SIFEM

SWISS INVESTMENT FUND FOR EMERGING MARKETS

ANNUAL REPORT 2017

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2017 FINANCIAL HIGHLIGHTS

	2017	2016
OPERATIONAL HIGHLIGHTS in USDm		
Commitments and cash flows		
Total commitments made to date	899.4	793.1
Total active commitments	757.1	687.5
Uncalled commitments	258.5	203.9
Cumulative paid-in capital to date	647.9	610.3
Cumulative reflows received to date	483.9	443.0
Cumulative net cash flow to date	–164.0	–167.3
New investment commitments	87.4	91.9
Reflows from investments	40.9	46.0
Investment Portfolio Valuation		
Residual value	377.0	335.6
Internal Rate of Return (%)	7.44 %	6.97 %
Total Value over Paid-In (%)	133 %	128 %
Private finance mobilised		
Total private investor commitments advised by Obviam	123.5	116.0
New co-investments from private investors	7.8	20.8

USD 87.4 m
NEW INVESTEMENT COMMITMENTS

	2017	2016
FINANCIAL STATEMENT HIGHLIGHTS in CHFm		
Annual Results		
Investment profit (loss)	45.0	12.4
Operating result	36.7	5.9
Total comprehensive income	7.8	12.0
Balance Sheet		
Balance sheet total	623.7	622.3
Cash and cash equivalents	233.5	248.4
Uncommitted capital	–18.4	41.1
Financial assets	367.4	341.1
Long-term liabilities	368.2	364.6
Shareholder's equity	237.7	230.0
Equity ratio (%)	38.1 %	37.0 %

CHF 36.7 m
OPERATING RESULT

Note: Operational highlights are presented in USD, the functional (base) currency in which SIFEM's accounts are held. The Financial Statements are translated into the presentation currency CHF for reporting purposes. Annual result and balance sheet figures per IFRS account; investment portfolio valuation based on rolled-forward data as of 30 September 2017.

2017
ANNUAL REVIEW

FOREWORD BY **JEAN-DANIEL GERBER**

Dear Reader,

I have been involved in overseeing the investment process in small- and medium-sized enterprises (SMEs) in developing countries and emerging markets, as part of the economic development assistance of the Swiss Government, for almost 13 years now. My involvement started in 2005 – I was heading the State Secretariat for Economic Affairs (SECO) when the management of SECO's developmental investment portfolio was entrusted to a team of emerging market finance specialists. In August 2011, the Swiss Investment Fund for Emerging Markets (SIFEM) was formally established as Switzerland's Development Finance Institution, and I was asked to assume the Chair of the newly established Board of Directors. Since I will leave my position as Chairman of the Board in 2018, it seems timely to take stock of SIFEM's achievements. The last seven years have been a challenging time as the very idea of SIFEM was somewhat contentious. Would it be possible to combine development impact with financial returns? More explicitly, would SIFEM be able to fulfill its value proposition to provide long-term finance to SMEs through equity investments or loans, thereby supporting and creating jobs, and at the same time, generate enough income to meet the financial objectives assigned to SIFEM by the Federal Council.

Squaring the circle between developmental and financial objectives has not been an easy task. However, I am pleased to report that at the end of the 2014–2017 strategic period, 26 of the 27 developmental and financial target indicators assigned to SIFEM by the Federal Council were achieved. This positive outcome demonstrates that through careful risk management, it is possible to generate strong development effects whilst also achieving positive financial results. SIFEM may still be a small player in Switzerland's development architecture, but it makes an important contribution to Swiss development policy by complementing traditional (grant-based) cooperation programmes with its approach. Indeed, its positive track-record has been highlighted in the audit report on the compliance with the strategic objectives 2014–2017 carried out by the Swiss Federal Audit Office in 2017. The audit report confirms that "great importance is accorded to measuring and maximising the impact in particular" and recalls that "an evaluation published recently on the topic acknowledges SIFEM AG's high level of effectiveness in creating jobs."

These encouraging results underpinned the Swiss Government's decision to submit two important proposals to the Swiss Parliament in 2017: firstly, the conversion of the Swiss Government's existing CHF 374 million loan to SIFEM into equity, which was accepted by Parliament; secondly, to further increase the capital of SIFEM by CHF 150 million in five tranches, starting in 2018; the formal approval of the first tranche of the capital increase as part of the 2018 Federal budget should enable SIFEM to maintain its commitment capacity at the current annual level of CHF 80–100 million. However, it should be noted that this amount remains modest in comparison to the commitment capacity of other national European Development Finance Institutions (DFIs). Indeed, in terms of size, SIFEM's portfolio ranks 11th amongst the 15 European DFIs, which poses challenges for SIFEM in terms of influence.

2017 was a remarkable year, delivering an extraordinarily high net profit and operational gain. The results for 2017 also mean that SIFEM has recorded a positive operational result for the last three years. All of this allows SIFEM to embrace the 2018–2020 strategic period with confidence. It is nevertheless important to remember that risks continue to be high and financial returns remain volatile in emerging markets. Thus, the appropriate and prudent selection of investments in SIFEM's target markets, effective risk management, portfolio diversification and available capital will all remain of paramount importance in the future.

The Board of SIFEM is grateful to the Swiss Parliament and to the Federal Government, represented by SECO, for their constant support, and looks forward to continuing these constructive relationships. It also is thankful to Obviam, SIFEM's Manager for the efficient and successful implementation of SIFEM's strategy and investment projects. The Board is looking forward to continuing its fruitful relationship with Obviam over the coming years.

Finally, my very personal thanks go to the Board members of SIFEM, past and present, and to the Board Secretary. They have all, in different ways, helped SIFEM to get off the ground and achieve the goals it has been set so far. SIFEM started out as a new type of development institution for Switzerland, and it has now reached cruising speed. I wish my successor as Chairperson, and my Board colleagues, all the best in guiding SIFEM's future, and in pursuing the new objectives set by the Swiss Government for the 2018–2020 strategic period.

Yours faithfully,

Jean-Daniel Gerber
Chairman of the Board of SIFEM

FOREWORD BY
CLAUDE BARRAS

Dear Reader,

Looking back at what has been achieved at the end of the 2014–2017 strategy period, it is a source of great satisfaction to see that all but one target indicators assigned to SIFEM have been either met or surpassed, including on the financial side. This was not necessarily obvious at the beginning of the strategic period, when SIFEM recorded a negative operational result. In contrast, SIFEM posted a net profit of CHF 17.6 million in 2017 and a record operational result of CHF 36.7 million. These results reflect positive developments in both the equity and debt portfolios; a sizable share comes from the outstanding performance of one legacy investment in a Fund established some twenty years ago in China to help jumpstart local private equity investments. Although this legacy investment is an exceptional case within the SIFEM portfolio, this story illustrates the virtue of being a patient investor with a long-term investment horizon.

In terms of development impact, SIFEM's investments have created and sustained around 575,000 jobs in emerging markets and developing economies since 2005. 85 per cent of these jobs are located in Switzerland's priority countries for development cooperation, and in particular in Asia and Africa. Overall, jobs in the SIFEM portfolio companies grew by more than 8 per cent during 2014–2016. All SIFEM investments must also comply with best-practice environmental and social standards, including occupational health and safety, which contribute to the improvement of working conditions in SIFEM's portfolio companies. These aspects matter for the creation of sustainable economic opportunities in the countries in which SIFEM operates. More information and examples are available in the latest Development Impact Report published by SIFEM in October 2017.

All these positive results demonstrate SIFEM's ability to make a difference through its investment decisions. This being said, the investment environment remains volatile in emerging and developing markets, with sizable country and regional differences in terms of economic performance and risks. Looking forward, these risks should not be underestimated, given the cyclicity of financial markets. The trend towards global economic recovery may have gained momentum in 2017, but the global environment is still characterized by high policy uncertainty and enhanced geopolitical tensions, which could result in adverse economic consequences for vulnerable economies of the developing world in the future. 2017 has been a very good year, but in such a complex and fragile environment, it is important to remain focused on SIFEM's long-term development mandate.

I would like to express my gratitude to the Swiss Government, and SECO in particular, for the continuous support we receive in order to fulfil our mandate. I also warmly thank the SIFEM Board for its constructive contributions and meaningful guidance throughout the year. I would like to add a special word of gratitude to Jean-Daniel Gerber who will step down from SIFEM Chairmanship in May 2018 after seven years of service. Jean-Daniel has worked relentlessly on many fronts to make SIFEM a successful DFI. Personally, I have been privileged to benefit from his continuous support, his guidance and his frequently clairvoyant advice. Much obliged, Mr. Chairman!

Sincerely yours,

Claude Barras
CEO of Obviam, the Manager of SIFEM

A TOTAL OF APPROX. USD 899.4M HAS BEEN **INVESTED IN 124 INVESTMENTS TO DATE.**

SIFEM HAS INVESTED DIRECTLY AND INDIRECTLY IN **473 COMPANIES IN OVER 70 COUNTRIES.**

THE SIFEM PORTFOLIO, TOGETHER WITH ITS CO-FINANCIERS, HAS **SUPPORTED OVER 575,000 JOBS** (SINCE THE IMPLEMENTATION OF ITS DEVELOPMENT EFFECT MONITORING SYSTEM IN 2005).

1. STRATEGY

1.1 SIFEM'S MISSION AND OBJECTIVES

SIFEM is the development finance institution (DFI) of Switzerland and a key pillar of Switzerland's economic development cooperation. SIFEM promotes long-term, sustainable and broad-based growth in emerging markets and developing economies by providing financial support to commercially viable small, medium and other fast-growing enterprises. This in turn helps to create secure and permanent jobs and reduce poverty while also contributing towards the integration of these countries into the global economic system.

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

SIFEM AG is a private limited company, the shares of which are fully owned by the Swiss Government. The specialised investment adviser Obviam has been mandated by SIFEM with the fund management and portfolio management functions. The rationale for doing so is 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.

SIFEM's strategic objectives are defined by the Federal Council usually for four-year cycles. 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. investment funds, structured credit vehicles, banks, microfinance institutions, and leasing companies), providing access to capital and know-how to local, growth-oriented businesses;
- Carrying out investments that produce a specific and verifiable development impact through the promotion of viable and dynamic SMEs and fast growing companies in the private sectors of the target countries; this entails first and foremost the creation of lasting and decent employment as well as the diversification and strengthening of local financial markets/financial intermediaries, improvement in the management of the portfolio companies, expansion of their access to external finance, increased tax revenues at the investment locations, etc.; and
- Concentrating its activities on the priority countries and regions of Swiss development cooperation.

SIFEM investments are development oriented and therefore aim to achieve a broad set of objectives beyond financial 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, and in accordance with its mandate, SIFEM bears a portion of the political or commercial risks and conversely shares the returns from the investments with the private and institutional investors.
- **Subsidiarity:** SIFEM provides financing that is either unavailable on the market at all or unavailable at reasonable terms and conditions or in sufficient amounts or maturity.
- **Complementarity/Additionality:** SIFEM carries 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:** SIFEM investment activity adheres to the basic principles of financial, economic, social, and environmental sustainability.

1.2 PERFORMANCE AGAINST OPERATIONALISED OBJECTIVES 2014–2017

SIFEM's financial performance and development impact are defined by a 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. Company-related objectives and tasks based on SIFEM's ability to balance financial sustainability and development impact within its portfolio; 3. Financial objectives related to SIFEM's long-term financial sustainability; and 4. Objectives related to SIFEM's efforts to develop and sustain cooperation agreements with other DFIs.

SIFEM met 26 out the 27 targets set by its shareholder for the entire strategic period. This reflects SIFEM's careful approach to balancing developmental and financial objectives, in coupling the investment selection skills of Obviam's team with a rigorous Investment Committee process, as well as to ensuring continued compliance with requirements and maximisation of developmental and financial outcomes through a hands-on approach.

The following table lists the operationalised objectives for the 2014–2017 period alongside the final performance results linked to each target indicator.

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.	**Achieved:** 40 % of SIFEM's 2014–2017 commitments are expected to result in investments in least developed countries or other low income countries.[1]
	b) At least half of the number of investment commitments of SIFEM serve to reach the 1st closing of the target funds.	**Achieved:** Since 2014, 72 % of SIFEM's fund investments served to reach the 1st closing of the respective funds.
SUSTAINABILITY	a) All investments are bound to specific requirements regarding environmental, social and governance standards (ESG) and their enforcement.	**Achieved:** All of SIFEM's investments made between 2014 and 2017 have committed to ESG standards in line with SIFEM's Responsible Investment Policy and have a formal agreement allowing for the participation in governance bodies via a seat on a supervisory body. In non-fund investments, the Responsible Investment Policy requirements are directly or indirectly in the legal agreements.
	b) Obviam commits all fund managers to comply with its ESG policy and implement an ESG system no later than two years after closing. Obviam also expects the portfolio companies to take a leading role with regard to ESG.	**Not achieved:** All of SIFEM's fund managers of 2014–2017 investments have agreed to implement Obviam's Approach towards Responsible Investment. However, one fund has not respected the two-year implementation deadline. Obviam has been working with the Fund Manager concerned in order to take the necessary steps towards full compliance with the requirements of its Responsible Investment Approach.

[1] Least Developed Countries (LDCs) and other Low Income Countries (LICs) are classified by the United Nations. The current reference point is a per capita income of less than USD 1,045.

OBJECTIVE	TARGET	PERFORMANCE
LEVERAGE EFFECT	a) One USD invested by SIFEM mobilises at least 2 USD from private investors (i.e. excluding the contribution of other DFIs).	**Achieved:** USD 1 invested by SIFEM mobilized approximately USD 9.1 of private investment for the 2014–2017 investments.
	b) x-time-funds: Investments into fund 1, 2, 3 etc. of the identical fund manager result in increasing mobilisation of purely private capital.	**Achieved:** All cases of subsequent fund investments (excluding special objectives and counter-cyclical investments) in 2014–2017 with final closings having occured until 31 December 2017 have resulted in increasing mobilisation of purely private capital.
COMPLEMENTARITY	a) Obviam or a specialist consultant provides active support/ technical assistance for at least 4 investments per year.	**Achieved:** Over the period 2014–2017, 110 different events/ interventions have taken place, spread out across seven investments.
	b) Over the period 2014–2017, Obviam introduced and supports at least four investments of private investors into SIFEM investee funds or companies, resulting in an investment.	**Achieved:** During 2014–2017, Obviam arranged 18 additional commitments from private investors for 13 SIFEM fund investments.
GEOGRAPHIC CONCENTRATION	100 % of SIFEM direct investments and at least 60 % of the indirect investments are made in focal countries or regions for Swiss development cooperation.	**Achieved:** During 2014–2017, 100 % of SIFEM's direct investments and 76 % of SIFEM's indirect investments were made in SIFEM priority countries, as defined in the investment guidelines of SIFEM at the time of investment.

PART 2: TASKS AND COMPANY-RELATED OBJECTIVES

OBJECTIVE	TARGET	PERFORMANCE
EMPLOYMENT EFFECTS	a) SIFEM creates or maintains at least 6,000 jobs each year (pro rata, i.e. if a fund has created 1,000 jobs and SIFEM owns 10% of the fund, the number of new jobs is shown as 100 rather than 1,000).	**Achieved:** SIFEM's pro rata share of new jobs created and sustained over the entire period amounted to over 55,000, which corresponds to an annual average of 13,778 jobs each year.
	b) The number of jobs in the SIFEM portfolio companies increases by at least 6 % on a three year average.	**Achieved:** The employment numbers in existing fund investees grew by 8 % in average since 2014.
	c) All portfolio companies comply with the ILO core labour standards.	**Achieved:** 100 % of SIFEM's investments have bindingly committed to ILO core labour standards, with no reported breaches throughout the reporting period.
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 in coordination with the existing practices of the European development finance institutions.	**Achieved:** 84 % of SIFEM's total portfolio has received an ex-post development effects score of "good" or "very good".

INSTRUMENT MIX	Total commitments and number of investments by country, sector (incl. micro finance, infrastructure) as well as number of firms receiving support.	**Achieved:** Please refer to the numbers and charts in Section 3.2.
EFFECTIVENESS	Minimum of USD 45 m committed to new investments.	**Achieved:** The average new commitments (2014–2017) amounted to approximately USD 90 million annually.
DEVELOPMENT	a) At least 25 % of the investment commitments to funds with specific development and social objectives (i.e. economic development funds and/or social impact funds).	**Achieved:** 40 % of SIFEM's 2014–2017 investment commitments are classified as "special objective investments".
	b) Of those at least one investment will be in social impact funds on a three year average.	**Achieved:** During 2014–2017, SIFEM invested in four funds classified as social impact investments, 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.	**Achieved:** In 2017, the proportion of fund investments that are classified as high and very high risk projects was 31.9 %. The average percentage over the whole strategic period was 34.5 %.
	b) The proportion of the investments which are classified as high and very high risk projects is less than 15 % for debt instruments.	**Achieved:** In 2017, the proportion of debt investments that are classified as high and very high risk projects was 12.3 %. The average percentage over the whole strategic period was 9.3 %.

PART 3: FINANCIAL OBJECTIVES

OBJECTIVE	TARGET	PERFORMANCE
OPERATING EFFICIENCY	Operating cost ceiling of 1.5 % of the outstanding commitments	**Achieved:** The average operating cost over the whole strategic period amounted to 0.95 % of total active commitments, well below the 1.5 % threshold. This threshold was also respected for each year of the strategic period.
FINANCING	a) The operating costs of SIFEM 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	**Achieved:** Reflows received plus uncommitted cash reserves at the beginning of the period were larger than the sum of operating costs and the minimum volume of annual commitments throughout the entire strategic period.
	b) Increasing reflows as proportion of average annual commitments	**Achieved:** The proportion of reflows to average new commitments increased from 40 % in 2014 to 48 % in 2017.

OBJECTIVE	TARGET	PERFORMANCE
FINANCIAL RESULT	a) Positive operating result in accordance with IFRS.	**Achieved:** The cumulative operating result over the entire strategic period was USD 29.7 million.
INVESTMENTS	a) Overall portfolio – Positive Internal Rate of Return (%) – Total Value over Paid-in multiplier exceeds 1	**Achieved:** The IRR of the overall portfolio as of 2017 was 7.44 %; the TVPI was 1.33.
	b) Growth funds – Internal Rate of Return exceeds 5 % – Total Value over Paid-in multiplier exceeds 1.3	**Achieved:** The IRR for growth funds as of 2017 was 17.24 %; the TVPI was 1.45.
	c) At the beginning of the strategy period at least 1–2 investment institutions should be selected for comparing the reporting on the performance of SIFEM with other investment institutions.	**Achieved:** One institution was selected and used for comparison. SIFEM compared favourably against the other investment institution.

PART 4: COOPERATION ARRANGEMENTS

OBJECTIVE	TARGET	PERFORMANCE
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.	**Achieved:** Please refer to Section 1.3 of the Annual Report regarding Obviam's involvement with other development finance institutions.

1.3 SIFEM'S COOPERATION WITH OTHER DEVELOPMENT FINANCE INSTITUTIONS

On behalf of SIFEM, Obviam engages actively with other Development Finance Institutions (DFIs) and international financial institutions (IFIs), contributing to increased cooperation and fostering synergies informally on a day-to-day basis, as well as more formally by being active in associations and joint working groups.

EDFI – European Development Finance Institutions

EDFI is an European association of 15 bilateral institutions operating in emerging markets and developing economies and mandated by their governments to:

- Foster growth in sustainable businesses;
- Help reduce poverty and improve people's lives; and
- Contribute to achieving the Sustainable Development Goals.

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

EDFI strives to strengthen the flow of information and cooperation between its members and other bilateral, multilateral and regional DFIs. Obviam represents SIFEM in the EDFI General Assembly and contributes actively to various working groups.

EDFI Board

During the reporting year, the EDFI Board, focused on implementing the EDFI Transformation Plan approved in 2015, which foresees two main initiatives: (i) stepping up EDFI's policy engagement and (ii) establishing an EDFI Fund Management Company.

EDFI marked its 25th anniversary by inviting a range of stakeholders to two events during the Annual Meetings of the World Bank and the International Monetary Fund in Washington, DC in October 2017. A new website was launched on that occasion. The Board approved an EDFI policy paper on blended finance, which was discussed and endorsed by the Private Sector Development Institutions Roundtable and at the meeting of Heads of Multilateral Development Banks in October 2017.

In addition, on behalf of SIFEM, Obviam has contributed to five technical EDFI working groups, one EDFI task force and one additional working group consisting of EDFI members and multilateral development banks. These different groups are:

- **EDFI Working Group on Environmental and Social Matters**
  Develops common standards in monitoring environmental practices, social practices and governance.

- **EDFI Task Force on Taxation**
  Develops principles on responsible taxation. The task force was led by Obviam's CEO, Claude Barras.

- **EDFI Working Group on Development Effectiveness**
  Develops ideas and initiatives to improve and harmonize the measurement and the evaluation of the development impact of EDFI institutions' investments, as well as for networking and general knowledge sharing.

- **EDFI Working Group on Technical Assistance**
  This informal platform allows EDFI members to share their experiences in the field of technical assistance, and thus facilitates the sharing of best-practice.

- **EDFI Working Group on Communication**
  This working group discusses challenges and highlights of the communication work at the level of member institutions.

- **DFI Working Group on Corporate Governance**
  Reviews progress on the implementation of the Corporate Governance Development Framework (CGDF) established in 2011, which is a common set of guidelines that 35 DFIs, including SIFEM, apply.

- **International Finance Institutions Working Group on Harmonization of Indicators**
  The group comprises twelve members of EDFI, including SIFEM, and fifteen IFIs such as the IFC, the Asian Development Bank, and the African Development Bank.

2. CORPORATE GOVERNANCE

2.1 SIFEM'S LEGAL FRAMEWORK

SIFEM's role as the Swiss DFI is legally anchored in the following two Federal ordinances:

- Ordinance on international development co-operation and humanitarian aid of 12 December 1977.[2]
- Ordinance on co-operation with Eastern European countries of 6 May 1992.[3]

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 its developmental mandate.

2.2 CORPORATE STRUCTURE

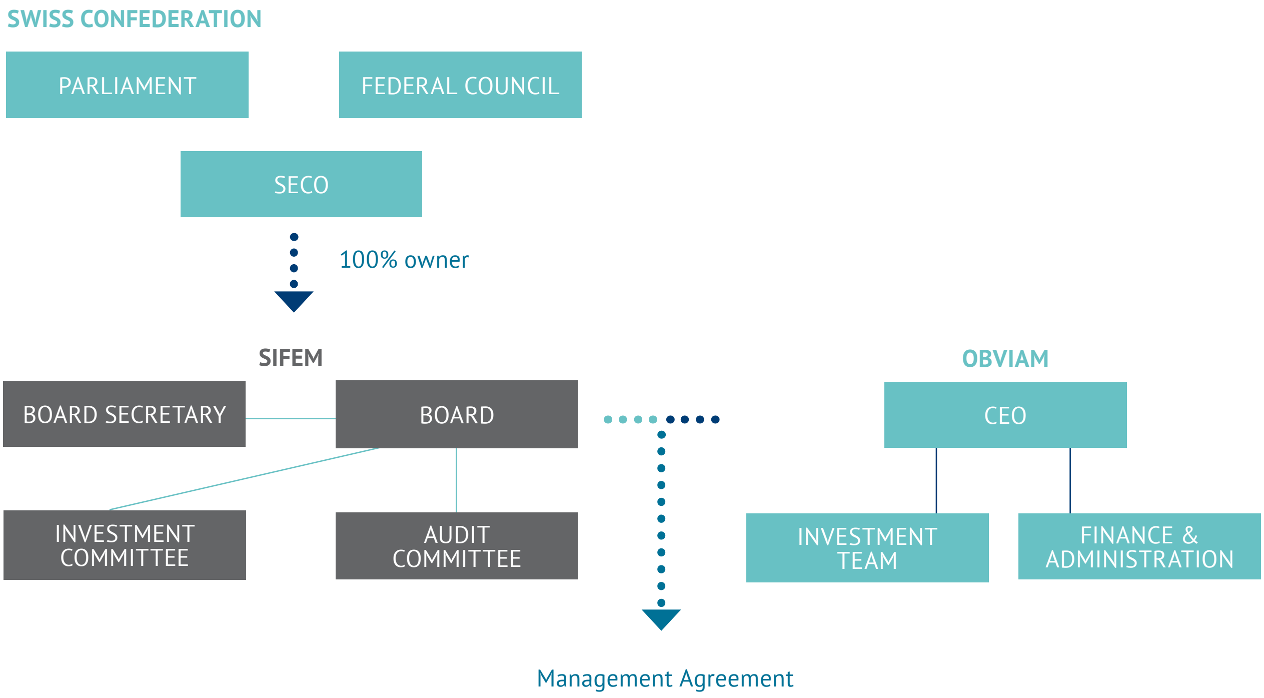
The Board of SIFEM is responsible for investment decisions and other executive management tasks. In accordance with its Organisational Regulations, the Board has/maintains two committees: the Investment Committee and the Audit Committee. Investment and divestment decisions are delegated to the Investment 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, under two contracts pertaining to the management of the portfolio and of daily business activities. On the first of July 2017, a new single Management contract entered into force and replaced the two above mentioned contracts. The core management team of emerging market finance specialists at Obviam has managed the investment operations of SIFEM's portfolio since 2005, initially as advisors to SECO. As part of the establishment of SIFEM in 2011 as the DFI of the Swiss Confederation, the management 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 for target countries, while shielding SIFEM and the Swiss Confederation from liability risks. The contractual framework between SIFEM and Obviam, is in line with international best practice for private equity fund managers, while assuring that the standards of the Swiss Confederation are respected.

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 emerging markets and developing economies.

[2] Verordnung vom 12. Dezember 1977 über die internationale Entwicklungszusammenarbeit und humanitäre Hilfe , SR 974.01
[3] Verordnung vom 6. Mai 1992 über die Zusammenarbeit mit den Staaten Osteuropas, SR 974.11

FIGURE 1: SIFEM CORPORATE STRUCTURE AND GOVERNANCE



2.3 GOVERNANCE AND POLICY ACTIONS

Board

Following the losses incurred due to foreign exchange movements in 2014, the Board has continued to carefully review and manage the performance of the portfolio against the financial targets. In this context, the Board is glad to report a very significant improvement in financial performance with both a net investment profit of CHF 45.0 million and a positive operational result of CHF 36.7 million in 2017. This contributed to the consolidation of the positive financial results reported in the previous two years. SIFEM has therefore been able to fully make up for past losses and achieve a positive result over the entire four-year strategic period, which is an important achievement for a still young DFI. SIFEM will continue to strengthen its exposure in current-income instruments in the coming years, which is expected to further reduce the inherent volatility of its financial results.

In 2017 the Board focused on achieving the 2014–2017 Strategic Objectives. As reported in Section 1.2 of this Annual Report, SIFEM achieved 26 out of 27 targets. In addition, the Board addressed an array of strategic and operational topics. The Board had already established three specific work streams focusing on key strategic issues: (1) the conversion of the shareholder loan into equity; (2) a second capital increase from the Swiss Confederation; and (3) the mobilisation of private investors for development. Regarding the first work stream, the Board closely followed the interactions between the Federal Administration and Parliament on that specific issue and was pleased by the positive decision taken by Parliament in December 2017. Regarding the second work stream, the Board was pleased to see the approval of a capital increase of CHF 150 million by the Federal Council in June 2017. Last but not least, regarding the third work stream, the Board reviewed the lessons learned by Obviam in 2017 with regard to the challenges experienced in launching a new platform for co-investments.

The Board reviewed and approved the operational guidelines of the new SIFEM impact policy, the formal implementation of which starts in 2018, to coincide with the beginning of the new strategic period (2018–2020) defined by the Federal Council. The Board also reviewed the new SIFEM business plan for 2018–2020, which is in line with the new strategic objectives. At the operational level, SIFEM launched a WTO tender for the auditor mandate. The mandate will be formally awarded in the first semester of 2018. Another third-party service provider contract (accounting mandate) will become due for retendering in 2019.

Investment Committee

In 2017, the Investment Committee met eleven times to review transactions presented by Obviam. Concept approval was granted for eleven new transactions, allowing Obviam to conduct due diligence on these deals and submit them to the Investment Committee for final approval. Ten transactions were submitted following due diligence and received final investment approval from the Investment Committee; nine transactions closed before year-end for a total of USD 87.4 million. For further details on the transactions closed during the year, see Section 3.1.

Audit Committee

The Audit Committee held five meetings in 2017 and examined a wide range of topics, from portfolio performance and valuations to financial accounts, management accounts and budget, risk management, and performance of the accountants, auditors and custodians. The Audit Committee recommended that the Board approve SIFEM's 2017 financial accounts. As in previous years, ensuring that the portfolio is valued at fair market value was the overarching topic and absorbed much time. The Audit Committee also met with SIFEM's auditor and accountant to verify adherence to / compliance with internal controls and cash management policies, as well as portfolio valuation.

2.4 SHORT BIOGRAPHIC PROFILES OF SIFEM BOARD MEMBERS

Jean-Daniel Gerber

Chairman of the Board, Chairman of the Investment Committee, since 2011

Jean-Daniel Gerber was Director of the State Secretariat for Economic Affairs (SECO) until he retired in 2011. During his career in the service of the Swiss Government, Jean-Daniel Gerber has been active in various areas of responsibility: 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 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 (1998–2004). Jean-Daniel Gerber currently also sits on the Board of Lonza Group and is President of Swiss Sustainable Finance (SSF) and the Swiss Society on Public Good.

Susanne Grossmann

Vice-Chairman of the Board, since 2014, Member of the Investment Committee, since 2011

Susanne Grossmann has been active in private sector finance in emerging markets and developing economies since 1999. From 2007–2014 she was Managing Partner at BTS Investment Advisors, a private equity fund advisor for investments in non-listed Indian small- and mid-sized companies. Today Ms. Grossmann manages Dalyan Foundation, a charitable foundation supporting women and children in India and Turkey. Since 2014, she also advises the SECO Start-Up Fund.

Julia Balandina Jaquier

Member of the Investment Committee, since 2011, Chair of the Audit Committee, since 2014

Dr. Julia Balandina Jaquier has 25 years of investment and strategic consulting experience, the last 14 of which are focused on impact investing. She started her career at McKinsey and subsequently held senior positions at ABB Financial Services and AIG Global Investment Group, where she managed the AIG's European direct private equity business. In 2010, she founded an independent impact investment consultancy and has since served as a trusted adviser to major private, institutional and sovereign investors. Julia is a Senior Fellow and Advisory Board Member of the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich, where she leads the NextGen Impact Accelerator. Julia is the author of two books on impact investing and has lectured at St. Gallen University, IMD, Harvard and CEIBS.

Geoff Burns

Member of the Investment Committee, Member of the Audit Committee, since 2014

Geoff Burns has over 30 years of experience in private equity. He has his own private equity advisory business specifically to address the challenges facing 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.

Kathryn Imboden

Member of the Investment Committee, since 2014

Kathryn Imboden is a Policy Advisor for the Consultative Group to Assist the Poor (CGAP), a research and policy platform on financial inclusion housed at the World Bank. Following nearly twenty years with the Swiss Agency for Development and Cooperation (SDC), she held financial sector policy related positions at Women's World Banking, United Nations Capital Development Fund, and the Aga Khan Foundation, before joining CGAP in 2007.

Regine Aeppli

Member of the Board, since 2017

Regine Aeppli was a partner in a law firm dealing with family law, state and administrative law from 1986 to 2003. In addition to her work as a lawyer, she was politically active as a representative of the Social Democratic Party of Switzerland. From 1987 to 1996, she was a member of the Zurich cantonal council, and from 1995 to 2003, she was elected at the Swiss Parliament National Council chamber. In 2003, she was elected at the cantonal government of the Canton of Zurich where she headed the Education Directorate until her departure in 2015. Today, among other things, she is chairing the Board of the Swiss Samaritan Federation and is a member of the Board of Trustees of Kulturama. Regine Aeppli studied law at the University of Zurich where she obtained her diploma.

Angela de Wolff

Member of the Board, since 2017

Angela de Wolff has been active in the financial sector for 23 years, with a focus on responsible investment since 2001. She began her career as a consultant with Andersen Consulting and then held various positions in private banks. Among other positions, she has led the sustainability team at Lombard Odier bank. In 2007, she capitalized on her experience to create Conser, an independent firm specialized in responsible investment. She is the co-founder of Sustainable Finance Geneva, a non-profit association which aims to promote responsibility and sustainability in finance. She is Vice-President of the platform Swiss Sustainable Finance, and also sits on the Board of Directors of Banque Cantonale de Genève (BCGE) and the Audemars-Watkins foundation in Geneva. Ms. de Wolff obtained a Master in economics from Lausanne University in 1989. She became a Certified European Financial Analyst (CEFA) in 2000.

2.5 COMPENSATION REPORT

Board Compensation

In 2017, the fixed annual compensation for the entire Board of SIFEM amounted to CHF 223,319, gross of social security contributions.

The Chairman of the Board received a total gross compensation of CHF 44,000 in 2017. 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 received on average CHF 30,000 gross compensation, including compensation for work in Board subcommittees.

Compensation of Obviam

The compensation of Obviam is determined in accordance with the Portfolio Management Agreement and the Business Management Agreement until mid-2017, and in accordance with the new Management Agreement for the remainder of the year.

Under these different agreements, Obviam is compensated for actual costs incurred, within a budget that is approved annually in advance by the Board.

The wording of Clause 4.6 and 4.7 of the Management Agreement is as follows

4.6. SIFEM will pay the 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 Manager.

4.7 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 portfolio management expenditure directly attributable to the services provided under this 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 […].In preparing the annual budget, the Manager shall take into account the fees to be generated by engagements and mandates assigned to the Manager by any third party as well as the allocation of costs to a plurality of engagements and mandates. 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.

The Board of SIFEM agreed to the annual budget proposed by Obviam for 2017 under the aforementioned agreement. For the year 2017, the total budget for Obviam was CHF 7.75 million (including VAT and accruals for variable compensation). The size of the 2017 budget relative to the total active commitments as of end-year increased from 0.84 per cent in 2016 to 1.05 per cent in 2017.

It is important to note that Obviam rarely spends its full budget. In 2017, the actual expenses amounted to CHF 7.21 million, or 93 per cent of the total budget. This corresponds to 0.98 per cent of the total active commitments of SIFEM at the end of the year, as opposed to 0.72 per cent in 2016. This increase in relative terms is explained by several factors, the most important being a slower growth of total active commitments in 2017 compared to 2016, due to the expiration of a larger number of old commitments in the portfolio and slightly lower amounts of new commitments. Another factor is that some staff hires initially foreseen for 2016 were postponed until 2017, thereby creating a catch-up effect in terms of incurred costs in 2017.

The total actual expenses on administrative costs of SIFEM amounted to CHF 8.29 million in 2017, which corresponds to 1.12 per cent of the total active commitments of SIFEM and which remains below the threshold of 1.5 per cent defined by the Federal Council. The corresponding 2016 figure was 0.93 per cent. As a reminder, the total actual spending on administrative costs encompasses all operating costs, including management expenses, other administrative expense items such as administration and custodian fees and Board compensation, as well as stamp duty expenses.

Obviam has complied with Clause 4.17 of the Management Agreement, the original wording of which is repeated below:

The Manager undertakes to ensure that in the Obviam Group the proportion of the highest individual fixed salary which results from this 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 Management Agreement, the original wording of which is repeated below, the incentive system for Obviam is designed as follows:

4.9. The Board will allocate a performance bonus (the "Performance Bonus") equal to an amount up to twenty (20) per cent of the annual fixed salary costs indicated in the annual budget prepared in accordance with Clause 4.7 of this Agreement for the year in question. The objectives to be attained by the Manager shall be specified yearly by the Board and agreed with the Manager in the framework of the yearly budget process.

4.10 One third of such Performance Bonus shall be disbursed annually to the 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.

4.11 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 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. […]

In accordance with the above, the bonus for 2017 was retained in a blocked account. The progress made in achieving the objectives will be reviewed by the Board in 2018, thereby verifying the release of the retained bonus.

In addition, based on a detailed review of Obviam's performance against the annual objectives, the Board approved the disbursement of the Performance Bonus to Obviam's CEO as follows:

- *One part of the annual bonus for 2017 was based on the performance against quantitative targets for the year. According to the mechanism established by the Board, Obviam CEO was entitled to 92.5 per cent of his immediate bonus component for 2017, which amounts to 5.57 per cent of his annual fixed salary. The immediate bonuses of individual Obviam staff members are determined by the CEO, subject to a cap of 6.67 % of individual annual salaries.*

3. PERFORMANCE OF THE INVESTMENT PORTFOLIO[4]

3.1 NEW INVESTMENTS

In 2017, a total of USD 87.4 million of new investment commitments were made. The 2017 investments consist of five private equity funds (AFF II, MPEV IV, Catalyst II, Capsquare II and GCP), one mezzanine debt fund (Abraaj GCF), and three loans to financial institutions (Amret, Improsa and Indosurya) The regional breakdown of 2017 investments consists of two investments in Sub-Saharan Africa (AFF II and Catalyst II), one investment in North Africa (MPEV IV), four investments in East and South East Asia (Capsquare II, GCP, Amret and Indosurya), one investment in Latin America (Improsa), and one investment in a global project (Abraaj GCF).

The new portfolio positions are as follows:

Africa Forestry Fund II (USD 7 million committed)
Africa Forestry Fund II (AFF II) is a private equity fund that invests in the sustainable forestry products value chain, including sustainable forestry plantations, forestry products processing, and manufacturing facilities, as well as wood-to-energy biomass generation assets. The Fund targets projects throughout Sub-Saharan Africa, many of which are located in rural areas. It seeks to bring a wide range of environmental, social and economic benefits to surrounding communities.
The African continent offers compelling economic growth opportunities; however, the forestry sector and its value chain suffer from inadequate investment and poor management. As the continent develops, the demand for wood-based products is increasing and supply is not able to keep up, resulting in a need for Africa to import wood products. AFF II requires and supports its companies to manage plantations and other operations in a sustainable manner, in an effort to protect biodiversity, sequester carbon, and help halt the cycle of deforestation and land degradation. It also seeks to foster social and environmental best practices across operations and rural communities, with a focus on the provision of safe and formal jobs for the workers. SIFEM's investment of USD 7 million supports the sustainable growth of a sector that is crucial for the long-term development of Sub-Saharan Africa.

Maghreb Private Equity Fund IV (EUR 10 million committed)
MPEF IV is a private equity fund investing in SMEs and mid-market companies in North Africa (including Tunisia, Egypt, Morocco, and Algeria). The Fund's strategy focuses on companies that are well-established in their local markets and that have the potential to scale up their activities at the regional level. MPEF IV targets a range of sectors, including IT and telecoms, fast-moving consumer goods, healthcare, education, logistics, or agribusiness, with a preference for companies focused on export growth.
The North Africa region is still recovering from the impact of the Arab Spring: private investors continue to be reluctant to invest. North Africa's economies have not grown fast enough to create sufficient jobs, and whilst

[4] Note: All numbers related to the investment portfolio are declared in SIFEM's functional currency USD

governments can provide an enabling environment, the largest motor of job creation is the private sector, specifically SMEs and mid-market enterprises. SIFEM's investment of EUR 10 million in MPEF IV contributes to expanding the private sector and generating employment, a key element to contain social tensions, political unrest, and migration pressure.

Catalyst Fund II (USD 8 million committed)

Catalyst Fund II is a private equity fund which invests in East Africa, with primary target countries Kenya, Tanzania, Ethiopia, Uganda, and a secondary focus on Rwanda, Zambia and the Democratic Republic of Congo. The Fund invests in SMEs and other fast growing companies that operate in the consumer goods, financial services, manufacturing, and healthcare sectors.

Access to capital is a major hurdle for SMEs in East Africa, and many businesses require strategic input as well as growth capital to reach the next stage of institutionalisation. Given the prevalence of the informal sector, the creation of formal jobs is of particular importance in this region. Formal jobs ensure better working conditions for employees, as well as social and medical insurance benefits, and increase government revenues through tax receipts. Operating in a challenging business environment, Catalyst II adds value to its portfolio companies by working alongside management to ensure implementation of best practice reporting, governance, health, safety, and other social and environmental standards. With an investment of USD 8 million in Catalyst Fund II, SIFEM will contribute to foster economic growth, support sustainable job creation, and promote the integration of the target countries into the world economy.

Capsquare Asia Partners Fund II (USD 10 million committed)

Capsquare II invests in SMEs and fast-growing companies in Indonesia with a focus on consumer-driven sectors such as fast-moving consumer goods, food and beverages, healthcare, and education. Each of the invested companies benefits from the full-time support and operational experience of Capsquare via the Fund's control-ownership approach.

Indonesia's economy has expanded strongly over recent decades. However, nearly 100 million Indonesians still live on less than USD 3 per day and the informal sector accounts for an estimated 50 per cent of employment. Via its control-ownership approach, the Fund makes a significant contribution to strengthening and professionalising companies in order to unlock growth, productivity, and gains in profitability. This includes bringing the companies in line with international environmental, social, and corporate governance standards. SIFEM's investment of USD 10 million therefore contributes to the diffusion of best practices in Indonesia and supports the creation of decent and formal employment opportunities and the generation of tax revenues for the local government.

Growth Catalyst Partners (Lok III) (USD 8 million committed)

Since its creation, Lok's mission has been to support India's underprivileged and underserved populations, including those in rural and remote areas, via investments in SMEs focused on financial inclusion. Lok III is a continuation of this mission and core investment theme, with an expanded focus to also include the affordable healthcare, and, agribusiness sectors.

India is home to 21 per cent of the world's unbanked adults. Increased formal financing of small-scale financial institutions is needed for India's fundamental long-term growth. Financial institutions targeted by Lok III range from Non-Bank Financial Companies (financial institutions which do not have a full banking license, and cannot take deposits, but which can facilitate other financial services) to Small Finance Banks (which can also take deposits), as well as other companies in the financial inclusion sector such as speciality financing or digital finance. Support for these innovative companies targeting inclusion naturally allows greater outreach to the previously unserved and underserved population.

Lok III also targets innovative companies focused on creating access to affordable and high-quality healthcare products and services. Only 20 per cent of the Indian population is covered by a health insurance, with the affordability of healthcare services being a critical issue for the majority of the remaining 80 per cent. The Fund's financing supports access in underserved regions to high-quality affordable clinical services and healthcare-related financial services such as savings or insurance-related platforms. With its investment of USD 8m in GCP, SIFEM supports an investment that targets the high impact sectors of financial inclusion, healthcare and agribusiness in India.

Amret (USD 8.4 million senior loan)

Amret was founded as an NGO in 1991 and became a licensed Microfinance Institution (MFI) in 2001. With 300,000 clients across Cambodia, Amret's mission is to strengthen financial inclusion for low-income households and to support the development of micro, small and medium-sized enterprises (MSMEs), especially in rural areas. More than 65 per cent of Amret's loan portfolio are microloans, almost 45 per cent are for agricultural purposes. More than 75 per cent of its clients are women.

Financial inclusion in Cambodia is low, with only 22 per cent of the adult population having a bank account. In addition, MSMEs, which generate much of Cambodia's economic output and employment, still have difficulty in accessing finance, hindering their competitiveness and capacity to develop. Amret's large geographical coverage allows outreach to clients in more remote and underserved areas and makes it a driver for broader financial inclusion in Cambodia. In line with its mission, the MFI offers training programs for clients on essential topics such as agriculture, financial literacy, and basic healthcare. SIFEM's USD 8.4 million loan is part of a syndicated transaction led by FMO.

Abraaj Global Credit Fund (USD 10 million committed)

AGCF is the first global emerging markets fund offering private debt to middle-sized and growth-oriented companies in emerging markets and developing countries. It is a generalist fund investing globally with a focus on industrial sectors, infrastructure (transport, energy), logistics, and communication.

Gaining access to finance is a challenge even for mid-sized companies in developing countries, where foreign and local banks prefer to take less risks and therefore extend fewer loans. The Fund aims to bridge this gap and contribute to financial sector innovation and deepening. In addition, the creation of formalized jobs leads to better working conditions, including social and medical insurance benefits, as well as increased government revenues through tax contributions. With its investment of USD 10 million in AGCF, SIFEM supports the provision of finance to growth-oriented companies that drive resource efficiency and adhere to international sustainability standards in emerging markets and developing countries.

Banco Improsa (USD 12 million senior loan)

Banco Improsa, founded in 1986, has established a strong presence in Costa Rica with 13 branch offices serving approximately 2,000 borrowers and 5,000 depositors. It is the second largest SME bank in Costa Rica, with 69 per cent of its loan portfolio allocated to SMEs. In addition, the Bank offers a loan product targeting microentrepreneurs, which are underserved by financial institutions.

MSMEs account for 93 per cent of businesses in Costa Rica, half of which are considered to be underserved. This lack of capital not only prevents their growth, but also contributes to Costa Rica's average unemployment rate of almost 10 per cent, which increases to more than 25 per cent for the youth and lower-income populations. Banco Improsa offers SMEs long-term financing, which is the scarcest and most-needed type of financing. The Bank therefore contributes to the creation of secure and formalized employment opportunities. SIFEM's loan of USD 12 million is earmarked for MSME clients and contributes to broad-based and long-term private sector growth in Costa Rica.

Indosurya Inti Finance (USD 12 million senior loan)

PT Indosurya Inti Finance (Indosurya) provides financing solutions for SMEs and individuals in Indonesia. Indosurya serves almost 2,000 clients via 70 branch offices and points of sale across Java, Bali and Sumatra, the main hubs of economic activity in Indonesia. Its offer to SMEs includes working capital and investment loans, as well as loans for property. It further offers microcredit solutions for personal or business use.

Like many developing countries, Indonesia is faced with the problem of the "missing middle". Financial institutions focus mainly on catering to the needs of the largest and smallest businesses, while SMEs "in the middle" struggle to access finance. This lack of access, in turn, prevents SMEs from growing and creating jobs. In Indonesia, SMEs, together with micro-enterprises, account for 99 per cent of total enterprises, and employ nearly 90 per cent of the total workforce. Indosurya plays a critical role in serving unbanked SME clients with the finance necessary to grow and thrive. SIFEM's USD 12 million loan is part of a syndicated transaction led by the IFC, with other DFIs participating. The loan will increase the availability of capital dedicated to SMEs and further increase the access to finance for the underserved. By helping to drive investments in Indonesia's SME sector, the transaction contributes to broad-based and long-term private sector growth.

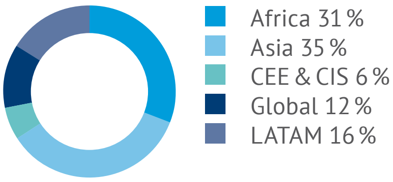
3.2 PORTFOLIO CONSTRUCTION

SIFEM's portfolio developed over a period of two decades, with the first investments dating back to 1997.[5] Since inception, SIFEM has committed USD 899.4 million to 124 projects across Africa, Asia, Eastern Europe and Latin America. Asia remains the largest region, closely followed by Africa. Capital commitments to Africa have increased compared to 2016, while the relative share of the CEE & CIS region and Latin American region have slightly decreased.

SIFEM CAPITAL COMMITMENTS BY GEOGRAPHY AND FOCUS AS OF 31 DECEMBER 2017

GEOGRAPHY

Figure 2



INSTRUMENTS

Figure 3

The portfolio consists primarily of private equity funds investing in growth companies and SMEs (64 per cent), infrastructure (4 per cent) and current income funds (17 per cent). Investments in microfinance comprise 5 per cent and other financial intermediaries 10 per cent of the portfolio.

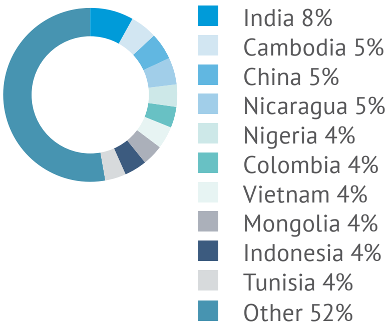
Across these focus areas, 29.9 per cent of the total portfolio consists of current income earning assets, with the remaining 70.1 per cent consisting of equity and quasi-equity instruments.

SIFEM UNDERLYING PORTFOLIO ALLOCATION AS OF 30 JUNE 2017

As of 30 June 2017 SIFEM had directly and indirectly invested in 473 companies in 71 countries. The ten countries with the largest financial exposures account for 48 per cent of the total invested capital.

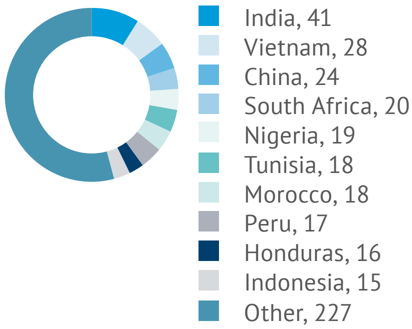
LARGEST COUNTRY EXPOSURES BY INVESTED CAPITAL

Figure 4



LARGEST COUNTRY EXPOSURES BY NUMBER OF COMPANIES

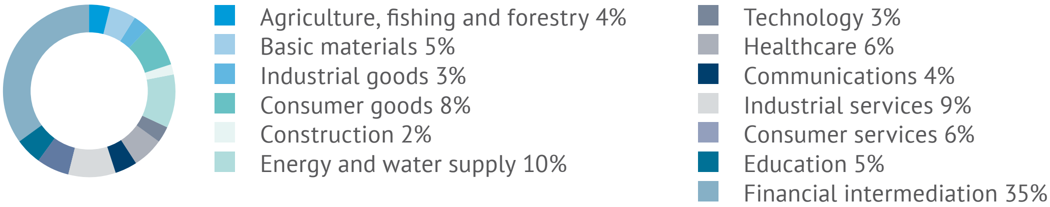
Figure 5



[5] Investments made between 1997 and 2005 were transferred to SIFEM when it was established in its current form in 2005.

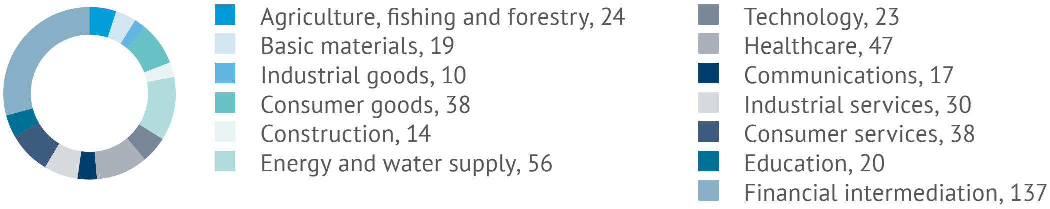
INVESTED CAPITAL EXPOSURE PER SECTOR

Figure 6



NUMBER OF COMPANIES PER SECTOR

Figure 7



Out of the 137 entities in the financial sector in which investment have been made, more than 90 companies are active in the microfinance sector.

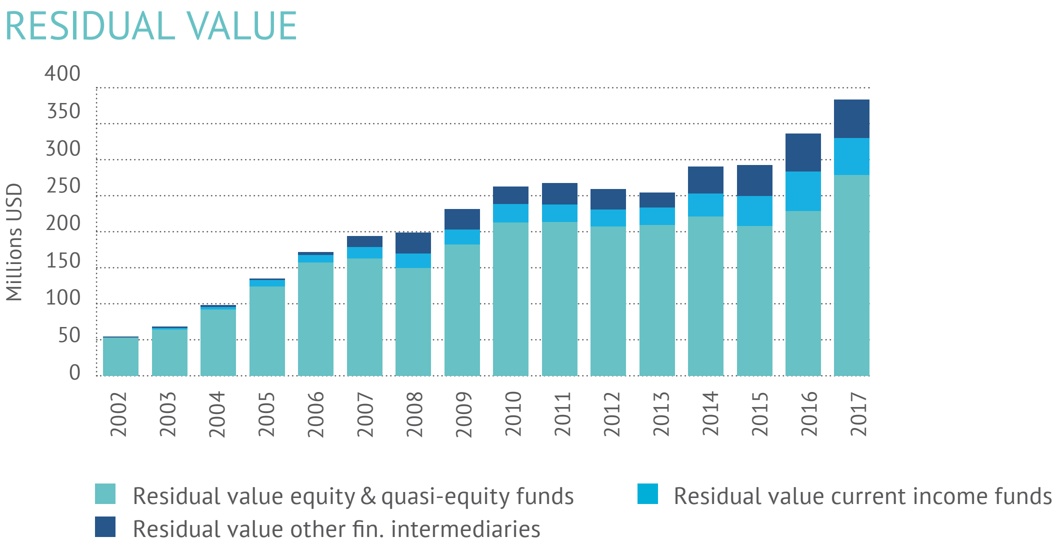
3.3 VALUATION

SIFEM's financial statements 2017 were independently audited by early March 2018, in accordance with the requirements of the shareholder, so that they could be consolidated in the Swiss Confederation's accounts. However, this did not leave sufficient time to obtain and integrate the audited accounts of all portfolio companies. Hence, SIFEM has used the latest available valuations (as of September 2017) and rolled them forward to the year-end. This methodology was accepted by the auditors and any differences are not expected to be material.

3.4 EVOLUTION OF KEY PERFORMANCE BENCHMARKS

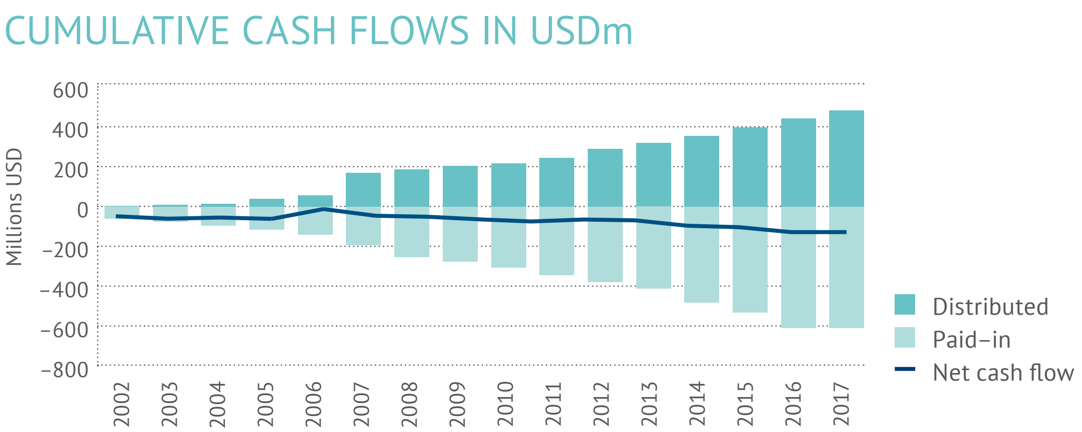
As of 31 December 2017, SIFEM's total active commitments stood at USD 757.1 million. The residual value of SIFEM's investment portfolio amounted to USD 377.0 million, an increase of USD 41.4 million or 12.3 per cent, compared to 31 December 2016. Changes in the portfolio value are driven by fluctuations in the value of the underlying investments on the one hand and by the inflows and outflows of cash generated by new investments on the other hand, as well as by realisations of investments.

FIGURE 8: SIFEM PORTFOLIO VALUE SINCE INCEPTION



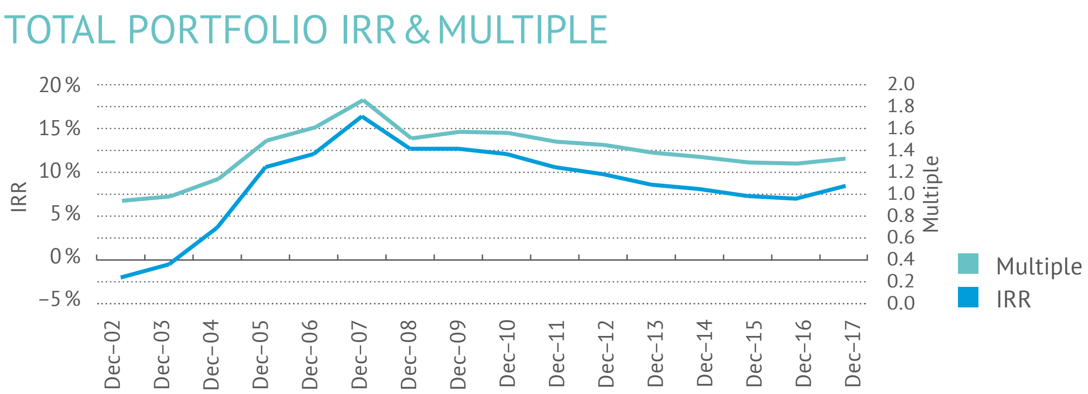
Since inception, USD 647.9 million has been paid into the SIFEM investment portfolio, and the portfolio generated total reflows of USD 483.9 million. In 2017 SIFEM realized a positive cash flow of USD 3.3 million, making 2017 the first positive cash flow year since 2012. The cumulative net cash flow since inception amounts to USD −164 million, which 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 9: SIFEM CUMULATIVE CASH FLOWS AND UNCALLED COMMITMENTS (IN USD MILLION) SINCE INCEPTION



As of 31 December 2017, SIFEM's portfolio Internal Rate of Return (IRR) was 7.4 per cent. The IRR tracks the performance of the portfolio since inception. It should 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 10: SIFEM TOTAL PORTFOLIO IRR & MULTIPLE SINCE INCEPTION



In 2017, the IRR increased to 7.4 per cent, from 7.0 per cent in 2016. This represents a turning point after ten consecutive years with decreasing IRR caused by a dilution of successful exits performed in the past.

3.5 CURRENCY EFFECTS

Fluctuations in foreign currency continue to affect the performance of the SIFEM portfolio in two ways: first, the investee companies of the private equity funds operate in local currency environments that affect their performance, since the funds themselves are mostly denominated in USD and to a certain degree in Euro, South African Rand or Chinese Yuan; and second, the non-USD fund denomination currencies – namely Euro, Rand and Yuan – affect the portfolio performance once they are translated into USD, SIFEM's operational 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' valuations.

In order to reduce this impact, the SIFEM Board decided to optimise currency management by reducing cash holdings in the main fund denomination currencies other than USD (i.e. Euro, Rand, Yuan) and, at the same time, hedging SIFEM's exposure to the Euro by entering into currency forward contracts to the amount of SIFEM's total Euro exposure (consisting of Euro debt investments, treasury cash holdings, and estimated cash holdings in the underlying Euro-denominated private equity funds).

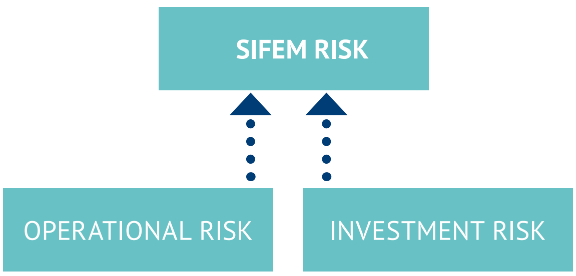
4. RISK MANAGEMENT

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. Reputational 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 held to the highest standards; and (b) SIFEM operates in an emerging market and developing economy environment, where corporate governance tends to be weak and the risk of incidents is comparatively high.

SIFEM relies on a comprehensive Manual of Procedures, which was approved by its Board and contains all the relevant policies, procedures, and guidelines for operations. The Manual details the ways in which Obviam implements the 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 for SIFEM can be divided in two main areas: operational risk and, investment or portfolio risk.

FIGURE 11: SIFEM MAIN RISK COMPONENTS



The monitoring of risk at each level follows specific procedures and processes applied throughout SIFEM's operations, which ensure that risk is mitigated to the highest degree and that the regulatory requirements are fulfilled. At each stage, the objective is to reduce 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, together with proposals on how the risks can be mitigated.

4.1 OPERATIONAL RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

SIFEM submits itself annually to a full audit according to the Swiss Code of Obligations. Since the 2008 revision of the Swiss Code of Obligations, companies undergoing 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 pay due attention to the quality and documentation of their ICS.

The Procedure Manual provides the basis for 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 book-keeping agent.

4.2 INVESTMENT RISK MANAGEMENT

SIFEM's portfolio clearly reflects the institution's developmental mandate, as it consists primarily 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-management capacity, in order to control these risks and, by doing so, ensure that the financial performance safeguards SIFEM's ability to maintain and expand its investment capabilities.

Investment risk management is based on three elements:

Portfolio 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 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. Comprehensive descriptions of the tool and of portfolio risk analysis are provided in Section 4.3 and Section 4.4 respectively.

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. Safekeeping of cash reserves that are not needed in the 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 risk. However, SIFEM is allowed to overcommit up to a certain over-commitment ratio. The limit for over-commitment approved by the Board of Directors was set to 6 per cent in 2017. As of year-end the actual ratio was 2.5 per cent. Obviam is closely monitoring the over-commitment ratio and is managing SIFEM's cash holdings accordingly.

ESG Risk Management

As a responsible investor, SIFEM is committed to investing in accordance with international best-practice ESG standards, in order to minimize its ESG-related and reputational risks, and to contribute to sustainable development in its target markets.

SIFEM benefits from Obviam's Approach to Responsible Investment. This comprehensive policy document articulates clearly Obviam's commitments to responsible investing and the ESG requirements that it places on its investments. The document also describes Obviam's ESG management throughout the investment lifecycle.

ESG risk ratings are assigned to all prospective investments prior to investment decisions. Assessment are also made of these investments' quality of ESG management. All investments are subject to annual ESG reviews, including reviews of ESG risk ratings. Investments that are not in compliance and those that have had serious incidents (e.g., financial crime, loss of life, material environmental damage, etc.) are subject to more frequent review. In these cases, Obviam, often in collaboration with other DFI investors, drafts Environmental and Social Action Plans (ESAPs) and Corporate Governance Action Plans (CGAPs) with the investments. These Plans govern the remediation of non-compliance within acceptable timeframes. Investments can seek technical assistance from SECO to support remedial efforts and improvements above and beyond compliance and Obviam can also provide direct assistance, if needed.

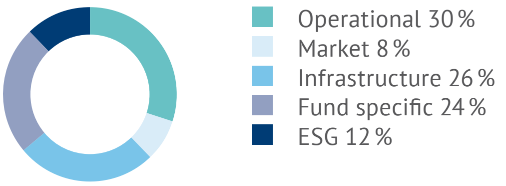
ESG risk ratings and other key information (including compliance status and serious incidents) are maintained in a Management Information System. Watch lists are periodically generated to track and monitor risks. The ESG risk profile of SIFEM's entire portfolio is generated annually.

4.3 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 private equity funds, financial institutions (FI), and debt funds in microfinance or other asset classes. It primarily measures financial risk, but also considers other dimensions such as environmental, social and reputational risks. The system comprises over 30 risk indicators that capture operational, market, infrastructure, and ESG risks, as well as fund, debt instrument, and FI-specific risks.

RISK WEIGHTING IN SIFEM'S RISK RATING TOOL FOR PRIVATE EQUITY FUNDS AND DEBT FUNDS

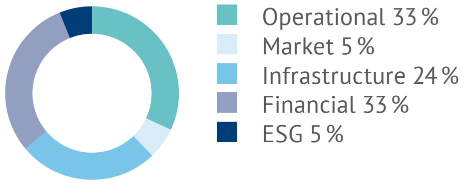
Figure 12



These indicators are aggregated and weighted to constitute a risk score for every investment. The scores are then adjusted by 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.

RISK WEIGHTING IN SIFEM'S RISK RATING TOOL FOR DIRECT DEBT INVESTMENTS[6]

Figure 13



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, the rating of each project is updated 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; this 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 up and implemented.

4.4 SIFEM PORTFOLIO RISK RATINGS OVERVIEW 2017

As per December 2017, the breakdown of the SIFEM portfolio in terms of investments per risk category is as follows:

FIGURE 14: NUMBER OF SIFEM INVESTMENTS PER RISK CATEGORY AS OF DECEMBER 2017

Projects per risk category	2016		2017	
Very low risk	11	13 %	**12**	**13 %**
Low risk	13	15 %	**14**	**15 %**
Moderate risk	26	30 %	**31**	**34 %**
High risk	16	18 %	**15**	**16 %**
Very high risk	21	24 %	**19**	**21 %**

The largest concentration of investments remains in the moderate risk category. These are mainly investments that perform according to expectations or are too recent to exhibit a significant deviation from their initial risk score (which is typically "moderate risk").

For the most part, projects in the high or very high risk categories either do not meet the expected performance or their risk score is affected by a higher macroeconomic and market risk. The continuously high number of riskier investments results from SIFEM's developmental mandate. However, the proportion of high-risk investments has decreased slightly over the past year. The shift can be explained by the exit of some of the riskier projects in the portfolio, but also by the better performance of some of the investments for which reflows had previously remained below expectations and which had negatively fed into the risk scores.

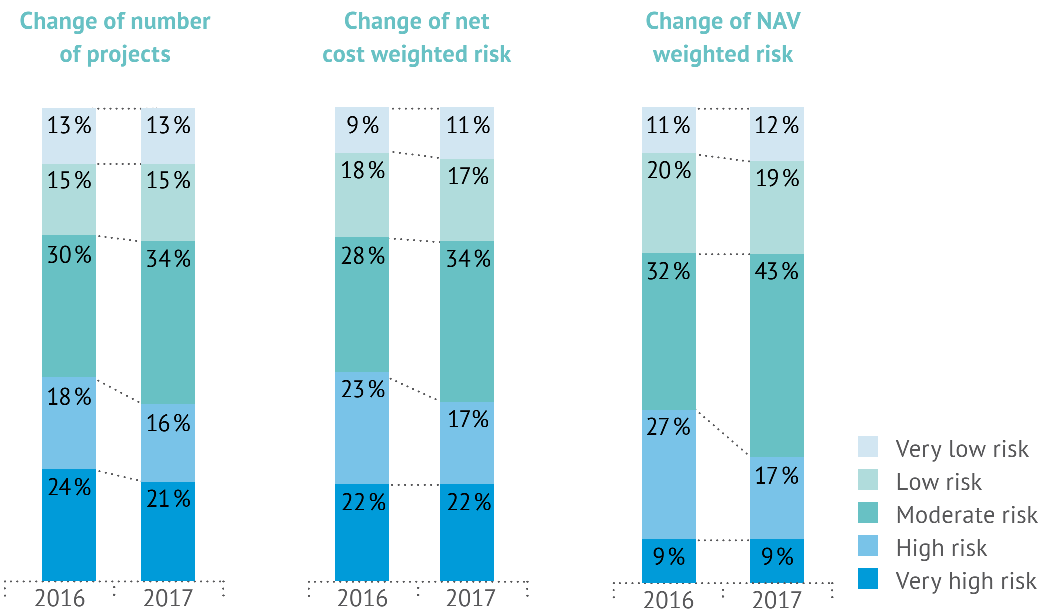
Investments in the low risk or very low-risk categories are primarily projects that exceed their expected performance. Over the last year, the number of projects with low or very low risk has remained stable.

[6] Please note that the corresponding chart did not display the correct figures in the Annual Report 2016. However, all calculations and scores reported did use the correct percentages, which have remained the same throughout the whole period. The corrected figures are shown in Chart 13 of this 2017 report.

From a portfolio perspective, risk can be measured either by weighting the exposure by the cost of investments or by the investments' residual value or net asset value (NAV). While measuring risk exposure weighted by cost of investment represents a historic perspective, the assessment of risk exposure using the residual value is more a forward-looking approach, since it determines the amount of remaining value that is at risk of being lost in the future. Figure 15 below shows the difference between the two methodologies for weighting.

When measuring the exposure to each risk category by weighing each investment by its NAV, the largest concentration still falls within the moderate risk category. This is not surprising, since highly risky projects tend to be more heavily provisioned, or have historically lost value as compared to the original cost of investment, thereby losing relative weight in the total residual value of the SIFEM portfolio. It needs also to be noted that the cumulative share of high-risk and very high-risk projects decreased in 2017. This improvement of the risk profile is even more exacerbated when measuring the portfolio risk by using the NAV weighted approach. One notable reason for this trend is the outstanding performance of some investments with moderate risk.

FIGURE 15: CHANGE IN NUMBER OF PROJECTS, CHANGE OF NET COST WEIGHTED RISK, AND CHANGE OF NAV OF SIFEM PORTFOLIO PER RISK CATEGORY AND INVESTMENT TYPE AS OF DECEMBER 2017



When differentiating between the asset classes in which SIFEM invests, it becomes clear that the ongoing balancing of the portfolio between debt and equity instruments contributes to a reduction of total portfolio risk. As shown in Figure 16, debt instruments have a lower risk profile, which partially offsets the higher risk born by equity investments:

FIGURE 16: NUMBER OF SIFEM INVESTMENTS PER RISK CATEGORY AND INSTRUMENT AS OF DECEMBER 2017

Projects per risk category	Private Equity Funds		Pooled Debt Vehicles		Direct Debt Investments	
Very low risk	9	14 %	3	18 %		
Low risk	5	8 %	6	35 %	3	38 %
Moderate risk	22	33 %	6	35 %	3	38 %
High risk	12	18 %	1	6 %	2	25 %
Very high risk	18	27 %	1	6 %		

An even more granular view on the risk allocation within the portfolio can be attained by again applying the different weightings approaches (cost vs. NAV), differentiating by type of financing instrument. Figure 17 below shows that the private equity funds exhibit a concentration in the very high risk category when measured by investment cost. However, when measured by residual value, the largest share of SIFEM's private equity portfolio falls into the high risk and moderate risk categories.

The debt instruments such as debt funds and other pooled debt vehicles show a very different picture: here, most investments can be considered to be lower risk. This is not surprising, since the underlying assets of such vehicles consist of debt or sub-ordinated debt, which is senior to equity investments. Also, the pooled vehicles offer a degree of diversification, which typically makes them less risky than direct debt transactions. Weighting the pooled debt investments and the direct debt investments by residual value is less meaningful, since most of these debt assets are held at the face value of the debt, which equals cost. Only if a debt investment is provisioned does a change in risk category allocation occur. For fully provisioned debt investments, the exposure to the risk category (typically the highest for such underperforming assets) disappears if weighted by NAV, since a residual value of zero is allocated for that investment. This underlines the forward-looking nature of the NAV-approach: such an investment was a loss for SIFEM, but since its value in the current portfolio is zero, no value is at risk for future losses with respect to that particular investment.

FIGURE 17: PROJECTS, NET COST AND RESIDUAL VALUE OF THE SIFEM PORTFOLIO AS A PERCENTAGE PER RISK CATEGORY AS OF DECEMBER 2017

	PROJECTS	COST	RESIDUAL VALUE
Private Equity Funds			
Very low risk	14 %	13 %	14 %
Low risk	8 %	10 %	13 %
Moderate risk	33%	29 %	41 %
High risk	18%	18%	19 %
Very high risk	27%	30 %	12 %
Pooled Debt Vehicles			
Very low risk	18 %	9 %	11 %
Low risk	35 %	49 %	48 %
Moderate risk	35 %	37 %	37 %
High risk	6 %	4 %	4 %
Very high risk	6 %	1 %	0 %
Direct Debt			
Very low risk			
Low risk	38 %	17 %	18 %
Moderate risk	38 %	59 %	60 %
High risk	25 %	24 %	22 %
Very high risk			

Not surprisingly, the average risk rating of SIFEM's direct debt transactions lies between the risk rating of the private equity funds and that of pooled debt instruments with a concentration in the moderate risk category. Overall, the lower risk of debt instruments contributes to a decrease of SIFEM's average portfolio risk, regardless of the weighting approach applied.

Typically, the movements between risk categories are marginal, as most investments move by only one category up or down at a time. As shown in the risk matrix below (Figure 18), there were 19 projects that changed their risk category in 2017, out of which seven displayed a deterioration and twelve an improvement. In fact, one project moved from the high-risk to the very high-risk category in 2017, while three projects that previously were classified as moderate risk are now in the high-risk category. At the same time, five projects moved from high-risk to the moderate-risk category, three projects from the moderate-risk to the low-risk category and three projects moved to the very low-risk group.

FIGURE 18: RISK MIGRATION MATRIX (MIGRATING PROJECTS IN BOLD FIGURES)

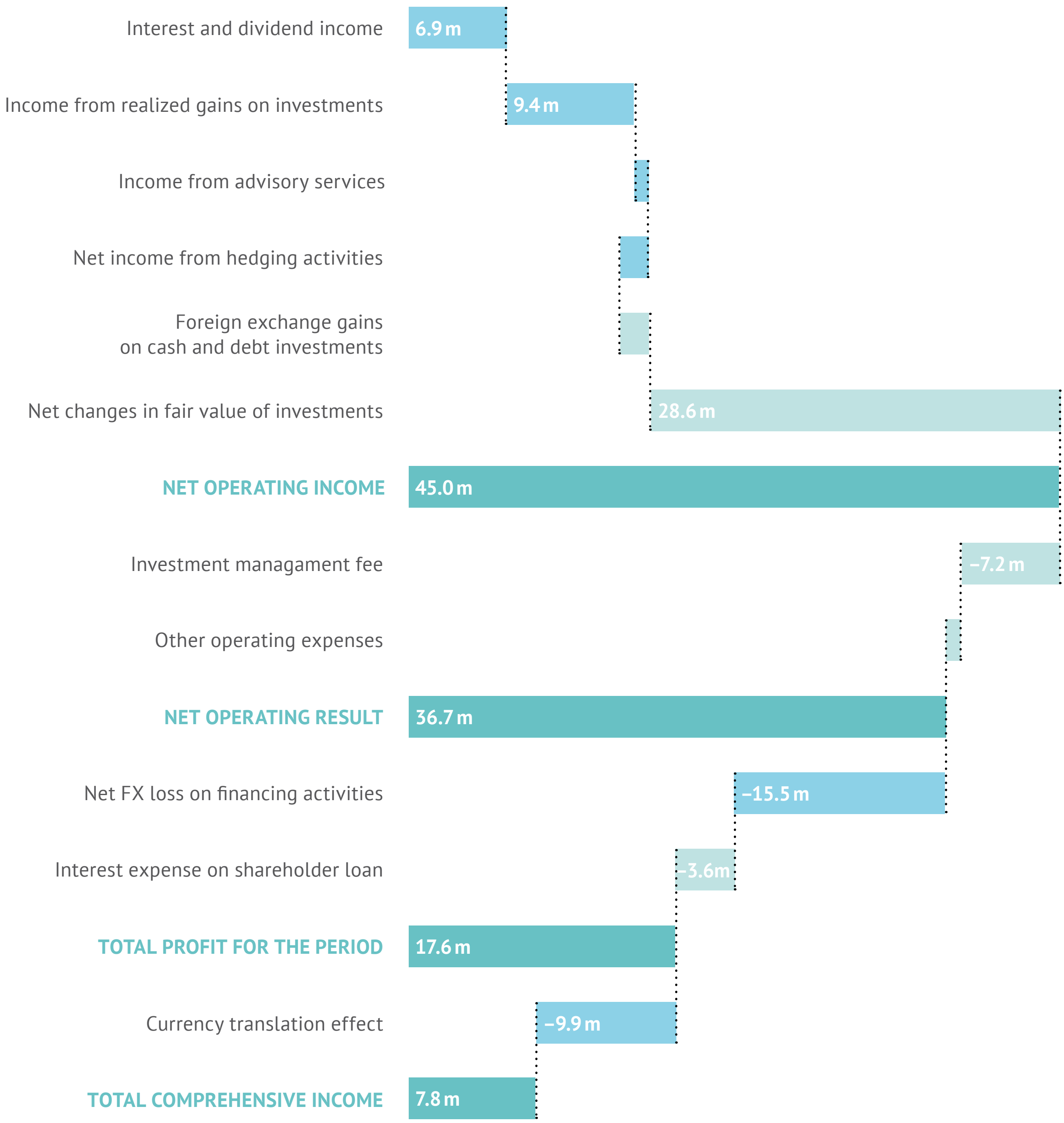
2017 \ 2016: Number of Projects	New Projects	1 Very high risk	2 High risk	3 Moderate risk	4 Low risk	5 Very low risk	Total	Total %
1 Very high risk	0	18	**1**	0	0	0	19	21 %
2 High risk	1	**1**	10	**3**	0	0	15	16 %
3 Moderate risk	5	0	**5**	19	**2**	0	31	34 %
4 Low risk	3	0	0	**3**	7	**1**	14	15 %
5 Very low risk	0	0	0	**1**	**2**	9	12	13 %

5. FINANCIAL RESULTS

5.1 SIFEM RESULT FOR 2017

SIFEM ended 2017 with a very positive result. In accordance with IFRS accounting standards, SIFEM realized a total profit on investment activities of CHF 45.0 million. Total operating expenses amounted to CHF 8.3 million. This makes a net operating profit of CHF 36.7 million, corresponding to an increase of the operating profit margin from 53 per cent in the previous year to a current margin of 81 per cent.

FIGURE 19: BREAK-DOWN OF TOTAL COMPREHENSIVE PROFIT AND LOSS 2017 ON KEY CONTRIBUTING FACTORS



The largest contribution to the positive operating performance is the income from net changes in fair value of investments (unrealized gains). At CHF 28.6 million, this income contrasts significantly with the previous year's figure of CHF –12.3 million, reflecting the improved market environment in some SIFEM target countries, particularly in Asia. A significant share in this increase is explained by the listing of one individual investee company. Since the trading in the listed shares of this company is still restricted and the share price is exhibiting a certain volatility, the value of the investment was discounted significantly in order not to unduly distort the operating result under IFRS.

The realized gains decreased from a record of almost CHF 20 million in 2016 to a still solid CHF 9.4 million in the reporting year.

SIFEM's investments in debt instruments yielded interest income of CHF 6.9 million. The CHF 1.7 million increase as compared to the previous year is explained by the continued growth of SIFEM's debt portfolio.

A weakened USD affected the overall financial result negatively due to the CHF denominated liabilities in the form of the shareholder loans on SIFEM's balance sheet. Taking into consideration the amortization of the interest on these shareholder loans, SIFEM realized a net financial result of CHF –19.1 million, a significant decrease compared to the net financial gain of CHF 1.9 million realized in 2016.

Despite these significant currency exchange losses, the total profit for the period still amounts to CHF 17.6 million, compared to CHF 7.7 million in the previous year.

Finally, the exchange rate effects from the translation of SIFEM's operating currency (USD) to the reporting currency (CHF) result in a loss of CHF 9.9 million. The operating profit, the net financial loss, and the negative effect of the translation into CHF result in a total comprehensive income of CHF 7.8 million. These earnings will be retained and added to the capital reserves in full, since SIFEM does not plan to pay out dividends in 2017.

5.2 NOTES ON SIFEM RESULTS UNDER IFRS ACCOUNTING

Since more than 75 per cent of SIFEM 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 US Dollar was therefore determined to be SIFEM's functional currency for both its accounting and its performance measurement. All CHF figures provided in this report and in the accounts are translated from the underlying US Dollar accounts.

IFRS specifies the use of fair market valuation of the investment portfolio. Thereby, IFRS more transparently mirrors the movements in the unrealised value of SIFEM's portfolio investments than the reporting under the Swiss Code of Obligations (SCO), 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 implied interest charges on the shareholder loans, which amounted to CHF 3.6 million in 2017. In addition, since the liability in form of shareholder loans denominated in CHF, and the USD depreciated against the CHF during 2017, a net foreign exchange loss for the year of CHF 15.8 million resulted. These effects, as reflected in SIFEM's financial result under IFRS, add up to a net financial loss of CHF 19.1 million for the year.

5.3 NOTES ON SIFEM RESULTS UNDER SCO ACCOUNTING

Although SIFEM has adopted IFRS, reporting under SCO accounting standards continues in parallel, primarily for compliance and statutory purposes. Under SCO accounting rules, SIFEM recorded a loss of CHF 17.8 million in 2017.

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 recognised only at the time of realisation.

5.4 FINAL REMARKS

Despite the inherent volatility of the macroeconomic situation in developing countries and emerging markets in general, the business environment improved over the past year in some SIFEM's target countries, especially in Asia. This has led to higher valuations.

The increase in the allocation to debt investments and the continuation of the currency hedging strategy as implemented since 2015 have continued to stabilise the income from investment activities. These factors contributed to a much higher operating result in 2017 compared to both 2016 and 2015, which is a positive step towards the operational sustainability of SIFEM as a DFI over time.

Over the same period, SIFEM was also profitable after taking the financial results into account. The profit or loss from financing activities is, however, less relevant when assessing the performance of SIFEM, since it is mainly driven by USD exchange rate movements.

2017
IFRS – FINANCIAL STATEMENTS

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AUDITOR'S REPORT

To the Board of Directors of SIFEM AG, Bern

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **SIFEM AG**, which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of SIFEM AG in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the financial statements and our auditor's reports thereon.

Our opinion on the financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor’s report.

Zurich, 9 March 2018

BDO Ltd

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

STATEMENT OF FINANCIAL POSITION

in '000 CHF	NOTE	31.12.2017	31.12.2016
ASSETS			
Cash and cash equivalents	6	233,453	248,380
Derivative financial assets held for risk management	7	16,249	26,313
Other receivables, prepayments and accrued income	8	6,569	6,462
Total current assets		**256,271**	**281,155**
Equity instruments	9	295,608	262,955
Debt instruments	9	71,832	78,185
Total non–current assets		**367,440**	**341,140**
Total assets		**623,711**	**622,295**
LIABILITIES AND EQUITY			
Derivative financial liabilities held for risk management	7	16,485	26,315
Other liabilites and accrued expenses		1,283	1,439
Total current liabilities		**17,768**	**27,754**
Loans and borrowings	10	368,233	364,585
Total non-current liabilities		**368,233**	**364,585**
Total liabilities		**386,001**	**392,339**
Share capital		150,000	150,000
Capital reserve (additionally paid in capital)		89,680	89,680
Legal reserve		1,096	355
Translation reserve		22,188	32,063
Retained earnings		–25,254	–42,142
Total equity	11	**237,710**	**229,956**
Total liabilities and equity		**623,711**	**622,295**

STATEMENT OF PROFIT OR LOSS

for the year in '000 CHF	NOTE	2017	2016
Interest income	12	6,937	5,236
Dividend income		0	198
Income from realized gains on Investments		9,382	19,995
Revenue from advisory services		41	42
Net income from derivative financial instruments held for risk management	15	−2,127	30
Net foreign exchange gains on cash and cash equivalents and on direct debt investments	16	2,175	-845
Net changes in fair value of investments at fair value through profit or loss	17	28,616	−12,291
Total net income/-loss		**45,024**	**12,365**
Investment management fee	13	−7,214	−5,002
Administration and custodian fees	14	−387	−375
Personnel expenses		−300	−309
Administration expenses		−258	−342
Advertising expenses		−74	−68
Other operating result		−62	−417
Operating result		**36,729**	**5,852**
Financial income	18	319	5,980
Financial expense	18	−19,419	−4,098
Total profit/−loss for the period		**17,629**	**7,734**
Currency translation effect from translation to presentation currency		*−9,875*	*4,270*
Total comprehensive income		*7,754*	*12,004*

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

in '000 CHF	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	LEGAL RESERVES	TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL
Equity at 1 January 2016	125,000	89,680	355	27,793	-49,876	192,952
Total comprehensive income for the year						
Profit for the year					7,734	7,734
Foreign currency translation differences from translation to presentation currency				4,270		4,270
Total comprehensive income for the year	**0**	**0**	**0**	**4,270**	**7,734**	**12,004**
Transactions with owners of the Company, recognised directly in equity						
Issue of ordinary shares	25,000					25,000
Other capital contributions						
Total transactions with owners of the Company	**25,000**	**0**	**0**	**0**	**0**	**25,000**
Equity at 31 December 2016	150,000	89,680	355	32,063	-42,142	229,956
Total comprehensive income for the year						
Profit for the year					17,629	17,629
Foreign currency translation differences from translation to presentation currency				−9,875		−9,875
Transfer to legal reserves			741		−741	0
Total comprehensive income for the year	**0**	**0**	**741**	**−9,875**	**16,888**	**7,754**
Transactions with owners of the Company, recognised directly in equity						
Issue of ordinary shares						
Other capital contributions						
Total transactions with owners of the Company	**0**	**0**	**0**	**0**	**0**	**0**
Equity at 31 December 2017	150,000	89,680	1,096	22,188	-25,254	237,710

STATEMENT OF CASH FLOWS

for the year in '000 CHF	NOTE	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/–loss for the year		17,629	7,734
Adjustments for:			
Interest income	12	–6,938	–5,236
Dividend		0	–198
Income from realized gains on Investments		–9,382	–19,995
Interest expense	18	3,637	3,609
Net foreign exchange gain / loss		13,289	–5,157
Net income from derivative financial instruments held for risk management		1,885	–30
Changes in fair value of investments at fair value through profit or loss	17	–28,616	12,291
Changes in:			
Derivative financial instruments held for risk management		240	120
Other receivables, prepayments & accrued income		–382	1,471
Trade payables		0	–30
Other liabilities and accrued expenses		–99	380
Purchase of investments		–38,579	–75,944
Proceeds from sale of investments		27,540	21,812
Interest received		6,962	5,320
Dividend / other investment income received		0	198
Income from realized gains on Investments received		9,382	19,995
Proceeds from sale of derivative financial instruments		–1,909	–54
Net cash flow from operating activities		**–5,341**	**–33,714**
Net cash flow from investing activities		**0**	**0**
Proceeds from issue of share capital		0	25,000
Net cash from financing activities		**0**	**25,000**
Net increase / – decrease in cash and cash equivalents		**–5,341**	**–8,714**
Cash and cash equivalents at 1 January	6	248,380	253,266
Effect of exchange rate fluctuations on cash and cash equivalents		–9,586	3,828
Cash and cash equivalents at year–end	**6**	**233,453**	**248,380**

NOTES TO THE 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, Helvetiastrasse 17, 3005 Bern. The Company's shares are fully owned by the Swiss Government.

SIFEM is the Development Finance Institution (DFI) of Switzerland. It primarily provides capital to specialized investment funds which finance small- and medium-sized enterprises (SMEs). These are predominantly private equity or mezzanine funds. The portfolio also includes direct debt investments in financial intermediaries and loans to pooled investment vehicles. 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 ("Obviam" or the "Manager"), a specialised emerging market investment management company incorporated in Switzerland, 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 2017 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 (SCO).

The financial statements were authorised for issue by the Board of Directors on 6th of March 2018.

(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 (portfolio investments) 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 were rounded to the nearest thousand.

3. 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 profit or loss. 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:

		2017		2016
	Balance sheet rate	Average rate	Balance sheet rate	Average rate
USD/CHF	1.026167	1.002505	0.983913	1.006992
USD/EUR	1.200800		1.054750	
USD/ZAR	0.080775		0.073126	
USD/CNY	0.153563		0.143895	
CHF/USD	0.974500	0.997502	1.016350	0.993056

(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 (previous year: foreign exchange 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. The Manager 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 plus transaction costs that are directly attributable to their acquisition. 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.

Debt instruments
This position includes loans and debt notes granted to funds and other pooled investment vehicles, banks and other financial intermediaries. Debt instruments are accounted for at amortised cost. Necessary impairments are accounted for as such through profit or loss.

Equity instruments
This position consists of investments in funds and other pooled investment vehicles as well as direct investments in banks and other financial intermediaries to finance SMEs. These investments refer to indirect exposures to final beneficiaries through such funds, pooled investment vehicles or any other structured financial instruments and are accounted for as at fair value through profit or loss.

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 in accordance with International Private Equity Valuation (IPEV) Guidelines. 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.

(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 profit or loss 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 debt instruments.

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 2017 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 16 Leases	*	1 January 2019	2019
Revisions and amendments of Standards and Interpretations			
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	**	Date to be determined by the IASB	n/a

* No, or no significant, impact is expected on the financial statements of SIFEM.

** The impacts on the financial statements of SIFEM cannot yet be determined with sufficient reliability

*** The impact on the financial statements of SIFEM due to the implementation of IFRS 9 would be on all SPPI (Solely Payment of Principal and Interest) compliant assets in SIFEM's balance sheet. The SPPIs are going to be provisioned for a defined amount under IFRS 9. This includes newly extended loans at initial recognition in SIFEM's balance sheet books (and potentially its cash and cash equivalents).
The change in impairment amounts will affect SIFEM's Statement of Profit and Loss in any given year after the initial application of IFRS 9. It should therefore be expected that the P&L effects of the loan portfolio will increase the volatility of SIFEM's P&L from 2018 onwards, particularly on the debt investments part.
On the date of initial application of IFRS 9, the additional impairments will impact the retained earnings, and hence will not impact the P&L of SIFEM in 2018. Once those impairments are lifted at maturity of the loans (or the credit risk of those loans decreases) in later years, a profit will be realized. Adding new loans to the portfolio after the initial recognition on 1 January 2018 will lead to increased impairments however, and hence to a loss to be booked at year end.

4. 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 9.

(b) Determination of functional currency

Functional currency is the currency of the primary economic environment in which SIFEM operates. When indicators or the primary economic environments 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 SIFEM's 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.

5. 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 Obviam as the Manager implements the 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 framework also encompasses a comprehensive portfolio-wide internal risk rating system for all SIFEM investments, which serves as a tailor-made tool to Obviam for detecting, monitoring and managing the numerous risks inherent in SIFEM's investment activities.

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.

Classification of financial instruments

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

At fair value through profit or loss	Trading	Designated at fair value	Loans and receiva-bles	Other liabilities at amortised costs	Total Carrying amount
in '000 CHF					
31 December 2017					
Cash and cash equivalents			233,453		233,453
Derivative financial assets held for risk management	16,249				16,249
Other receivables, prepayments and accrued income			5,705		5,705
Debt investments					71,831
– Banks and other financial intermediaries			48,940		
– Funds and other pooled investment vehicles			22,891		
Equity investments					295,608
– Banks and other financial intermediaries		4,173			
– Funds and other pooled investment vehicles		291,435			
Total	**16,249**	**295,608**	**310,989**	**0**	**622,846**
Derivative financial liabilities held for risk management	16,485				16,485
Other liabilites and accrued expenses				1,257	1,257
Loans and borrowings				368,233	368,233
Total	**16,485**	**0**	**0**	**369,490**	**385,975**
31 December 2016					
Cash and cash equivalents			248,380		248,380
Derivative financial assets held for risk management	26,313				26,313
Other receivables, prepayments and accrued income			5,610		5,610
Debt investments					78,185
– Banks and other financial intermediaries			45,221		
– Funds and other pooled investment vehicles			32,964		
Equity investments					262,955
– Banks and other financial intermediaries		2,431			
– Funds and other pooled investment vehicles		260,524			
Total	**26,313**	**262,955**	**332,175**	**0**	**621,443**
Derivative financial liabilities held for risk management	26,315				26,315
Other liabilites and accrued expenses				1,406	1,406
Loans and borrowings				364,585	364,585
Total	**26,315**	**0**	**0**	**365,991**	**392,306**

The table above only includes financial instruments. Other receivables, prepayments and accrued income do therefore not include tax receivables and prepaid costs (TCHF 864). The position other liabilities and accrued expenses do not include tax payables and advances received (TCHF 26).

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, prepayments 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 incorporates operating, financial, market, infrastructure and ESG risks. Each of these weighted 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 is 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 Obviam's 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 328,103 as of 31 December 2017 (31 December 2016: TCHF 359,341).

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 provide a reconciliation of financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

FINANCIAL ASSETS Related amounts not offset in the statement of financial position	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	Financial instruments (including non-cash collateral)	Collateral pledged used for netting	Net amount
in '000 CHF						
31 December 2017						
Derivative financial assets held for risk management	16,249	0	16,249	16,249	0	0
Total	**16,249**	**0**	**16,249**	**16,249**	**0**	**0**
31 December 2016						
Derivative financial assets held for risk management	26,313	0	26,313	26,313	0	0
Total	**26,313**	**0**	**26,313**	**26,313**	**0**	**0**

FINANCIAL LIABILITIES Related amounts not offset in the statement of financial position	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments (including non-cash collateral)	Collateral pledged used for netting	Net amount
in '000 CHF						
31 December 2017						
Derivative financial liabilities held for risk management	16,485	0	16,485	16,249	236	0
Total	**16,485**	**0**	**16,485**	**16,249**	**236**	**0**
31 December 2016						
Derivative financial liabilities held for risk management	26,315	0	26,315	26,313	2	0
Total	**26,315**	**0**	**26,315**	**26,313**	**2**	**0**

Concentration of credit risk

Obviam's Investment Team reviews credit concentration of debt instruments 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 2017.

SIFEM's cash and cash equivalents are held with a Swiss bank, which is rated as an A based on the long-term rating of Standard and Poor's, as well as with 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 2017, 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 4,882 (gross amount on margin accounts) and is classified under other receivables, prepayments and accrued income.

The Cash Management result is monitored by the Audit Committee every six months.

MATURITY ANALYSIS FOR FINANCIAL LIABILITIES	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 year	1 to 5 years	later
in '000 CHF					
31 December 2017					
Derivative financial liabilities held for risk management	16,485	–16,485	–16,485		
Other liabilities and accrued expenses	1,257	–1,257	–1,257		
Loans and borrowings	368,233	–368,233		–368,233	
Total	**385,975**	**–385,975**	**–17,742**	**–368,233**	**0**
31 December 2016					
Derivative financial liabilities held for risk management	26,315	–26,315	–16,152	–10,163	
Other liabilities and accrued expenses	1,406	–1,406	–1,406		
Loans and borrowings	364,585	–364,585		–364,585	
Total	**392,306**	**–392,305**	**–17,558**	**–374,748**	**0**

The table above shows the undiscounted cash flows of SIFEM's financial liabilities on the basis of their earliest possible contractual maturity. The gross amount includes interest payable when appropriate. The existing loan agreements with the Swiss Confederation were granted in 2011 with a lending period of four years. No notice of termination was served and therefore the loans were automatically extended until 2019 as per loan agreements.

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 specific set of objectives beyond the financial rate of return. SIFEM aims to develop a comprehensive portfolio of equity participations in private equity funds targeting SMEs. SIFEM may also act as co-investor in the underlying portfolio companies of its private equity funds, and make other direct investments. SIFEM also allocates a growing share into debt instruments, respectively, debt funds.

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. The risk rating tool for fund investments incorporates operating, market, infrastructure, fund specific and ESG risks. Each of these weighted 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.

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

in '000 CHF	31.12.2017	31.12.2016
Debt instruments	32,159	21,852
Effect of interest rate swaps	0	10,163
Fixed-rate instruments (assets)	**32,159**	**32,015**
Cash and cash equivalents	233,453	248,380
Debt instruments	39,673	56,334
Variable rate instruments (assets)	**273,126**	**304,714**
Fixed rate loans and borrowings	–368,233	–364,585
Fixed-rate instruments (liabilities)	**–368,233**	**–364,585**
Derivative financial liabilities held for risk management	0	–10,163
Variable rate instruments (liabilities)	**0**	**–10,163**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by TCHF 2,731 (31 December 2016: TCHF 2,946). 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 '000 CHF	31.12.2017	31.12.2016
EUR	–2,452	–189
CHF	–374,963	–360,685
Total net exposure	**–377,415**	**–360,874**

The following sensitivity analysis shows the impact on the income statement should the CHF/USD or the EUR/USD exchange rates change by 5% in the applicable exchange rate at 31 December 2017 and 31 December 2016, with all other variables held constant:

INCOME IMPACT ON BALANCE SHEET ITEMS

in '000 CHF	31.12.2017	31.12.2016
EUR (sensitivity to USD changes)	+/–123	+/– 9
CHF (sensitivity to USD changes)	+/–18,748	+/–18,034

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 CHF were as follows:

in '000 CHF	31.12.2017	31.12.2016
Equity instruments to banks and other financial intermediaries	4,173	2,431
Equity instruments to funds and other pooled investments	291,435	260,524
Total exposure in Equity Instruments	**295,608**	**262,955**

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 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.

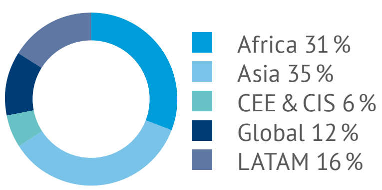
The internal procedures require the Manager to manage price risk continuously but at least on a quarterly basis based on the financial statements as well as valuations provided by underlying investments. In case of subsequent events action is taken immediately. SIFEM's procedures require price risk to 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 Manager is required to rebalance the portfolio upon request of the Board of Directors within a given period of time.

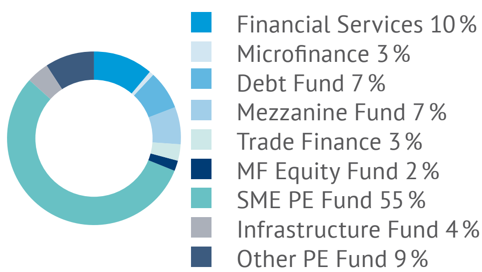
The following charts sets out concentration (per active commitment, debt and equity investments) of the investment assets:

AT 31 DECEMBER 2017

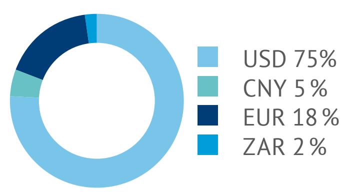
GEOGRAPHY



INSTRUMENT

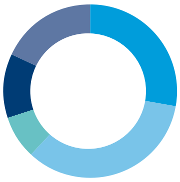


CURRENCY



AT 31 DECEMBER 2016

GEOGRAPHY



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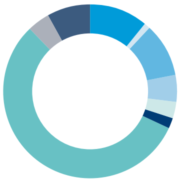

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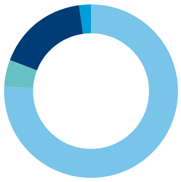


For limiting the overall risk, the SIFEM portfolio is well diversified across the eligible geographic regions and sectors and, to a lower degree, across currencies. Most of the beneficiary companies are in a development stage. The ability of some to continue as a going concern may depend on additional 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 mitigates 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 and thereto linked the reputational risks which are typically high in those markets.

Capital management

In 2011, 2012, 2015 and 2016 SIFEM has received capital contributions (share capital and shareholder loans) from SECO. No capital contributions have occurred in the years 2013, 2014 and 2017. Therefore, any assumptions for portfolio growth and the business plan for new investments are based on the capital contribution foreseen and on the availability of existing reserves and reflows from maturing 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 invests do not typically call 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. The investment policy of SIFEM does allow over-commitments with a formal approval of the Board of Directors only. In 2017, the Board of Directors approved an over-commitment ratio of up to 6 % of total active commitments. As of December 31, 2017, SIFEM reached an over-commitment ratio of 2.5 %.

6. CASH AND CASH EQUIVALENTS

in '000 CHF	31.12.2017	31.12.2016
Cash at Bank	233,453	248,380
Total cash and cash equivalent	**233,453**	**248,380**

Cash and cash equivalents are denominated in CHF (1.0%), in USD (98.3%), in EUR (0.7%) as of December 31, 2017. (31 December 2016: CHF (0.3%), in USD (98.6%), in EUR (1.1%)). TCHF 192,282 (31 December 2016: TCHF 212,041) of Cash at Bank is placed at the Swiss National Bank.

Given the nature of SIFEM's business model the cash balance available is reserved to cover undrawn commitments.

7. DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR RISK MANAGEMENT

	31.12.2017		31.12.2016	
in '000 CHF	Assets	Liabilities	Assets	Liabilities
Foreign exchange	16,249	16,485	16,149	16,151
Interest rate	0	0	10,164	10,164
Total derivative financial instruments	**16,249**	**16,485**	**26,313**	**26,315**

SIFEM uses forward foreign exchange contracts to hedge the foreign currency risk on future foreign exchange currency cash flows.

8. OTHER RECEIVABLES AND ACCRUED INCOME

At 31 December 2017, other receivables, prepayments and accrued income mainly include collaterals (TCHF 4,882), management fee reimbursement (TCHF 807), proceeds from investment sales (TCHF 484) and accrued interest receivables (TCHF 339). At 31 December 2016, other receivables, prepayments and accrued income mainly included collaterals (TCHF 5,092), management fee reimbursement (TCHF 830) and accrued interest receivables (TCHF 519).

9. FINANCIAL INVESTMENTS

in '000 CHF	31.12.2017	31.12.2016
Equity instruments to Banks and other financial intermediaries	4,173	2,431
Equity instruments to funds and other pooled investment vehicles	291,435	260,524
Equity investments	**295,608**	**262,955**
Debt instruments to Banks and other financial intermediaries	48,940	45,221
Debt instruments to funds and other pooled investment vehicles	22,891	32,964
Debt investments	**71,831**	**78,185**
Total Financial Investments	**368,960**	**341,140**

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 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, selection of comparable universe, 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 backtesting 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 '000 CHF	Level 1	Level 2	Level 3	Total
31 December 2017				
Derivative financial assets for risk management		16,249		16,249
Derivative financial liabilities for risk management		−16,485		−16,485
Equity instruments to Banks and other financial intermediaries			4,173	4,173
Equity instruments to Funds and other pooled investment vehicles		48,357	243,078	291,435
	0	**48,121**	**247,251**	**295,372**
31 December 2016				
Derivative financial assets for risk management		26,313		26,313
Derivative financial liabilities for risk management		−26,315		−26,315
Equity instruments to Banks and other financial intermediaries			2,431	2,431
Equity instruments to Funds and other pooled investment vehicles			260,524	260,524
	0	**−2**	**262,955**	**262,953**

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 '000 CHF	Equity Investments to Banks and other financial intermediaries	Equity Investments to funds	Total
Balance as at 1 January 2017	**2,431**	**260,524**	**262,955**
Total gains/losses recognised in profit or loss	430	−7,400	−6,970
Purchases	1,456	26,902	28,358
Sales	−1	−12,117	−12,118
Transfer out of Level 3	0	−14,262	−14,262
Foreign currency exchange differences	−143	−10,569	−10,712
Balance as at 31 December 2017	**4,173**	**243,078**	**247,251**
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	430	−7,400	−6,970
Balance as at 1 January 2016	**2,762**	**225,990**	**228,752**
Total gains/losses recognised in profit or loss	−1,260	−9,385	−10,645
Purchases	899	54,004	54,903
Sales	−5	−14,262	−14,267
Foreign currency exchange differences	34	4,177	4,212
Balance as at 31 December 2016	**2,431**	**260,524**	**262,955**
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	−1,259	−9,385	−10,645

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 5 -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 IPEV Guidelines, which provide the underlying fund managers a framework upon which they exercise judgment in selecting and applying 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 of a fund is generally based on the latest available net asset value (NAV) reported by the corresponding fund manager, provided that the NAV has been determined by using fair value principles in accordance with IFRS 13. The Fund Advisory Board which is comprised of Investor representatives, including Obviam acting as SIFEM's Investment Advisor, reviews and approves the NAV provided by the fund 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 final review, before they are presented to the Audit Committee of the SIFEM Board which is comprised of experienced investment professionals who review and challenge Obviam on the valuations. Based on this review, the valuations could be adjusted if needed. Once approved, the valuations are presented to the SIFEM Board for approval.

The final, Board-approved, valuations are included in SIFEM's accounts.

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

10. LOANS AND BORROWING

in '000 CHF	31.12.2017	31.12.2016
Loan A	187,777	185,917
Loan B	122,136	120,926
Loan C	29,160	28,871
Loan D	29,160	28,871
Total non-current liabilities	**368,233**	**364,585**

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 3,637 (2016: TCHF 3,609).

The loans with a minimum term until 17 August 2015 (loans granted in 2011) and 19 December 2015 (loans granted in 2012) have not been terminated and hence were automatically extended for an additional period of four years (i.e. until 17 August 2019 and 19 December 2019, 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. A total amount of TCHF 14,462 was capitalized as equity in 2015 to cover amortizations over the entire period of the loans.

For more information, please refer to notes 5 – Financial risk management and 19 – Related party transactions.

11. EQUITY

Share capital:
On 31 December 2017, the number of outstanding shares amounted to 15,000,000 shares with a nominal value of CHF 10 each (31 December 2016: 15,000,000 with a nominal value of CHF 10 each). As per 31 December 2017 SIFEM did not hold any treasury shares (31 December 2016: 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. The Company did not distribute a dividend in 2017 neither in 2016 and it is not expected that SIFEM will do so in the near future.

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

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

12. INTEREST INCOME

for the year in '000 CHF	2017	2016
Interest income from cash and cash equivalents	1,941	777
Interest income from investments	4,996	4,459
Total interest income	**6,937**	**5,236**

At 31 December 2017, an amount of TCHF 339 (2016: TCHF 519) has not been received yet in cash and is included in other receivables, prepayments and accrued income.

13. INVESTMENT MANAGEMENT FEE

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

14. ADMINISTRATION AND CUSTODIAN FEES

On 13 December 2016, the Board of Directors accepted and signed a new 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 6 basis points for the first TCHF 200 of NAV, 5 basis points for the second TCHF 200, and 2.5 basis points thereafter. Under the Custodian Agreement, Credit Suisse receives a fee of 3 basis points for the first TCHF 200 of NAV, 2 basis points for the second TCHF 200 and 1 basis points thereafter. A transaction and settlement fee arises per incident on the custodian mandate. The administration fee for the financial year 2017 amounted to TCHF 231 (2016: TCHF 236) and the custodian fee for the financial year 2017 amounted to TCHF 156 (2016: TCHF 139). The administration and custodian fees for the second semester 2017 were not paid at the balance sheet date and are included in other liabilities and accrued expenses.

15. NET INCOME / (EXPENSE) FROM DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR RISK MANAGEMENT

for the year in '000 CHF	2017	2016
Net interest income from derivative financial instruments	2	84
Realized gain from derivative financial instruments	0	1,262
Realized loss from derivative financial instruments	–1,887	–1,313
Increase / -decrease in fair value from derivative financial instruments	–242	–3
Net income from derivative financial instruments	**–2,127**	**30**

16. NET FOREIGN EXCHANGE GAINS / (LOSSES)

for the year in '000 CHF	2017	2016
Net foreign exchange gain / (loss) from cash and cash equivalents	530	–387
Net foreign exchange gain / (loss) from debt instruments	1,645	–458
Total net foreign exchange gains/ (losses)	**2,175**	**–845**

17. NET CHANGES IN FAIR VALUE OF INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

for the year in '000 CHF	2017	2016
Increase in fair value of equity instruments	34,825	15,623
Increase in fair value of debt instruments	1,012	132
Decrease in fair value of equity instruments	–6,568	–26,269
Decrease in fair value of debt instruments	–653	–1,777
Net changes in fair value of financial assets at fair value through profit or loss	**28,616**	**–12,291**

18. FINANCIAL INCOME/EXPENSE

for the year in '000 CHF	2017	2016
Foreign exchange gain	319	5,980
Financial income	**319**	**5,980**
Interest expense	–3,637	–3,609
Foreign exchange loss	–15,782	–489
Financial expense	**–19,419**	**–4,098**

Foreign exchange gain in 2017 arises from the application of the effective interest rate method. The foreign exchange gain of the previous year arises from the shareholder loans granted in Swiss Francs (refer to note 10).

Interest expense arises from the application of the effective interest rate method on the shareholder loans (refer note 10).

Foreign exchange loss in 2017 arises from the shareholder loans granted in Swiss Francs. In the previous year a foreign exchange loss was considered mainly due to the application of the effective interest rate method.

19. RELATED PARTY TRANSACTIONS

Shareholder

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

The Swiss Confederation granted SIFEM interest-free loans in the total amount of TCHF 368,233 (refer note 10) (31 December 2016: TCHF 364,585).

SIFEM on the other hand holds a deposit account with the Swiss National Bank (refer note 6).

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

Portfolio and business manager

In 2017 SIFEM has reappointed Obviam DFI AG as its portfolio and business manager as result of a public tender. The compensation of Obviam in the first half of the year 2017 was determined in accordance with the Portfolio Management Agreement and the Business Management Agreement, which were terminated on 30 June 2017. The two agreements have been replaced by the Management Agreement that had been awarded to Obviam. In substance the assignment under the new agreement remains unchanged compared to the expired contracts.

Under the previous and the new agreements, Obviam is compensated for the actual costs incurred, within a budget which is annually approved in advance by the Board of Directors. The approved budgeted management fee for the year net of VAT amounted to TCHF 7,177, corresponding to 7,751 (2016: 5,880) including VAT. The actual management fee paid for the financial year 2017 amounted to TCHF 7,214 (2016: TCHF 5,002). The Obviam management contract can be terminated by SIFEM at any time subject to the terms in the Management Agreement.

Total administrative expenses (investment management fee, administration and custodian fees, personnel expenses, administration expenses and advertising expenses) in 2017 amounts to 1.12% (2016: 0.87% of SIFM's total active commitment as of 31 December 2016; 0.98% of SIFEM's total active commitments as of 30 June 2016) 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.

Key management personnel compensation

The Chairman of the Board received total compensation of CHF 44,000 in 2017 (2016: CHF 44,000). This consists of a base compensation of CHF 30,000 (2016: 30,000) for his role as Chairman of the Board and CHF 14,000 (2016: 14,000) for his role as Chairman of the Investment Committee.

The Vice-Chairman and Board members received a base compensation of CHF 22,100 (2016: CHF 22,100). Members of the Investment Committee received an additional compensation of CHF 11,900 (2016: CHF 11,900) and Members of the Audit Committee received an additional compensation of CHF 8,500 (2016: CHF 8,500).

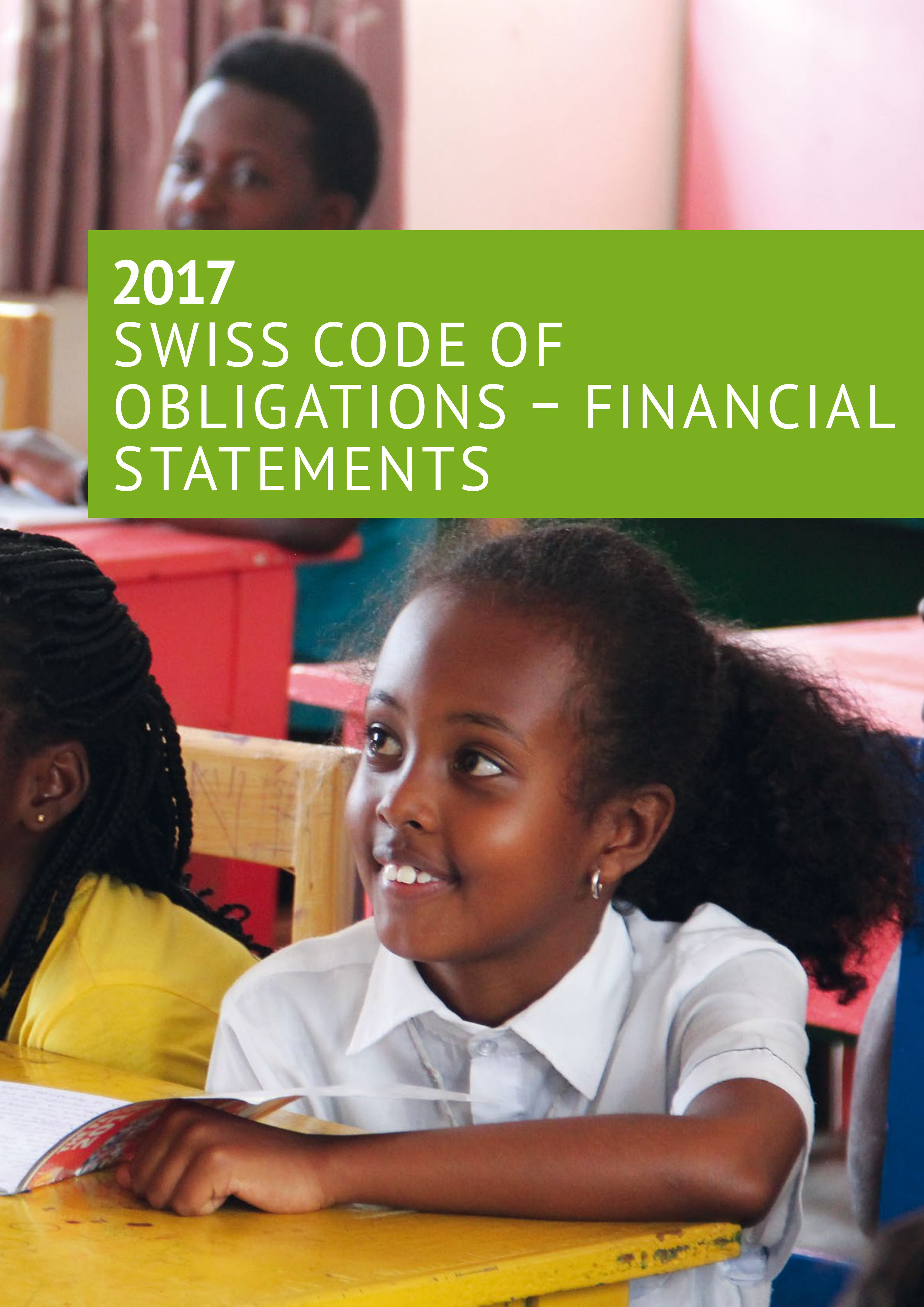
20. CAPITAL COMMITMENTS

As of 31 December 2017 the company had capital commitments with debt- and equity instruments which were not yet called by the relevant fund managers for TCHF 251,951 (31 December 2016: TCHF 206,809).

21. SUBSEQUENT EVENT

No events occurred between 31 December 2017 and 6th of March 2018 that would require adjustments to the amounts recognised in these financial statements or would need to be disclosed under this heading.

2017
SWISS CODE OF OBLIGATIONS – FINANCIAL STATEMENTS



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8031 Zurich

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 2017.

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 2017 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, 9 March 2018

BDO Ltd

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

BALANCE SHEET

in CHF	NOTE	31.12.2017		31.12.2016	
ASSETS					
Current Assets					
Cash and cash equivalents	1	233,453,019	44.2 %	248,380,550	45.5 %
Other current receivables	2	5,397,488	1.0 %	5,099,873	0.9 %
Accrued income and prepaid expenses	3	1,171,659	0.2 %	1,362,374	0.2 %
Total current assets		**240,022,166**	**45.4 %**	**254,842,797**	**46.6 %**
Non–Current Assets					
Financial assets	4	244,675,575	46.3 %	244,782,069	44.8 %
Shareholdings	5	44,004,200	8.3 %	46,829,092	8.6 %
Total non-current assets		**288,679,775**	**54.6 %**	**291,611,161**	**53.4 %**
TOTAL ASSETS		**528,701,941**	**100.0 %**	**546,453,958**	**100.0 %**
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Short–term liabilities					
Other current liabilities	6	242,899	0.0 %	10,616	0.0 %
Deferred income and accrued expenses	7	1,276,870	0.2 %	411,073	0.1 %
Total short-term liabilities		**1,519,769**	**0.3 %**	**421,689**	**0.1 %**
Long–term liabilities					
Long-term liabilities due to shareholder	8	374,444,018	70.8 %	374,444,018	68.5 %
Provisions and similar items required by law		0	0.0 %	1,019,866	0.2 %
Total long-term liabilities		**374,444,018**	**70.8 %**	**375,463,884**	**68.7 %**
Total Liabilities		**375,963,787**	**71.1 %**	**375,885,573**	**68.8 %**
Shareholders' Equity					
Share capital	9	150,000,000	28.4 %	150,000,000	27.4 %
General legal retained earnings		1,096,430	0.2 %	354,967	0.1 %
Voluntary retained earnings		1,641,724	0.3 %	20,213,419	3.7 %
Total shareholders' equity		**152,738,154**	**28.9 %**	**170,568,386**	**31.2 %**
Total Liabilities and Shareholders' Equity		**528,701,941**	**100.0 %**	**546,453,958**	**100.0 %**

INCOME STATEMENT

for the year in CHF	NOTE	2017	2016
Net proceeds from sales of services	**10**	**40,696**	**41,976**
Costs for third party services		−7,213,768	−5,001,696
Staff costs	11	−299,744	−308,112
Other operational costs	12	−331,701	−662,366
Earnings before interests and taxes		**−7,804,517**	**−5,930,198**
Financial result general	13	−13,704,221	5,618,461
Financial result from financial assets and shareholdings	14	12,632,033	11,673,391
Financial result from derivative financial instruments	15	−2,127,012	148,110
Earnings before currency translation and taxes		**−11,003,717**	**11,509,765**
Result from currency translation from functional currency (USD) to reporting currency		−6,768,356	3,402,798
Profit before taxes		**−17,772,073**	**14,912,563**
Taxes (stamp duties)		−58,158	−83,293
Profit/loss for the year		**−17,830,231**	**14,829,270**

NOTES TO THE FINANCIAL STATEMENTS

BASIS OF PREPARATION

General

These statutory financial statements have been prepared in accordance with the Swiss Code of Obligations (32th title). The significant accounting policies, that are not required by law, are described below. It was considered and applied in these statutory financial statements that the law provides the possibility to build and dissolve hidden reserves.

INFORMATION TO ITEMS OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

in CHF	31.12.2017	31.12.2016
1 Cash and cash equivalents		
Cash at Banks	233,453,019	248,380,550
Total	**233,453,019**	**248,380,550**
2 Other current receivables		
Receivables from investment transactions	483,899	0
Collaterals	4,881,898	5,091,551
Withholding tax receivables	25,178	8,322
Other current receivables	6,513	0
Total	**5,397,488**	**5,099,873**
3 Accrued income and prepaid expenses		
Prepaid expenses	832,670	843,783
Accrued income	338,989	518,591
Total	**1,171,659**	**1,362,374**
4 Financial assets		
Equity instruments	175,055,638	168,559,729
Debt instruments	69,619,937	76,222,340
Total	**244,675,575**	**244,782,069**

5 Shareholdings

Company/Domicile	Share capital in local currency 31.12.2017		Share capital in local currency 31.12.2016		Holding of capital and votings in % 31.12.2017	Holding of capital and votings in % 31.12.2016	Book value in CHF 31.12.2017	Book value in CHF 31.12.2016
Sino Swiss Partnership Fund	CNY	197,302,502	CNY	197,302,502	70.19%	70.19%	13,933,332	13,578,349
SwissTec Venture Capital Fund	USD	14,026	USD	14,026	99.99%	99.99%	603,303	629,212
SEAF CEE Growth Fund	USD	2,882,925	USD	5,301,364	20.81%	20.81%	164,277	740,641
SEAF Central Asia Small Enterprise Fund	USD	9,617,524	USD	9,617,524	41.98%	41.98%	0	0
Fidelity Equity Fund I	USD	1,358,089	USD	1,358,089	47.06%	47.06%	0	0
SEAF South Balkan Fund	EUR	6,601,774	EUR	6,927,430	30.52%	30.52%	1,608,738	1,580,045
SEAF Blue Waters Growth Fund	USD	17,963,815	USD	17,963,815	28.00%	28.00%	0	721,260
Aureos Latin America Fund II	USD	36,795,441	USD	36,795,441	28.29%	28.29%	5,139,515	7,260,296
Altra Private Equity Fund I	USD	13,610,012	USD	14,339,525	43.11%	43.11%	5,717,810	5,963,360
SEAF Trans Andean Fund	USD	12,442,481	USD	12,442,481	39.62%	39.62%	497,541	752,228
SEAF LATAM Growth Fund	USD	14,220,612	USD	14,170,612	41.18%	41.18%	1,790,067	1,846,015
Kaizen Private Equity	USD	32,032,418	USD	32,048,098	22.81%	22.81%	6,852,005	7,375,461
CVCSI	USD	5,000,000	USD	5,000,000	100.00%	100.00%	4,872,501	5,081,750
Ventureast Proactive Fund II	USD	6,696,202	USD	6,000,000	22.22%	22.22%	2,120,486	1,300,475
Kaizen Private Equity II	USD	4,141,000			24.15%		704,625	
TOTAL							44,004,200	46,829,092

in CHF	31.12.2017	31.12.2016
6 Other current liabilities		
Other current liabilities	2,761	2,561
Social insurances liabilities	0	1,884
Liabilities due to pension scheme	1,056	1,135
Liabilities due to authorities	2,444	2,444
Provision for foreign exchange forward contracts	236,638	**2,592**
Total	**242,899**	**10,616**
7 Deferred income and accrued expenses		
Accrued expenses	1,276,870	411,073
Total	**1,276,870**	**411,073**
8 Long-term liabilities due to shareholder		
Loans due to shareholder	374,444,018	374,444,018
Total	**374,444,018**	**374,444,018**
Maturity structure		
Up to five years	374,444,018	374,444,018
Total	**374,444,018**	**374,444,018**

9 Share capital

The share capital consists of 15,000,000 shares with a nominal value of CHF 10 each (31.12.2016 15,000,000 shares with a nominal value of CHF 10 each).

for the year in CHF	2017	2016
10 Net proceeds from sales services		
Income from fund retrocessions	40,696	41,976
Total	**40,696**	**41,976**
11 Staff costs		
Salaries and wages	–17,120	–21,253
Board compensation	–223,319	–238,667
Social security and pension costs	–19,351	–21,105
Other personnel costs	–39,954	–27,088
Total	**–299,744**	**–308,112**
12 Other operational costs		
Insurance premiums	–13,700	–52,001
Accounting and payroll expenses	–169,926	–167,099
Audit expenses	–74,499	–78,074
Other administration expenses	–79	–297,201
Sponsorship and membership contributions	–73,497	–67,991
Total	**–331,701**	**–662,366**

for the year in CHF	2017	2016
13 Financial result general		
Interest income	1,962,574	794,505
Interest expenses	−21,385	−16,912
Bank charges	−393,321	−382,761
Foreign exchange gains	602,253	5,610,705
Foreign exchange losses	−15,854,342	−387,075
Total	**−13,704,221**	**5,618,461**

	2017	2016
14 Financial result from financial assets and shareholdings		
Interest income from financial assets	4,996,251	4,458,631
Distributions and dividends	9,381,691	20,192,881
Expenses	2,787	−74,131
Capital gains	0	169,911
Capital losses	−6,059,567	−11,260,282
Foreign exchange gains	4,310,871	476,804
Foreign exchange losses	0	−2,290,423
Total	**12,632,033**	**11,673,391**

	2017	2016
15 Financial result from derivative financial instruments		
Interest income	28,983	174,778
Interest expenses	−4,617	−90,769
Capital gains	0	1,389,956
Capital losses	−2,128,735	−1,325,855
Other expenses	−22,643	0
Total	**−2,127,012**	**148,110**

FURTHER INFORMATION

16 Fulltime employees

The annual average number of fulltime employees during the reporting year and previous year was less than 10.

	2017	2016
17 Disclosure of derivative financial instruments		
Foreign exchange forward contracts (long)	16,248,817	16,149,294
Foreign exchange forward contracts (short)	−16,485,455	−16,151,885
Interest rate SWAPS (long)		10,163,500
Interest rate SWAPS (short)		−10,163,500
Total (included in other current liabilities – s. Note 6)	**−236,638**	**−2,592**

18 Collateral

Assets pledged to secure own losses on derivative financial instruments amount to CHF 4,881,898 (31.12.2016: CHF 5,091,551).

19 Significant events after the balance sheet date

There are no significant events after the balance sheet date which could impact the book value of the assets or liabilities or which should be disclosed here.

20 Outstanding capital commitments

		31.12.2017		31.12.2016
Debt investments				
European Financing Partners / Loan (EFP II)				
European Financing Partners / Loan (EFP III)	EUR	5,325,988	EUR	5,336,678
European Financing Partners / Loan (EFP IV)				
Interact Climate Change Facility / Loan	EUR	15,417,368	EUR	16,708,002
PT Indosurya Inti Finance	USD	12,000,000		
E + Co. / Loan	USD	2,300,000	USD	2,300,000
CAMIF II Subordinated Loan Series B	USD	2,042,000	USD	2,344,000
AMRET / Loan	USD	1		
Banco Improsa / Loan	USD	12,000,000		
Agrif Cooperatief / Senior Notes	USD	0	USD	–170,000
Equity investments				
CAMIF II / Equity	USD	2,042,062	USD	2,342,151
Ashmore Andean Fund II	USD	9,183,998	USD	12,393,974
Business Partners International East Africa	USD	1,634,422	USD	3,094,274
7L Capital Partners Emerging Europe	EUR	25,059	EUR	25,059
AfricInvest Fund II	EUR	300,000	EUR	336,000
AfricInvest Fund III	EUR	3,336,995	EUR	3,988,978
Balkan Financial Sector Equity Fund	EUR	3	EUR	304,991
Capital North Africa Venture Fund	EUR	767,545	EUR	767,545
Capital North Africa Venture Fund II	EUR	1,928,102	EUR	3,452,760
Maghreb Private Equity Fund II	EUR	15,248	EUR	15,248
Maghreb Private Equity Fund III	EUR	908,376	EUR	1,095,153
Maghreb Private Equity Fund IV	EUR	10,000,000		
Abraaj North Africa II	USD	1,981,788	USD	2,423,719
Armstrong South East Asia Clean Energy Fund	USD	887,667	USD	1,098,312
Aureos East Africa Fund	USD	62,751	USD	62,751
BTS India Private Equity Fund	USD	1,881,635	USD	1,881,635
Africa Forestry Fund II	USD	7,000,000		

		31.12.2017		31.12.2016
Equity investments continued				
BVCF III	USD	553,684	USD	614,656
Cambodia-Laos Development Fund	USD	162,347	USD	256,115
Cambodia-Laos-Myanmar Development Fund II	USD	2,818,061	USD	3,969,479
Catalyst Fund I	USD	40,836	USD	459,726
Central American Small Enterprise Investment Fund II	USD	529,495	USD	529,495
IFHA-II	USD	7,389,107	USD	7,636,264
Central American Small Enterprise Investment Fund III	USD	2,541,196	USD	3,111,196
CoreCo Central America	USD	558,387	USD	2,021,153
Europe Virgin Fund	USD	897,086	USD	897,086
Euroventures Ukraine II			USD	106,347
EV Amadeus Asian Clean Energy Fund	USD	5,387,798	USD	5,399,476
Evolution One	USD	103,183	USD	1,846,088
Falcon House Partners	USD	1,029,399	USD	1,421,190
Fidelity Equity Fund II	USD	883,820	USD	883,820
GEF Africa Sustainable Forestry Fund	USD	20,308	USD	171,239
JS Private Equity Fund I	USD	5,294,556	USD	5,325,417
Kendall Court Mezzanine (Asia) Bristol Merit Fund	USD	249,591	USD	284,062
Latin Renewables Infrastructure Fund	USD	2,937,727	USD	2,391,793
Medu III Interenational Partnership	USD	2,683,631	USD	3,309,217
Mongolia Opportunities Fund I	USD	1,060,665	USD	1,152,208
NAMF II	USD	8,803,630	USD	8,803,630
Progression Eastern African Microfinance Equity Fund	USD	1,406,128	USD	1,681,906
rABOP	USD	510,917	USD	510,917
Sphinx Turnaround Fund			USD	150,000
Synergy Private Equity Fund	USD	123,335	USD	751,434
Vantage Mezzanine Fund III (Pan African Sub-Fund)	USD	4,183,324	USD	4,790,903
VenturEast Proactive Fund	USD	-5,562	USD	-5,562
VI (Vietnam Investments) Fund I	USD	1	USD	1
VI (Vietnam Investments) Fund II	USD	631,110	USD	1,386,254
Agrif / Shares	USD	1,346,000	USD	1,290,000
Horizon Equity III	ZAR	3,726,733	ZAR	5,432,096
Vantage Mezzanine Fund III (Southern African Sub-Fund)	ZAR	36,111,034	ZAR	37,302,199
Vantage Mezzanine Fund	ZAR	2,427,076	ZAR	3,497,234
Adenia Capital IV	EUR	8,660,367	EUR	9,830,369
APIS Growth Fund I	USD	3,301,837	USD	5,445,024
Renewable Energy Asia Fund II	USD	3,894,565	USD	5,477,744
Darby Latin American Private Debt Fund III	USD	9,655,562	USD	10,000,000
Evolution II	USD	8,788,104	USD	10,000,000
Abraaj Global Credit Fund	USD	8,991,935		
Capsquare Asia Partners Fund II	USD	10,000,000		
Catalyst Fund II	USD	6,753,811		
Growth Capital Partners (Lok III)	USD	8,000,000		

		31.12.2017		31.12.2016
Shareholdings				
SEAF South Balkan Fund	EUR	520,851	EUR	563,574
SEAF Central Asia Small Enterprise Fund	USD	389,954	USD	389,954
Fidelity Equity Fund I	USD	500	USD	500
SEAF Blue Waters Growth Fund	USD	570,132	USD	570,132
Aureos Latin America Fund II	USD	9,500	USD	9,500
Altra Private Equity Fund I	USD	1	USD	1
SEAF LATAM Growth Fund	USD	1,144,394	USD	1,164,984
SEAF Trans Andean Fund	USD	70,329	USD	70,329
Kaizen Private Equity	USD	225,585	USD	436,785
CVCSI / B Share	USD	15,000,000	USD	15,000,000
VenturEast Proactive Fund II	USD	7,492,917	USD	8,666,667
Kaizen Private Equity Fund II	USD	9,000,000	USD	10,000,000

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

in CHF	31.12.2017	31.12.2016
Retained earnings / -loss brought forward	19,471,955	5,384,149
Net profit or -loss for the year	−17,830,231	14,829,270
Available earnings	**1,641,724**	**20,213,419**

The Board of Directors proposes to the General Meeting of Shareholders the following appropriation of available earnings:

Transfer to the general legal retained earnings	0	741,464
To be carried forward	1,641,724	19,471,955
Total	**1,641,724**	**20,213,419**

LIST OF ABBREVIATIONS

AG	Swiss public limited company (Aktiengesellschaft)
Art.	Article
CEE	Central and Eastern Europe
CHF	Swiss Franc
CNY	Chinese Yuan Renminbi
CIS	Commonwealth of Independent States
DE	Development Effectiveness/Effects
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH (German DFI)
DFI	Development Finance Institution
EC	European Commission
EDFI	European Development Finance Institutions
ElectriFI	Electrification Financing Initiative
E&S	Environmental & Social
ESG	Environmental, social and governance
EU	European Union
EUR	Euro
FI	Financial Institution
FMO	Netherlands Development Finance Company
GDP	Gross Domestic Product
GPR	Corporate-Policy Project Rating Tool (developed by DEG)
ICS	Internal Control System
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IPEV	International Private Equity Valuation Guidelines
IRR	Internal Rate of Return
m	million
LATAM	Latin America
LDC	Least Developed Countries
MENA	Middle East and North Africa
MFI	Microfinance Institution
MSME	Micro Small and Medium-sized Enterprise
NAV	Net Asset Value
No.	Number
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
PEF	Private Equity Fund
SCO	Swiss Code of Obligations
SDGs	Sustainable Development Goals
SECO	Swiss State Secretariat for Economic Affairs
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
TA	Technical Assistance
TVPI	Total Value over Paid-In
USD	United States Dollar
WTO	World Trade Organisation
ZAR	South African Rand

GLOSSAR

Custodian
A regulated, specialised financial institution responsible for safeguarding SIFEM's financial assets such stocks, bonds and currencies.

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

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

Reflows
Any type of payments received in return from SIFEM's investment portfolio, including capital repayments, realised capital gains, dividends, interest.

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

Legacy Position
The portfolio of investments that were made on behalf of the Swiss Confederation prior to the establishment of SIFEM in 2011.

Internal Rate of Return (IRR)
The annualised 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.

Mezzanine Fund
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.

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

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

International Private Equity Valuation Guidelines (IPEV)
A set of internationally recognised 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.

Net income
In SIFEM's IFRS financial statements net income refers to the result from investment activities. It combines 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.

Obviam
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.

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

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

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

Current Income Investments
Investments which regularly pay out fixed or variable amounts of interest or dividends.

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