annually, while developed states will rarely see GDP growth rates above 2%. Taking a closer look at EM sub-regions, Emerging Asia ("EA") will continue dominating EM growth in 2014 with GDP forecast to expand by 6.5%. The second highest GDP growth, 5.4% in 2014, is expected in Sub-Sahara Africa ("SSA"). Indeed, SSA is likely to catch up with EA in terms of GDP growth in 2015, when growth is expected to slow to 5.9% in EA and pick up to 5.6% in SSA. The growth outlook is also positive for Middle East and North Africa ("MENA"), which is expected to expand by 4.1% in 2014 and 5.7% in 2015, only slightly less than EA (5.9%). Latin America and Emerging Europe are expecting rather modest growth of 2-4% over the coming years, though their growth outlook is positive.

in 1000 CHF	*2012*	*2013e*	*2014f*	*2015f*
World	2.9	2.6	3.2	3.3
Developed States	1.5	1.3	2.0	2.1
Emerging Markets	5.1	4.6	4.8	5.0
Emerging Asia	6.9	6.8	6.5	5.9
Latin America	2.8	2.6	3.1	3.4
Emerging Europe	2.7	2.0	2.5	3.2
Sub-Saharan Africa	4.3	5.1	5.4	5.6
Middle East and North Africa	3.5	2.5	4.1	5.7

Source: BMI Global Macro Monitor December 2013 & March 2014

Emerging Asia (ex-Japan) continued to provide the strongest growth among EM regions in 2013 at 6.8%. Nonetheless, growth in the region is slowing mostly due to lower Chinese GDP growth rate expectations. Major risks to the long-term regional outlook are a property market bubble in China and increasingly unsustainable levels of household debt, especially in China, Thailand, Singapore and Malaysia. On a positive note, governments in the region are pushing forward with important reforms resulting in an improved business environment in the

Philippines, Vietnam and Malaysia. China is increasingly likely to lose its status as the fastest growing economy in Asia. By 2015, a number of countries in South & South-East Asia are forecast to exceed China in their GDP growth rates, e.g. Indonesia, Cambodia, Laos, Vietnam, India, Sri Lanka and Bangladesh. Major themes to observe in Asia in 2014 are elections in India and Indonesia, political unrest in Thailand, as well as the evolving trend of Asia's decreasing dependence on exports to developed countries as Intra-Asian trade rises.

Sub-Saharan Africa (incl. West, East, Central and Southern Africa) was the second strongest growth region, albeit from a low level, producing 5.1% real GDP growth in 2013. The outlook for the region is very favourable, with forecasts of 5.4% and 5.6% GDP expansion in 2014 and 2015 respectively. Farming and services are still dominant, backed by the export of commodities, but new industries are emerging in a lot of SSA countries. Manufacturing's share of GDP in sub-Saharan Africa has held steady at 10-14% in recent years. Industrial output is expanding as quickly as the rest of the economy. Prospects are particularly bright for East African countries Tanzania, Mozambique, Uganda and Kenya which are all set to record average annual GDP growth above 6% over the next five years. Tanzania and Mozambique will greatly benefit from increased investment into offshore natural gas while Uganda and Kenya profit from the onset of oil production. Other SSA countries such as Angola, Ethiopia, Rwanda, Nigeria and Zambia are also expected to outperform over the coming years due to favourable structural factors such as natural resource wealth, youthful demographics, urbanisation and infrastructure improvements. By contrast, South Africa's economic performance continues to be disappointing, with GDP growth expected to remain below 3% through 2015. Political events and policy trends to watch in 2014 are: elections in South Africa, heightened political and economic risks in Nigeria (policy uncertainty, militant activity and stagnant oil production) and Eurobond issuances by several SSA countries such as Kenya, and probably Côte d'Ivoire, Ghana and Nigeria.

Emerging Europe (Baltics, CIS, S.E Europe and the Western Balkans) continued to produce the weakest global GDP growth in 2013, at 2.0%. Growth is expected to accelerate as countries in the region recover, but is dependent on which economies in the wider EU. For instance, the Baltic economies are expected to return to robust growth thanks to integration with Scandinavian countries, while South-Eastern European economies and the Balkans are facing less favourable prospects due to their exposure to troubled Greece and Italy. Nonetheless, growth rates are expected to converge as Central Europe will finally emerge from prolonged stagnation in 2014 thanks to a stronger Eurozone. Fiscal consolidations will continue through 2014 as new EU members have little choice but to persevere with austerity given the threat of EU funding suspension. Tensions between EU and Russia have surfaced in Ukraine where the government's reluctance to sign an EU Association Agreement in November 2013 resulted in large-scale demonstrations and a political crisis over the country's divide between the West and Russia. The fastest growth in Emerging Europe is expected from ex-CIS countries of Turkmenistan and Uzbekistan, where agribusiness has been singled out as a positive long-term investment prospect given the region's vast arable land supply, and strong government support for upgrading of Soviet-era agriculture infrastructure.

The growth outlook for Latin America (South America, Central America and the Caribbean) is mixed. At 2.6%, the region posted one of the lower EM GDP growth rates in 2013. However, growth is expected to pick up again in coming years, with forecasts of 3.1% GDP growth in 2014 and 3.4% in 2015. Falling external demand (especially from China) for industrial metals has eroded the commodity-export growth model of many Latin American countries, such as Chile, Brazil and Peru. By contrast, Mexico has benefited from its proximity to and strong trade relations with the US, resulting in increased demand for its manufactured goods exports. Moreover, the Mexican government's ambitious reform agenda in addition to the country's skilled labour force and low labour costs bode well for the competitiveness of Mexico's exports (increasingly gaining market share from Chinese and South-East Asian competitors) and make the country an attractive destination for foreign investment. The economic outlook is also positive for Colombia thanks to growing exports (coffee, oil and manufactured goods) and an improving business and political environment. By contrast, Brazilian growth rates subsided considerably to 2.3% in 2013 due to a combination of weak external demand and lower domestic consumption on the back of high levels of household leverage and deteriorating banking sector asset quality. In addition, the Brazilian real was one of the currencies most affected by the 2013-2014 EM currency sell-off.

The Middle East and North Africa's ("MENA") economic and political prospects are likely to remain in flux in 2014. Although the Gulf states will continue to be regional outperformers, their real GDP growth is expected to slow due to lower oil output coupled with declining oil prices. While these countries continue striving for diversification from their historical over-dependence on hydrocarbons, success has been limited to date. At the same time, growth is expected to pick up in North Africa. Libya is poised to record double digit growth rates over the coming years (from very low levels) and if stability in Egypt is restored following the 2014 constitutional referendum and elections, a significant rebound in growth is not unlikely. Tunisia's ability to broker compromise between those who espouse Islamist principles in government and those who want to keep religion out of public affairs has given it the edge over other Arab states in transition. Nonetheless, three years after the onset of the Arab Spring, political instability and social tensions remain elevated throughout MENA. Other trends defining the region are policy risks (e.g. unpopular attempts by several MENA governments to cut subsidies), growing balance of payments strains, and a continuation of crises in Syria and to a lesser extent Iran. Also to watch is the decline in foreign currency reserves as North African countries suffer from structural balance of payments strains.

Private Equity Market Trends in Emerging Markets

2013 has been another challenging year for private equity fundraising in emerging markets. While following the USD 22 billion low of 2009, total amounts raised for EM PE continuously increased over the years to nearly USD 45 billion in 2012, this trend was reversed in 2013. Total fundraising for global EM PE amounted to USD 36 billion, 19% down from the previous year and a significant 42% lower from the USD 63 billion raised in 2008 pre-crisis. As in previous years, Emerging Asia attracted most attention from investors, with 71% of all emerging market PE funds committed to that region in 2013. Across emerging markets fundraising has proven to be particularly challenging for mid-market funds (defined by a size of USD 100-499m), which find it increasingly difficult to attract capital as investors, in a perceived flight to quality, tend to favour larger funds. The concentration at the top has come at the expense of mid-market funds, only 34 mid-market funds closed in 2013, the lowest number since 2009. Indeed, the median size of funds achieving a final close has doubled from USD 80m in 2009 to USD 161m in 2013, while seven funds accounted for more than 50% of total capital raised in 2013.

	Emerging Asia	*CEE & CIS*	*LatAm & Caribbean*	*MENA*	*Sub-Saharan Africa*	*Multi-region*	*Global EM*
2009	14.981	992	2.613	637	935	2.051	22.209
2010	17.015	1.165	6.534	1.287	1.726	1.750	29.477
2011	29.652	1.752	8.765	464	1.745	1.216	43.595
2012	28.004	5.224	5.167	575	1.695	4.156	44.821
2013	25.978	1.382	3.212	568	922	4.372	36.434
% of YTD 2013 Total	71%	4%	9%	2%	3%	12%	

Source: EMPEA, 2014

Another trend observed in 2013 PE fundraising in EM has been renewed investor appetite for regional vs. single-country funds. While during the last couple of years, investors demonstrated a preference for large single-country funds, particularly targeting BRIC countries (Brazil, Russia, India and China), regional funds regained popularity in 2013. Regional funds offer key advantages in terms of single-country risk mitigation and the possibility to benefit from higher GDP growth in frontier markets as economies have been cooling down in the BRICs. Hence, while the BRICs continued to account for the lion's share of capital raised in their respective EM sub-regions, amounts raised in 2013 for single country funds declined for all BRIC countries compared to 2012. On the other hand, capital raised for regional funds increased by 7% in MENA, 59% in Sub-Saharan Africa and even by 264% in South-East Asia. Consequently, regional and multi-region funds also accounted for 8 of the 10 largest EM PE funds closed in 2013. Finally, there has also been continued LP interest in non-BRIC EM and frontier markets in 2013. Due to changes in the macroeconomic environment during the course of the year, Mexico, Peru and the Philippines have replaced Turkey, Indonesia and South Africa as PE investor favourites.

The challenging PE environment in EM is also reflected in the continued decrease in both the number and volume of private equity deals invested in EM during 2013. The USD 23.9bn was invested across 883 deals in 2013, what presents a 7% decrease in volume and 4% decrease in deals compared to 2012. Continuing the trend from previous years, Emerging Asia accounted for 66% of total capital invested in EM PE. Emerging Asia was the only region where investments increased both in terms of volume and number. On a sub-regional level, China and India accounted for 65% of investment (volume) in Emerging Asia, while the same share of PE capital in Latin America went to Brazil. Of note is also the sharp decline in PE capital invested in MENA, which is due to continued political and macroeconomic uncertainty in the region. Sub-Saharan Africa, on the other hand, has seen increased volumes of investment and is nearly on par with CEE & CIS in terms of PE volumes in 2013.

Emerging Market Private Equity Regional Deal Volume by Year, 2011–2013

	2011		*2012*		*2013*	
	No. of Deals	*Total Capital Invested (USDm)*	*No. of Deals*	*Total Capital Invested (USDm)*	*No. of Deals*	*Total Capital Invested (USDm)*
Emerging Asias	651	19.319	517	15.134	573	15.797
CEE & CIS	129	3.534	132	2.290	97	1.955
Latam & Caribbean	132	3.905	144	5.486	101	4.288
MENA	25	384	48	1.593	38	209
Sub-Saharan Africa	63	1.492	77	1.125	74	1.610
Emerging Markets	1.000	28.635	918	25.628	883	23.859

Source: EMPEA, 2014

The performance of EM PE&VC as of Q2 2013 compared to VC and PE benchmarks in developed markets and public market indexes is summarized in the table below. Notably, EM PE&VC significantly outperformed its public market comparable, the MSCI Emerging Markets Index over the one, three and five year period. It has also outperformed US and Western European VC in certain periods. The strong EM returns are mostly attributed to Emerging Asia and CEE & Russia PE&VC returns, while Africa and Latin America delivered relatively lower IRRs over most periods.

Comparative End-to-End Returns by Region (as of 30 June 2013)

Index	*One Year*	*Three Years*	*Five Years*	*Ten Years*
Emerging Markets PE & VC	8.19	9.86	6.83	12.44
Emerging Asia PE & VC	8.74	10.39	9.06	12.22
CEE & Russia PE & VC	14.55	13.62	1.22	15.78
Latin America & Caribbean PE & VC	–0.27	4.13	1.04	12.53
Africa PE & VC	2.75	7.90	3.80	11.25
MSCI Emerging Markets	3.23	3.72	–0.11	14.02
US VC	8.89	13.52	5.68	7.80
US PE	15.57	15.50	8.22	14.12
Western Europe VC	7.42	10.87	0.83	3.57
Western Europe PE	6.75	11.78	0.56	16.81
S&P 500	20.60	18.45	7.01	7.30

Source: Cambridge Associates, 2013

Short Biographic Profiles of SIFEM Board Members

Jean-Daniel Gerber
Chairman of the Board, Chairman of the Investment Committee

Jean-Daniel Gerber was Director of the State Secretariat for Economic Affairs (SECO) with the title of a State Secretary until he retired in 2011. During his career in the service of the Swiss Confederation, Jean-Daniel Gerber has been active in various areas of responsibility since 1973: in the trade sector as Swiss representative in the World Trade Organisation (WTO); in the field of development cooperation as Chief of Section for Developing Countries in the former Federal Office for Foreign Economic Affairs; in the diplomacy as Minister and Head of the Economic, Financial and Commercial Office of the Swiss Embassy in Washington; at the World Bank as Executive Director and Dean of the Executive Directors of the World Bank Group (1996/97); and as Director of the Federal Office for Migration (at this time Federal Office (1998-2004).

Jean-Daniel Gerber holds a degree in Economics from the University of Bern. In 2008, Jean-Daniel Gerber was awarded an honorary doctorate by the Faculty of Economics and Social Sciences of the University of Bern.

Michel Juvet
Vice-Chairman of the Board

Michel Juvet started his career at Bordier & Cie, a Geneva-based private bank, as an analyst and fund manager in 1984. He became head of research and fund management in 1997. In this function, he also became a member of the Executive Board of Bordier & Cie and he is a partner since January 1st 2012. Mr. Juvet is also President of the Board of Directors of BO Funds, a Luxembourg Investment Company since 1999 and was a Member of the Board of Directors of Perrot Duval, a Swiss listed company between 2004 and 2012 as well as member of the advisory committee to the Swiss government on economic development policies.

Julia Balandina Jaquier
Member of the Investment Committee, Member of the Audit Committee

Dr. Julia Balandina Jaquier has 20 years of investment management and finance experience with focus on sustainable private equity in emerging and developed markets. She commenced her career at McKinsey and subsequently held senior positions at ABB Financial Services and AIG Global Investment Group, where she managed the AIG's European direct private equity business.

Dr. Balandina Jaquier has been actively involved in the development of the impact investment market since 2005, when she pioneered one of the first institutional impact investment funds and led it until 2010. She has subsequently founded an independent impact investment consultancy, and has since advised major high net worth families, private foundations and family offices, as well as independent funds and international banks, helping them design and implement mission-driven investment strategies and funds. She has been involved in the activities of SIFEM since 2008.

Dr. Balandina Jaquier is the author of the Guide To Impact Investing for Family Offices and High Net Worth Individuals. She holds a number of non-executive positions, teaches impact investing and social entrepreneurship at St. Gallen University and is a member of impact investment task forces and expert committees.

Dr. Balandina Jaquier holds an MBA (with honors) and PhD in finance from St. Petersburg University of Economics & Finance, and is a CFA charterholder.

Ivo Germann
Representative of the Swiss Federal Administration

Mr. Germann is currently Chief of Operations of the Economic Development Cooperation Department at the Swiss State Secretariat for Economic Affairs (SECO). Prior to his current function, he was the head of the Private Sector Development Section at SECO. Mr. Germann has served SECO since 2000, holding various positions in the Macroeconomic Support and Economic Cooperation Departments. From 2007 to 2010, he was seconded to the European Bank for Reconstruction and Development (EBRD) in London.

Mr. Germann holds a degree in economics from the University of Zurich.

Hugo Fasel
Board Member

Hugo Fasel acts as Director of the Swiss charity Caritas since 2008. He was an elected member of the Swiss National Assembly for four consecutive terms between 1991 and 2008, representing the Christian-Social Party from the Canton of Fribourg. During his time as MP, he acted as member of the Commission for Social Security and Health as well as of the Audit Commission. He also served as President of the Swiss labour union Travail Suisse.

Mr. Fasel studied Economics at the University of Fribourg, and worked there as an academic assistant for some time. He served as lecturer at a number of higher education institutions.

Susanne Grossmann
Member of the Investment Committee

Susanne Grossmann is a Managing Partner at BTS Investment Advisors, a private equity fund advising on investments in non-listed Indian small- and midsized companies. Besides her involvement in private equity Mrs. Grossmann also manages the social engagement of the BTS Group in India. Mrs. Grossmann began her career at a Swiss Bank. She joined SECO in 1995 in the area of international trade negotiations. Mrs. Grossmann began her career at a Swiss Bank. In 1999 Mrs. Grossmann moved to the Division for Economic Cooperation where she was in charge of a number of private sector promotion initiatives focusing on venture capital funds and other financial intermediaries in developing and transition economies. From 2004-2007 Mrs. Grossmann was a member of the management team of the Swiss Organisation for Facilitating Investments (SOFI), where she was responsible for all SOFI activities in Asia and Africa.

Mrs. Grossmann holds a Master’s Degree in History and Economics from the University of Zurich, Switzerland, and a Post Graduate Degree in European Integration from the University of Basel, Switzerland.

Iain Tulloch
Chairman of the Audit Committee, Member of the Investment Committee

Iain Tulloch has over 30 years of experience in the venture capital industry, both in the United Kingdom and abroad. Iain served as a Council Member of the British Venture Capital Association between 1988 and 1994. Since 1998 he has worked as a consultant in many countries including India, China, Tunisia, South Africa and Zimbabwe. Mr. Tulloch is chairman of the Swiss Technology Venture Capital Fund in India and sits on a number of investment committees.


DEPTH
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DEPTH
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Glossary

Custodian
Is a regulated, specialized financial institution responsible for safeguarding SIFEM's financial assets such stocks, bonds and currencies.

Development Finance Institution ("DFI")
Is a term used to refer to the range of bilateral and multilateral institutions that provide risk capital to the private sector developing countries.

European Development Finance Institutions ("EDFI")
Is the association of 15 European based, bilateral Development finance institutions whereby SIFEM is a member.

Internal Rate of Return ("IRR")
Is the annualized effective compounded rate of return for an investment and is commonly used to evaluate the desirability of investment projects. It is the standard measure of financial return used in the Private Equity Industry.

International Financial Reporting Standards ("IFRS")
Are a set of accounting standards developed by the Intentional Accounting Standards Board (IASB) for the preparation of public company financial statements.

International Private Equity and Valuation Guidelines ("IPEV")
Are a set of internationally recognized guidelines that set out the best practice where private equity investments are reported at fair value and have been adopted by the leading global Private Equity associations.

Obviam
Is a Bern based investment management company formed by the former management of SIFEM to act as Investment Advisor to the newly created SIFEM. The company is fully owned by its employees and does not hold SIFEM or the Swiss Confederation as a shareholder.

Private Equity
Is medium to long-term finance provided in return for an equity stake in growing companies, which are usually not listed on a public exchange.

Private Equity Fund
Is a close ended, collective investment platform which aggregates capital from multiple investors to then invest in private equity securities.

Reflows
Refers to any type of payments received in return from SIFEM's investment portfolio, including capital repayments, realized capital gains, dividends, interest.

Legacy Position
Refers to the portfolio of investments that have been made on behalf of the Swiss Confederation prior to the establishment of SIFEM.

Mezzanine Fund
Is a close ended, collective investment platform which aggregates capital from multiple sources to then invest in debt and quasi debt securities of primarily private companies.

Net Asset Value ("NAV")
Is the amount attributable to the investors of a portfolio on the basis of the fair value of its Assets less its liabilities.

Net income
In SIFEM's IFRS financial statements IFRS, net income refers to the result from investment activities. It consists of the sum of interest income, dividend income, investment-related services income, foreign exchange gains/losses on investments, changes in NAV of investments, and impairment losses on debt investments.

Operating Result
In SIFEM's IFRS financial statements IFRS, the operating result is calculated by subtracting administrative and operating costs from the net income.K

Total Comprehensive Income
In SIFEM's IFRS financial statements IFRS, total comprehensive income is calculated by adding the financial result and currency translation effects to the operating result.

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Annual Report 2013

List of Abbreviations

AG	Swiss public limited company (Aktiengesellschaft)
Art.	Article
BMI	Business Monitor International
CEE	Central and Eastern Europe
CHF	Swiss Franc
CIS	Commonwealth of Independent States
DE	Development effects
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH (German DFI)
DFI	Development Finance Institution
e	estimate
EDFI	European Development Finance Institutions
EFV	Swiss Federal Finance Administration
EITI	Extractive Industries Transparency Initiative
EM	Emerging Market(s)
ESG	Environmental, social and governance
EU	European Union
EUR	Euro
f	forecast
FI	Financial Institution
FSC	Forest Stewardship Council
GDP	Gross Domestic Product
GPR	Corporate-Policy Project Rating Tool (developed by DEG)
ICCF	Interact Climate Change Facility
ICS	Internal Control System
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPEV	International Private Equity Valuation Guidelines
IRR	Internal Rate of Return
m	million
LATAM	Latin America
MENA	Middle East and North Africa
MFI	Microfinance Institution
NAV	Net Asset Value
No.	Number
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
PEF	Private Equity Fund
Q1, Q2, Q3, Q4	First, second, third, fourth quarter
SCO	Swiss Code of Obligations
SE Europe	South East Europe
SECO	Swiss State Secretariat for Economic Affairs
SIFEM	Swiss Investment Fund for Emerging Markets
SME	Small and Medium-sized Enterprise
SR	Classified Compilation of Swiss Federal Legislation
SSA	Sub-Saharan Africa
SSPF	Sino-Swiss Partnership Fund
TA	Technical Assistance
TVPI	Total Value over Paid-In
USD	United States Dollar
YTD	year to date
ZAR	South African Rand

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