SIFEM SWISS INVESTMENT FUND FOR EMERGING MARKETS

Annual Report

2014

Annual Report 2014

Index

2014 Financial Highlights

	2014	2013
Commitments and cash flows (in USDm)		
Total commitments made to date	652.6	567.8
Total active commitments	578.1	502.8
Uncalled commitments	172.8	146.9
Cumulative paid-in capital to date	483.7	414.9
Cumulative reflows received to date	355.7	320.2
Cumulative net cash flow to date	– 128.0	– 94.7
New investment commitments	100.3	48.2
Reflows from investments	35.5	30.6
Investment portfolio valuation		
Net asset value (USDm)	283.1	255.6
Internal rate of return (%)	7.85 %	8.71 %
Total value over paid-in (%)	132.06 %	138.78 %
Annual results (in CHFm)		
Investment profit (loss)[1]	– 8.6	– 9.6
Operating result	– 13.4	– 13.5
Non-operating result	34.1	– 14.0
Total profit/-loss for the period	20.7	– 27.5
Balance sheet (in CHFm)		
Balance sheet total	588.2	483.2
Cash and cash equivalents	236.6	254.2
Cash available for new investments	65.7	123.2
Financial assets	280.1	227.8
Long-term liabilities	371.8	368.1
Shareholder's equity	149.9	114.8
Equity ratio (%)	25.5 %	23.8 %
Private finance mobilised (in USDm)		
Total private investor commitments advised by Obviam	99.2	95.2
New co-investments from private investors	24.8	10.0

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

[1] *The 2014 result was primarily driven by foreign exchange losses, further information can be found in the Obviam CEO letter.*

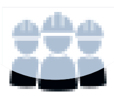
2014 Development Effect Highlights

SIFEM's active portfolio includes 372 companies (direct investments, loans and underlying portfolio companies of funds) located across 63 countries in emerging markets.

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. A study by one of SIFEM's fund managers, Small Enterprise Assistance Funds (SEAF), has found that investing in SMEs can have a positive development impact as in most cases SMEs are firmly embedded in their local community and can thus provide sustainable solutions and development with a sense of ownership greatly benefitting the local population.

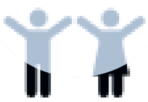
Results of the latest development effects measurement[2]

Obviam's 2013 development effects assessment shows that a very good level of development effects is expected from SIFEM's new investments; at the same time when comparing expected development effects versus effects actually observed, overall investments have performed 15% better than anticipated at the time of investment. In addition, more than half of the investments can be rated as "very good" in terms of actual development effects. We expect the 2014 results when compiled will show continued progress (see Section 5 for details). The development effects of SIFEM's portfolio in 2013 can be summarized as follows:



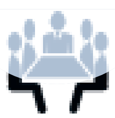
Supporting over 290,000 jobs

SIFEM's investments, together with co-financiers, have supported over 290,000 jobs since the inception of job tracking in 2005. Pro rata to its investment volume, SIFEM has created and sustained almost 25,000 jobs to date. Employment growth in investee companies has remained consistently higher than average economic growth in the target countries.



Promoting gender equality

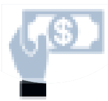
Six out of 41 projects explicitly follow a gender strategy, which have tangible positive effects on gender equality. Concrete effects are defined by means of results chains and are part of the monitoring.



Providing training

With the exception of two of SIFEM's investments, all fund managers and financial institutions provide training to their employees, three-quarters to their management, and over half of them also to a wider audience outside the organisation, such as local universities and industry associations.

[2] *Since development effects data for the year is gathered in the 1st half of the antecedent year, in 2014 Obviam gathered and consolidated the data as per year-end 2013.*

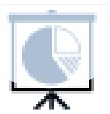


Mobilising local capital

90% of all investments have in some way contributed to the mobilisation of local capital or savings, 56% of SIFEM's projects have either local investors or have managed to attract local savings and 88% of the investments have facilitated access to additional local capital for their investee companies.

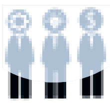
Contributing to local financial sector diversification

35 out of the 41 evaluated investments in some way contributed to the diversification of the financial sector in their respective regions. 37% of total projects are new types of institutions for their respective markets, and in over 40% of the cases, they provide an innovative type of financial product. Furthermore, almost 60% of them are also actively involved in improving the legal framework in their country, and thus paving the way for further financial sector diversification and investment.



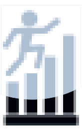
Diversifying credit and capital allocation

All investments have contributed to the diversification of credit and capital allocation by providing finance to business segments, which have been insufficiently serviced in the past. In particular SMEs (targeted by almost 90% of SIFEM's investments) and export financing were solidly supported.



Institution building

All of SIFEM's investments have benefitted from institution building effects at the partner institution level. Many of these benefits are related to and enhanced by Obviam taking advisory board seats at a fund level or providing assistance pre-investment.



Improving operational excellence in investee companies

All of SIFEM's investments feature a high degree of company development at the level of investee companies. According to the latest development effect assessment, the most significant areas for value-add by the fund managers were social and environmental monitoring, corporate governance and access to finance.

Executive Summary

SIFEM's Mission and Objectives

SIFEM as an Instrument of the Swiss Economic Development Cooperation

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 is wholly owned by the Swiss Confederation and advised by Obviam, a privately owned management advisory group.

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 additional private investments.

SIFEM's investment philosophy is guided by the belief that investing in commercially viable emerging market small and medium enterprises (SME) can generate sustainable, long-term development effects in local communities and provide investors with positive financial returns over time.

SIFEM provides long-term finance to risk capital funds and financial institutions in emerging markets with a primary focus on institutions investing in the SME sector, as well as other fast-growing companies. On a selective basis, SIFEM also invests in microfinance.

On Track to Reach Strategic Objectives set by the Federal Council

SIFEM investments are development-oriented and therefore aim to achieve a broad set of objectives beyond the financial rate of return. SIFEM's performance and development impact are defined by an operationalized catalogue of Strategic Objectives. 2014 marked the first year of SIFEM's new four-year Strategic Objective period 2014-2017. SIFEM is on track to meet 24 out of the 26 objectives in accordance with the benchmarks set by its Shareholder. This reflects SIFEM's careful approach to balancing developmental and financial objectives, the investment selection skills of Obviam's team and its hands-on approach in ensuring continued compliance with requirements and optimization of developmental and financial outcomes.

Financial Overview 2014

Financial Self-Sufficiency and Capital Increase

SIFEM is striving for financial self-sufficiency as one of the Strategic Objectives set for by the Federal Council. For this reason, it needs a growing balance sheet and an increased volume of private co-investments. This will unlock economies of scale effects (such as reduction in the administrative cost burden) and will lead to better portfolio diversification, and a reduction of the relative exposure to high-risk investments. In this context, the Federal Council decided to increase SIFEM's capital by two tranches of CHF 25m (one in 2015 and one in 2016). This allows SIFEM to increase the annual volume of new investment and lending commitments to approximatively CHF 100m per year.

Positive Long-Term Return and Emphasis on Current Income Investments

While the long-term return of the portfolio remains positive, it is vulnerable due to the political and economic instabilities in many SIFEM target countries. Furthermore, SIFEM's equity investments are typically exposed to cyclical changes in valuations and irregular cash reflows. During 2014, the Board of SIFEM has reviewed and adapted the Business Plan to better align it with the new set of Strategic Objectives. In particular, SIFEM has decided to place a larger emphasis on current income investments, in order to better stabilize its operating performance in the medium term. In line with this, many of the 2014 investments approved by the Investment Committee were disbursed in the form of loans which will provide SIFEM with a more regular source of income in the coming years.

Impact of the Volatility in Currency Markets

2014 has seen extraordinary volatility in the currency markets, which persisted in early 2015. The depreciation of the CHF against the USD during 2014 has resulted in sizeable paper gains for SIFEM's financial income. These have largely compensated the operating loss, resulting in a total profit of CHF 20.7m for 2014. The operating loss for 2014 stands at CHF 13.4m and marks a slight improvement from the previous year. This is the result of a CHF 6.4m valuation increase in the portfolio, which is offset by an estimated CHF 15m foreign exchange loss, and administrative costs of CHF 4.8m. In the attempt to reduce the volatility of investment results, SIFEM has started hedging foreign exchange effects arising out of its investment portfolio where possible. However, this new hedging regime was only implemented in October 2014. Considering that the estimated foreign exchange losses in the portfolio were the key driver of the operating result in 2014, the new hedging policy should help contain the Forex risk for the operational result. Nevertheless the balance sheet remains dependent on Forex move, particularly on the CHF / USD rate, which could affect again the net result.

Record Level of New Commitments in 2014

In 2014 SIFEM reached a record level of new commitments with USD 100.3m allocated to 13 transactions, up from USD 48.2m committed to 6 transactions in the previous year. The 2014 projects are well diversified and provide a good fit with SIFEM mandate. Investments were made in all of SIFEM's regions of operation, and serve clients in sectors which are central to economic development, ranging from microcredit to SMEs, fast growing companies, agriculture, clean energy and infrastructure.

Development Impact Overview 2014

Private Sector as Catalyst for Development

At a time of scarce public resources, and when 200 million people are unemployed in the developing world, over 1 billion are hungry world-wide, and climate change poses threats to many countries, the private sector has a critical role to play in promoting sustainable growth to increase the living standards of the population. The challenges are immense and cannot be tackled by governments alone. In this context, it is welcome that many DFIs, including SIFEM, are in a position to increase their level of activities, and through their innovative financing and the promotion of principles conducive to sustainable development, contribute to addressing the development challenge. Obviam, through its private mandates, has been effective in leveraging the SIFEM platform to mobilise private capital. Obviam's private clients have invested cumulatively close to USD 25m in some of SIFEM's projects. This has been made possible thanks to the foresight of the SIFEM Board and Shareholder in setting up the Swiss DFI as a flexible and innovative company able to offer co-investment opportunities to private financiers.

Employment Creation and Focus on High Impact Investments

All companies combined in which SIFEM's invested together with other Development Finance Institutions (DFIs), have provided decent, long-term employment opportunities to over 290,000 people in SIFEM's target countries, and they have continued to create new employment opportunities with a solid 10% growth in jobs according to latest numbers. All of SIFEM's new investments in financial institutions and 91% of its fund investments are channelled towards priority countries of the Swiss development cooperation. SIFEM is also on track to meet the deployment targets for investments with a particularly high expected impact – mainly in lower middle income countries and for projects focussing on providing the poorer and more vulnerable social groups with access to basic services.

Contribution to the Development of SMEs in Emerging Markets

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. A study from Small Enterprise Assistance Funds (SEAF)[3] has found that SMEs typically have a highly positive impact on their local communities.[4] In most cases SMEs are firmly embedded in their local communities and as a result can provide sustainable solutions and development with a sense of ownership. Furthermore the SEAF study found that the operations and expansion activities of their SME investments often also benefit their local communities – directly via the increased infrastructure needed for the investment operations which are then made available to and benefit the whole community or via the resulting economic opportunities. Examples of this from SEAF's SME investments include the construction of local water treatment plants, the provision of access to hydroelectricity for rural communities, the upgrading of local roads, and the building of a recreational park. In addition many of SEAF's SME investments give generously and regularly to the charities, organisations and NGOs located in their own communities. These donations come in the form of cash, in-kind contributions, and/or the employees' time and skills, and these contributions generally grow in line with the SME's growth.

Results of the Latest Development Effects Measurement[5]

SIFEM currently has a total of 41 investments which are rated post-investment[6], including 33 funds and 8 financial institutions. Obviam's 2013 development effects assessment shows that a very good level of development effects is expected from SIFEM's new investments; at the same time when comparing expected development effects versus effects actually observed, overall investments have actually performed 15% better than anticipated at the time of investment. In addition, more than half of the investments can be rated as "very good" in terms of actual development effects.

The development effects of SIFEM's portfolio in 2013 can be summarized as follows:

- Support of over 290,000 jobs (since start of tracking in 2005);
- explicit gender targeted strategy (6 out of 41 projects);
- strong support for training (39 out of 41 projects);
- strong mobilisation of local capital (37 out of 41 projects);
- significant contribution to local financial sector diversification (35 out of 41 projects)
- strong effects regarding credit and capital allocation diversification (all projects);
- strong contribution by Obviam to fund and financial institution building (all projects); and
- strong drive for improvement in investee company operational excellence (40 out of 41 projects).

[3] *SIFEM has invested in several SEAF funds (notably SEAF Central and Eastern European Growth Fund, SEAF Central Asia Small Enterprise Fund, SEAF Trans Andean Fund, SEAF South Balkan Fund, SEAF Blue Waters Growth Fund, and SEAF LATAM Growth Fund).*

[4] *SEAF: Impact beyond Investments. 2011 Development Impact Report. A report for which SECO has provided funding and support independently of SIFEM.*

[5] *Since development effects data for the year is gathered in the 1st half of the antecedent year, in 2014 Obviam gathered and consolidated the data as per year-end 2013.*

[6] *SIFEM tracks development effects for all its investments since 2005.*

Cooperation with other Development Finance Institutions

SIFEM hosted the 2014 Annual General Meeting of the Association of the European Development Financial Institutions (EDFI) in Lucerne, during which Obviam CEO Claude Barras was re-elected to the EDFI Board. This is an acknowledgment of SIFEM's commitment to a strong collaboration among the EDFI members in order to maximize SIFEM's impact and better serve its clients. Furthermore, Obviam team members have participated actively in many working groups aimed at facilitating the collaboration and harmonization of practices among EDFI members.

In 2014, SIFEM also acceded to the Master Cooperation Agreement of the International Finance Corporation (IFC), the private sector arm of the World Bank Group. This agreement provides a streamlined approach, outlining the processes and procedures for cooperation between Development Finance Institutions and the IFC in loan syndication. In 2014, SIFEM executed its first syndicated transaction with IFC with a loan to the National Development Bank of Sri Lanka. Going forward, SIFEM expects to participate in one or two syndicated loans per year.

Conclusions

SIFEM remains a unique, cost-effective instrument of the Swiss development assistance: As opposed to most other instruments, SIFEM's capital investments in SMEs and fast-growing companies generate reflows, which can be reinvested in new projects. By investing in inclusive, sustainable economic growth and job creation, SIFEM helps reduce poverty. Its development effects continue to be rigorously measured, reported and independently verified.

"Our objective is the holistic development of the children. We want to help create national assets and global citizens, with strong values of dedication, devotion and compassion. Teaching by example is the only way to reach this goal." – Mrs Sangeeta Srivastrava, BPS Bopal teacher

Delhi Public School Bopal is managed by Altus Learning, an education company invested in by Kaizen Private Equity in 2012. SIFEM invested USD 8 million in Kaizen Private Equity in 2011.

Jean-Daniel Gerber
Chairman of the Board of SIFEM

Dear Reader,

2014 marked the first year of SIFEM's new four-year Strategic Objective period 2014–2017, and I am confident that we will perform well against these new objectives set by the Federal Council. For instance, the companies in SIFEM's investment portfolio, together with the investments of other Development Finance Institutions (DFIs), have provided decent, long-term employment opportunities to over 290,000 people in our target countries, and they have continued to create new employment opportunities with a solid 10% growth in jobs according to latest numbers. All of SIFEM's new investments in financial institutions and 91% of its fund investments are channelled towards priority countries of the Swiss development cooperation. SIFEM is also on track to meet the deployment targets for investments with particularly high expected impact – mainly in lower middle income countries and for projects focussing on providing the poorer and more vulnerable social groups with access to basic services.

The new Strategic Objectives have also raised the bar in terms of financial return expectations. The letter from the CEO of Obviam, immediately following this Chairman's letter here, gives an account of the 2014 financial results. While the long-term return of the portfolio remains positive, it is to some extent volatile due to the political and economic instabilities in many SIFEM target countries. Furthermore, SIFEM's risk capital investments are typically exposed to cyclical changes in valuations. Bearing in mind the financial Strategic Objectives, SIFEM's Board has slightly revised SIFEM's Business Plan in order to lower the inherent volatility of its current income. Lending activities have increased while equity investments have decreased in relative terms. Other measures, such as the hedging of foreign-exchange risks, have been implemented during the course of 2014 and will show their full effect in future years.

SIFEM is striving for financial self-sufficiency. For this very reason, it needs a growing balance sheet and an increased volume of private co-investments. This will unlock economy of scale effects, such as better diversification, a reduction of the relative exposure to high-risk investments and a reduction of the administrative cost burden. In this context, the Federal Council's decision to increase SIFEM's capital by two tranches of CHF 25m (one in 2015 and one in 2016) is particularly welcome. It allows SIFEM to increase the annual volume of new investment and lending commitments. In this respect, 2014 has already been a record year with over CHF 100m new commitments. Many of these are disbursed in the form of loans which will provide SIFEM with a more regular source of income in the coming years.

Nonetheless, the Board wishes to stress that SIFEM will need to continue growing strongly in future years if it is to remain in the field of mid-sized European DFIs. This was the Federal Council's objective when it set out to establish SIFEM, but SIFEM has since remained much smaller than most other DFIs – the latter often enjoying the benefit of large capital increases provided by their governments.

Despite these notes of caution with respect to SIFEM's financial resources, I would like to highlight that SIFEM remains a unique and cost-effective instrument of the Swiss development assistance: As opposed to most other instruments, SIFEM's capital investments in SMEs and fast-growing companies generate direct reflows, which can be reinvested in new projects. By investing in inclusive, sustainable economic growth and job creation, SIFEM helps reduce poverty. Its development effects continue to be rigorously measured, reported and independently verified.

During the course of 2014, we have also had the pleasure of being joined by Geoff Burns and Kathryn Imboden in the Board. We would like to extend our warmest welcome to them and look forward to working together in the years to come.

Yours faithfully,

Jean-Daniel Gerber
Chairman of the Board of SIFEM

Claude Barras
CEO of Obviam, the investment manager of SIFEM

Dear Reader,

2014 has been a busy year in terms of operations for Obviam and the Investment Committee of SIFEM. As a matter of fact, the volume of new SIFEM commitments reached USD 100.3m in 13 transactions, up from USD 48.2m in 6 projects the previous year. This record level of new investments is in line with the Business Plan approved by the SIFEM Board, and with the Strategic Objectives assigned by the Federal Council to SIFEM.

At a time of scarce public resources, and when 200 million people are unemployed in the developing world, over 1 billion world-wide are hungry and climate change poses a threat to many countries, the private sector has a critical role to play in promoting sustainable growth as a means of raising living standards. The challenges are immense and cannot be tackled by governments alone. In this context, it is welcome that many DFIs, including SIFEM, are in a position to increase their level of activities and, through their innovative financing and the promotion of principles conducive to sustainable development, contribute to tackling wider development challenges. In the same vain, I'm also pleased to report that Obviam, through its private mandates, has been effective in leveraging the SIFEM platform to mobilise private capital. Obviam's private clients have invested cumulatively close to USD 25m in some of SIFEM's 2014 projects. This has only been possible thanks to the foresight of both the Shareholder and the SIFEM Board in setting up the Swiss DFI as a flexible and innovative company able to offer co-investment opportunities to private investors.

The 2014 projects are well diversified and provide a good fit with SIFEM's mandate. Investments were made in all of our regions of operations, and serve clients in sectors which are central to economic development, ranging from microcredit to SMEs, fast growing companies, agriculture, clean energy and infrastructure. I'm confident that our selection of projects has been meaningful in terms of generating impact on the ground while preserving the financial integrity of SIFEM. As mentioned in the Chairman's letter, at the end of 2013[7], the companies in SIFEM portfolio employed almost 300,000 people, and the new 2014 projects will add to this figure over the next few years. Let's not be shy about this, jobs really matter to the people concerned and their families! However, the impact of the companies we finance goes beyond the creation and the support of jobs per se, thus reflecting the multi-dimensional nature of the fight against poverty. The SIFEM website features 18 case studies designed to capture and illustrate the extent of the development impact of our operations.

SIFEM's total profit for the year amounts to CHF 20.7m. The extraordinary volatility in the currency markets has heavily distorted SIFEM's financial results at two levels: first, the depreciation of the CHF against the USD during 2014 has resulted in sizeable non-operational gains of CHF 34.1m, as reflected in SIFEM's financial income. These are foreign exchange movements on the CHF 374.4m loan extended by the Shareholder to SIFEM. Second, the currency movements in the investment portfolio are estimated to have generated an estimated loss of approximately CHF 15m. After consideration of the adjustments in the valuation of the portfolio as well as the administrative costs, the operating loss for 2014 stands at CHF 13.4m, this marks a slight improvement on the previous year. In an attempt to reduce the volatility of investment results, SIFEM has started hedging foreign exchange effects arising out of its investment portfolio where possible. This new hedging regime was implemented in October 2014 and considering that the estimated foreign exchange losses in the portfolio were the key driver of the operating result in 2014, the new hedging policy should help contain the Forex risk for the operational result. Nevertheless the balance sheet remains dependent on Forex move, particularly on the CHF / USD rate, which could affect again the net result.

SIFEM was pleased to host the 2014 Annual General Meeting of the Association of the European Development Financial Institutions (EDFI) in Lucerne. I had the honour to be re-elected to the EDFI Board, which is an acknowledgment of SIFEM's commitment to close collaboration between the EDFI members in order to maximize our impact and better serve our clients. Furthermore, Obviam team members continue to actively participate in many working groups aimed at facilitating the collaboration and harmonization of practices among EDFI members.

In 2014, SIFEM also acceded to the Master Cooperation Agreement of the International Finance Corporation (IFC), the private sector arm of the World Bank Group. This agreement provides a streamlined approach, outlining the processes and procedures for cooperation between Development Finance Institutions and the IFC in loan syndication. In 2014, SIFEM executed its first syndicated transaction with IFC in the form of a loan to the National Development Bank of Sri Lanka. Going forward, we expect to participate in one or two syndicated loans each year.

I would like to take this opportunity to express my appreciation for the excellent cooperation we enjoy 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 meaningful guidance and support we have received during the last year. My gratitude also goes to the Obviam team, 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.

Sincerely,

Claude Barras
CEO of Obviam, the investment manager of SIFEM

[7] *Since development effects data for the year is gathered in the 1st half of the antecedent year, in 2014 Obviam gathered and consolidated the data as per year-end 2013.*

1. SIFEM's mission and objectives

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 advised 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. Further details on collaborative initiatives with EDFI are presented in section 5.4 of this report.

1.1 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. Following the successful completion of the first Strategic Objective cycle in 2013, the Federal Council has defined a new set of objectives for the period 2014–2017. Under the current Strategic Objectives, 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 for introducing 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
- mobilising private sector resources (finance and know-how), and channelling these resources to the private sector in SIFEM target countries.

SIFEM's Business Plan determines how SIFEM intends to use these instruments, and how much capital it intends to allocate for different asset classes. During 2014, the Board of SIFEM reviewed and adapted the Business Plan to better align it with the new set of Strategic Objectives. In particular, SIFEM has decided to place greater emphasis on current income investments, in order to better stabilize its operating performance in the medium term.

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.

1.2 Performance against Operationalized Objectives

SIFEM's performance and development impact are defined by an operationalized catalogue of Strategic Objectives, which is split into four thematic groups: 1. programme-related objectives with a particular focus on compliance with SIFEM's investment guiding principles; 2. tasks and company-related objectives based on SIFEM's ability to balance the financial sustainability and the development impact of its portfolio; 3. financial objectives related to SIFEM's long-term financial sustainability; and 4. objectives related to SIFEM's efforts in developing and sustaining cooperation agreements with other development finance institutions.

SIFEM is on track to meet 24 out of the 26 objectives in accordance with the benchmarks set by its Shareholder, while it is too early to tell for one. 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 optimization of developmental and financial outcomes.

The following table lists the operationalized objectives 2014–2017 alongside the most recent measurement figures relevant to each one.

Part 1: Programme-related objectives

Objective		Target	Performance
Subsidiarity	a	At least 20% of the investment commitments for the least developed countries and other low income countries	**On track:** At least 23% of SIFEM's 2014 commitments are expected to result in investments in Least Developed Countries or Other Low Income Countries.
	b	At least half of the number of investment commitments of SIFEM AG serve to reach the 1st closing of the target funds	**On track:** In 2014, 70% of SIFEM's fund investments served to reach the first closing of the respective funds.
Sustainability	a	All investments are bound to specific requirements regarding environmental, social and governance standards (ESG) and their enforcement.	**On track:** All of SIFEM's 2014 fund investment contracting parties have bindingly committed to implement the Responsible Investment Policy[8] and have a formal agreement allowing participation in governance via a seat on a supervisory body. In non-fund investments, the requirements of Obviam's Responsible Investment Policy have been contractually anchored.
	b	Obviam commits all fund managers to comply with its ESG policy and also expects the portfolio companies to take a leading role with regard to ESG.	**On track:** All of SIFEM's fund managers have agreed to implement Obviam's Responsible Investment Policy. The first test of the implementation is foreseen two years into the Strategic Objective period.
Leverage Effect	a	One USD invested by SIFEM AG mobilise at least 2 USD from private investors (i.e. excluding the contribution of other DFIs).	**On track:** 1 USD invested by SIFEM AG mobilises 7.2 USD of private investment.
	b	x-time funds: Investments into fund 1, 2, 3 etc. of the identical fund manager result in increasing mobilisation of purely private capital	**On track:** True for the two cases of subsequent fund investments in 2014.
Complementarity	a	Obviam or a specialist consultant provides active support/technical assistance for at least 4 investments per year.	**On track:** During the year, 19 such events took place.
	b	Over the period 2014–17, Obviam introduced and supports at least four investments of private investors into SIFEM investee funds or companies, resulting in an investment.	**On track:** During 2014, Obviam has arranged additional investments from private investors for 4 fund investments of SIFEM.
Geographic concentration		100% of SIFEM AG direct investments and at least 60% of the indirect investments are made in focal countries or regions for Swiss development cooperation.	**On track:** During 2014, 100% of SIFEM's direct investments and 91% of SIFEM's indirect investments were made in SIFEM priority countries, as defined in the investment guidelines of SIFEM at the time of investment.

[8] *In all fund and non-fund investments SIFEM subscribed to in 2014, the contracting party implemented an ESG policy that is largely compliant with Obviam's RI policy which is either aligned with the EDFI harmonized ESG guidelines, the IFC ESG guidelines or often a combination of both.*

Part 2: Tasks and company-related objectives

Objective		Target	Performance
Employment effects	a	SIFEM AG creates or maintains at least 6,000 jobs each year (pro rata).	**On track:** SIFEM's pro rata share of jobs created and sustained to date was almost 25,000 (latest data available).
	b	The number of jobs in the SIFEM portfolio companies increases by at least 6% on a three year average.	**On track:** The employment numbers in existing fund investees grew by over 10% (latest data available).
	c	All portfolio companies comply with the ILO core labour standards.	**On track:** 100% of SIFEM's investments have bindingly committed. No breaches have occurred during 2014.
Overall impact on development		At least 75% of the investments in the portfolio must be rated ex-post as "good" or "very good" in accordance with the development monitoring system implemented by SIFEM AG in coordination with the existing practices of the European development finance institutions.	**On track:** 90% of SIFEM's total portfolio has received an ex-post development effects score of "good" or "very good" (latest data available).
Instrument mix		Total commitments and number of investments by country, sector (incl. micro finance, infrastructure) as well as number of firms receiving support	**On track:** This is a new reporting obligation, please refer to the numbers and charts in section 3.1.
Effectiveness		Minimum of USD 45m committed to new investments	**On track:** SIFEM has committed USD 100.3m to new investments in 2014.
Development	a	At least 25% of the investment commitments to funds specific development and social objectives (i.e. economic development funds and/or social impact funds)	**On track:** 27% of SIFEM's 2014 investment commitments are classified as "special objective funds".
	b	Of those at least one investment will be in social impact funds on a three year average.	**On track:** During 2014, SIFEM invested in one fund classified as a social impact investment, with a key focus on serving the "base of the pyramid".
Risk policy and risk management	a	The proportion of the investments which are classified as high and very high risk projects is less than 40% for funds.	**On track:** In 2014, the proportion of fund investments which are classified as high and very high risk projects is 23%.
	b	The proportion of the investments which are classified as high and very high risk projects is less than 15% for debt instruments.	**On track:** In 2014, the proportion of debt investments which are classified as high and very high risk projects is 2%.

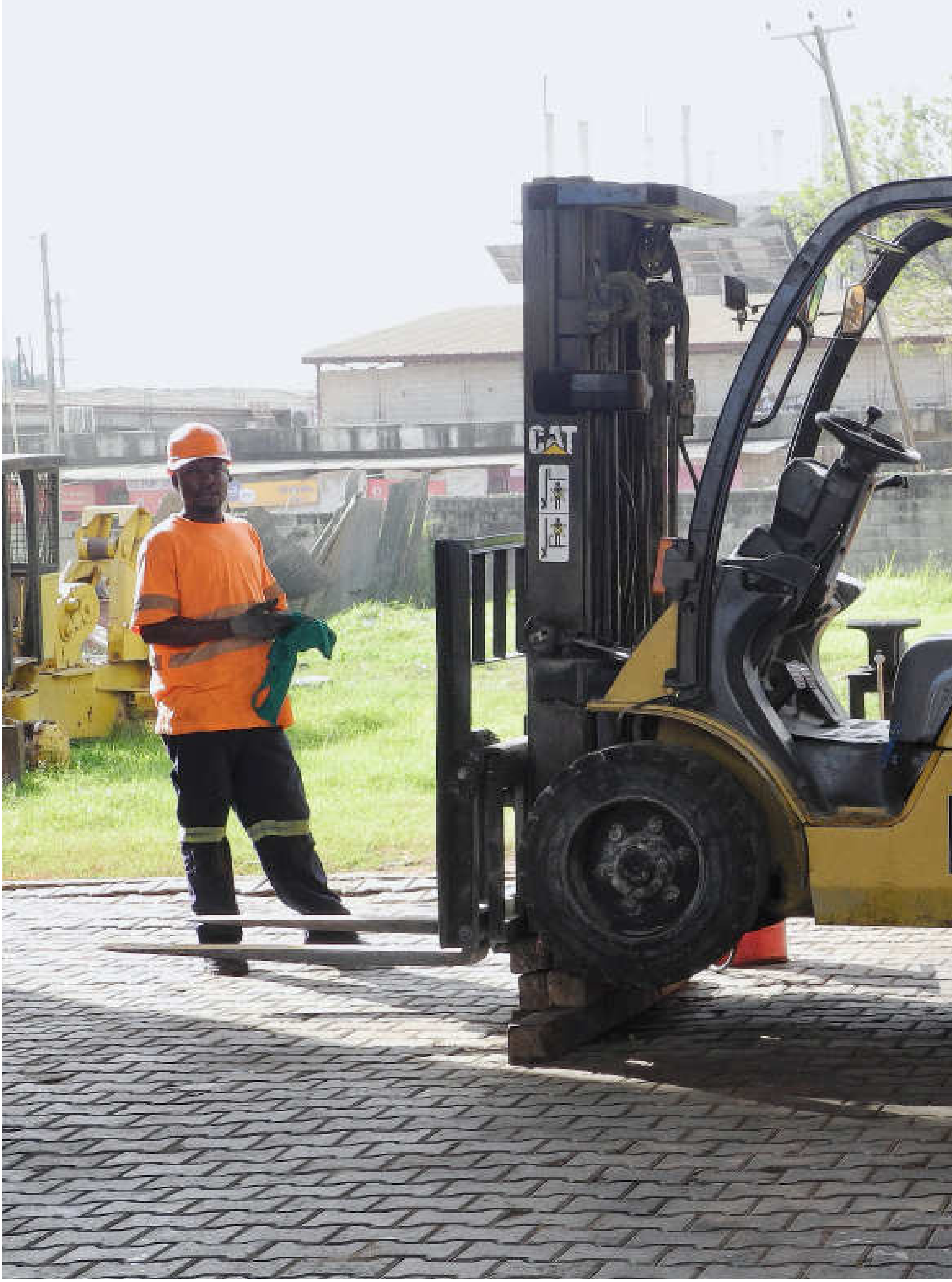
Part 3: Financial Objectives

Objective		Target	Performance
Operating efficiency		Operating cost ceiling of 1.5% of the outstanding commitments	**On track:** In 2014, the total operating cost amounted to 0.82% of total active commitments.
Financing	a	The operating costs of SIFEM AG and the minimum volume of new commitments can be met in full over the target period out of reflows from successfully concluded investments and uncommitted cash reserves.	**On track:** Reflows received to date and uncommitted cash reserves were sufficient to meet the target.
	b	Increasing reflows as proportion of average annual commitments	**Too early to tell:** After one year, no trend can yet be identified.
Financial result		Positive operating result in accordance with IFRS	**Off track:** In 2014, the operating result amounts to CHF –13.4m (USD –14.6m)[9].
Investments	a	Overall portfolio – Positive return (IRR) – Value multiplier exceeding 1 (TVPI)	**On track:** The IRR of the overall portfolio as of 2014 amounted to 7.85%; the TVPI to 1.32.
	b	Growth funds – Return exceeding 5% (IRR) – Value multiplier exceeding 1.3 (TVPI)	**On track:** The IRR for growth funds as of 2014 amounted to 19.9%; the TVPI to 1.56.

Part 4: Cooperation Arrangements

Networks	Existing and, if applicable, new cooperation arrangements entered into with sector organisations (in particular EDFI and its working groups), incl. Qualification of the results and statements on their impact	**On track:** Please refer to section 5.4 of the Annual Report regarding Obviam's involvement with other Development Finance Institutions.

[9] *CHF 7.0m of this loss was contributed by foreign exchange effects prior to the implementation of SIFEM's new hedging policy in October 2014.*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2. Governance and Policy Actions

2.1 Board of Directors

Even though the start-up phase following SIFEM's institutionalisation in 2011 has now come to an end, the Board has had one of its busiest years since inception, with significant developments on multiple fronts. After the new Strategic Objectives 2014-17 were fixed by the Federal Council in November 2013, in consultation with SECO the Board translated these objectives into actionable targets for Obviam. Furthermore, considering that the new Strategic Objectives raise the bar both in terms of development impact and financial returns, the Board has conducted a review of SIFEM's investment strategy and its Business Plan to ensure their alignment with the new Strategic Objectives. In particular, the latter implicitly require SIFEM to reduce the exposure of its financial results to economic volatility. In order to achieve this, the Board has strengthened the focus on current-income instruments with a lower inherent volatility.

In addition to these adjustments to SIFEM's asset allocation strategy, the Board also dedicated considerable time to reviewing and making a start on overhauling SIFEM's financing and treasury strategy. In particular, one core objective was to remove the foreign-exchange risks, which affect SIFEM's financial statements on multiple levels. As per the Strategic Objectives, SIFEM aims to achieve a positive operating result over the four-year period. Accordingly, the Board decided to eliminate or hedge the foreign currency and interest rate risks, which feed into the operating result in one way or another. These changes had been under discussion since 2013, a decision was taken on the subject in the course of the third quarter of 2014, and implemented in October 2014. Overall, currency volatility still negatively affected SIFEM's 2014 operating result – but hedging should prevent this in future years. The SIFEM Board was in close contact with SECO about a capital increase, which was approved by the Federal Council in April 2014 and will be implemented in two stages in 2015 and 2016. Finally, the Board proposed that the Shareholder convert its loans into equity, as this would remove significant distortions from SIFEM's financial result. Discussions on this matter are still underway.

During 2014, SIFEM also observed a sudden increase in interest in its activities from the Swiss public, media and political sphere. Unfortunately, some newspaper articles presented individual investments out of context and ignored both SIFEM's explanations and its proven overall positive development effect. Despite all of its successes, SIFEM invests in extraordinarily challenging economic and political environments and hence cannot avoid occasional disappointments. However, the interest from media, members of parliament and other stakeholders also gave SIFEM a valuable opportunity to present its business model and show its important contribution to development in the partner countries. The Board is most grateful for the interest by SIFEM's key stakeholders and looks forward to continuing this active dialogue.

Besides these overarching themes, there was also a multitude of individual topics for the Board to discuss during 2014. These ranged from the implementing the most recent recommendations by the Swiss Federal Audit Office to reviewing individual investments and closing a new master cooperation agreement with the World Bank's International Finance Corporation (IFC). To close with two other international topics: SIFEM has actively contributed to the expert group set up by the OECD with the objective of better reflecting the work of DFIs in its future official development assistance (ODA) reporting systems. This is of high political importance, since the OECD statistics are the most important international benchmark for ODA. Accordingly, SIFEM is most grateful for the OECD's initiative to reach out directly to the DFIs and look forward to continue engaging in this expert group. On the European cooperation front, SIFEM had the pleasure of hosting the General Assembly of the Association of European Development Finance Institutions (EDFI) in Lucerne in May 2014. The EDFI members are SIFEM's closest partners with countless co-investment projects. Considering that SIFEM remains one of the youngest and smallest members of EDFI, its peers in this association are also a welcome source of inspiration and guidance as SIFEM grows.

2.2 Investment Committee

In 2014 the Investment Committee met ten times to review transactions presented by Obviam. Concept approval was granted for fourteen new transactions, allowing Obviam to conduct due diligence on these deals and submit them to the Investment Committee for final approval. Thirteen transactions were submitted following due diligence, received final investment approval from the Investment Committee and closed before year-end. For further details on the new transactions closed during the year, please see section 3.6.

2.3 Audit Committee

The Audit Committee held four meetings in 2014, 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 accountant, auditor and custodian. The Audit Committee recommended that the Board approve SIFEM's financial accounts. Ensuring that the portfolio is valued at fair market values 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, cash management policies and on portfolio valuation.

"This solar project is a response to the basic problem of energy requirements here in Mindanao. It is very important as it will open up further opportunities." – Regie Casas, Project Manager, NV Vogt

NV Vogt is focused on developing, designing, financing, constructing and operating solar power plants in Asia. SIFEM invested USD 7m in Armstrong South-East Asia Clean Energy Fund in 2013, which then invested in NV Vogt in 2014.

*Annex Power was the EPC contractor for this 1MW rooftop solar project in Bangkok, Thailand.
Annex Power Ltd is a solar PV EPC contractor which has built more than 100MW of projects in Southeast Asia.
SIFEM invested USD 7 million in Armstrong South-East Asia Clean Energy Fund in 2013, which also invested in Annex Power in 2013.*

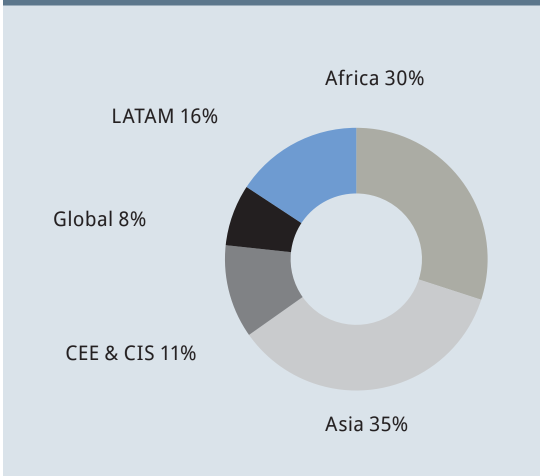
3. Performance of the Investment Portfolio

3.1 Portfolio Construction

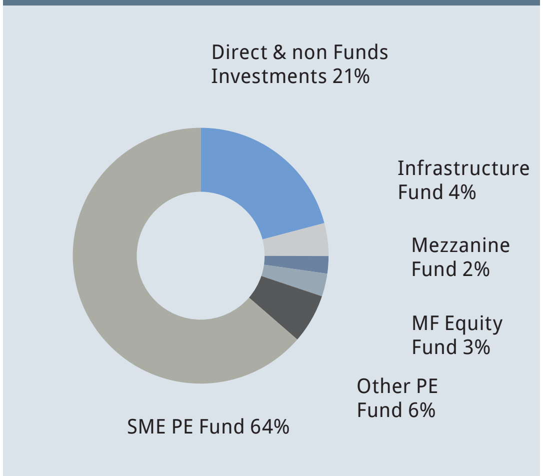
SIFEM's portfolio was developed over a period of one and a half decades, with the first investments dating back to 1997. Since then, SIFEM has committed USD 652.6m (CHF 645.7m) to 99 investments spread over 60 countries in Africa, Asia, Eastern Europe and Latin America. While Asia historically has been the largest region, its share of the total portfolio has been slowly declining as China and India ceased to be priority countries. This trend has now come to an end and the portfolio allocation in terms of geographical distribution is very similar to last year's.

Figures 1 and 2: SIFEM portfolio by geography and focus as of 31 December 2014

Geography



Focus

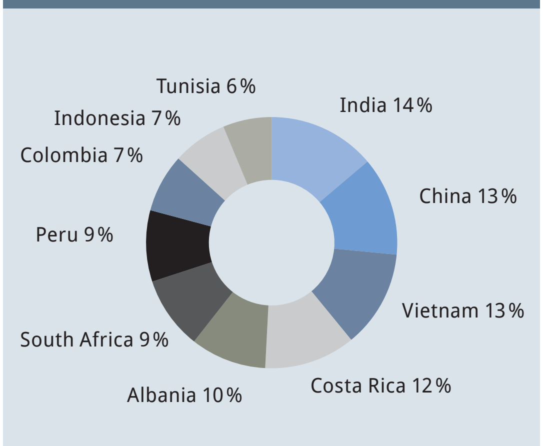


The portfolio consists primarily of private equity funds investing in growth companies and SMEs (64%), infrastructure (4%), mezzanine (2%), and other private equity instruments (6%), and (3%) in microfinance funds. Direct equity and debt investments in financial institutions comprise 21% of the portfolio. Early in 2014, the Board of SIFEM has decided to increase the allocation to debt investments. First signs of this reallocation can already be observed in the year-end figures where the share of debt investments increased from 14% in 2013 to 21% at the end of 2014.

As of 30 June 2014, SIFEM had directly and indirectly invested in 372 companies in 63 countries. The 10 countries with the largest financial exposures account for 63% of the total invested capital.

Figures 3 and 4: SIFEM largest exposures per country by invested capital and number of companies

Largest country exposures by invested capital



Largest country exposures by number of companies

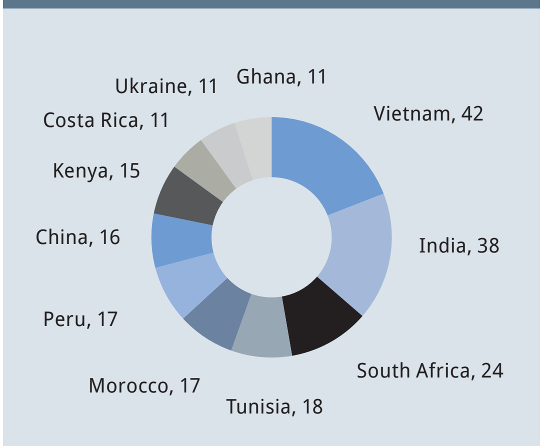


Figure 5: SIFEM largest exposures per industry by invested capital

Invested capital exposure per sector

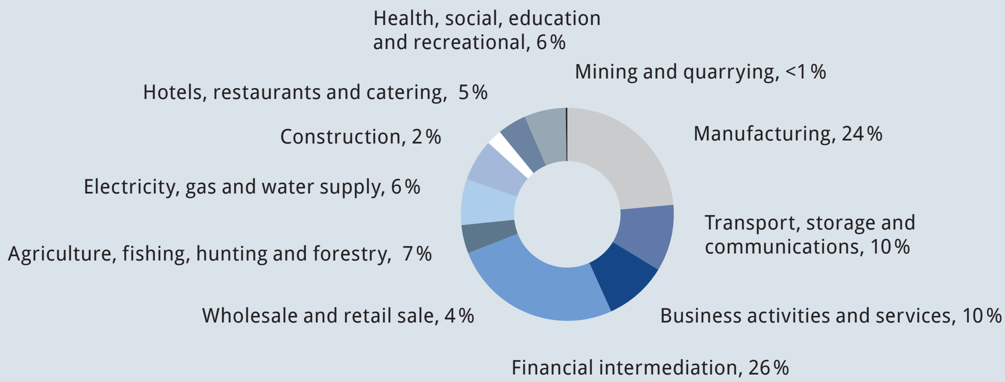
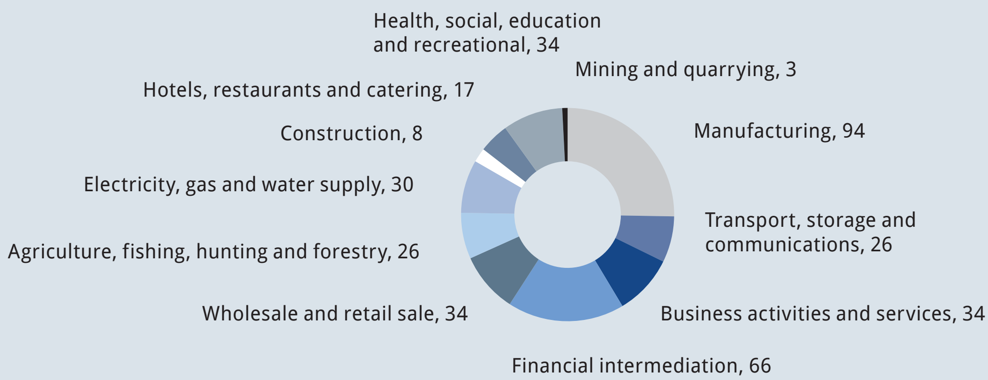


Figure 6: SIFEM largest exposures per industry by number of companies

Number of companies per sector



Note: Out of the 66 entities in the financial sector, 36 companies are active in the Microfinance industry, representing 6% of the total invested capital.

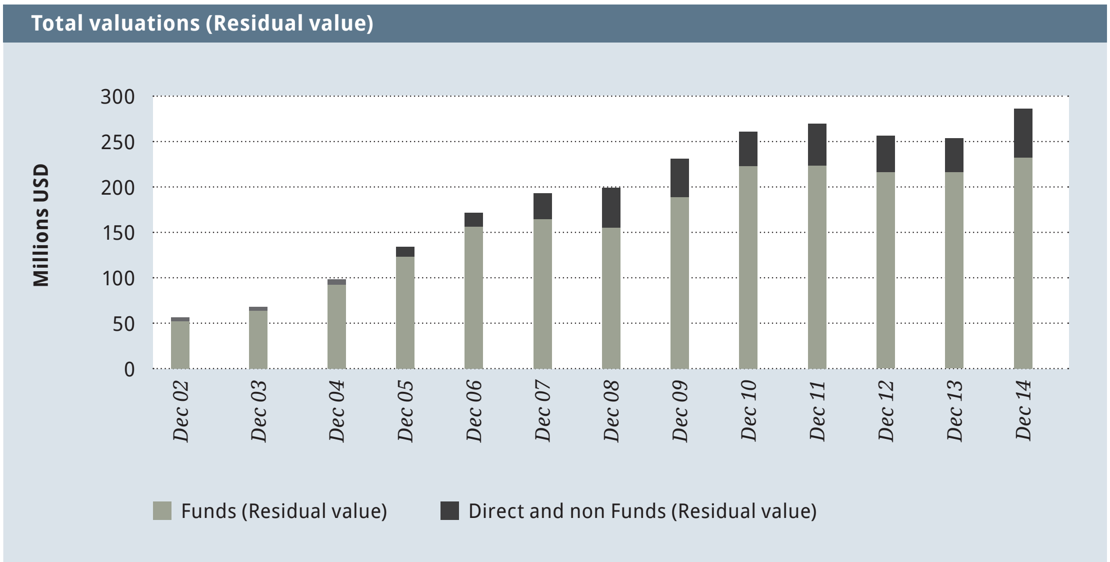
3.2 Valuation

SIFEM's financial statements 2014 needed to be audited by early March 2015 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 2014) 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

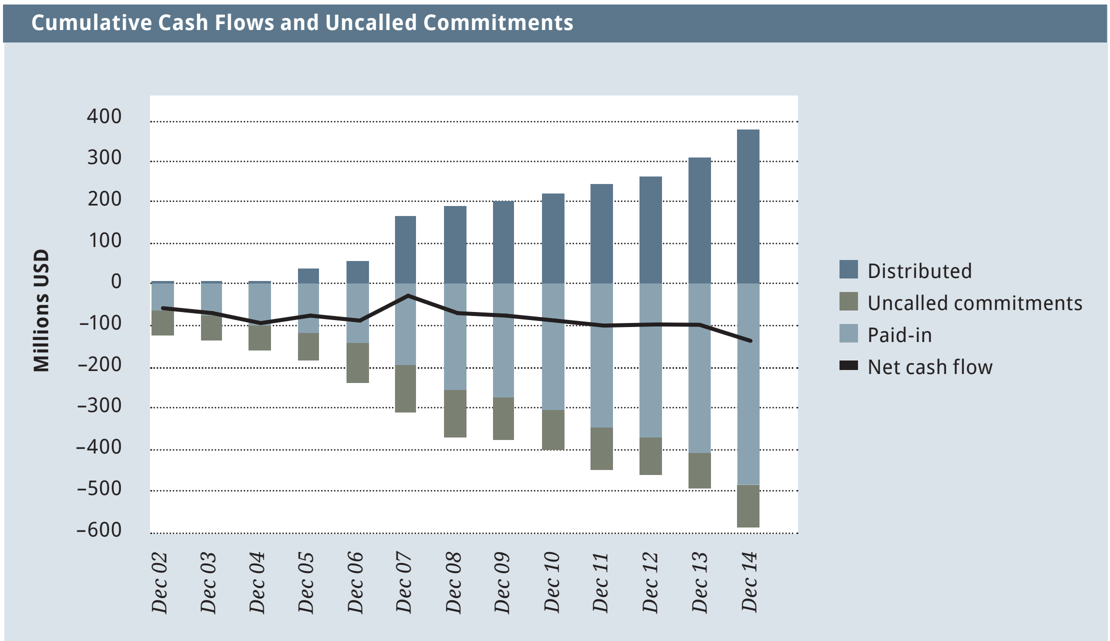
As of 31 December 2014, SIFEM's total active commitments were USD 578.1m (CHF 572.0m). SIFEM's net asset value (NAV) amounted to USD 283.1m (CHF 280.1m), an increase of USD 27.5m or 10.8% compared to 31 December 2013. Changes in the portfolio value are driven by changes in the value of the underlying investments on the one hand and the inflows and outflows of cash by doing new investments and by exiting investments, respectively.

Figure 7: SIFEM portfolio NAV since inception



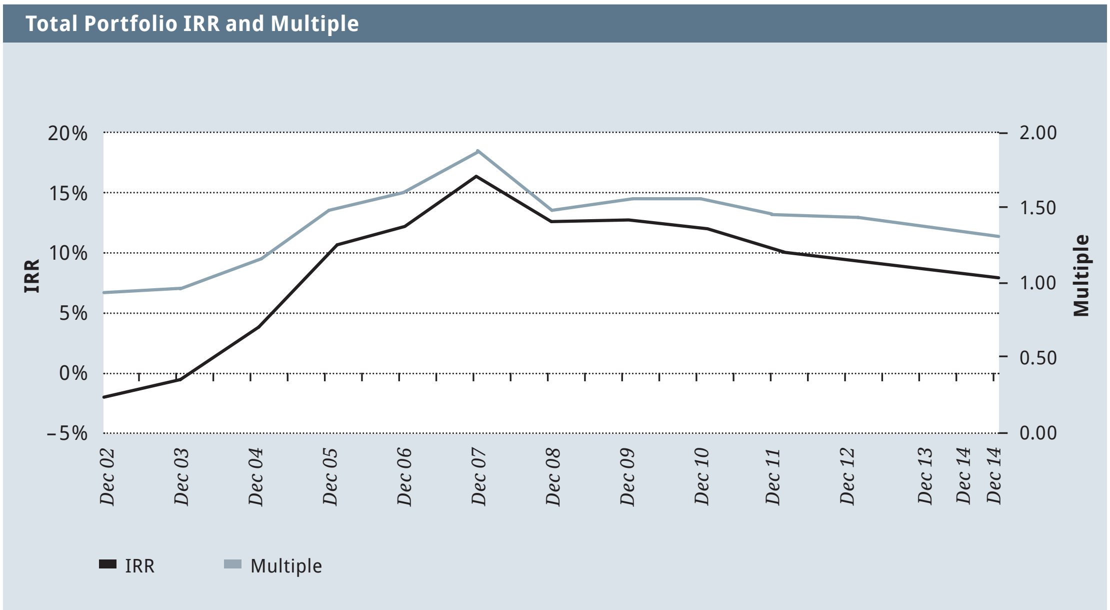
Since inception, USD 483.7m (CHF 478.6m) has been drawn down from the SIFEM investment portfolio and SIFEM received USD 355.7m (CHF 351.9m) of reflows. SIFEM continued to be cash flow negative through 2014, posting USD -128.0m in cumulative net cash flow since inception – this is explained by a combination of an expanding portfolio, the long-term patient capital nature of its investments and the continued slow exit environment in the aftermath of the global financial crisis.

Figure 8: SIFEM cumulative cash flows and uncalled commitments (in USDm) since inception



As of 31 December 2014, SIFEM's portfolio Internal Rate of Return (IRR) was 7.85%. The IRR is tracking the performance of the portfolio since inception. It has to be noted in this context that the SIFEM portfolio is a vehicle with no fixed-life investment pool; it is "evergreen" as reflows from past investments are reinvested.

Figure 9: SIFEM total portfolio IRR and multiple since inception



In 2014, the IRR decreased from 8.71% (in 2013) to 7.85%. This trend is not worrisome as the impact on the IRR of successful exits performed in the past is diluted in an increasing portfolio. Furthermore, the addition of new PE funds in the portfolio exacerbates the J-curve effect, as typically funds show positive valuations after four to five years operations when portfolio companies reached maturity which then translates in higher valuations exceeding the cost of managing the fund. Write downs due to poor performance of some individual portfolio companies have been largely offset by gains in other positions.

3.4 Currency Effects

Fluctuations in foreign currency are continuing to affect the performance of the SIFEM portfolio in two ways: First, the investee companies of the private equity funds are operating in local currency environments which affect their performance since the funds themselves are mostly denominated in USD and to a certain degree in EUR, ZAR or CNY. Second, the non-USD fund denomination currencies – namely Euro, Rand and Yuan – are also affecting the portfolio performance once they are translated into SIFEM's operational USD currency. Exchange rate effects of these fund investments are not reported separately in SIFEM's financial statements since they are incurred directly at the level of the investee funds valuation. This effect was estimated to be approximately minus USD 8m in 2014.

Foreign currency movements affecting the operational result of SIFEM directly stem from the debt investments denominated in foreign currency and the treasury cash holdings in such currencies. The total foreign exchange loss from these currencies' exposure amounted to CHF 6.4m in 2014. In order to reduce this impact, SIFEM's Board decided to optimize currency management by ways of reducing cash holdings in the main fund denomination currencies other than USD (i.e. EUR, Rand, Yuan) and at the same time to hedge SIFEM's exposure to the Euro by entering into currency forward contracts to the amount of SIFEM's total Euro exposure (consisting of EUR debt investments, treasury cash holdings and estimated cash holdings in the underlying EUR denominated private equity funds). Since such hedging strategies were only approved during 2014, the first forward contracts into which SIFEM entered covered the last quarter only. Hence the operational part of the foreign exchange rate loss is still substantial. However, it is expected to decline significantly in the future.

3.5 Regional Portfolio Trends

Africa

Following a number of years of turmoil in the Middle East and North Africa (MENA) region, 2014 witnessed an inflection point. This was evidenced by an increased investors' interest for the region and consequently fundraising for MENA almost doubled from USD 0.6bn in 2013 to USD 1.1bn in 2014, according to the Emerging Markets Private Equity Association (EMPEA). However, MENA's growth remains fragile and subject to political unrest. Given the high risk profile of the MENA region, DFIs, including SIFEM, continue to play an important role in the region's PE industry.

In the MENA region in 2014, SIFEM committed USD 10m to a generalist regional mid-market fund focusing on Egypt, Morocco, Algeria and Tunisia. In addition, SIFEM also participated with EUR 1.75m in a capital increase of the Maghreb Private Equity Fund III previously invested in 2011. The main rationale for the capital increase was to support the fund in seizing current market opportunities. To mitigate the risks of the challenging political and macro-economic environment SIFEM decided to support seasoned investment managers targeting well-established mid-market enterprises. Moreover, mid-market companies tend to create more jobs than SMEs and hence are directly addressing unemployment. Overall, the challenging environment has delayed the lifecycle of most MENA funds in which SIFEM is invested; valuations of underlying portfolio companies have remained fairly flat, and exits have been postponed.

Sub-Saharan Africa (SSA) is experiencing increased investors' interest, which is evidenced by a vibrant and fast growing private equity (PE) industry. According to EMPEA, 24 PE funds closed in 2014, raising USD 4bn as compared to USD 1.2bn in 2013. However, more than half of the region's fundraising for 2014 can be attributed to just three funds: i) Helios Investors III (USD 1.1bn), ii) the Carlyle SSA Fund (USD 700m) and iii) the Pan African Infrastructure Fund (USD 580m). While the overall development of the PE landscape in SSA is encouraging, the market is still facing a number of shortcomings. On the one hand, investment risk-return profile is still perceived as unfavourable for private investors, and many commercial investors continue to focus on large cap companies only. On the other hand, the region is starting its economic catch-up from a low base, which is evidenced by the low levels of PE fundraising as compared to other emerging markets (e.g. Asia or Latin America). Consequently the private equity and private debt landscapes remain shallow.

SIFEM reviewed over 40 fund proposals in 2014 and about the same number of direct investment opportunities, and committed USD 28.0m to three funds in the region: i) a pan-African fund with a focus on SMEs and mid-market companies, ii) a Nigeria and Ghana-focused SME fund managed by a promising first time fund manager and iii) a pan-African debt fund managed by an established South African investment company. Given the fact that the private equity landscape in Africa is still emerging, SIFEM will continue to follow a prudent approach in constructing its portfolio, finding a balance between working with first time teams and supporting managers who are raising their second or third funds. There are currently a number of managers who have their first fund fully invested, but lack a tangible exit track record. They find themselves in a difficult position and still depend to a large extent on DFI funding for their second funds. Areas of interest for SIFEM include high impact sectors, such as healthcare, infrastructure, agriculture or education. Due to the fact that SIFEM's focus countries are located in each of East, West, Central and Southern Africa, SIFEM continues to invest in all of these regions in order to keep a balanced exposure.

Most of SIFEM portfolio funds continue to suffer from decelerated lifecycles, with generally long holding periods of investments. This is partly explained by the fact that 10 out 18 funds are managed by first-time team as well as a strong exposure to the SME space, a sector typically affected by limited liquidity. Longer holding periods and hence delayed exits from portfolio companies lead to lower IRRs. An additional factor that negatively impacted the performance of SIFEM's existing Africa portfolio has been the continued depreciation of the ZAR against the USD. Given the negative forecasts for the ZAR, further currency losses on the existing ZAR denominated portfolios are expected in the near future.

Asia

Obviam screened 35 direct investment opportunities and 50 fund proposals in 2014 and closed two transactions worth USD 18m in the region. The first investment was made into an established Chinese healthcare fund, which is expected to trigger particularly strong healthcare inclusion effects to the benefit of the Chinese population, while the second transaction, a credit line into a SME-focused bank in Sri Lanka, is the first exposure to this recently added post-conflict priority country. In the South Asia region, progress has been made by SIFEM on two investments likely to close in 2015, with a potential first SIFEM exposure to Bangladesh via an established SME fund manager and an additional investment with an established relation with an Indian fund manager, where SIFEM was the first organisation to receive concept approval to jumpstart the fund raising process for the successor fund.

While the existing Asian portfolio is well diversified across vintages, it remains, largely for historic reasons, geographically weighted towards China, India and Vietnam, each presenting 9-10% of SIFEM's total investments in terms of investment costs. Since 2010, a conscious effort has been launched to broaden SIFEM's exposure in Asia, with the inclusion of new countries such as Indonesia, Cambodia, Laos, Mongolia and Sri Lanka in the portfolio.

While some of SIFEM's in Indian and Chinese Funds were negatively impacted by a series of factors in 2013, the situation stabilized in 2014 with positive prospects going forward. This is largely explained by the improvement of the business climate in India and a more stable local currency in both countries

The overall positive developments of the maturing Vietnamese and Indonesian funds have helped stabilized the performance of the Asian portfolio whose IRR is slightly above 13%. .

Given the sheer size of the Asian continent and the diverse stages of development the countries, SIFEM continues to focus its efforts both on countries with less developed financial infrastructure and high impact sectors in more advanced economies.

Central and Eastern Europe and the Commonwealth of Independent States (CIS)

The escalation of the conflict in Eastern Ukraine has become the main driver of the political and economic developments in the Central and Eastern Europe (CEE) and in the Commonwealth of Independent States (CIS) region. Repercussions were felt far beyond Ukraine since the regional economies are closely inter-linked and the indirect effects of the conflict, such as the sanctions against Russia, have had negative effects on all businesses involved in regional trade and investment activities.

Not surprisingly, these developments also left their traces on the SIFEM portfolio in form of decreasing valuations due to weak performance of the investee companies, but also due to the significant devaluations of the local currencies, mainly the Ukrainian Hryvnia.

The turmoil in Eastern Ukraine was felt as far as in the Western Balkans where the economies of Albania, Bosnia and Serbia have slowed down. International investors continued to move out of the region and bank lending declined to lows not seen for many years, which has affected most investee companies of the SIFEM funds operating in this region.

SIFEM's exposure to debt instruments in the region has held up comparatively well. The relatively large investment in subordinated debt of a bank investee in Albania is performing well with only one minor covenant breach, while the senior loan to a bank in Azerbaijan has been fully repaid as scheduled and was replaced in 2014 by a new investment in the form of a subordinated loan to the same bank to be on-lent to micro- and small businesses. In 2014, SIFEM also committed USD 5m to a Commodity Value Chain Sustainable Investment Fund which provides commodity finance to participants in the agriculture value chain in the Caucasus countries.

Latin America

2014 was a busy year for SIFEM in Latin America as the delayed 2013 deals came to fruition and Obviam continued generating new investments. The two delayed Central America-focused private equity funds - one executing mezzanine investments in infrastructure, and the second investing in small SMEs - achieved their 1st closings in May and August 2014. Moreover, Obviam conducted due diligence on and executed a loan to a microfinance impact fund in November 2014, and appraised a global microfinance impact fund with significant exposure to Latin America that is expected to close in early 2015. Obviam screened 20+ funds and a similar amount of direct transactions in 2014. Most of the funds screened were generalist, with some sector trends emerging in early stage growth and venture capital in the Andean region.

The region's middle/high income status continued to restrict SIFEM's investment scope as the largest South American markets that are also home to some interesting impact proposals such as Brazil and Mexico are not eligible for SIFEM investment. Consequently SIFEM's fund allocation focused on the risky Central American region, as well as the microfinance industry, which is also developed in its priority countries of Bolivia and Peru. Notably, SIFEM has not had any new exposure to its most attractive priority market in Latin America – Colombia – since 2009 and is working towards rectifying this portfolio imbalance in 2015, by partnering with some experienced Colombian fund managers.

The existing Latin American portfolio continues its moderate performance and is characterized by the following trends: early 2000s vintage 1st-time funds in both Central America and the Andean are under-performing and have not/will not return all capital; the mid and late-2000s vintages are fully invested in some interesting mid-market companies, but have yet to prove their exit track records and thus have not returned much capital to date; the early 2010s vintage investments were made in higher-risk 1st-time funds, and although these are still in their J-curve, they have all had significant valuation hits on their 1st deals as SIFEM is paying for their 1-st time fund learning curve. In sum, this culminates in a rather risky portfolio which should be de-risked by investing in experienced managers in the more attractive, larger SIFEM priority markets, as well as by lending to funds and financial institutions.

As Latin America is home to a vibrant microfinance industry, SIFEM has continued to invest in 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 cheap loans), and on the retail level with issues such as client over-indebtedness being a prevalent problem in markets like Peru. Moreover, a trend has been observed that many microfinance debt fund managers are focusing on MFIs that finance high-impact sectors such as agriculture, health and green-technology. This offers SIFEM compelling opportunity to pursue financially sustainable impact investments at moderate debt returns. 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.

"When TECNOSOL started its operations in 1998, to many people solar energy seemed to be a far-fetched idea, because just thinking about how the sun could turn on the lights, was wild. Now, almost 16 years later, when you fly above the Nicaraguan rural communities you can see thousands of solar panels installed on their humble roofs." – Vladimir Delagneau Barguero, CEO, TECNOSOL

TECNOSOL sells and installs renewable energy systems and equipment in rural areas in Nicaragua, El Salvador, Panama and Honduras. SIFEM is one of the initial investors in Central American Small Enterprise Investment Fund II, which invested in TECNOSOL in 2009.

3.6 New Investments Concluded in 2014

New investments in 2014 were worth a total of USD 100.3m (CHF 99.2m[10]), showing a significant increase over 2013 commitments of USD 48.2m (CHF 42.9m[11]). 2014 was an exceptional year in terms of target commitment amounts, especially in comparison with 2012 and 2013 where SIFEM was lagging in commitments due to postponed investments. The 2014 investments consist of five private equity funds (BioVeda III, ANAF II, Synergy, MPEF III, AfricInvest III), two mezzanine funds (CAMIF II; CASEIF III), two loans (AccessBank, NDB), a debt fund (ACOF), a microfinance fund (SIF 5.0), a structured trade and commodity finance fund (CVCSI); and a debt and mezzanine finance facility (ICCF). The regional breakdown of 2014 investments accounts for three in Latin America (CAMIF II, CASEIF III, SIF 5.0), three in Sub-Saharan Africa (Synergy, AfricInvest III, ACOF), two in North Africa (MPEF III, ANAF II), two in Central Asia (AccessBank, CVCSI), two in East and South Asia (BioVeda III, NDB), and one global project (ICCF). Eight investments (AccessBank, MPEF III, NDB, ANAF II, CAMIF II, Synergy, AfricInvest III, ACOF) are sector agnostic, one focuses on the mitigation of climate change (ICCF), one targets life sciences and healthcare (BioVeda III), one aims at SMEs in infrastructure (CASEIF III), one at microfinance (SIF 5.0), and one is active in the agri-business sector (CVCSI).

The new portfolio positions are as follows:

- **BioVeda China Fund III (BioVeda III)** USD 8m committed: a USD 188m private equity fund that invests in Chinese life sciences and healthcare growth companies. The Fund seeks to develop innovative drugs and medical technology devices for the Chinese healthcare system, which will improve the quality and affordability of medicine and will hence broaden the spectrum of the society benefitting from medical and health care. The Fund's potential effects on China's healthcare system are expected to impact a large number of people, especially by including the lower income classes.

- **Central American Mezzanine Infrastructure Fund II (CAMIF II)** USD 10m committed: a USD 250m fund providing mezzanine loans as well as equity to small and medium infrastructure projects in Central America and the Caribbean. The Fund targets the power, transportation, water and sanitation, as well as healthcare and education sectors among others. In addressing the lack of capital for infrastructure SMEs in Central America, the fund will contribute to the economic development of the region, notably as infrastructure has been recognized as a necessary pre-condition for economic growth, poverty reduction and social development. As the construction, operation and maintenance of infrastructure is labour-intensive, the Fund will generate a large number of jobs.

- **National Development Bank (NDB)** USD 10m senior loan: SIFEM participated in a USD 200m senior loan syndicate for National Development Bank (NDB) which will help to improve access to finance across Sri Lanka, which is critical for the growth of small businesses, job creation and economic growth. The loan from SIFEM will be used exclusively for the purpose of financing SMEs. It is expected that the long-tenor financing package will help NDB expand financial services in Sri Lanka to over 3,000 micro and small scale enterprises by 2018.

- **Abraaj North Africa Fund II (ANAF II)** USD 10m committed: a USD 250m generalist private equity fund with a focus on companies in high impact sectors such as healthcare, education and recycling, among others, investing in Morocco, Tunisia, Egypt and Algeria. By providing access to finance for private businesses in North Africa the Fund will make an important contribution to the generation of sustainable and high quality jobs in the region. Based on the Fund Manager's experience in North Africa, ANAF II's portfolio companies are expected to provide employment for more than 10,000 local people.

- **Central American Small Enterprise Investment Fund III (CASEIF III)** USD 5m committed: a USD 50m mezzanine fund investing in small SMEs in Central America. Central American Small Enterprise Investment Fund III (CASEIF III) aims to address the financing gap faced by small companies in the region by providing quasi-equity capital. The Fund is also accompanied by a technical assistance facility to improve corporate governance, financial reporting, and environmental and social areas among others in local companies. Thus, the combination of capital and assistance offered by the Fund is expected to improve the competitiveness of small companies in the region and contribute to economic development.

[10, 11] *Converted at the respective year-end exchange rate.*

- **Synergy Private Equity Fund (Synergy)** USD 7.5m committed: a USD 75m private equity fund focusing on sectors such as agricultural processing, consumer products, power, IT, manufacturing and non-bank financial services in Nigeria and Ghana. Both countries offer attractive growth prospects but face numerous development challenges, a fact which is also reflected in the poor scores on the UNDP's Human Development Index. Investing in capital-constrained SMEs contributes to private sector development and has significant effects on the creation of local jobs, revenue and income. In both countries a large part of the population lacks formal employment. The Fund will create formal jobs with better work conditions and also increase governments' revenues through tax receipts.

- **Maghreb Private Equity Fund III (MPEF III)** additional EUR 1.75m committed for a total of EUR 8.75 m: a EUR 96.5m fund providing growth capital to SMEs in the Maghreb region (Tunisia, Algeria and Morocco). SIFEM participated in a rights issue of the Maghreb Private Equity Fund (MPEF) III, which was launched in November 2011 and has solicited existing investors to make follow-on commitments of 25% of their original investments. This comes at a time where strong signals of continued support are critical for sustainable economic development in the countries of the MENA region; therefore this follow-on investment plays a counter-cyclical role in the challenging private equity fundraising environment in North Africa post-Arab spring. It further promotes private sector development, employment creation and economic growth in the target countries.

Symbior installed solar panels at two local schools near its solar plant in Northern Thailand. Symbior's small-scale solar power plants provide rural areas in Thailand with clean energy, supporting sustainable and equitable growth. SIFEM invested USD 7m in Armstrong South-East Asia Clean Energy Fund in 2013, which then invested in Symbior Elements.

- **AfricInvest Fund III (AfricInvest III)** EUR 7m committed: a Sub-Saharan Africa-focused private equity fund, with a target size of EUR 200m. The Fund invests in SMEs in a broad range of sectors including IT and telecoms, services, health, education, transport and agribusiness with a strong focus on companies aiming to expand at the regional or continental level. The Fund specifically targets Western and Eastern African countries of Cote d'Ivoire, Senegal, Ghana, Nigeria, Kenya, Uganda and Tanzania. AfricInvest Fund III is expected to create sustainable employment opportunities for thousands of Africans, contributing to regional economic integration and increasing tax revenues for local governments.

- **Interact Climate Change Facility (ICCF)** additional EUR 7.5m for a total of EUR 17.5: a EUR 461m 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 to private sector projects that reduce climate change by cutting greenhouse gas emissions. ICCF promotes the use of clean technology as an integral part of sustainable economic development and acts in the poorest countries, which are most exposed to the harmful effects of climate change and where the energy shortage is greatest. SIFEM initially committed EUR 5m to ICCF in February 2011 and further EUR 5m in the facility's top-up in May 2013.

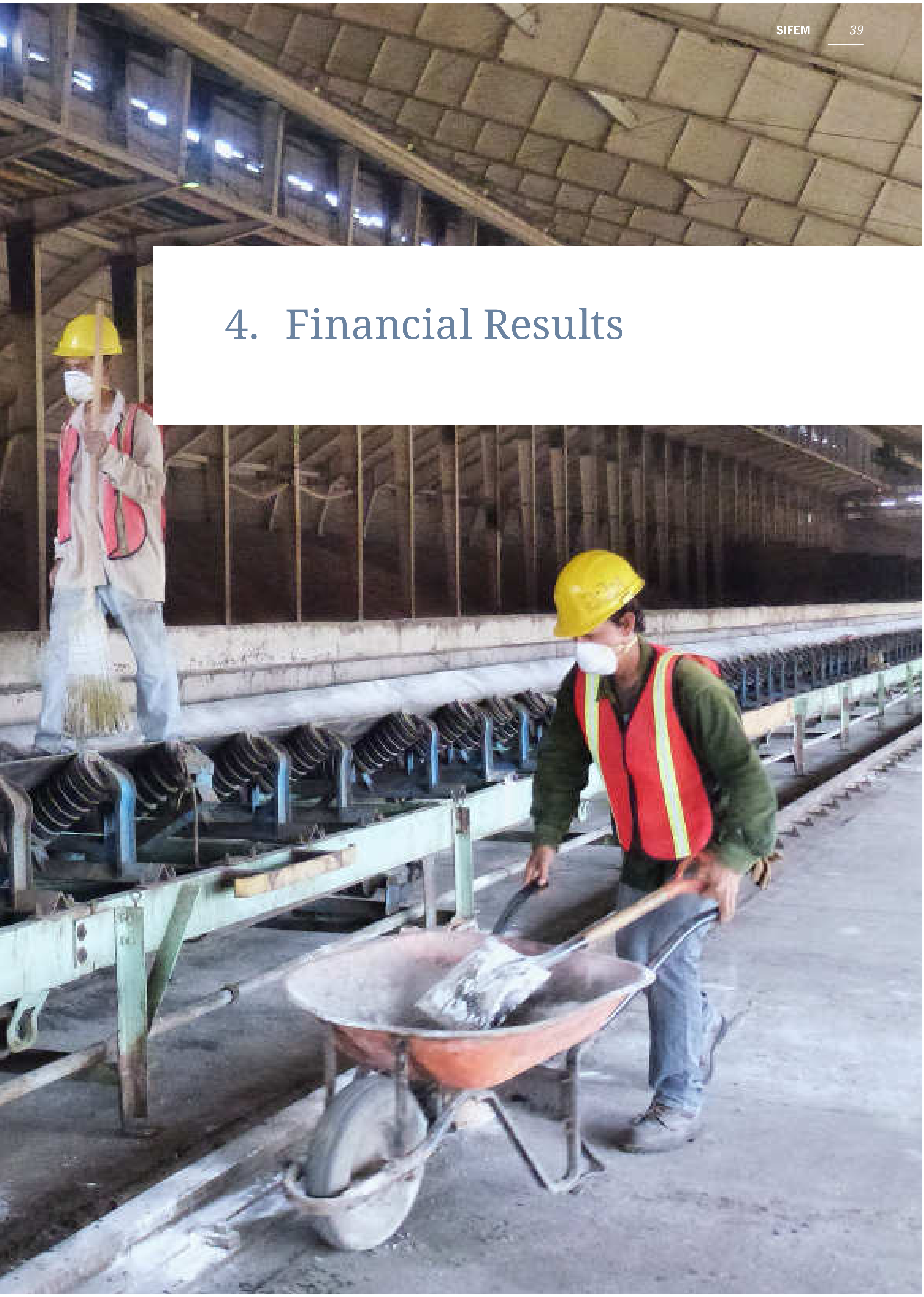
- **Social Impact Fund 5.0 (SIF 5.0)** USD 3m loan: a USD 50m debt fund that provides senior loans to microfinance institutions (MFIs), farmers' cooperatives and other social enterprises in Latin America. The Fund leverages the distribution platforms of its investments to reach low-income people across Latin America. The Fund has identified four areas of social intervention, which are health, green technology, rural livelihoods and woman-led micro-entrepreneurship. The Fund encourages its investees to offer social products and services in these areas, ranging from health education and check-ups to the distribution of small solar products and vital medicines, among other programs.

- **Commodity Value Chain Sustainable Investment Fund (CVCSI)** USD 5m committed: a USD 5m fund that provides structured commodity finance to participants in agricultural value chains in the SIFEM priority countries of Georgia, Armenia, Azerbaijan and Ukraine. Target investees include primary producers, processors, transporters and wholesalers of agricultural commodities. Beyond supporting the development of global trade the Fund is expected to have beneficial effects on food security. By financing food production, processing, storage and transport, the Fund will contribute to improving the affordability, availability, quality and safety of food products.

- **Africa Credit Opportunities Fund (ACOF)** USD 12m committed: a USD 350m (target) generalist debt fund focusing on Sub-Saharan Africa. The Sub-Saharan African nascent credit markets are shallow, and there is not enough volume to meet the requirements of market participants. As a consequence, companies are often unable to access institutional sources of finance, whereas institutional investors, such as pension funds and insurers, are left with a limited set of investment opportunities. This is where the Fund has the opportunity to close a major gap with its pioneering focus on anchoring new issuances of debt. By deepening the local credit markets the Fund is expected to contribute to financial sector development, private sector development, and job creation in the targeted African countries.

- **AccessBank Azerbaijan (AccessBank)** USD 10m subordinated loan: AccessBank Azerbaijan was founded in October 2002 as a greenfield bank with the aim of becoming the leading provider of financial services to privately owned micro, small and medium enterprises (MSMEs) in Azerbaijan. By targeting the typically underserved MSMEs, AccessBank supports their sustained growth which in turn positively impacts the development of competitive sectors such as trade, services and production, as well as generates employment. In 2007 SIFEM provided a Senior Loan of USD 6.0m to AccessBank, which was fully repaid in 2013. The new investment in 2014 will enable the Bank to further grow and strengthen its capital structure.

4. Financial Results

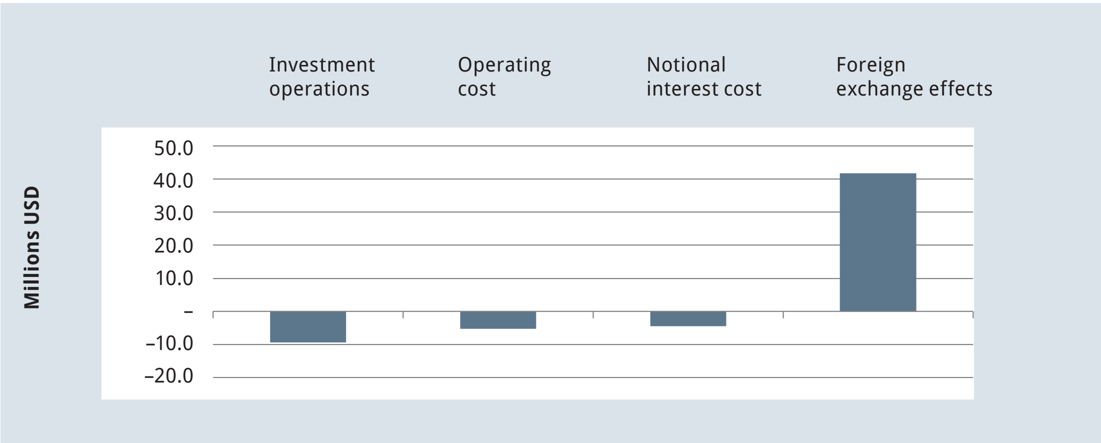


4.1 SIFEM Result for 2014

In 2014, under IFRS accounting standards, SIFEM produced a net profit of CHF 20.7m (USD 22.7m). These figures only partially reflect the underlying performance of SIFEM 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 8.6m (USD 9.4m) (as compared to a loss of CHF 9.6m in 2013). It is important to note that this net loss of the investment portfolio includes foreign exchange losses of an estimated USD 8m from the fund portfolio and CHF 6.4m from the debt portfolio and treasury cash holdings as explained in Chapter 3.4.

After consideration of the operating expenses of CHF 4.8m (USD 5.2m), SIFEM shows an operating loss of CHF 13.4m (USD 14.6m). The difference between this operating loss and the total profit of CHF 20.7m (USD 22.7) is explained by exchange rate gains produced by a depreciating CHF against the USD during 2014 on the CHF 375m shareholder loans extended to SIFEM.

Figure 10: break-down of total comprehensive loss 2014 on key contributing factors



Note: Since roughly 70% of SIFEM's investments are denominated in USD, the US 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 requests that SIFEM use USD as functional base currency. Thereby, IFRS more transparently mirrors 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 reflecting 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, which amounted to CHF 4.1m in 2014. In addition, since the shareholder loans are denominated in CHF, even small foreign exchange rate movements can lead to large paper losses or gains. These effects, as reflected in SIFEM's financial result under IFRS, account for all of SIFEM's total comprehensive gain of CHF 35.1m for the year.

4.3 Notes on SIFEM results under SCO accounting

Although SIFEM adopted IFRS, reporting under SCO accounting standards is continued in parallel, primarily for compliance and statutory purposes. Under SCO accounting rules, SIFEM recorded a gain of CHF 25.5m in 2014.

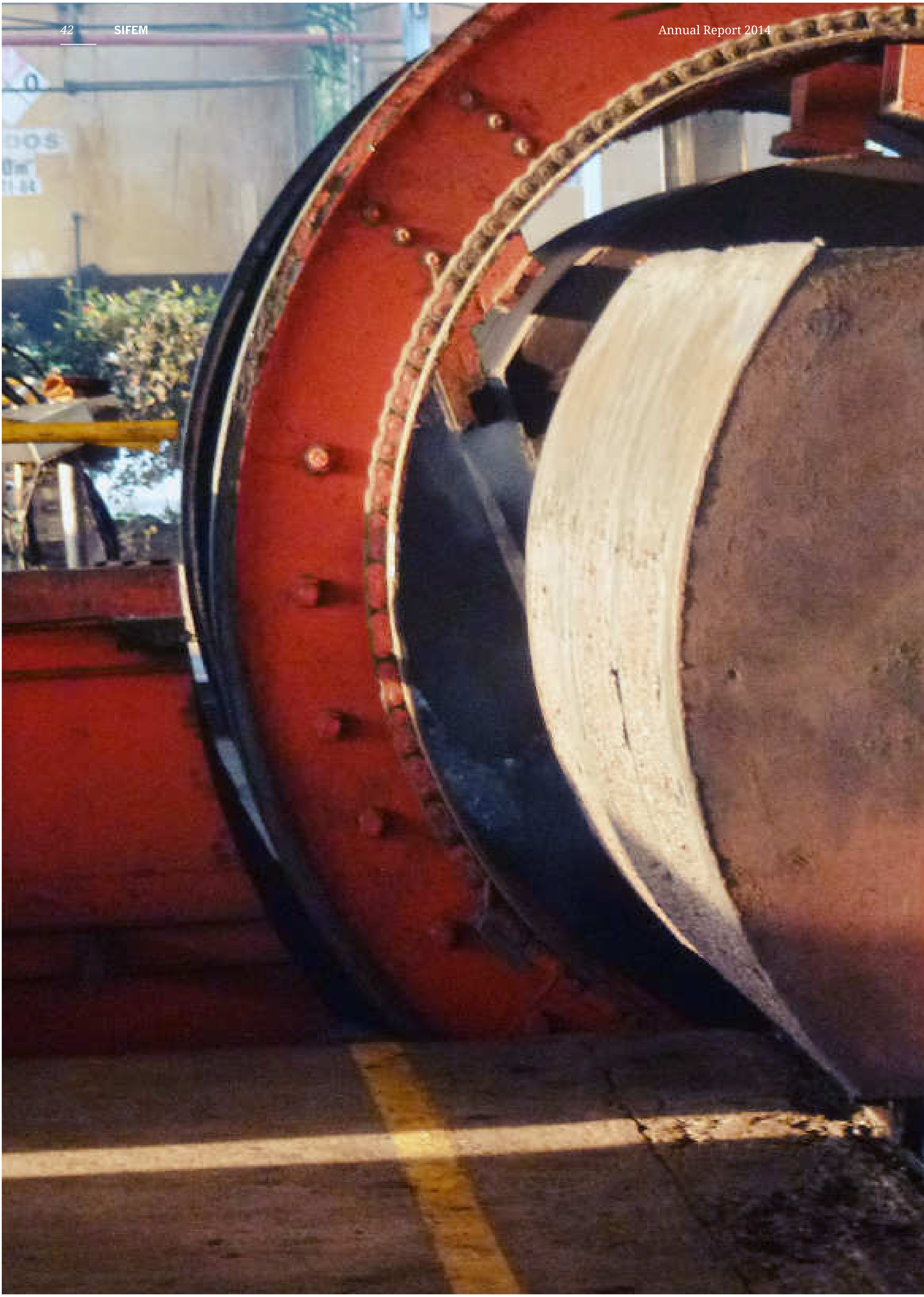
While the liabilities side of SIFEM's balance sheet is accurately reflected in the SCO accounts, the SCO accounting standards require SIFEM to hold the investment portfolio at values considerably below fair market valuations, which is more conservative but also less accurate. The appreciation of investments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

4.4 Outlook: Implications of recent currency rates changes

On 15 January 2015, the Swiss National Bank (SNB) announced its decision to abandon its policy of maintaining a minimum exchange rate for the CHF against the EUR. Following this announcement the CHF appreciated significantly not only against the euro but also against other major currencies, such as the USD and the CNY, compared to the year-end exchange rates applied.

While the SNB's decision had no impact on SIFEM's 2014 income statement and balance sheet prepared in accordance with IFRS, the resulting depreciation of the major currencies against the CHF will impact the 2015 financial results, provided that the exchange rates remain on the post-SNB decision level throughout the 2015 financial year.

An appreciation of the CHF against the EUR, USD and CNY will typically have a negative impact on the net result. At this point in time, however, one cannot reliably estimate the impact on the net result for the 2015 financial year, as this will very much depend on the future development of the currency rates.



5. Development Impact

SIFEM's investment approach is guided by the belief that investing in commercially viable companies in emerging and frontier markets can provide acceptable returns while generating sustainable, long-term positive development effects. Investing responsibly in the creation and growth of viable private businesses is one of the most important contributors to the economic growth upon which the developing world's prosperity depends. Without a thriving, responsible and profitable private sector, many economies of the world will continue to struggle with poverty.

Development Impact

By investing via funds and financial institutions in its target markets SIFEM leverages the local presence, capacity, and expertise of these intermediary institutions, which are optimally placed to invest in local businesses on SIFEM's behalf and provide both the finance and the assistance needed to improve operational excellence and growth. SIFEM's finance thus contributes to enhancing entrepreneurship, creating jobs, deepening and strengthening financial sectors, and driving economic growth. SIFEM is committed to measuring the development effects of its investments, and has been doing so for the past nine years.

Obviam constantly strives to improve its internal systems and procedures to better measure SIFEM's development impact and to find new ways of demonstrating and explaining the effects of SIFEM's investments on the ground. At the same time, Obviam also actively engages with other development finance institutions in order to enhance the collaboration to better serve clients and advance the common agenda of spurring on growth and reducing poverty.

The following sections present an overview of SIFEM's development impact methodology and the findings of the latest development impact report. In order to better illustrate SIFEM's development impact on project level another section proposes a selection of case studies. The last section gives an overview of SIFEM's collaboration efforts with other development finance institutions.

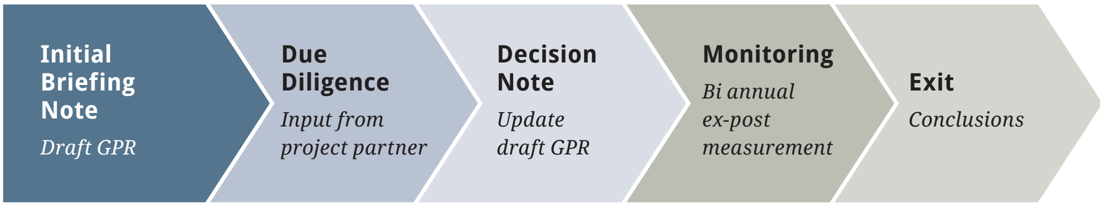
Obviam visits Calorx Public School in Rajula, India. Altus Learning is a professionally managed education company, delivering school management services to the Calorx group of schools.
Calorx Public School Rajula offers quality education to over 350 children in a remote, rural location of a country where the adult literacy level hovers around 63 %. SIFEM invested USD 8m in Kaizen Private Equity Fund in 2011, which then invested in Altus Learning in 2012.

5.1 SIFEM's Development Impact Measurement System

The Corporate Policy Project Rating Tool (GPR) in Brief

SIFEM has been using the Corporate Policy Rating Tool (Geschäftspolitisches Projektrating - GPR) developed by the German development finance institution DEG (Deutsche Investitions- und Entwicklungsgesellschaft) to assess and measure the development effects of its investments since 2006. Investments are assessed on the basis of their contribution to eight different development indicators: 1) employment, 2) gender equality, 3) training, 4) mobilisation of local capital/savings, 5) financial sector diversification, 6) credit allocation diversification, 7) institution building, and 8) company development. The eight development indicators are composed of 42 sub-indicators, which serve to qualify the score investments receive relative to their contribution to any given indicator.

Figure 11: Integration of GPR assessments over the life cycle of an investment



The GPR tool is used to collect and asses data throughout the whole life cycle of an investment: on an ex-ante basis pre-investment, and at regular intervals post-investment, to track and monitor actual development effects. The figure above summarizes the application of the GPR tool at various phases in the investment cycle.

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 fund or direct investment in financial institutions (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 fund investments, the post-investment process is done until the end of the lifetime of the fund. For direct investments in financial institutions, post-investment GPRs are done until maturity, prepayment, or divestment.

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 development effects report.

Additional Development Indicators

The GPR is a very useful tool to collect qualitative data in a standardized way. In order to complement this information with actual figures SIFEM has been collecting and analysing employment numbers of investee companies of its funds as well as employment numbers at the sub-borrower level of SIFEM's direct investments in financial institutions on an annual basis. To get a more comprehensive and deeper view of the development effects of the SIFEM portfolio, Obviam has implemented an additional set of development indicators, which were approved by the Board in August 2013 and are tracked for all new investments executed since that date. These indicators are for the most part cross-sectoral or applicable to SIFEM's portfolio in financial intermediation and mainly harmonized with other International Financial Institutions.[12] They cover areas such as the amount of tax payments generated by the investments for the local governments, company growth figures, or amount of finance dedicated to microfinance, SMEs and housing and are collected on a yearly basis.

[12] *In October 2013, SIFEM signed the "IFIs Harmonized Development Results Indicators for Private Sector Investment Operations" which have been elaborated together with 27 other DFIs and IFIs. The initiative harmonizes indicator definitions, units of measurement and reporting standards for 28 core indicators from 12 different sectors, for further details on the harmonization efforts please refer to section 5.4 of this report.*

5.2 Latest Development Highlights[13]

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. A study from Small Enterprise Assistance Funds (SEAF)[14] has found that SMEs typically have a highly positive impact on their local communities.[15] In most cases SMEs are firmly embedded in their local community and as a result can provide sustainable solutions and development with a sense of ownership. Furthermore the SEAF study found that the operations and expansion activities of their SME investments often also benefit their local communities – directly via the increased infrastructure needed for the investment operations which are then made available to and benefit the whole community or via the resulting economic opportunities. Examples of this from SEAF's SME investments include the construction of local water treatment plants, the provision of access to hydroelectricity for rural communities, the upgrading of local roads, and the building of a recreational park. In addition many of SEAF's SME investments give generously and regularly to the charities, organisations and NGOs located in their own communities. These donations come in the form of cash, in-kind donations, and/or the employees' time and skills, and these contributions generally grow in line with the SME's growth. Translated into financial terms, every USD invested into frontier market SMEs has generated, on average, and additional USD 13 in the local economy.

SIFEM currently has a total of 41 investments which are rated post-investment (investments made between 2005 and 2013), including 33 funds and 8 financial institutions. Obviam's 2013 development effects assessment shows that a very good level of development effects is expected from SIFEM's new investments; at the same time when comparing expected development effects versus effects actually observed, overall investments have performed 15% better than anticipated at the time of investment. In addition, more than half of the investments can be rated as "very good" in terms of actual development effects.

The development effects of SIFEM's portfolio in 2013 can be summarized as follows:

- Support of over 290,000 jobs (since start of tracking in 2005);
- explicit gender targeted strategy (6 out of 41 projects);
- strong support for training (39 out of 41 projects);
- strong mobilisation of local capital (37 out of 41 projects);
- significant contribution to local financial sector diversification (35 out of 41 projects)
- strong effects regarding credit and capital allocation diversification (all projects);
- strong contribution by Obviam to fund and financial institution building (all projects); and
- strong drive for improvement in investee company operational excellence (40 out of 41 projects).

Sunshine Exports, SEAF Trans Andean Fund investee

[13] *Since development effects data for the year is gathered in the 1st half of the antecedent year, in 2014 Obviam gathered and consolidated the data as per year-end 2013.*

[14] *SIFEM has invested in several funds of SEAF (notably SEAF Central and Eastern European Growth Fund, SEAF Central Asia Small Enterprise Fund, SEAF Trans Andean Fund, SEAF South Balkan Fund, SEAF Blue Waters Growth Fund, and SEAF LATAM Growth Fund).*

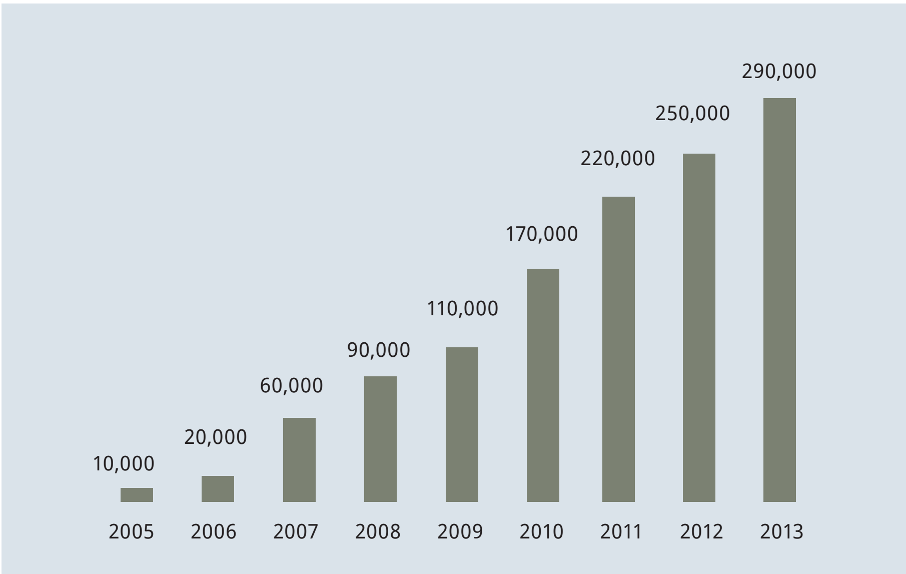
[15] *SEAF: Impact beyond Investments. 2011 Development Impact Report. A report for which SECO has provided funding and support independently of SIFEM.*

Socio-Economic Effects

Employment

One of the most relevant and at the same time most tangible indicators of 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. SIFEM also attaches high importance to the quality of the jobs created and supported by ensuring that underlying investee companies comply with ILO core labour standards. SIFEM together with other investors has contributed to creating and supporting over 290,000 jobs in developing countries since the inception of the jobs tracking in 2005 of which over 210,000 were in SIFEM's active portfolio as per end of 2013. SIFEM's pro rata share of jobs created and sustained by the end of the year 2013 was around 25,000, while the employment numbers in existing fund investees grew by over 10% since the previous year

Figure 12: Jobs supported by SIFEM's overall portfolio since inception



Training Effects

Training is an important element of development impact: it improves skills, productivity, and diversification of the labour force. These advancements are important for economic diversification, revenue generation, and prosperity. The availability of human resources is one of the most important factors for companies choosing the place where they want to operate, and is therefore a key element to attract further establishment of economic activities. Moreover, a well-trained and hence often better paid labour force can expect improvements in their quality of life over time.

With the exception of two investments, all of SIFEM's projects provide training to their employees, three-quarters to their management, and over half of them also to a wider audience outside the organisation, such as local universities and industry associations.

Typically, staff members will be trained in technical areas such as credit and investment analysis or monitoring and reporting skills. Whereas the management staff generally engages in training in soft skills such as strategy and negotiation competences and other executive leadership programs. The training effects for external people often function in cooperation with local universities or industry associations for workshops and speeches as well as internship programs. SIFEM's projects offer a wide array of possibilities for reaching and training a large external audience. They range from lecturing at universities, training peers in industry networks, offering internship programs to students speaking at conferences and various events, to training investee staff on how to place student loans successfully, just to name a few.

Gender Effects

Gender equality is an essential element of development impact. Many women in emerging markets are forced to work in the informal sector, and the majority of the world's poor are women. SIFEM has a conservative approach to rating gender effects. Investments can only score in this area if the promotion of women is a specific target of the project. The project needs to have deducible positive effects on the promotion of women within the respective sector. This can either happen at the level of the fund manager (e.g. the fund management is composed of 50% or more women, or has dedicated programs and/or policies towards women within the team that are beyond local legal requirements) or at the investee company level (e.g. promoting women to positions of responsibility or supporting other policies that are beyond local legal requirements). The causality of the effects has to be established and the effects need to be monitored to gain a score in development effects. Crucial here is that the efforts have to go beyond local legal requirements. Even if local law is hardly enforced in many countries, a project will not obtain any points for just fulfilling minimum local legal requirements.
Six projects reached a positive score for their contribution to gender equality by having gender policies in place and implementing measures to explicitly encourage women's empowerment.

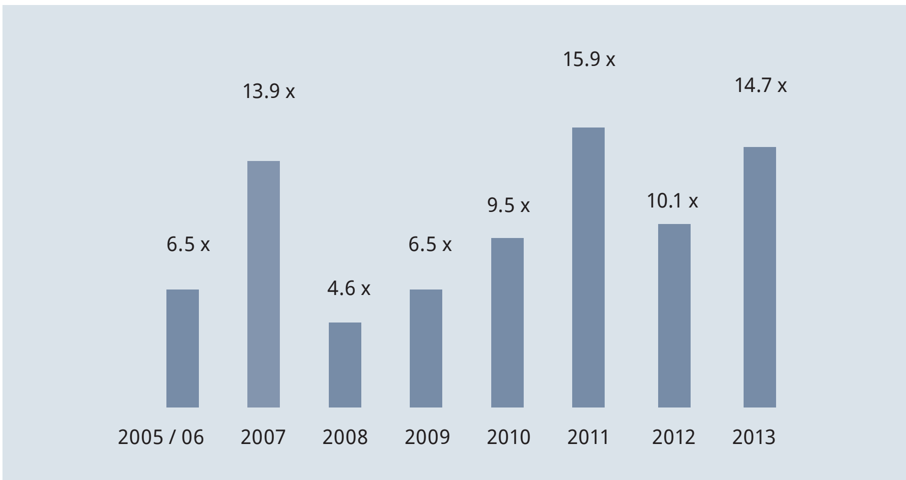
Financial Sector Development

A robust and efficient financial sector is a prerequisite for economic growth, income generation and job creation. Well-functioning financial institutions attract local savings, which in turn become available for productive investments in local businesses. They also channel international streams of private remittances, and provide a range of financial instruments necessary for risk management and diversification. The finance sector in many emerging markets is not yet well established, and the above mentioned services are often not provided or are only available to a restricted group of clients. A stunted financial sector is characterized by a narrow range of institutions, low penetration of services and/ or unsophisticated and overpriced products and services. 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. Via investments in funds and financial institutions, SIFEM can play a role in strengthening the financial sector in the form of investment capital mobilisation, financial sector diversification, credit and capital allocation diversification, and financial institution building.

Mobilisation of Additional Finance

SIFEM seeks to address these issues by mobilising additional capital from other private, public 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.

Figure 13: Additional finance leveraged by SIFEM since inception

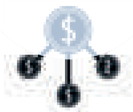


With its 2013 fund investments, each USD invested by SIFEM was matched by USD 14.7 from other investors. The mobilisation of capital is of high relevance because, in the medium to long term, projects cannot count on public money and will have to refinance themselves via private investors.
SIFEM's Strategic Objectives require also accounting for the mobilisation of strictly private capital. For the year 2014, each USD invested by SIFEM was matched by 7.15 USDs from private investors.

Mobilisation of Local Investment Capital

Investment capital mobilisation is an important contributor to the size and diversity of the financial sector. In many emerging markets, banks and local investors are reluctant to expand credit other than to the most creditworthy borrowers, and prefer not to incur the risks of providing credit to SMEs. They often maintain large deposits at central banks or with foreign financial institutions which is less risky and labour-intensive. By attracting local investors, local funds and financial institutions contribute to improving the situation.

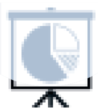
Comparing anticipated local capital mobilisation to observed effects in 2013, overall SIFEM and its partner institutions have met expectations: 90% of all investments have in some way contributed to the mobilisation of local capital or savings, 56% of SIFEM's projects have either local investors or have managed to attract local savings and 88% of the investments have facilitated access to additional local capital for their investee companies.



Diversification of the Local Financial Sector

Advanced and sophisticated financial sectors include a range of banks and non-bank financial institutions, such as pension funds, insurers and asset managers. In emerging markets, banks dominate the finance sector. A diverse financial sector facilitates the allocation of capital to sectors and areas where it is scarce, and improves the ability for intermediaries to price risk and opportunities and provide client- focused services.

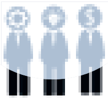
Comparing the anticipated financial sector diversification effects of SIFEM's portfolio to the observed effects in 2013, the overall actual results have exceeded expectations. Almost all projected outcomes for the respective indicators have materialized. 35 out of the 41 evaluated investments in some way contributed to the diversification of the financial sector in their respective regions. 37% of total projects are new types of institutions for their respective markets, and in over 40% of the cases, they provide an innovative type of financial product. Furthermore, almost 60% of them are also actively involved in improving the legal framework in their country, and thus paving the way for further financial sector diversification and investment.



Credit and Capital Allocation Diversification

In many emerging markets, on one end large businesses use formal, bank-based credit and capital markets for their financing needs; while on the other end of the spectrum households and micro-entrepreneurs have access to micro-loans. SMEs are however often stuck in the middle without reliable access to finance. Financing SMEs, known as the "missing middle", is essential for economic growth and jobs.

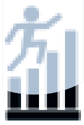
Comparing anticipated capital allocation diversification of the aggregate portfolio to observed effects in 2013, SIFEM's investments exceeded expectations on all sub-indicators. All investments have contributed to the diversification of credit and capital allocation by providing finance to business segments, which have been insufficiently serviced in the past. In particular SMEs (targeted by almost 90% of SIFEM's investments) and export financing were solidly supported.



Institution Building and Introduction of Best Practice Environmental and Social Standards

SIFEM supports institution building at the level of funds and financial institutions by strengthening their organisations and their management, improving information and control systems, improving risk management, providing additional long-term financing capacity and working towards the establishment of ESG management systems. As an investor in funds, especially when committing to first time teams, SIFEM strengthens new and innovative financing initiatives, sends a signalling effect in the market place and assists the fund manager in building a track record. SIFEM is strongly committed to being an active investor with a hands-on approach when it comes to managing its portfolio.

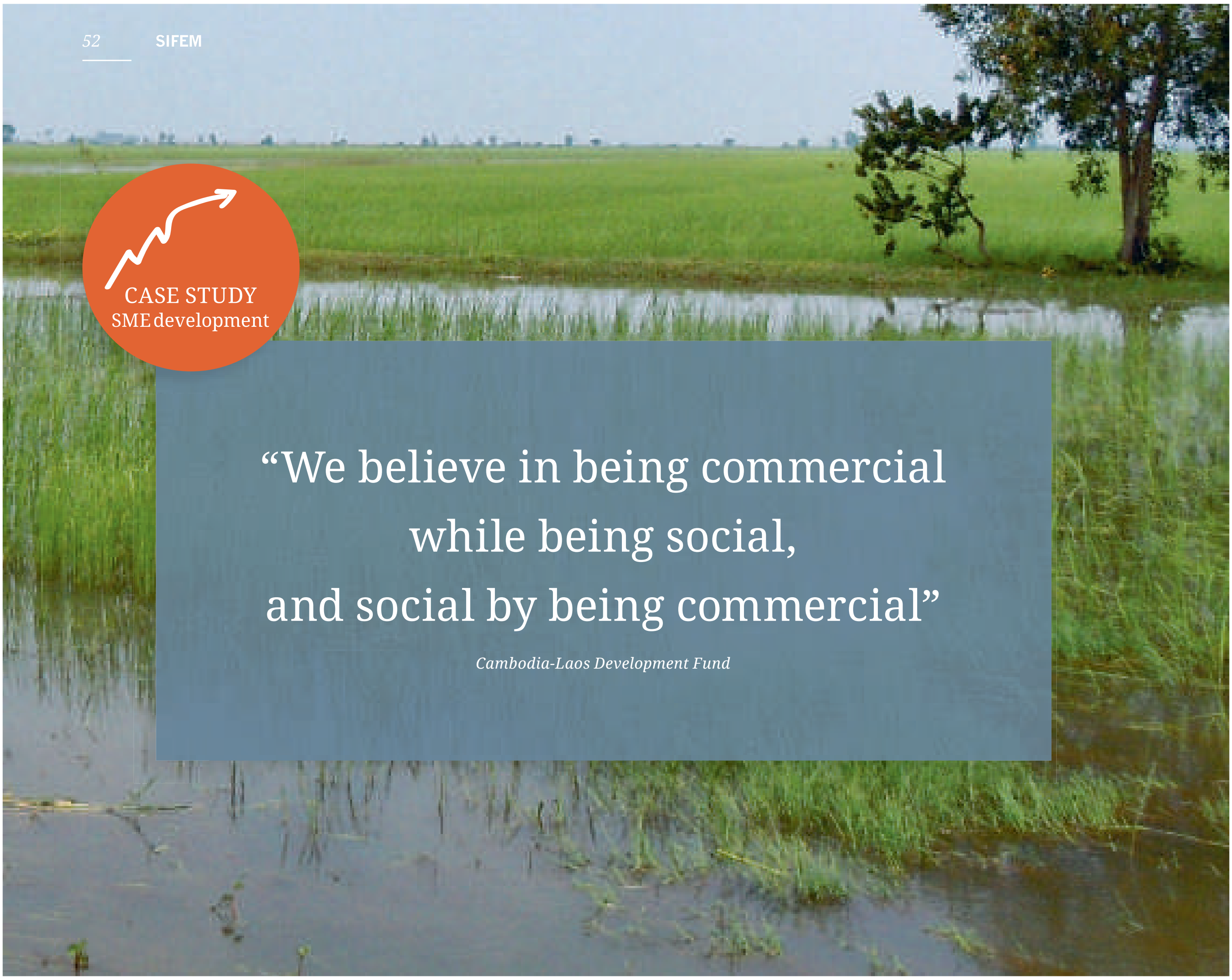
The GPR 2013 assessment evidences that all of SIFEM's investments have benefitted from institution building effects at the partner institution level. Many of these benefits are related to and enhanced by Obviam taking advisory board seats at a fund level or providing assistance pre-investment. Funds in particular are benefitting from SIFEM's support in different areas such as the reinforcement of organisation 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 requires 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.



Local Company Development

Funds and financial institutions play a critical role in company development in emerging markets. Especially the private equity model is not only based on providing capital, but also on investing in operational excellence by supporting the portfolio companies in various aspects of business. The capacity of a fund manager to add value to investee companies is an important criterion for SIFEM when it comes to project selection.

The 2013 GPR assessment shows that all of SIFEM's investments involve a high degree of company development at the level of investee companies. Fund managers support investee companies in areas such as the introduction of new technologies; improvements in manufacturing; marketing; distribution; customer service; corporate governance; environmental and social standards; as well as accounting and reporting. Investee companies can also benefit from the fund managers' industry expertise and networks as additional value drivers beyond the financing. The fund managers' involvement in recruiting key managers for their portfolio companies, giving strategic advice, supporting customer acquisition and strategic partnerships, as well as their management of relationships with bankers, is arguably more critical in emerging markets than elsewhere. 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.



CASE STUDY
SME development

“We believe in being commercial while being social, and social by being commercial”

Cambodia-Laos Development Fund

5.3 Development Impact Case Studies

CAMBODIA-LAOS DEVELOPMENT FUND

The Cambodia-Laos Development Fund (CLDF) is the first solely small and medium enterprise (SME) growth-focused private equity fund dedicated to the frontier markets of Cambodia and Laos. It is managed by Emerging Markets Investments (EMI), a local first-time fund manager which spun off a private-sector development consultancy group. Obviam invested into the Cambodia-Laos Development Fund on behalf of SIFEM in 2009.

Region:	Cambodia and Laos
Sector:	SME development
Investment year:	2009
Fund manager:	Emerging Market Investments
SIFEM investment into fund:	USD 3.5m
Grant for technical assistance:	USD 0.5m
Total fund size:	USD 19.7m
Employment:	7 employees (fund manager) 3,331 employees (portfolio companies)
Website:	www.emergingmarkets.asia

The Situation in Cambodia and Laos

- **Approximately one-third of the populations of Cambodia and Laos live below the international poverty line,** with gross domestic product (GDP) per capita based on purchasing power parity of USD 2,838 and USD 4,465 respectively. Cambodia and Laos are placed on the low end of the Human Development Index, a composite measure of health, education and income forming a score for standard of living, at ranks 136 and 139 out of 187 respectively.

- **Their economies have grown in recent years and the countries have great potential for further growth** through the development of sectors such as tourism, manufacturing, retail trade, and through better use of their natural resources. Currently around 75% of the population subsists on agricultural work.

- **Access to adequate and affordable finance is essential to grow a business sustainably.** However the capital available in Laos and Cambodia has largely taken the form of short-term bank loans, which are difficult to obtain and very costly for SMEs.

- **SMEs play a major role by creating jobs and generating income,** supplying low cost goods and services, and participating in research and innovation. They also have important linkages with large corporations (as suppliers, subcontractors, distributors etc.), thereby contributing to economic efficiency and output. SMEs are a critical, yet under-financed segment of these countries' economies.

- **To rise to their potential, SMEs need business assistance and training.** Finance alone is often insufficient to support a company's growth. Assistance in the form of sound advice and guidance is essential for the continuous growth and stability of SMEs.

Obviam and CLDF together visit the site of a new Fund investment

Development Effects in a Nutshell

- **CLDF provides growth capital which is scarce but vital to the development of SMEs** and hence supports the long-term economic progress of Cambodia and Laos and their competitiveness in the global market.

- **The Fund contributes to the strengthening of the private sector in Cambodia and Laos, by supporting local job creation and generating taxes.** In 2013, the CLDF's portfolio companies paid USD 1.7m in taxes and in 2014 employ a total of 3,331 people of which more than 40% are women.

- **CLDF invested in eight innovative companies with high developmental impact.** These are companies in hospitality, agricultural processing, telecommunication, financial services and education which are taking a pioneering role in terms of operations, targeted beneficiaries or governance models.

- **The Fund takes a hands-on approach in accompanying its entrepreneurs on their growth path.** With backgrounds in consulting, the EMI staff is well placed to assist by providing managerial and strategic support.

- **CLDF actively works on implementing international environmental, social and governance standards in all its investees,** thus fostering knowledge and skill transfer, and encouraging best practices across the industry.

- **CLDF effectively administers additional funds for technical assistance (TA) to its portfolio companies.** The TA includes interventions addressing social and environmental management issues, securing global processing and food safety certifications, as well as providing elaborated studies and advice on new product development and operational efficiency improvements.

- **The Fund Manager intends to repeat the successful investment concept of its first fund** by also including Myanmar into the target geography for a follow-on fund. The commercial success of CLDF's investment model is vital for attracting interest from other potential investors to further develop the financial markets in these countries, and thus ease the financial supply constraints faced by SMEs in the region.

Challenges of Post-Communist Indochina: Establishing a Stable Economy

Cambodia
Cambodia has a turbulent history. With the end of the genocidal Khmer Rouge in 1979 the country was left broken with everything needing to be rebuilt. The Khmer Rouge not only depleted the country's reserves of human talent on which entrepreneurship is based, but also disrupted the continuity of social institutions, as well as the formal and informal rules which provide the framework for a functional economy.

The late 1990s were spent consolidating peace and taking important steps toward a market-based economy, however the human and public financial resources remain overstretched and physical infrastructure is lacking. Basic public services are still absent for much of the population and most of Cambodia's economy operates at low productivity levels. The large majority of the Cambodian population lives in rural areas, and are dependent on subsistence farming and the agricultural industry.

Laos
Since the early 1990s, the Lao government has worked towards reforming its soviet-style economic system and policies. Despite sustained economic growth due to these market-oriented reforms, the government retains a high degree of control over the economy and Laos remains a poor country with inadequate infrastructure and a largely unskilled workforce.

Agriculture, mostly subsistence rice farming, dominates the economy, employing an estimated 75% of the population and producing 37% of the GDP. Tourism is a growing industry and is the second source of foreign earnings, after export of mineral resources.

The Investment Environment
Besides the lack of finance and managerial experience, the legislative framework also inhibits the growth and proliferation of SMEs in Cambodia and Laos. The formal private sector faces a myriad of transaction costs and barriers to establishment and operation. Consequently staying in the informal sector remains a rational response to the current regulatory climate for many companies, as informal firms face lower taxes and bribes. The investment environment in Cambodia and Laos is therefore quite difficult, particularly as some of the essential market infrastructures are still in early stages of development, and institutions tend to be unreliable.

Skilled and experienced investment professionals are needed to operate in these markets, people who are not afraid to roll up their sleeves and provide hands-on support to guide the companies in their growth.

SIFEM's Role as an Investor: Adding Value and Providing Hands-on Support

Making Capital Available
Cambodia and Laos are classified as Least Developed Countries (LDCs) by the Organisation for Economic Co-operation and Development (OECD). While their economies have grown in recent years, the lack of capital and

managerial know-how continues to delay the establishment of a healthy, formalized private sector, impeding these countries' overall development. For SMEs, bank loans are often unsuitable and difficult to obtain even with the required collateral. Typical private equity funds are not willing to venture into this region, because there are few precedents and the risk to invest in such an underdeveloped market is high. Hence the provision of capital is critical to these typically underserved regions.

Enabling a Track Record
The Fund is the first solely SME growth-focused private equity fund dedicated to Laos and Cambodia. Consequently it is an investment opportunity lying at the core of the DFI (Development Finance Institution) mandate, and their investment enables the Fund Manager to build a track record in these developing South East Asian countries and demonstrate that the investment model is financially viable and successful. This could potentially catalyse further funding from foreign institutional and private investors at a later point in time.

Leveraging its Network
SIFEM actively supports the development and formalization of EMI as a first-time fund manager by leveraging its network and facilitating the introduction of private equity specialists and fellow fund managers for knowledge sharing as well as access to technical assistance (TA) grants from the State Secretariat for Economic Affairs (SECO). SIFEM is also contributing to keep the Fund's governance at a high standard; it is involved in reviewing the Fund's investment strategy and execution of conflict resolution through its membership in the Advisory Committee.

Technical Assistance for SIFEM's Investments

Grant for Capacity Building
The State Secretariat for Economic Affairs (SECO) provides technical assistance (TA) grants alongside SIFEM investment to facilitate capacity building and business assistance, both needs often identified in SMEs in developing countries.

As businesses develop, required skills and processes to support that growth need to follow suit, and the lack of them can impede the success of a company significantly. However, the expertise needed is often too expensive for SMEs to bear alone, and this is where SECO-sponsored TA comes into play. A contribution to those costs can be granted on a case by case basis directly by SECO or via a delegated TA facility managed by the fund manager as is the case for CLDF investees.

CLDF's Business Improvement Facility
Obviam arranged a TA grant of USD 500,000 from SECO to be used over the lifetime of SIFEM's investment in CLDF. This budget can be used as special consulting needs arise from the portfolio which cannot be met by the Fund Manager.

CLDF carefully utilizes the SECO TA business improvement facility: 15 projects have been conducted or are in the process of execution. This includes interventions such as the implementation of fire and safety measures for a school, the elaboration of a strategy for financing home acquisition loans for the lower and middle class, the certification of best practice hygienic standards for a restaurant chain, as well as the development of a contract farming model for a rice mill.

The Fund Manager: Emerging Markets Investments

Practical Advice and Hands-on Support
The Cambodia-Laos Development Fund is managed by Emerging Markets Investments (EMI), a local first-time fund manager having emerged from a private sector development consultancy group. EMI operates in a small and challenging market, and has built on their consultancy experience and knowledge of the Cambodian and Lao SME sectors. This positions them well to assist investee companies with practical advice and hands-on support, beyond the typical standards, and this is the key to their investment activities with small companies in these markets. They help investees in their strategic development and formalization process and ensure that best practices regarding social, environmental and governance standards are applied.

Supporting Local Staff
The EMI team is small: it is comprised of two founding partners from Australia and the United States of America, three local investment staff, one investment fellow, and one administration assistant. As private equity is developing in the region, it is crucial to involve the local professionals to build their knowledge and expertise and therefore advance the entire industry. EMI therefore supports its local staff in obtaining further education and regularly organizes training programs to that effect. In addition, the Fund Manager secured strong support from highly reputed and experienced private equity professionals, acting on the investment committee as advisors or trainers.

"Because we live in the countries where we work, we are invested in the success of these markets." – Emerging Markets Investments

Cambodia-Laos Development Fund Portfolio

Battambang Rice Investment Company

Improving Quality and Productivity
Battambang Rice Investment Company (BRICo) is a start-up venture founded by EMI and three other partners in 2012. The mill is located in the heart of Cambodia's "rice bowl", the province of Battambang. It processes premium Jasmine rice to meet domestic needs and opens opportunities for international export. Currently the bulk of the rice produced in Cambodia is of mediocre quality and oriented towards local consumption. There is ample room for value creation by improving productivity and quality, both in the farming and the milling process. BRICo takes a large step in that direction by being the first commercial rice mill abiding by international environmental, social and governance standards and is a pioneer project aiming at building up the entire rice production value chain in Cambodia.

Creating Value
The company is currently developing a farmer contracting model with the local farmers which will provide them with a steady source of income as well as education and training for growing quality crops. This benefits both parties by increasing the opportunities and profits of the farmers and the community, as well as by providing the quality of crops needed by the mill.

Eventually BRICo also wants to source by-products such as rice husk and bran from its farmer network which could be used as biomass to fuel the mill's dryer and thus optimize the available resources and waste management.

Packaging at Battambang Rice Investment Company

Angkor Mikroheranhvatho Kampuchea Locations

Angkor Mikroheranhvatho Kampuchea (AMK)

A Leading Microfinance Institution

AMK is one of Cambodia's leading microfinance institutions (MFI) serving 66,000 depositors and 322,000 borrowers throughout the country with an average loan size of USD 350. AMK has a phenomenal outreach serving members of about 15% of all Cambodian families. It is one of the few MFIs, which, despite growing as an institution, is not rising in terms of loan sizes and social groups, and therefore is solely serving people in the low-income segments of the population. AMK is present in every province of Cambodia and provides a range of tailored microfinance services such as loans, savings, money transfers, and mobile banking. The institution is also looking into further expansion of services for its current clientele.

Developing Innovative Solutions

In particular, AMK developed innovative ways to serve large numbers of poor people in a cost-effective and efficient manner by arranging loan disbursement and collection at a community level. This access to financial services gives poor people in rural settings the opportunity to diversify their livelihood options. Women borrowers account for 85% of total borrowers and 94% of total borrowers live in rural areas. AMK reaches 100% of all districts in Cambodia and 97% of all communes.

Westline Education Group

International Standard Education

Westline Education Group opened its first school in 2008 and offers international standard primary and secondary education to low and middle income families in Phnom Penh. It has established itself as the leading and fastest growing education provider in K-12 and English education in an area where quality education is in high demand due to the inefficient public school system. The company utilizes the government curriculum supplemented with additional extra-curricular activities to equip students with leadership skills and foster community engagement.

Strategic Expansion

The Westline Group also runs a professional training and consultancy division which provides management and leadership training to organisations and teachers in Cambodia. In total, the group currently operates eight community campuses in the capital city, creating employment for almost 750 people and teaching around 8,500 students. The school plans to expand into provincial regions, where the lack of quality education is even more evident.

Utilizing Technical Assistance
EMI helped to build key corporate functions to support the successful branch roll-out and improve operational efficiency and effectiveness. The Fund assisted in strengthening the management of the school infrastructure by implementing a safety program and advising on the unclear tax obligations for the education sector, interventions which were co-financed with the State Secretariat for Economic Affairs (SECO) technical assistance (TA) funds.

Westline Education Group

First Finance

First Finance

Improving Living Conditions
First Finance is the first financial institution to specialize in housing finance in Cambodia. It provides mortgage loans to low- and middle-income households who do not have access to formal commercial lending. In 2009 it was started out of a non-governmental organisation (NGO) initiative and has since then continuously grown its product offer and outreach to underprivileged people. First Finance currently has over 1,000 active borrowers. The opportunity to buy their own home can notably improve the situation of low-income families as rent becomes increasingly high in comparison to their salaries. In addition, leases are often just available for short-term periods, which forces the families to move frequently. First Finance is further teaming up with housing and property developers in order to provide and promote affordable housing solutions.

Home Improvement Loans
First Finance also provides home improvement loans, which are used for purposes such as building an additional floor to or extending the area of existing homes or buying necessary household items. In this way First Finance contributes to improving the stability and security of households and the living conditions of the local population. First Finance is currently operating in Phnom Penh, Siem Reap and Battambang Province, however there are plans to expand to additional provinces in the next few years.

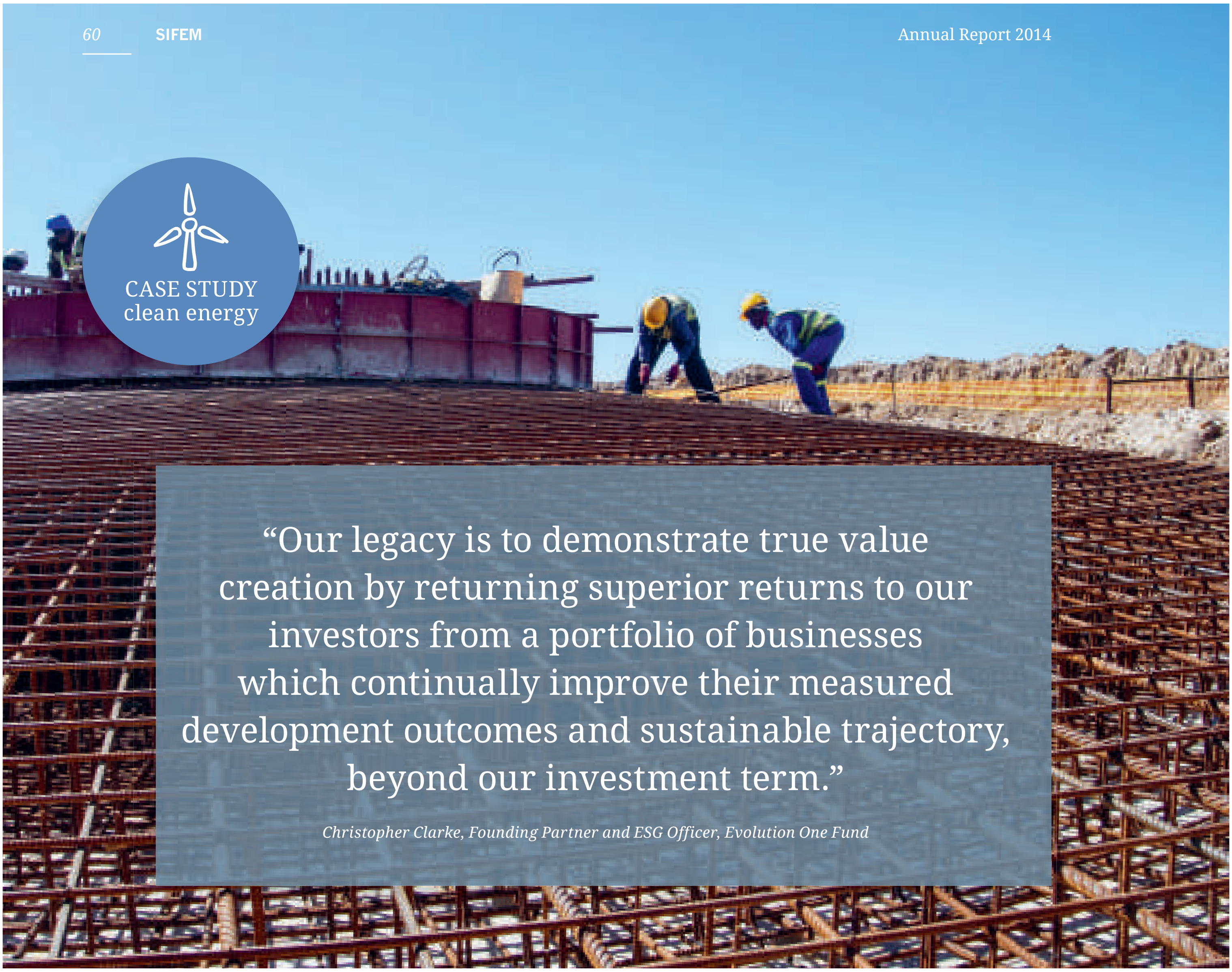
A Focused Mission
To stay true to its mission, the company focuses on first-time home owners and limits the loan amount to only serve the targeted clientele. First Finance's clients then gain a credit history as a result of their First Finance loan, which enables them to apply for and receive additional banking services from more traditional institutions later on.

Joma Café

A Well-known Institution
Joma Café and Bakery is a chain of cafés and associated bakeries with a social mission. First established in Vientiane in 1996 Joma currently operates ten cafes in Vientiane, Luang Prabang, Hanoi and Phnom Penh. The company's flagship store in Vientiane has become an institution among both expatriates and tourists and is also attracting a growing number of Lao clientele.

Providing Opportunities
Joma provides jobs for over 525 employees, with a specific focus on giving opportunities to marginalized people, for example refugees, single mothers, and women who have been victims of abuse. They are selected via recruitment missions in socially vulnerable areas conducted in cooperation with local NGOs. Continuous training in various areas of the hospitality industry ensures that the employees are trained to a high-standard and gives them a rare opportunity to earn a decent living, as well as offers the possibility to develop within the company. Employees also benefit from free medical care and interest-free loans for their children's education. In addition to its social recruitment program Joma donates 2% of its profits to social causes and local development projects. CLDF's investment has enabled Joma to expand and grow successfully, creating additional jobs and providing the means to further their community engagement.

Joma Café



> "Our legacy is to demonstrate true value creation by returning superior returns to our investors from a portfolio of businesses which continually improve their measured development outcomes and sustainable trajectory, beyond our investment term."
>
> *Christopher Clarke, Founding Partner and ESG Officer, Evolution One Fund*

EVOLUTION ONE

Evolution One is a renewable energy and clean technologies private equity fund investing in South Africa. It was launched in 2008 and has a portfolio of 12 investments managed by Inspired Evolution Investment Management. SIFEM invested in Evolution One in 2008.

Region:	South Africa
Sector:	Clean energy & environmental industries
Investment year:	2008
Fund manager:	Inspired Evolution
SIFEM investment into Fund:	USD 8m
Total fund size:	USD 83.7m
Portfolio:	13 companies (of which 1 is exited) active in sectors such as wind and solar power generation, waste management and energy efficiency
Employment:	8 employees (fund manager) 1,592 employees (portfolio companies)
Website:	www.inspiredevolution.co.za

The Situation in South Africa

- **Despite a decline in poverty levels, 20% of the South African population live in extreme poverty and 45% of the people are moderately poor.** Inequality in the country is among the world's highest and remains a serious problem.
- **Currently only about 85% of South Africa's population have access to electricity** and the country's demand is expected to double in the next 20 years. Large-scale national electrification interventions have provided a foundation for many communities to improve their economic wellbeing, health and quality of life, but around 8 million people still lack access to electricity.
- **There is a global rapid growth in the clean energy and energy efficiency sector,** emerging out of growing concerns over high energy prices, energy supply security, and the effects of climate change and resource depletion. South Africa's energy consumption is rising, opening new markets and opportunities.
- **The Renewable Energy Independent Power Producer Procurement Programme (REIPPPP)** has been designed by public authorities to encourage private companies to assist in reaching a targeted production of 10,000 GWh of renewable energy. This is equivalent to about 5% of the present electricity generation in South Africa, and is the amount of electricity required for approximately two million households.
- **Local job creation, local ownership, economic development and socio-economic development** are criteria which the projects must fulfil to qualify for the REIPPPP.
- R**enewable energy projects can raise the employment intensity of the electricity generation sector.** This is particularly significant in South Africa, which has a national rate of unemployment of 25%.

Development Effects in a Nutshell

- **Evolution One has made early-stage development capital available to the clean energy and environmental market segment,** a typically underserved market in the past.
- **The Fund portfolio includes approximately 315MW of wind and solar renewable energy generation projects,** with a combined annual savings of 830,000 tons of greenhouse gas emissions. This number is expected to grow as the portfolio companies expand.
- **Evolution One attaches high importance to the policies of Black Economic Empowerment (BEE),** ensuring they are implemented within its portfolio companies. It has assisted the companies to develop BEE shareholding structures, an essential element for their alignment with national policy and legislation.
- **Evolution One works together with companies and projects to assist them** in accessing the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP). The REIPPPP is a scheme which allows private companies to sell and feed clean energy directly into the national grid.
- **Evolution One works closely with its portfolio companies** to ensure their policies are sustainable economically, socially and environmentally.
- **At a local level, Evolution One has significantly contributed to the development and structure of its companies,** including introducing accounting and credit control systems for early-stage businesses in several of its portfolio investments.
- **SIFEM supported the Fund by introducing available grant funds** through the United Nations Environmental Program, as well as assisting the initial steps of impact reporting during the early stages of development.

The Fund: Evolution One

Evolution One is a private equity fund investing in renewable energy and clean technologies in South and Southern Africa. The fund was launched in 2008, with SIFEM being one of the first close investors. Evolution One focuses on technology or infrastructure-related investments to deploy cleaner technologies across the environment and goods and services sector.

The Fund's portfolio currently includes 12 investments with potential to deliver tangible impacts in mitigating climate change and resource scarcity while at the same time providing benefits and empowering the local communities. The investments are in the sectors of power generation by wind and solar, waste management, aquaculture and energy efficiency. Evolution One seeks to innovate in these new energy and environmental markets and foster their high-growth potential.

The Fund Manager: Inspired Evolution

Inspired Evolution Investment Management was established in 2007 as a specialized investment business to lead and focus on sustainable clean energy and resource efficiency investments across Sub-Saharan Africa. Evolution One is the Fund Manager's first fund but its team has a broad experience range in the areas of financial markets, private equity, venture capital, business development, technology innovation and development, and they are passionate about environmental matters and projects. Their comprehensive expertise in the clean energy and resource efficiency market is fundamental to the management of the Evolution One Fund, and is a valuable element in the development of the entire industry.

Further case studies illustrating SIFEM's development impact on an individual company level can be found on the SIFEM website: http://www.sifem.ch/development-effects--/case-studies/

5.4 SIFEM's Cooperation with International and Development Finance Institutions

On behalf of SIFEM, Obviam actively engages with other development finance institutions (DFIs) and International Financial Institutions (IFIs) contributing to further cooperation and foster synergies informally on a day-to-day basis, but also more formally by being active in associations and joint working groups.

EDFI – European Development Finance Institutions (www.edfi.be)

EDFI is the Association of 15 bilateral institutions operating in developing and reforming economies, mandated by their governments to

1. foster growth in sustainable businesses
2. help reduce poverty and improve people's lives
3. contribute to achieving the Millennium Development Goals

by promoting economically, environmentally and socially sustainable development through financing and investing in profitable private sector enterprises.

The Association strives to strengthen information flow and cooperation between its members and other bilateral, multilateral and regional development finance institutions.

Obviam represents SIFEM on the EDFI Board and actively contributes to the following five EDFI working groups: Environmental and Social Matters, Development Effectiveness, Communication, Technical Assistance, and Corporate Governance.

EDFI Board

The EDFI Board was heavily involved in discussion with the EU and managed to negotiate the establishment of a partial risk guarantee facility as well as a technical assistance facility, funded by the EU, and available for projects financed by the two joint EDFI financing platforms, namely the European Finance Partners and the Interact Climate Change Facility. Moreover, discussions have been launched with the EU to set up a financing mechanism for rural electrification in Africa. Obviam is actively participating in the task force dealing with the legal and governance issues of this endeavour. Moreover, Obviam has taken a lead in the EDFI Board to foster the discussion with the OECD aiming at better reflecting the operations of DFIs in international aid statistics. Last but not least, SIFEM hosted the Board meeting and the Annual General Meetings 2014 in Lucerne.

EDFI Board Meeting in Lucerne

EDFI Working Group on Environmental and Social Matters

In 2009, European Development Finance Institutions signed the “Towards Sustainable Development – EDFI Principles for Responsible Financing” in Cologne. This includes the commitment to Harmonized Requirements in relation to the Environment and Social (E&S) Matters in investment activities.

From 2009 to 2011, via the EDFI working group on environmental and social matters, EDFI E&S experts worked together to develop Harmonized Environmental and Social Requirements (including standards to be applied) for Direct Investments, Financial Institution Investments and Fund Investments. The EDFI Harmonized E&S Requirements were completed and approved by the EDFI Board in 2011.

The Harmonized EDFI Environmental and Social Requirements encompass Environmental and Social Category Definitions, Minimum Requirements for Environmental and Social Due Diligence, Environmental and Social Contractual Requirements and Monitoring and an Exclusion List, all of which are reviewed regularly.

In 2013 the EDFI Board decided that with a view to implement the Harmonized Environmental and Social Requirements, a follow-the-lead (FtL) principle should be applied for certain investments; whereby a lead is in charge of the process (due diligence, structuring the Environmental Social Action Plan (ESAP), contract and monitoring) and agrees with followers on a common approach for the project.

The EDFI E&S working group met twice in-person in 2014. One of the main topics included a discussion of the implementation of the follow-the-lead principle for fund investments. To that end, during the course of 2014 the working group prepared a Guidance Note which was approved by the EDFI Board. Obviam took a lead role in drafting and finalizing the Guidance Note. The EDFI E&S working group is growing in its importance as a forum for EDFIs and IFIs (IFC, EBRD and EIB) to exchange views on E&S issues. Other notable matters of discussion in 2014 included the engagement with the IFC on their approach to E&S in fund investments.

EDFI Working Group on Development Effectiveness

The EDFI working group on development effectiveness was established in 2009 in order to develop ideas and initiatives to improve and harmonize the measurement and the evaluation of the development impact of the institutions’ investments but also for networking and general knowledge sharing. In 2014 the working group presented its aggregate development effects for the financial year 2013 and also included information in the newly created EDFI flyer in collaboration with the EDFI communications working group. In addition the group finalized the study “Evaluation of the Effectiveness of EDFI Support to SME Development through Financial Institutions in Africa” by consultant HORUS.

The DE working group met twice in-person in 2014 to discuss the implementation of IFI harmonized indicators and joint contribution to the IFI working group as well as the joint contribution to the Let’s Work Partnership, an initiative joined by 28 IFIs to create more and better private sector jobs (www.letswork.org).

Main topics of discussion remain the harmonization and implementation of indicators as well as the collaboration with the Let’s Work initiative and the definition and measurement of the concept of “decent work”, which will also be discussed with the EDFI E&S working group. Further areas of work are the potential elaboration of a common reporting template for funds and topics such as EDFI policies and the general understanding of development effects.

EDFI Working Group on Development Effectiveness Meeting in Cologne

EDFI Working Group on Technical Assistance

The EDFI working group on technical assistance (TA) is an informal platform that allows EDFI TA officers to exchange and share their experiences. The value of this working group lies in the opportunity to discuss new TA approaches and think about ways to cooperate informally, since the TA frameworks of the various EDFIs are too diverse for formal cooperation. However should conditions change in the future, the group could potentially work on developing joint products or elaborating concrete agreements for EDFI cooperation.

In 2014 the group piloted a comparative analysis of the technical assistance facilities of all EDFIs, which was for the first time also reported in the 2013 EDFI Annual Report.

The EDFI networking group on technical assistance met once in 2014 to discuss topics such as protective TA measures, TA interventions targeting smallholders, and redeemable instruments. Further discussions and information sharing will take place on topics such as impact assessments, blending finance and greenfield operations.

EDFI Working Group on Communication

Although the EDFI working group on communication did not hold a physical meeting in 2014, the group has been active in responding to various communications crises, and also contributed to the development of EDFI's information brochure. The group collaborated on the following issues in 2014: a coordinated response to the tax-haven report of Eurodad released in September 2014, discussions on transparency and disclosure policies, and discussions on how to engage with NGOs.

EDFI Working Group on Corporate Governance

SIFEM is also a subscriber to the 'EDFI working group on corporate governance' and to the IFI supported 'Corporate Governance Development Framework'. Although Obviam did not participate in the annual meeting in the Philippines in 2014, Obviam applies the corporate governance toolkit to its debt investments and participates in the annual data collection initiative of the working group.

International Finance Institutions Working Group on Harmonization of Indicators

The IFI working group on harmonization of indicators has its origins in 2010 when private sector operations of multilateral and bilateral development finance institutions decided to start harmonizing indicators with regards to development impact. The main purpose of this exercise is the growing need for collaboration to improve measurement, analysis and understanding of development effects and to lighten the reporting burden on common clients. The group comprises twelve members of the European Development Finance Institutions including SIFEM and thirteen International Financial Institutions such as the IFC, the Asian Development Bank, and the African Development Bank.

After successfully harmonizing 28 quantitative indicators in 2013, the group tackled the harmonization of qualitative indicators and conversion methodologies in 2014. The results of this second round of harmonization are expected in 2015.

The IFI working group met twice in person in 2014 and had different discussions via conference call and e-mail. The group launched a website (www.hipso.net) and has identified further areas of common interest and potential future work which comprise topics such as “Additionality”, “Impact Investing”, “Inclusive Growth”, and “Inclusive Business”.

6. Risk Management

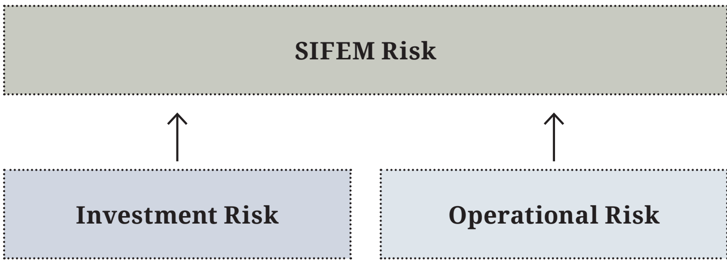
Identifying, mitigating, monitoring and managing risks is one of SIFEM's core duties, as these risks could potentially affect SIFEM's financial health and sustainability, its ability to generate development impact and its reputation. Reputation risk is of particular importance for SIFEM for two main 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.

Sengen's product portfolio includes insulin products which it intends to deliver affordably worldwide with the highest quality and leading edge bioprocesses. SIFEM invested USD 8 million in Bioveda China Fund III in 2014, which had invested in Sengen Biotech in 2013.

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.

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

Figure 14: 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 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 and quality 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.

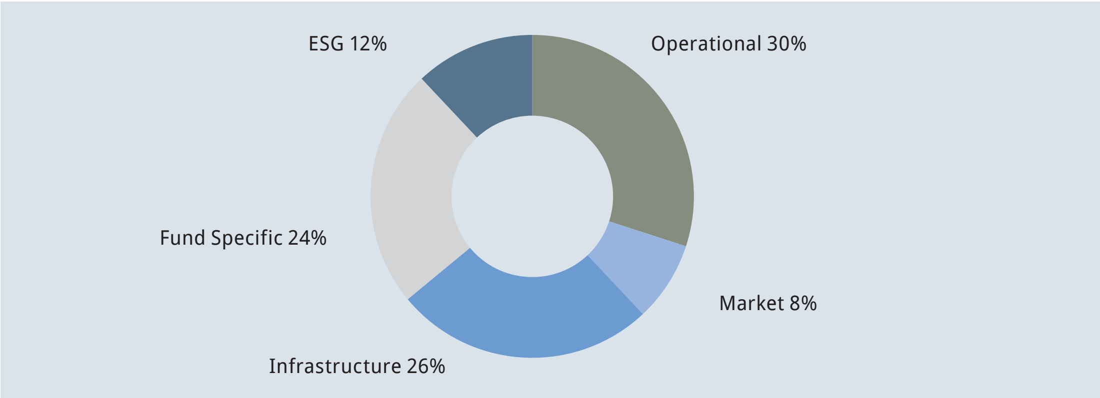
SIFEM benefits from Obviam's comprehensive approach to responsible investment: this includes a Responsible Investment Policy which contains a policy statement on responsible investment, an Exclusion List, and descriptions of ESG requirements and implementation. In order to monitor ESG risk SIFEM's portfolio 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 mobilised from SECO to reach that goal.

6.3 Portfolio Risk Rating Tool

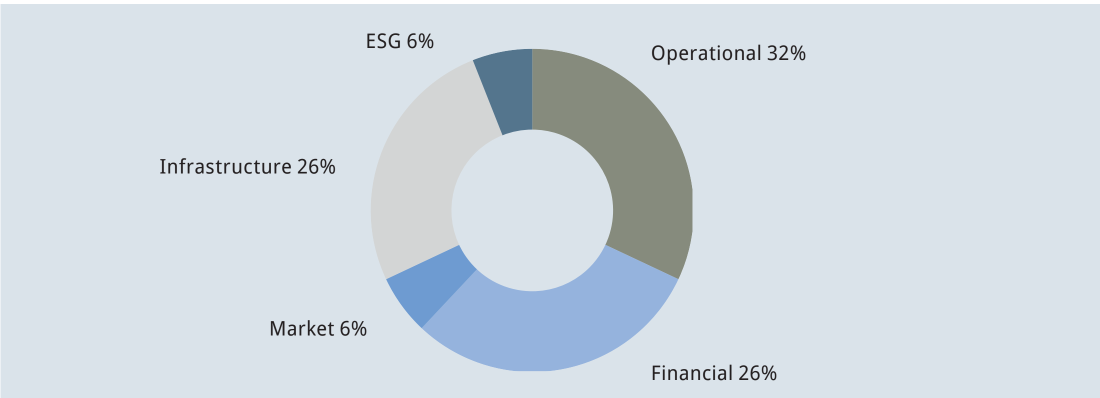
In 2012 Obviam developed and implemented a comprehensive in-house risk rating system for the SIFEM portfolio, which was also validated by SIFEM's auditor. The system includes different rating metrics for PEFs, FIs and debt funds in microfinance or other asset classes. It primarily measures financial 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 15: Risk weighting in SIFEM's risk rating tool



These indicators 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. To determine the risk score of direct investments in financial institutions, an alternative set of qualitative criteria is taken into consideration, which gives more weight to endogenous factors.

Figure 16: Risk weighting financial institutions in SIFEM's risk rating tool



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 2014

As per December 2014, the stratification of the SIFEM portfolio in terms of investments per risk category looks as follows:

Figure 17: Number of SIFEM investments per risk category as of December 2014

	2013		2014	
Very low risk (Risk score 5)	10	15%	11	15%
Low risk (4)	6	9%	9	12%
Moderate Risk (3)	21	31%	26	35%
High risk (2)	14	21%	10	13%
Very high risk (1)	16	24%	19	25%

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 build a balanced portfolio between debt and equity instruments contributes to the financial sustainability and stability of SIFEM as shown in Figure 18, debt instruments have a lower risk profile which compensates for the higher risk born by equity investments.

Figure 18: Number of SIFEM investments per risk category and type as of December 2014

	Funds		Dept Instruments		Direct Investments	
Very low risk (Risk score 5)	9	16%	2	14%		
Low risk (4)	5	9%	2	14%	2	40%
Moderate Risk (3)	17	30%	8	57%	1	20%
High risk (2)	8	14%			2	40%
Very high risk (1)	17	30%	2	14%		

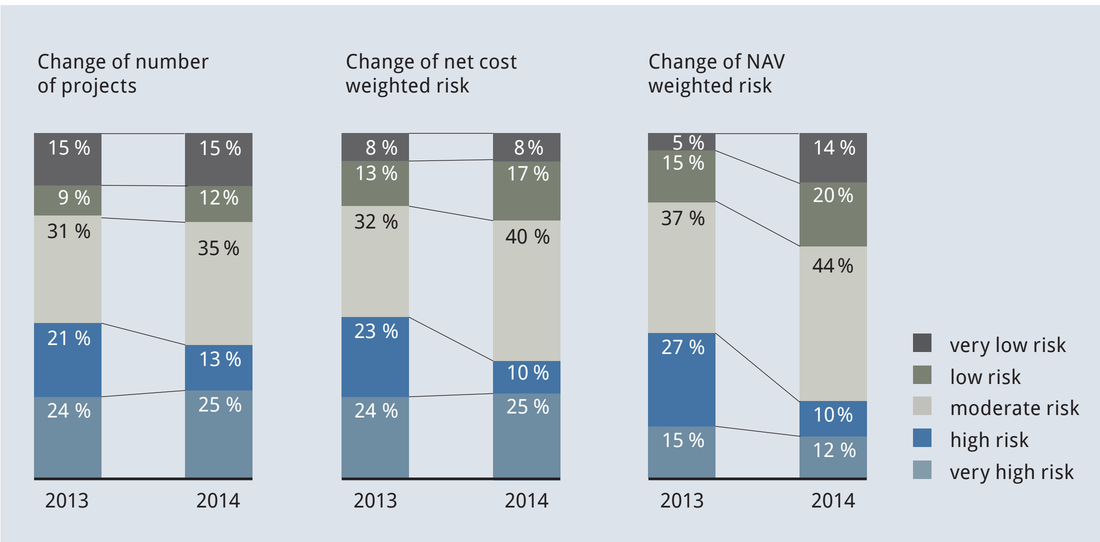
Weighting the risk score of the projects by net cost invested and value shows that the overall allocation of the risk in the portfolio shifts to the middle and lower risk categories. For instance, the NAV for risky projects ("high" and "very high" risk) decrease from an overall of 44% to 24% for funds, and from 14% to 2% for debt instruments. At the same time, "moderate risk" projects in the fund category increase from 30% to 42% and from 57% to 78% for debt instruments. The overall decrease of the weighted risk also 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 is less distinctive.

Figure 19: Number of projects, net cost and NAV of SIFEM portfolio as a percentage per risk category and investment type as of December 2014

Funds	Projects	Net cost	NAV
Very low risk (Risk score 5)	16%	8%	17%
Low risk (4)	9%	14%	17%
Moderate Risk (3)	30%	37%	42%
High risk (2)	14%	9%	8%
Very high risk (1)	30%	32%	16%
Debt Instruments			
Very low risk (Risk score 5)	14%	11%	4%
Low risk (4)	14%	14%	17%
Moderate Risk (3)	57%	69%	78%
High risk (2)			
Very high risk (1)WW	14%	6%	2%
Financial Institutions			
Very low risk (Risk score 5)			
Low risk (4)	40%	43%	43%
Moderate Risk (3)	20%	27%	27%
High risk (2)	40%	30%	30%
Very high risk (1)			

Overall the number of very high risk and high risk projects has decreased while the moderate risk projects have increased, reversing the trend of the previous year. The main reason for this is to be found in the increased investment activity, as the new projects were mainly rated as moderate risk. Figure 20 shows the risk changes during 2014.

Figure 20: Change in net cost, number of projects and NAV of SIFEM portfolio per risk category and investment type as of December 2014



7. Compensation Report

7.1 Board Compensation

The fixed annual compensation for the entire Board of SIFEM amounted to CHF 230,015, gross of social security contributions.

The Chairman of the Board received a total gross compensation of CHF 44,000 in 2014. 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.

Excluding the Chairman, the other SIFEM Board members on average received CHF 31,002 of gross compensation, including compensation for work in Board subcommittees.

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 2014 under the aforementioned agreements. For the entire year 2014, the total budget for Obviam under both agreements was CHF 4,655,926 (including VAT and accruals for variable compensation). This represents a 3.7% decrease compared to 2013. It also corresponds to 0.81% of the total active commitments of SIFEM, as opposed to 1.09% in 2013.[16]

[16] *Comparability to 2013 ratios is not given, as for the previous year the total active commitment is incurred according to 30 September instead of 31 December figures.*

It is important to note that Obviam rarely spends its full budget. In 2014, the estimated effective expenses amounted to CHF 3,556,084 or 76% of the total budget.[17] This corresponds to 0.62% of the total active commitments of SIFEM as opposed to 0.82% in 2013. In absolute terms, the effective expenses decreased by 2.3%.

Including all other administrative expense items such as administration and custodian fees and Board compensation, the 2014 estimated total effective spending on administrative costs of SIFEM account for 0.79% of total active commitments. The corresponding previous year figure is 1.07%. The threshold for total administrative expenses set by the Federal Council is 1.5% of SIFEM's total active commitments.[18]

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.

In accordance with the above, the Retained Bonus for 2014 was retained on a blocked account. Based on a detailed review of Obviam's performance against the Annual Objectives, the Board approved the disbursement of the immediate Bonus as follows:

– Given Obviam's strong performance against its quantitative Annual Objectives for 2014, the Board approved the full non-discretionary part of the immediate bonus to be paid out. In addition, the Board approved 80% of the discretionary part of the immediate bonus. In total, the immediate bonus for 2014 amounted to 6.33% of Obviam's annual fixed salary cost.

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[17] *Due to accounting policies related to accruals and deferrals, the accounting figures do not reconcile with effective cost numbers, cf. IFRS financial statements, note 20.*

[18] *These numbers, as opposed to the ones reported in note 20 of the IFRS financial statements, include the effective expenses of Obviam, which are not affected by any accruals and deferrals. However the relevant benchmark for monitoring the threshold for administrative expenses set by the Federal Council is defined by the IFRS financial statements.*

2014 Financial Statements – IFRS

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REPORT OF THE STATUTORY AUDITOR
To the Board of Directors of

SIFEM AG, Bern

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of SIFEM AG, which comprise the statement of financial position, statement of comprehensive income, cash flow statement, statement of changes in equity and notes for the year ended 31 December 2014.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these 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 Auditing Standards 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 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 2014 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).

Zurich, 10 March 2015

BDO Ltd

Franco A. Straub	ppa. Tobias Schüle
	Auditor in Charge
Licensed Audit Expert	Licensed Audit Expert

Enclosure
Financial statements

Statement of financial position

	Note	31.12.2014	31.12.2013
		in 1000 CHF	in 1000 CHF
Assets			
Cash and cash equivalents	7	236,614	254,151
Derivative financial assets held for risk management	8	66,327	0
Other receivables, prepayments and accrued income	9	5,143	1,287
Total current assets		**308,084**	**255,438**
Direct investments	10		
Equity instruments		4,211	4,935
Debt instruments		51,807	29,693
Investment funds	10	224,118	193,168
Total non-current assets		**280,136**	**227,797**
Total assets		**588,220**	**483,235**
Liabilities and equity			
Trade payables		0	28
Derivative financial liabilities held for risk management	8	65,950	0
Other liabilites and accrued expenses		594	276
Total current liabilities		**66,544**	**304**
Loans and borrowings	11	371,772	368,091
Total non-current liabilities		**371,772**	**368,091**
Total liabilities		**438,316**	**368,395**
Share capital		100,000	100,000
Capital reserve (additionally paid in capital)		75,218	75,218
Legal reserve		20	20
Translation reserve		25,041	10,725
Retained earnings		–50,375	–71,121
Total equity	**12**	**149,904**	**114,842**
Total liabilities and equity		**588,220**	**483,235**

Statement of comprehensive income

	Note	1.1.–31.12.2014	1.1.–31.12.2013
		in 1000 CHF	in 1000 CHF
Interest income	13	1,557	2,357
Dividend income		713	156
Income from realized gains on investments		7,075	6,189
Revenue from advisory services		50	32
Net income from derivative financial instruments held for risk management	16	1,085	0
Net foreign exchange gains on cash and cash equivalents and on direct debt investments	17	–6,403	941
Net changes in fair value of investments at fair value through profit or loss	18	–12,668	–19,291
Total net income (loss)		**–8,591**	**–9,616**
Investment management fee	14	–3,735	–2,824
Administration and custodian fees	15	–294	–387
Personnel expenses		–307	–287
Administration expenses		–309	–299
Advertising expenses		–60	–51
Other operating result		–65	–62
Operating result		**–13,353**	**–13,526**
Financial income	19	38,161	2
Financial expense	19	–4,062	–13,942
Total profit / (loss) for the period		**20,746**	**–27,468**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Currency translation effect from translation to presentation currency		*14,317*	*–2,412*
Total comprehensive income		*35,063*	*–29,880*

Statement of changes in equity for the years ended 31 December 2014 and 2013

(in 1000 CHF)	Share Capital	Additional paid in capital	Legal reserves	Translation reserve	Retained earnings	Total
Equity at 1 January 2013	**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**
Total comprehensive income for the year						
Profit for the year					20,746	20,746
Foreign currency translation differences from translation to presentation currency				14,317		14,317
Total other comprehensive income for the year				14,317		14,317
Total comprehensive income for the year	**0**	**0**	**0**	**14,317**	**20,746**	**35,063**
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 2014	**100,000**	**75,218**	**20**	**25,041**	**–50,375**	**149,904**

Statement of cash flows

	Note	1.1. – 31.12.2014	1.1. – 31.12.2013
		in 1000 CHF	in 1000 CHF
Cash Flow from operating activities			
Profit / loss for the year		20,746	– 27,469
Adjustments for:			
Interest income	13	– 1,557	– 2,357
Dividend		– 713	– 156
Income from realized gains on Investments		– 7,075	– 6,189
Interest expense	19	3,681	3,644
Net foreign exchange gain / loss		– 31,379	9,369
Net income from derivative financial instruments held for risk management		– 1,085	
Changes in fair value of investments at fair value through profit or loss	18	12,668	19,291
Changes in:			
Other receivables. prepayments & accrued income		– 3,294	– 970
Trade liabilities		– 28	0
Other liabilities and accrued expenses		266	– 42
Purchase of investments		– 66,306	– 33,251
Proceeds from sale of investments		26,746	21,671
Interest received		1,446	2,714
Dividend / other investment income received		713	156
Income from realized gains on investments received		7,075	14,617
Proceeds from sale of derivative financial instruments		703	0
Net cash flow from operating activities		**– 37,393**	**1,028**
Net cash flow from investing activities		**0**	**0**
Net cash from financing activities		**0**	**0**
Net increase / decrease in cash and cash equivalents		**– 37,393**	**1,028**
Cash and cash equivalents at 1 January	7	254,151	260,319
Effect of exchange rate fluctuations on cash and cash equivalents		19,856	– 7,198
Cash and cash equivalents at year-end	**7**	**236,614**	**254,150**

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 2014 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 4th of March 2015.

(b) Basis of measurement
The financial statements have been prepared on the historical cost basis except for derivative financial instruments held for risk management purposes and 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) Offsetting financial assets and financial liabilities
"Offsetting Financial Assets and Financial Liabilities" (amendments to IAS 32): These amendments clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet and have no significant impact on SIFEM's financial statements.

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:

		2014		2013
	Balance sheet rate	Average rate	Balance sheet rate	Average rate
USD/CHF	1.010714	1.092106	1.122000	1.06503
USD/EUR	1.215400		1.376400	
USD/ZAR	0.086422		0.094993	
USD/CNY	0.161119		0.165150	
CHF/USD	0.989399		0.891266	

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) Derivative financial instruments held for risk management
Derivative financial instruments held for risk management purposes comprise foreign exchange forward contracts, interest rate forward contracts and interest rate swaps. Derivatives are initially recognised at fair value, with any directly attributable transaction costs recognised directly in profit or loss. Subsequent to initial recognition, derivative financial instruments held for risk management purposes are measured at fair value, with changes in fair value generally recognised in profit or loss.
SIFEM uses derivative financial instruments to economically hedge its exposure to foreign exchange and interest rate risks arising from operating activities. SIFEM does not hold or issue derivative financial instruments for trading purposes.

(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 applied 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 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.

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 the 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.

Subsequent measurement – loans and receivables

Subsequent to initial measurement loans and receivables are measured at amortised cost. The amortised cost of a financial asset is the amount at which the financial asset 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) Net income from derivative financial instruments held for risk management
Net income from derivative financial instruments held for risk management relates to non-trading derivatives held for risk management purposes. It includes all realized and unrealized fair value changes, interest, and foreign exchange differences.

(j) 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 to the investors.
Dividend income is recognised in profit or loss on the date that the right to receive payment is established.

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

(l) Income 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 as well as capital tax.

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.

(m) 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 2014 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 2018	2018
IFRS 15 Revenue from Contracts with Customers	***	1 January 2017	2017
Revisions and amendments of Standards and Interpretations			
Annual Improvements to IFRSs 2010-2012 Cycle	***	1 July 2014	2015
Annual Improvements to IFRSs 2011-2013 Cycle	***	1 July 2014	2015
Annual Improvements to IFRSs 2012-2014 Cycle	***	1 January 2016	2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	***	1 January 2016	2016
Disclosure Initiative (Amendments to IAS 1)	***	1 January 2016	2016

* *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:

(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 10.

(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.

At fair value through profit or loss

in 1000 CHF	Trad-ing	Designated as at fair value	Loans and receivables	Other liabilities at amor-tised costs	Total Carrying amount	Total Fair Value
31 December 2014						
Cash and cash equivalents			236,614		236,614	236,614
Derivative financial assets held for risk management	66,327				66,327	66,327
Other receivables and accrued income			5,077		5,077	5,077
Direct Investments					0	
– Equity instruments		4,211			4,211	4,211
– Debt instruments			51,807		51,807	51,807
Investment funds		228,135			228,135	228,135
Total	**66,328**	**232,346**	**293,498**	**0**	**592,170**	**592,170**
Trade payables					0	0
Derivative financial liabilities held for risk management	65,950				65,950	65,950
Other liabilites and accrued expenses				570	570	570
Loans and borrowings				371,772	371,772	371,772
Total	**65,951**	**0**	**0**	**372,342**	**438,292**	**438,292**
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 liabilites 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 65). The position other liabilities and accrued expenses do not include tax payables and advances received (TCHF 9).

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, 32% (31 December 2013: 34%)
- Financial Institutions financial risks, 30% (31 December 2013: 26%)
- Market risks, 6% (31 December 2013: 6%)
- Infrastructure risks in target region/country, 26% (31 December 2013: 28%)
- ESG risks, 6% (31 December 2013: 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 derivative financial assets held for risk management and financial assets in the statement of financial position and amounts to TCHF 359,010 as of 31 December 2014 (31 December 2013: TCHF 285,112).

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

SIFEM AG granted a collateral in the form of cash in respect of derivative transactions.

The tables below provides a reconciliation of financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

Financial Assets

in 1000 CHF	Gross amounts of recognised financial assets	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments (including non-cash collateral	Cash collateral pledged	Net amount
31 December 2014						
Derivative financial assets held for risk management	66,328	0	66,328	65,951	377	0
Total	**66,328**	**0**	**66,328**	**65,951**	**377**	**0**
31 December 2013						
Derivative financial assets held for risk management	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**

Financial Liabilities

31 December 2014						
Derivative financial liabilities held for risk management	65,951	0	65,951	65,951	0	0
Total	**65,951**	**0**	**65,951**	**65,951**	**0**	**0**
31 December 2013						
Derivative financial liabilities held for risk management	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**

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 2014 or 31 December 2013.

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.

At 31 December 2014, for derivative financial instruments that are classified as derivative financial assets / liabilities held for risk management, SIFEM had posted cash with its contractual counterparty of the derivative financial instruments as collateral. Cash under collateral amounts to TCHF 3,848 (gross amount on margin accounts) and is classified under other receivables, prepayments and accrued income.

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 2014					
Derivative financial liabilities held for risk management	65,951	(65,951)	(56,090)	(165)	(9,927)
Other liabilities and accrued expenses	585	(585)	(585)	–	–
Loans and borrowings	371,772	(371,772)	(313,000)	(58,772)	–
Total	**438,308**	**(438,308)**	**(369,675)**	**(58,937)**	**(9,927)**
31 December 2013					
Trade payables	28	(28)	(28)	–	–
Other liabilities and accrued expenses	257	(257)	(257)	–	–
Loans and borrowings	368,091	(368,091)	–	(368,091)	–
Total	**368,376**	**(368,376)**	**(285)**	**(368,091)**	–

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. The existing loan contracts with the Swiss Confederation are automatically extended when no cancellation is pronounced one year before the due date. Since no cancellation has occurred in 2014, all loans with maturity 2015 are therefore extended for another four years.

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, 30% (31 December 2013: 20%)
- Market risks, 8% (31 December 2013: 10%)
- Infrastructure risks in target region/country, 26% (31 December 2013: 32.5%)
- Fund specific risks, 24% (31 December 2013: 30%)
- ESG risks, 12% (31 December 2013: 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.

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. 2014	31. 12. 2013
Direct investments	16,600	7,247
Fixed-rate instruments (assets)	**16,600**	**7,247**
Cash and cash equivalents	236,614	254,151
Direct investments	47,327	22,447
Variable rate instruments (assets)	**283,941**	**276,598**
Fixed rate loans and borrowings	371,772	368,091
Fixed-rate instruments (liabilities)	**371,772**	**368,091**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by TCHF 2,839 (31 December 2013: TCHF 2,768). 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), Chinese Yuan (CNY) 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'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. 2014	31. 12. 2013
EUR	19,961	49,575
ZAR	0	4,171
CHF	– 359,010	– 345,065
Total net exposure	**– 339,049**	**– 291,319**

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 2014 and 31 December 2013, with all other variables held constant:

in 1000 CHF	31. 12. 2014	31. 12. 2013
Income impact on balance sheet items		
EUR	+/– 998	+/– 2,479
ZAR	+/– 0	+/– 209
CHF	+/– 17,951	+/– 17,253

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. 2014	31. 12. 2013
Equity Investments - Direct Investments	4,211	4,935
Fund Investments	228,135	193,168
Total exposure in Equity Instruments	**232,346**	**198,103**

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.

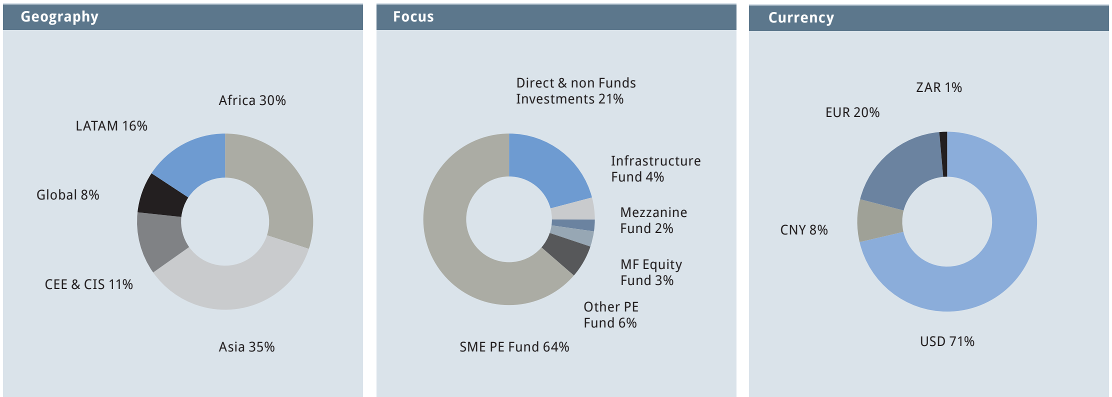
Apart from the detailed information in the quarterly report concerning the investments and their performances, the distribution of the portfolio with respect to continents, currencies, types of funds and main industrial sectors covered by the direct primary investments in each fund is provided in the 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.

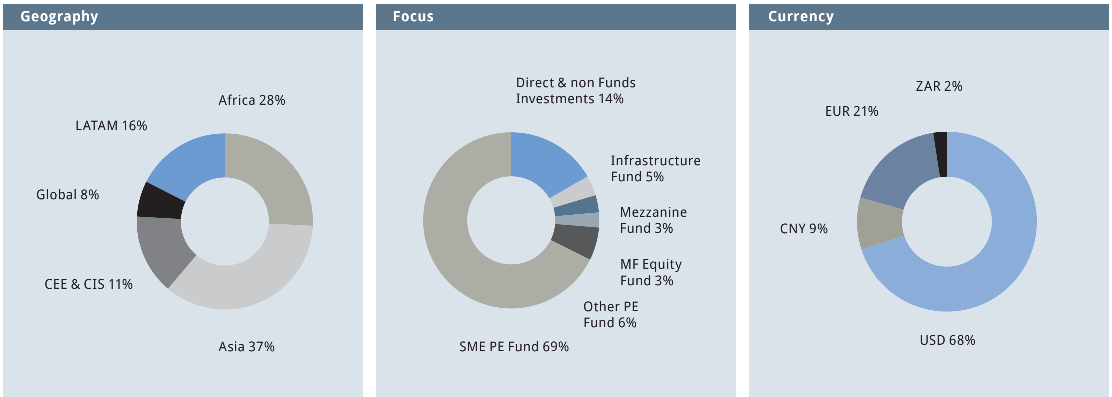
Where the price risk is not in accordance with the investment policy or guidelines, the investment manager is required to rebalance the portfolio upon request of the Board of Directors within a given period of time.

The following charts sets out concentration (per active commitment, debt and equity investments) of the investment assets:

at 31 December 2014:



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. The ability of some 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 un-recoverability 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 years 2013 and 2014. Except for the capital contribution mentioned in the subsequent events section, no further capital contributions (increase of the share capital and shareholder loans) are foreseen for 2015. 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	31.12.2014	31.12.2013
Cash at Bank	226,980	244,517
Swiss Federal Finance Administration	9,634	9,634
Total cash and cash equivalent	**236,614**	**254,151**

Cash and cash equivalents are denominated in CHF (6%), in USD (92%), in EUR (2%) as of December 31, 2014. (31 December 2013: CHF (9%), in USD (75%), in EUR (15%) and in ZAR (2%)). TCHF 204,486 (31 December 2013: TCHF 185'151) of Cash at Bank is placed at the Swiss National Bank.

8. Derivative financial instruments held for risk management

in 1000 CHF	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange	56,433	56,056	-	-
Interest rate	9,894	9,894	-	-
Total derivative financial instruments	**66,327**	**65,950**	**-**	**-**

SIFEM uses a mixture of forward foreign exchange contracts to hedge the foreign currency- and interest risk on future foreign exchange currency cash flows and variable interest investments.

9. Other receivables and accrued income

At 31 December 2014, other receivables and accrued income mainly include collaterals (TCHF 3,848), management fee reimbursement (TCHF 814) and accrued interest receivables (TCHF 403). At 31 December 2013, other receivables and accrued income mainly include management fee reimbursement for 2013 (TCHF 1,055) and interest receivable from direct investments (TCHF 223).

10. Financial Investments

in 1000 CHF	31.12.2014	31.12.2013
Debt investments	51,807	29,693
Equity investments	4,211	4,935
Direct investments	**56,018**	**34,628**
Fund investments	224,118	193,168
Fund investments	**224,118**	**193,168**
Total Financial Investments	**280,136**	**227,796**

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 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 over time 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 2014				
Derivative financial assets for risk management	0	66,327	0	66,327
Derivative financial liabilities for risk management	0	– 65,950	0	– 65,950
Direct investments	0	0	4,211	4,211
Fund investments	0	0	224,118	224,118
	0	**377**	**228,329**	**228,706**
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 2014	**4,935**	**193,168**	**198,103**
Total gains / losses recognised in profit or loss	– 530	– 11,645	– 12,175
Purchases	307	36,328	36,635
Sales	– 950	– 15,724	– 16,674
Transfers into Level 3	0	0	0
Transfers out of Level 3	0	0	0
Foreign currency exchange differences	449	21,989	22,438
Balance as at 31 December 2014	**4,211**	**224,118**	**228,329**
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	– 530	– 11,645	– 12,175
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 led 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 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.

11. Loans and borrowing

in 1000 CHF	31.12.2014	31.12.2013
Loan A	189,649	187,772
Loan B	123,351	122,130
Loan C	29,433	29,141
Loan D	29,339	29,048
Total non-current liabilities	**371,772**	**368,091**

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 3,681 (2013: TCHF 3,644).

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 terminates a loan one year in advance.

For more information please refer to notes 6 – Financial risk management and 20 – Related party transactions.

12. Equity

Share capital: On 31 December, 2014, the number of outstanding shares amounted to 10,000,000 shares (31 December 2013: 10,000,000). As per 31 December 2014 SIFEM did not hold any treasury shares (31 December 2013: 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 2014 and 2013.

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).

13. Interest income

in 1000 CHF	2014	2013
Interest income from cash and cash equivalents	46	191
Interest income from direct debt investments	1,511	2,166
Total interest income	**1,557**	**2,357**

At 31 December 2014, an amount of TCHF 333 (2013: TCHF 223) has not been received yet in cash and is included in other receivables and accrued income.

14. Investment Management Fee

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

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 2014 amounted to TCHF 171 (2013: TCHF 197) and the custodian fee for the financial year 2014 amounted to TCHF 151 (2013: TCHF 161). The administration and custodian fees for the second semester 2014 were not paid at the balance sheet date and are included in other liabilities and accrued expenses. The Custodian and Administration Agreement can be terminated by SIFEM at any time.

16. Net income from derivative financial instruments held for risk management

in 1000 CHF	2014	2013
Net interest income from derivative financial instruments	33	-
Realized gain from derivative financial instruments	703	-
Increase in fair value from derivative financial instruments	349	-
Net income from derivative financial instruments	**1,085**	**-**

17. Net foreign exchange gains/(losses)

in 1000 CHF	2014	2013
Net foreign exchange gain / (loss) from cash and cash equivalents	– 4,737	– 301
Net foreign exchange gain / (loss) from direct debt investments	– 1,667	1,242
Total net foreign exchange gains/losses	**– 6,403**	**941**

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

in 1000 CHF	2014	2013
Increase in fair value of direct equity investments	291	39
Increase in fair value of fund investments	15,856	14,147
Increase in fair value of debt investments	613	0
Decrease in fair value of direct equity investments	– 820	– 618
Decrease in fair value of fund investments	– 27,501	0
Decrease in fair value of debt investments	– 1,106	– 32,859
Net changes in fair value of investments at fair value through profit or loss	**– 12,668**	**– 19,291**

19. Financial income / expense

in 1000 CHF	2014	2013
Foreign exchange gain	38,161	0
Financial income	**38,161**	**0**
Interest expense	3,681	3,644
Foreign exchange loss	381	10,297
Charges	0	1
Financial expense	**4,062**	**13,942**

Interest expense arises from the application of the effective interest rate method on the shareholder loans (refer note 11).

The foreign exchange gain in 2014 and the foreign exchange loss in 2013 arose from the shareholder loans granted in Swiss francs (2014: TCHF 38,161, 2013: TCHF –10,297).

20. 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 371,771 (refer note 11). SIFEM on the other hand holds a deposit account with the Swiss Federal Finance Administration (refer note 7). 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 2014 amounts to 0.81% (2013 1.08%) of SIFEM's total active commitments as of 31 December of the same year. The combined portfolio and business management fee paid for the financial year 2014 amounted to TCHF 3,735 (2013: TCHF 2,824). The budgeted combined portfolio and business management fee amounted to T 4,656 (2013: TCHF 4,827). 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 2014 amount to 0.82% (2013: 0.86%) of SIFEM's total active commitments as of 31 December 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.

Key management personnel compensation
The Chairman of the Board received total compensation of CHF 44,000 in 2014 (2013: CHF 50,247). This consists of a base compensation of CHF 30,000 (2013: 30,000) for his role as Chairman of the Board and CHF 14,000 (2013: 14,000) for his role as Chairman of the Investment Committee. A compensation for the extra effort in the start-up period of CHF 0 (2013: 6,247) was paid in the previous year.

The Vice-Chairman and Board members received a base compensation of CHF 22,100 (2013: CHF 22,100). Members of the Investment Committee received an additional compensation of CHF 11,900 (2013: CHF 11,900) and Members of the Audit Committee received an additional compensation of CHF 8,500 (2013: CHF 8,500).

The representative of the Swiss Confederation retired during the business year 2014 and did not receive any compensation from SIFEM for his membership in the Board.

21. Capital commitments

As of 31 December 2014 the Company had capital commitments with direct investments and funds which were not yet called by the relevant investment manager for TCHF 172,982 (31 December 2013: TCHF 130,970).

22. Subsequent event

Share capital increase
On 27 January 2015, an Extraordinary General Meeting took place and it was resolved to increase the Company's share capital by TCHF 25,000.

Exchange rate
On 15 January 2015, the Swiss National Bank (SNB) announced its decision to abandon its policy of maintaining a minimum exchange rate for the Swiss franc against the Euro. Following this announcement the Swiss franc appreciated significantly not only against the euro but also against other major currencies, such as the US dollar and the Chinese yuan renminbi, compared to the year-end exchange rates applied.

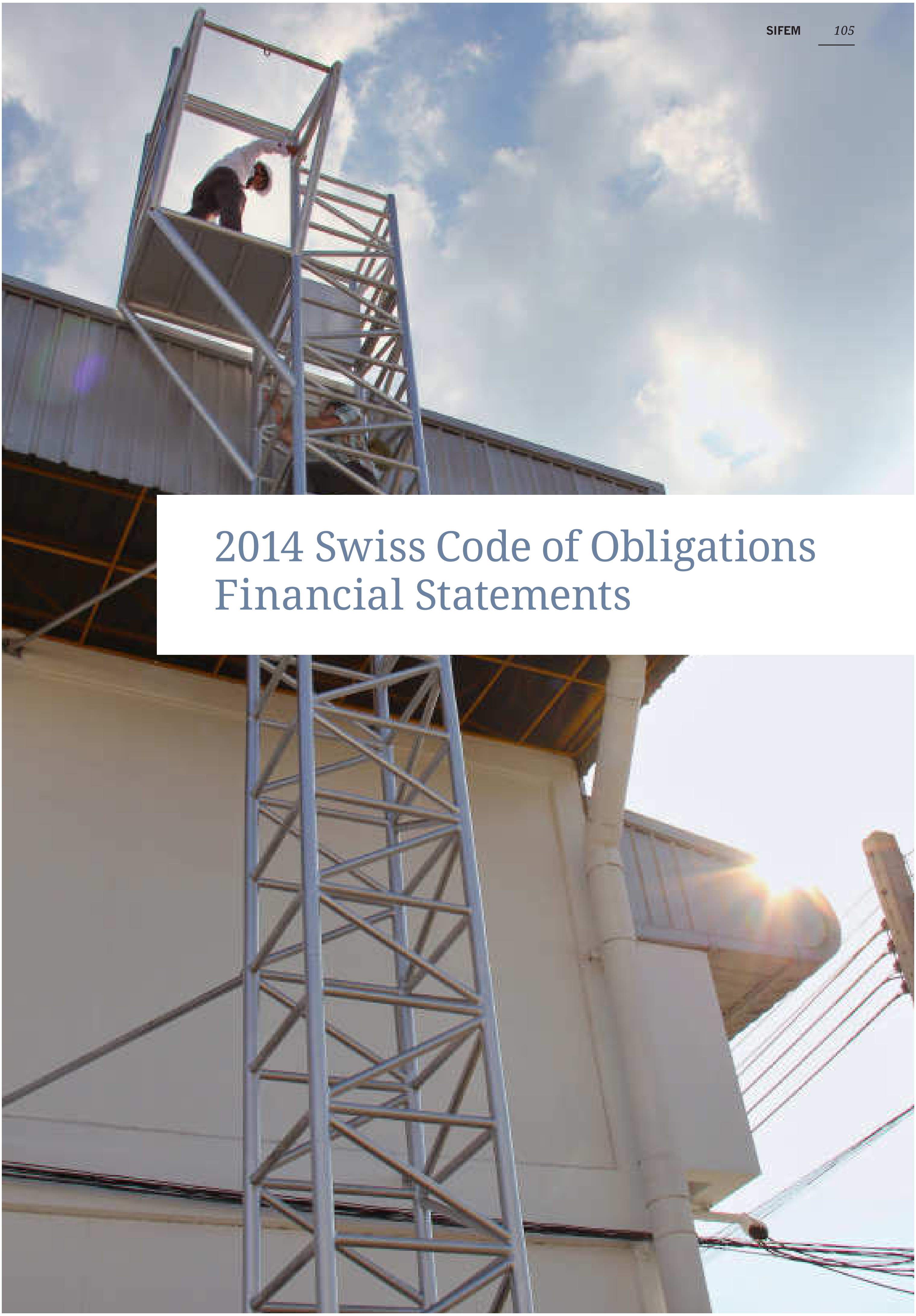
While the SNB's decision had no impact on our 2014 income statement and balance sheet prepared in accordance with IFRS, the resulting depreciation of the major currencies against the Swiss franc will impact the 2015 financial results, provided that the exchange rates remain on the post-SNB decision level throughout the 2015 financial year.

Large parts of the operating income is generated in currencies other than the Swiss Franc, particularly in US dollars. When translating this operating income into our Swiss Franc reporting currency, this exposes us to currency translation risk.

An appreciation of the CHF against the EUR, USD and CYN therefore will typically have a negative impact on the net result. At this point in time, however, one cannot reliable estimate the impact on the net result for the 2015 financial year, as this will very much depend on the future development of the currency rates.

Due to SIFEM's high exposure to foreign exchange effects the above-mentioned decision of the SNB had an adverse effect on SIFEM's balance sheet and income statement. OBVIAM estimates that as of 2nd of March 2015 the negative effects due to the increased value of the Swiss Franc was approximately CHF 13 million. As the event took place after the balance sheet date, this effect has not been considered in these financial statements.

No other events occurred between 31 December 2014 and 4th of March 2015 that would require adjustments to the amounts recognised in these financial statements or would need to be disclosed under this heading.



2014 Swiss Code of Obligations Financial Statements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REPORT OF THE STATUTORY AUDITOR

To the General Meeting of

SIFEM AG, Bern

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of SIFEM AG, which comprise the balance sheet, statement of income and notes to the financial statements for the year ended 31 December 2014.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these 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 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 2014 comply with Swiss law and the company's articles of incorporation.

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 Code of Obligations (CO)) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 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.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Zurich, 10 March 2015

BDO Ltd

Franco A. Straub

Licensed Audit Expert

ppa. Tobias Schüle

Auditor in Charge

Licensed Audit Expert

Balance Sheet

	31.12.2014 CHF	31.12.2013 CHF
ASSETS		
Current assets		
Cash & cash equivalents	236,613,657	254,150,332
Bank	226,979,793	244,516,469
Swiss Federal Finance Administration (Shareholder)	9,633,864	9,633,864
Other receivables	3,850,403	11,635
Collaterals	3,848,411	0
Withholding tax	1,992	11,635
Deferred income and prepaid expenses	1,291,780	1,275,530
	241,755,840	**255,437,497**
Fixed assets		
Financial assets	240,001,579	200,579,486
Direct investments	53,272,733	32,393,449
Investments in funds	116,108,471	101,665,138
Substantial equity interests	70,620,376	66,520,899
	240,001,579	**200,579,486**
	481,757,419	**456,016,983**

Balance Sheet

	31.12.2014 CHF	31.12.2013 CHF
LIABILITIES		
Debt capital		
Trade liabilities	0	28,437
Payables, third parties	0	28,437
Other short-term liabilities	5,458	10,230
Social insurances	5,458	10,230
Accrued expenses	588,610	265,355
Long-term liabilities	374,444,018	374,444,018
Shareholder loans	374,444,018	374,444,018
	375,038,086	**374,748,040**
Equity		
Share capital	100,000,000	100,000,000
Statutory reserves	20,000	20,000
Retained earnings	6,699,333	– 18,751,057
Loss carried forward	– 18,751,056	– 842,800
Annual result	25,450,389	– 17,908,257
	106,719,333	**81,268,943**
	481,757,419	**456,016,983**

Income Statement

	2014 CHF	2013 CHF
Operating income		
Revenue from services	50,673	32,371
Income from services	50,673	32,371
Costs for third party services	–3,735,170	–2,824,285
Third party services	–3,735,170	–2,824,285
Gross profit 1	**–3,684,497**	**–2,791,914**
Personnel expenses	–306,784	–287,330
Salaries	–26,927	–22,759
Board compensation	–229,120	–231,941
Social security cost	–18,326	–22,741
Other personnel cost	–32,411	–9,890
Gross profit 2	**–3,991,282**	**–3,079,244**
Operating expenses		
Property insurances. fees	–114,681	–54,082
Administrative expenses	–194,665	–245,272
Accounting and payroll expenses	–93,757	–103,956
Auditor’s costs	–97,697	–92,021
Other administrative expenses	–3,211	–49,295
Carried forward	**–4,300,628**	**–3,378,599**

Income Statement

	2014 CHF	2013 CHF
Carried forward	**–4,300,628**	**–3,378,599**
Advertising costs	–59,308	–50,364
Sponsorship. membership contributions	–59,308	–50,364
Operating earnings before interest and depreciation	**–4,359,936**	**–3,428,963**
General financial result	33,167,620	–10,877,743
Financial income	49,207	190,433
Financial losses	–298,302	–387,410
Foreign exchange income	38,965,665	2,334,761
Foreign exchange losses	–5,548,950	–13,015,526
Financial result direct investments	–1,243,965	2,412,715
Distributions	1,706,408	1,122,953
Expenses	–15,763	–706
Capital gains	29,625	769,258
Capital losses	–1,106,041	0
Foreign exchange income	0	521,210
Foreign exchange loss	–1,858,195	0
Financial result fund investments	–12,950,165	–2,156,933
Distributions	7,633,550	7,388,643
Expenses	–3,151	–12,507
Capital gains	41,182	2,790,642
Capital losses	–15,144,632	–13,555,180
Foreign exchange income	0	2,499,714
Foreign exchange losses	–5,477,113	–1,268,246
Financial result derivative financial instruments	703,690	0
Capital gains	703,690	0
Fx Result of Currency Change USD to CHF	10,178,097	–3,808,947
Annual result before taxes	**25,495,341**	**–17,859,871**
Taxes (Stamp Duty)	–44,952	–48,386
Annual result	**25,450,389**	**–17,908,257**

Notes to the SCO Financial Statements

	31.12.2014 CHF	31.12.2013 CHF
Disclosure of derivative financial instruments		
Foreign exchange forward contracts (long)	56,433,782	0
Foreign exchange forward contracts (short)	–56,433,782	0
Interest rate SWAPS (long)	9,893,996	0
Interest rate SWAPS (short)	–9,893,996	0
Net derivative financial instruments	**0**	**0**
Substantial equity interests	**70,620,376**	**66,520,899**
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 outstanding capital commitments

		31.12.2014		31.12.2013
Investments				
European Financing Partners SA / Loan (EFP II)			EUR	1,047,222.60
European Financing Partners SA / Loan (EFP III)	EUR	5,605,200.41	EUR	5,000,000.00
European Financing Partners SA / Loan (EFP IV)			EUR	5,000,000.00
Interact Climate Change Facility / Loan	EUR	12,779,132.16	EUR	2,564,315.17
Africa Credit Opportunities Fund I	USD	12,000,000.00	USD	–
CAMIF II LP Equity	USD	3,347,244.00	USD	–
CAMIF II LP Subordinated Loan Series B	USD	3,484,000.00	USD	–
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	1,579,240.00	USD	1,779,240.00
HEFF / Loan		–		800,000.00
Locfund II (Debt)		–		3,822,866.00
Locfund II (Equity)		175,362.00		795,330.00
Global Partnerships Social Investment Fund 5.0 LLC Loan		1,750,000.00		–
Funds				
7L Capital Partners Emerging Europe L.P.	EUR	25,059.07	EUR	251,897.24
AfricInvest Fund II	EUR	519,000.00	EUR	953,950.00
AfricInvest Fund III	EUR	7,000,000.00	EUR	–
Balkan Financial Sector Equity Fund	EUR	290,069.42	EUR	594,170.42
Capital North Africa Venture Fund	EUR	767,545.00		767,545.00
Capital North Africa Venture Fund II	EUR	650,226.99	EUR	7,707,427.00
KD Private Equity Fund B.V.	EUR	4,513,318.00	EUR	–
Maghreb Private Equity Fund II	EUR	50,440.91	EUR	238,792.14
Maghreb Private Equity Fund III	EUR	3,001,985.69	EUR	2,868,724.69
SEAF South Balkan Fund	EUR	609,082.00	EUR	609,082.00
Vietnam Equity Fund	EUR	1,296,113.00	EUR	–
Abraaj North Africa II, L.P.	USD	3,752,237.00	USD	–

Overview of outstanding capital commitments

	31.12.2014		31.12.2013	
	CHF		CHF	
Funds (continued)				
African Infrastructure Fund	USD	604,495.77	USD	604,495.77
Altra Private Equity Fund I L.P.	USD	0.51	USD	142,017.51
Armstrong South East Asia Clean Energy Fund	USD	6,311,637.48	USD	6,610,494.10
ASEAN China Investment Fund	USD	1,292,633.96	USD	1,347,187.57
Aureos Central America Fund	USD	1,235,092.39	USD	1,235,092.39
Aureos East Africa Fund	USD	62,750.90	USD	62,750.90
Aureos Latin America Fund	USD	55,535.86	USD	172,013.95
BTS India Private Equity Fund	USD	1,995,921.00	USD	2,081,635.00
BVCF III L.P.	USD	2,227,793.18	USD	–
Cambodia-Laos Development Fund S.C.A., SICAV-SIF	USD	716,254.00	USD	1,345,400.00
Catalyst Fund I	USD	4,004,447.00	USD	5,263,122.00
Central American Small Enterprise Investment Fund II	USD	529,494.82	USD	529,494.82
Central American Small Enterprise Investment Fund III	USD	4,911,724.10	USD	529,494.82
CoreCo Central America	USD	2,711,936.28	USD	2,956,728.57
Europe Virgin Fund	USD	1,936,892.56	USD	2,176,365.56
Euroventures Ukraine II	USD	165,015.95	USD	230,022.53
EV Amadeus Asian Clean Energy Fund L.P.	USD	5,399,476.00	USD	5,399,476.00
Evolution One	USD	2,091,845.64	USD	2,219,630.26
Falcon House Partners	USD	5,936,224.96	USD	7,969,851.99
Fidelity Equity Fund I	USD	500.00	USD	500.00
Fidelity Equity Fund II	USD	883,820.00	USD	1,046,820.00
GEF Africa Sustainable Forestry Fund	USD	1,638,948.00	USD	2,457,325.00
GroFin East Africa Fund	USD	–	USD	192,511.00
JS Private Equity Fund I	USD	5,269,046.03	USD	5,205,292.03
Kaizen Private Equity	USD	3,687,200.87	USD	5,570,517.18
Kendall Court Mezzanine (Asia) Bristol Merit Fund	USD	419,853.00	USD	622,808.00
Latin Renewables Infrastructure Fund	USD	5,687,518.72	USD	5,692,523.79
Medu III Interenational Partnership L.P.	USD	5,377,351.85	USD	5,958,160.74
Mongolia Opportunities Fund I	USD	1,632,586.76	USD	3,031,484.19
NAMF II	USD	8,803,630.00	USD	9,003,630.00
Progression Eastern African Microfinance Equity Fund	USD	3,101,626.46	USD	3,516,025.75
rABOP	USD	599,022.66	USD	841,140.26
SEAF Blue Waters Growth Fund	USD	1,970,132.00	USD	1,970,132.00
SEAF Central and Eastern European Growth Fund	USD	–	USD	407,468.00
SEAF Central Asia Small Enterprise Fund	USD	399,954.00	USD	399,954.00
SEAF LATAM Growth Fund	USD	1,174,380.00	USD	1,213,135.00
SEAF Trans Andean Fund	USD	150,243.49	USD	197,083.65
Solar Investment Fund	USD	2,619,783.00	USD	–
Solidus Investment Fund	USD	600,000.00	USD	–
Sphinx Turnaround Fund	USD	6,752,750.00	USD	6,752,750.00
Synergy Private Equity Fund Ltd	USD	6,161,063.92	USD	–
Terra Capital Investors	USD	1,070.00	USD	–
VenturEast Proactive Fund LLC	USD	355,450.00	USD	668,246.00
VI (Vietnam Investments) Fund II	USD	2,625,000.00	USD	4,125,000.00
Horizon Equity III	ZAR	6,478,068.44	ZAR	9,946,172.35
Horizon Techventures	ZAR	3,281,229.42	ZAR	9,946,172.35
Vantage Mezzanine Fund	ZAR	3,497,234.00	ZAR	3,538,431.00

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

Substantial equity holdings 2014

		Book value Fx		Book value in CHF		SIFEM's Commitment		Fund Size	Share %
Sino Swiss Partnership Fund	CNY	218,017,987.31	CHF	34,754,437.45	CNY	268,850,270.00	CNY	383,035,322.00	70.19%
SwissTec	USD	1,858,624.99	CHF	1,838,922.77	USD	21,500,000.00	USD	21,502,930.00	99.99%
SEAF Central+Eastern Europ. Growth Fund	USD	1,473,846.00	CHF	1,644,576.59	USD	4,092,532.00	USD	20,600,000.00	20.81%
SEAF Central Asian Small Enterprise Fund	USD	783,894.00	CHF	457,104.58	USD	4,600,000.00	USD	10,958,000.00	41.98%
Fidelity Equity Fund I	USD	0.00	CHF	0.00	USD	4,000,000.00	USD	8,500,000.00	47.06%
ASEAN China Investment Fund	USD	1,378,794.02	CHF	1,717,699.48	USD	15,997,058.00	USD	75,997,258.00	21.05%
SEAF South Balkan Fund	EUR	1,428,421.03	CHF	2,219,609.11	EUR	3,282,420.00	EUR	10,756,175.00	30.52%
SEAF Blue Waters Growth Fund	USD	2,243,390.00	CHF	9,751,091.64	USD	7,000,000.00	USD	25,000,000.00	28.00%
Aureos Latin America Fund	USD	9,855,564.84	CHF	6,116,397.73	USD	10,000,000.00	USD	35,353,535.00	28.29%
Altra Private Equity Fund I L.P.	USD	6,181,928.82	CHF	768,351.88	USD	8,000,000.00	USD	18,556,701.00	43.11%
SEAF Trans Andean Fund	USD	776,584.00	CHF	271,533.79	USD	5,000,000.00	USD	12,620,000.00	39.62%
SEAF LATAM Growth Fund	USD	274,443.00	CHF	4,121,261.80	USD	7,000,000.00	USD	17,000,001.00	41.18%
Kaizen Private Equity Fund	USD	4,165,417.00	CHF	1,396,877.81	USD	8,000,000.00	USD	35,080,000.00	22.81%
Medu III International Partnership L.P.	USD	1,411,843.96	CHF	4,946,997.86	USD	7,000,000.00	USD	30,500,000.00	22.95%
Commodity Value Chain Sustainable Investment CVCSI Sub-Fund	USD	5,000,000.00	CHF	4,946,997.86	USD	5,000,000.00	USD	5,000,000.00	100.00%

Proposal for the Application of the Retained Earnings

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

	31.12.2014	31.12.2013
	CHF	CHF
Loss carried forward	– 18,751,057	– 842,800
Annual result	25,450,389	– 17,908,257
Retained earnings	**6,699,332**	**– 18,751,057**
Dividends	0	0
Allocation to the statutory reserve	– 334,967	0
Allocation to the free reserve	0	0
Carried forward to the new account	**6,364,366**	**– 18,751,057**

Miscellaneous

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.*[19] 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.[20] 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.*[21]

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.

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.

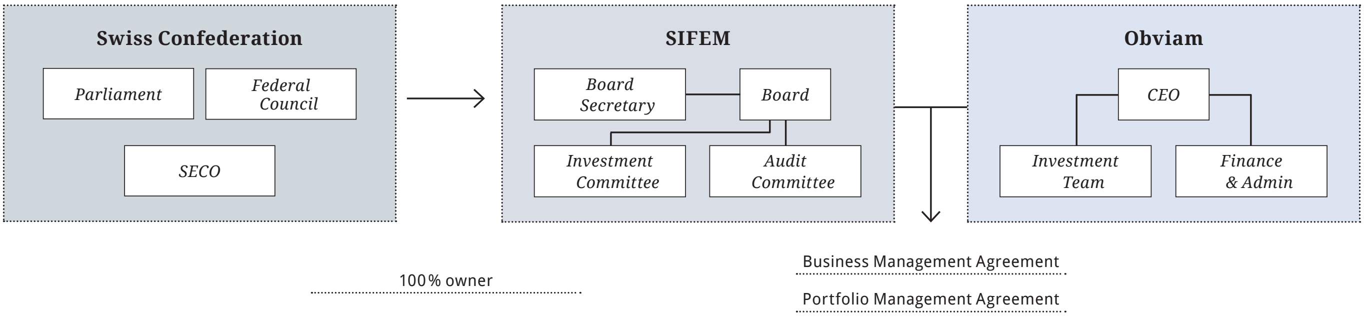
The corporate structure of SIFEM assures consistency with the principles of the Corporate Governance report of the Federal Administration and reflects a suitable vehicle for safeguarding, complementing and capitalizing on the know-how and quality of networks acquired over the past years in the area of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

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

20 *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)*

21 *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 21: SIFEM's corporate structure and governance



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.

Susanne Grossmann
Vice-Chairman of the Board, 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. 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.

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

Dr. Julia Balandina Jaquier has over 20 years of private equity experience in emerging and developed markets. She commenced her career at McKinsey in 1993 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, foundations, global banks and corporates, helping them design and implement mission-driven investment strategies and funds. Dr. Balandina Jaquier is the author of the Guide To Impact Investing for Family Offices and High Net Worth Individuals. She holds non-executive positions at Willows Investments, Unilever, DFID Impact Fund and BASE, is an adjunct professor at St. Gallen University and a member of impact investment task forces and expert committees.

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

Geoff Burns
Member of the Investment Committee, Member of the Audit Committee

Geoff Burns has over 30 years of experience in private equity. He began his career at the Scottish Development Agency and later became a partner in the private equity practice of fund manager Murray Johnstone Ltd., where he was in charge of managing teams making SME investments in the UK and served on company boards, among other activities. In 2001, Mr. Burns established his own private equity advisory business specifically to address the challenges facing Development Finance Institutions (DFIs) in this sector. He has provided advice on all aspects of investing to a number of bi-and multilateral DFIs, including the Asian Development Bank, FMO, CDC, Norfund, among others.

Mr. Burns holds a BA (hons) in Politics from Durham University and an MBA from London Business School. He is a board member of several companies and charities.

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.

Kathryn Imboden
Member of the Investment Committee

Kathryn Imboden is a Policy Advisory Consultant for the Consultative Group to Assist the Poor (CGAP), a global program advancing financial inclusion, housed at the World Bank. She began her career in economic development at the Swiss Agency for Development and Cooperation (SDC) in Chad, followed by positions at the OECD Development Centre, the Club du Sahel, and the U.S. Treasury Department. From 1986 to 2001, Mrs. Imboden worked in the areas of World Bank co-financing and of financial sector development at SDC. Subsequently, Ms. Imboden held positions in policy advisory work Women's World Banking, the United Nations Capital Development Fund, the Aga Khan Foundation, FIDES (Financial Systems Development Services AG) and has worked more recently as a consultant to the German International Development Agency (GIZ), the African Development Bank and Women's World Banking. Since 2007, she has worked at CGAP and has worked on different dimensions of inclusive finance.
Ms. Imboden serves on the board of the Microfinance Investment Support Facility for Afghanistan. She has served previously on the boards of FIDES Microfinance Senegal Azure Partners, Womanity Foundation and BlueOrchard Finance.

Ms. Imboden holds a B.A. in economics from Mount Holyoke College, USA, and a Diploma from the Institut d'études politiques de Paris, France.

Michel Juvet
Board Member

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 1 January 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.

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.

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.

Annual Report 2014

List of Abbreviations

AccessBank	AccessBank Azerbaijan
ACOF	Africa Credit Opportunities Fund
AfricInvest III	AfricInvest Fund III
AG	Swiss public limited company (Aktiengesellschaft)
Art.	Article
ANAF II	Abraaj North Africa Fund II
BioVeda III	BioVeda China Fund III
bn	Billion
CAMIF II	Central American Mezzanine Infrastructure Fund II
CASEIF III	Central American Small Enterprise Investment Fund III
CEE	Central and Eastern Europe
CHF	Swiss Franc
CIS	Commonwealth of Independent States
CNY	Chinese Yuan Renminbi
CVCSI	Commodity Value Chain Sustainable Investment Fund
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH (German DFI)
DFI	Development Finance Institution
EDFI	European Development Finance Institutions
EMPEA	Emerging Markets Private-Equity Association
ESG	Environmental, social and governance
EU	European Union
EUR	Euro
FI	Financial Institution
Forex	Foreign exchange market
GDP	Gross Domestic Product
GPR	Corporate-Policy Project Rating Tool
ICCF	Interact Climate Change Facility
ICS	Internal Control System
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
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
MPEF III	Maghreb Private Equity Fund III
NAV	Net Asset Value
NDB	National Development Bank
NGO	Non-Governmental Organization
No.	Number
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
PEF	Private Equity Fund
SCO	Swiss Code of Obligations
SECO	Swiss State Secretariat for Economic Affairs
SIF 5.0	Social Impact Fund 5.0
SIFEM	Swiss Investment Fund for Emerging Markets
SME	Small and Medium-sized Enterprise
SNB	Swiss National Bank
SR	Classified Compilation of Swiss Federal Legislation
SSA	Sub-Saharan Africa
Synergy	Synergy Private Equity Fund
TA	Technical Assistance
TVPI	Total Value over Paid-In
USD	United States Dollar
ZAR	South African Rand

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