SIFEM
SWISS INVESTMENT FUND
FOR EMERGING MARKETS

BUSINESS & FINANCIAL REPORT 2019


INFORMATIVA

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2019 FINANCIAL HIGHLIGHTS

	2019	2018
OPERATIONAL HIGHLIGHTS in USDm		
Commitments and cash flows		
Total commitments made to date	1,059,3	958,1
Total active commitments	839,0	782,0
Uncalled commitments	240,3	225,2
Cumulative paid-in capital to date	820,2	742,5
Cumulative reflows received to date	596,3	539,8
Cumulative net cash flow to date	–223,9	–202,7
New investment commitments	104,5	70,0
Reflows from investments	56,5	55,9
Investment portfolio valuation		
Residual value	420,5	388,4
Internal rate of return (%)	6,0 %	6,3 %
Total value over paid-in (%)	124 %	125 %
Private finance mobilised		
Total private investor commitments advised by Obviam	113,5*	123,5
New co-investments from private investors	0,0	5,3

USD 104.5 m
NEW INVESTEMENT COMMITMENTS

	2019	2018
FINANCIAL STATEMENT HIGHLIGHTS in CHFm		
Annual results		
Investment profit/-loss	16,0	–12,5
Operating result	5,1	–22,5
Total comprehensive income	–6,9	–17,0
Balance sheet		
Balance sheet total	643,3	621,4
Cash and cash equivalents	217,2	218,5
Uncommitted capital	–15,5	–3,5
Financial assets	407,2	382,8
Shareholder's equity	628,8	606,0
Equity ratio (%)	97,7 %	97,5 %

CHF 407.2 m
FINANCIAL ASSETS

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 2019.

* The total private investor commitments advised by Obviam decreased by USD 10 million in 2019 due to the discontinuation of an advisory mandate. No new co-investment took place in 2019 because all funds under management had already been fully committed by the end of 2018. However, a potential new mandate is under discussion, as reported in Annex 1.

ANNUAL REVIEW

FOREWORD BY **JÖRG FRIEDEN**

Dear reader,

SIFEM, the Development Finance Institution of the Swiss government, represents a small component of the Swiss development architecture but makes an important contribution to the promotion of inclusive growth in developing and emerging markets. This is all the more important as growth in developing countries has slowed markedly in 2019, partly due to a lack of investments and industrial production.

In this challenging context, I am particularly pleased to report that SIFEM posted a positive operating result of more than CHF 5 million at the end of 2019. This result confirms the soundness of SIFEM's investment strategy. Of course, SIFEM's balance sheet will be affected by annual valuation fluctuations. Further volatility is to be expected in emerging markets, and this volatility is part and parcel of the environment in which SIFEM has to operate and in which it can make a difference from a developmental perspective.

In supporting local financial intermediaries such as fund managers and financial institutions, SIFEM provides long-term capital and expertise to entrepreneurs. In addition, SIFEM promotes a transformative agenda. For instance, SIFEM joined the "2X-Challenge: Financing for Women Initiative" in October 2019. This initiative was initially launched by the Development Finance Institutions from the G7 countries as a commitment to mobilise financing for women's economic empowerment. For SIFEM, this represents a key opportunity to help advance women in emerging markets as entrepreneurs, as business leaders, as employees and as consumers of products and services. By joining this initiative, the Board has confirmed its commitment to enhance SIFEM's development impact. Creation of decent jobs, facilitation of the energy transition towards a lower emissions growth path, and increased investments in the least developed countries are other emerging priorities for the next years.

SIFEM's new impact report ("SIFEM: Investing in Sustainable Development"), published in December 2019, sheds further light on how SIFEM's investments generate positive and measurable development effects on the ground. One of the critical contributions of development finance institutions with respect to global development challenges is to support more and better jobs, thereby contributing to inclusive growth in developing countries. Together with other co-investors, SIFEM has helped to create and support more than 830,000 jobs since 2005. The report also explores the role of SIFEM in the field of climate financing, a domain of high priority for the Swiss Government.

We present this financial report as Parliament engages in debates about the future of the Swiss contribution to global development. In this context, SIFEM will be looking to identify synergies with the initiatives and the instruments deployed by the other specialised agencies of the Federal Administration.

Yours faithfully,

Jörg Frieden
Chairman of the Board of SIFEM

FOREWORD BY
CLAUDE BARRAS

Dear reader,

SIFEM keeps operating in an increasingly difficult environment, given the uncertainties at the global level and an increasing wedge between the risks perceived by investors and the financial returns. With depressed returns, investors are looking for safe havens, especially among larger emerging markets. In this increasingly challenging environment, the financial sustainability of long-term investments such as the ones supported by SIFEM remains a top priority.

In this context, SIFEM's positive operating result of CHF 5.1 million in 2019 is very encouraging. It also shows that the gradual diversification towards debt instruments initiated during the previous strategic cycle is starting to bear fruit by reducing the volatility of the financial results. In this respect, the average level of investment reflows in 2018–2019 – which are then re-injected into new investments – has been much higher than the average annual reflows for the preceding strategic period 2014–2017.

In terms of new investments made in 2019, SIFEM committed a total of USD 104.5 million across 9 projects. Four investments were made in private equity funds serving SMEs and other fast-growing companies in Sub-Saharan Africa and in South-East Asia, while five loans were made to financial institutions targeting micro, small and medium-sized businesses in different markets. Two of the new projects targeted least developed countries (LDCs), i.e. one pan-African venture capital fund investing in innovative products and services, and one microfinance institution in Cambodia. It is also worth noting that SIFEM invested in two new projects in Central Asia and the Caucasus, an underserved region.

One concrete example of the investments made by SIFEM in 2019 includes the African Development Partners Fund III, a private equity fund supporting established and growing businesses across Africa. The Fund is managed by DPI, one of the very few women-led private equity managers across the entire African market.

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.

Sincerely yours,

Claude Barras
CEO of Obviam, the Manager of SIFEM

1. STRATEGY

1.1 SIFEM'S MISSION AND OBJECTIVES

The Swiss Investment Fund for Emerging Markets (SIFEM) is the Swiss Development Finance Institution (DFI). It is owned by the Swiss Government and is an integral part of the instruments of economic development cooperation. SIFEM is specialised in providing long-term financing to small- and medium-sized enterprises (SMEs) and other fast-growing companies in developing and emerging countries, focusing on the priority countries of Switzerland's development cooperation. This helps create and secure more and better 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 SMEs in developing and emerging countries can generate sustainable, long-term development effects in local communities, as well as provide investors with positive financial returns over time.

SIFEM invests in local or regional risk capital funds and provides credit lines to local banks and other financial institutions, often in collaboration with other DFIs and private investors. SIFEM works with fund managers and financial institutions not only to deliver relevant financing solutions, but also to add value to local businesses. In this sense, SIFEM's role goes beyond the provision of long-term finance and seeks to strengthen the capacity of local fund managers and financial institutions to manage environmental, social, and governance risks at the level of their underlying portfolios.

The Federal Council set, among others, the following strategic objectives for the period 2018–2020:

- SIFEM continues to be an important instrument for fostering private sector development in developing and emerging countries, complementary to other measures of the economic development assistance;
- SIFEM promotes sustainable and inclusive growth in developing and emerging countries as well as their integration into the global economic system;
- SIFEM focuses on the creation and maintenance of more and better jobs as well as on the improvement of working conditions and skills, recognising that more and better jobs are the main driver of poverty reduction in developing and emerging countries, along with social inclusion, and that they offer an alternative to irregular migration. In this way, SIFEM helps to fight the root causes of irregular migration and contributes towards the mandate of Parliament to strategically link international cooperation with the migration issue;
- SIFEM promotes the development of sustainable businesses in developing and emerging countries, based on internationally recognised environmental, social, and governance standards;
- SIFEM contributes to strengthening the resilience of these countries, inter alia against climate change.

In reaching these strategic objectives, SIFEM observes the following broad guiding principles:

- **Sustainability:** In its investment activity, SIFEM observes the basic principles of financial, economic, social and environmental sustainability.
- **Financial additionality:** SIFEM provides finance that cannot be obtained from private capital markets (local or international) at reasonable terms or quantities and for similar developmental purposes without official support.
- **Value additionality:** SIFEM offers to or mobilises for recipient entities, alongside its investment, non-financial value that is supplementary to the private sector and that will lead to better development outcomes, e.g. by providing or catalysing knowledge and expertise, promoting social or environmental standards, or fostering good corporate governance or skills development.
- **Leverage effect:** SIFEM mobilises additional capital for the target countries or the beneficiary companies from the private sector that would not have otherwise invested. To this end, in accordance with its mandate, SIFEM bears a portion of the political or commercial risks and conversely shares the risks and returns from the investments with the private and institutional investors.

1.2 DEVELOPMENT IMPACT – HOW DOES SIFEM MAKE A DIFFERENCE?

SIFEM is an impact investor, as all SIFEM investments are made with the intent to generate a measurable development impact, based on specific indicators and corresponding targets, including job creation, skills development, tax payments, financial sector deepening and diversification, and implementation of international best practice with regard to environmental, social, and governance standards. SIFEM aims at maximising the development impact of its investments. While all investments must be economically viable and contribute to economic development, some investments will also specifically foster social inclusion and/or tackle global challenges, including climate change, healthcare, education, food security, and basic infrastructure.

SIFEM is relying on a result measurement system in line with the practice of other DFIs, allowing for the monitoring and aggregation of results at the portfolio level. This framework is in line with the 2030 Agenda for Sustainable Development adopted by the United Nations in 2015 featuring 17 specific goals (Sustainable Development Goals – SDGs).

The result measurement framework used by SIFEM is composed of three different levels: First, an internal rating tool (SIFEM GPR), originally developed by the German DFI (DEG), is used to appraise investments and track their development performance over time. In order to do this, a benchmark is established prior to investment to reflect the expected development effects. Second, a number of quantitative indicators are collected for each investment to measure development effects, which can be aggregated at the portfolio level and reported to Parliament. Third, case studies are conducted on an annual basis to take a closer look at the effects and value-add of SIFEM's investments in specific contexts.[1]

The main development highlights as well as a specific thematic analysis are published annually in a separate report, based on data from the previous year. The latest available report ("SIFEM-Investing in Sustainable Development")[2] was issued towards the end of 2019, with the main development highlights at the portfolio level, as well as a special chapter on SIFEM's role in the field of climate financing. The report also highlights the fact that SIFEM has helped create and support -together with other co-investors- more than 830,000 jobs since 2005, with approximately 40 per cent of the employees in SIFEM portfolio companies being women.

1.3 PERFORMANCE AGAINST OPERATIONALISED OBJECTIVES 2018–2020

SIFEM's financial performance and development impact are defined in 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 is on the right track to meet most of its strategic objectives by 2020. At two-thirds of the way through the current strategic period, all the development objectives assigned to SIFEM seem to be achievable. However, given the economic slowdown in some developing countries and the climate of uncertainty linked to current trade tensions, employment growth in the portfolio companies remains fragile and volatile. This means that adjustments may still occur in the last year of the strategic period. From a financial point of view, the good results of 2019 (positive operating result of CHF 5.1 million) are encouraging, but they do not at this stage allow for a positive operating result over the entire strategic period given the loss incurred in 2018.

The performance results against the operationalised objectives for the 2018–2020 period are shown in Annex 1 of this report.

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1 http://sifem.ch/impact/case-studies/

2 https://www.sifem.ch/fileadmin/user_upload/sifem/pdf/en/Reports/SIFEM_Investing_in_Sustainable_Development__2019_Edition.pdf

1.4 SIFEM'S COOPERATION WITH OTHER DEVELOPMENT FINANCE INSTITUTIONS

On behalf of SIFEM, Obviam engages actively with other DFIs and International Financial Institutions (IFIs). SIFEM therefore seeks to strengthen cooperation and synergies with these institutions informally, and participates actively in joint working groups in a more formal way.

EDFI – European Development Finance Institutions

EDFI is a 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;
- Contribute to achieving the Sustainable Development Goals (SDGs).

This is done by promoting economically, environmentally and socially sustainable development through financing and investing in profitable private sector enterprises. EDFI strives to strengthen the exchange of information and cooperation among its members and other bilateral, multilateral, and regional DFIs.

Obviam represents SIFEM at the EDFI General Assembly and contributes actively to four EDFI working groups (Environmental and Social Matters, Development Effectiveness, Technical Assistance, Communication), two EDFI task forces (Taxation, EDFI Harmonisation Agenda), and two broader DFI working groups (Corporate Governance, International Finance Institutions Working Group on Harmonisation of Indicators).

In 2019, SIFEM co-chaired the EDFI harmonisation task force together with FMO (the Dutch DFI), and has taken the lead on the Environmental and Social aspects of the harmonisation agenda. This work will continue in 2020.

SIFEM also organised a training event on the corporate governance of fund investments in August 2019. Representatives from FinnFund (Finland), FMO (Netherlands), and BIO (Belgium) attended the training. Given the success of the workshop, it has been decided to hold the training on an annual basis in the future and the training is now part of the EDFI Academy Training catalogue.

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.[3]
- Ordinance on co-operation with Eastern European countries of 6 May 1992.[4]

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 duties 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 structure includes two committees: the Investment Committee and the Audit Committee. Investment and divestment decisions are delegated to the Investment Committee. The Audit Committee validates the valuations of SIFEM investments, reviews SIFEM's financial accounts and related matters, and liaises with the auditor. SIFEM's sole employee is the part-time Board Secretary.

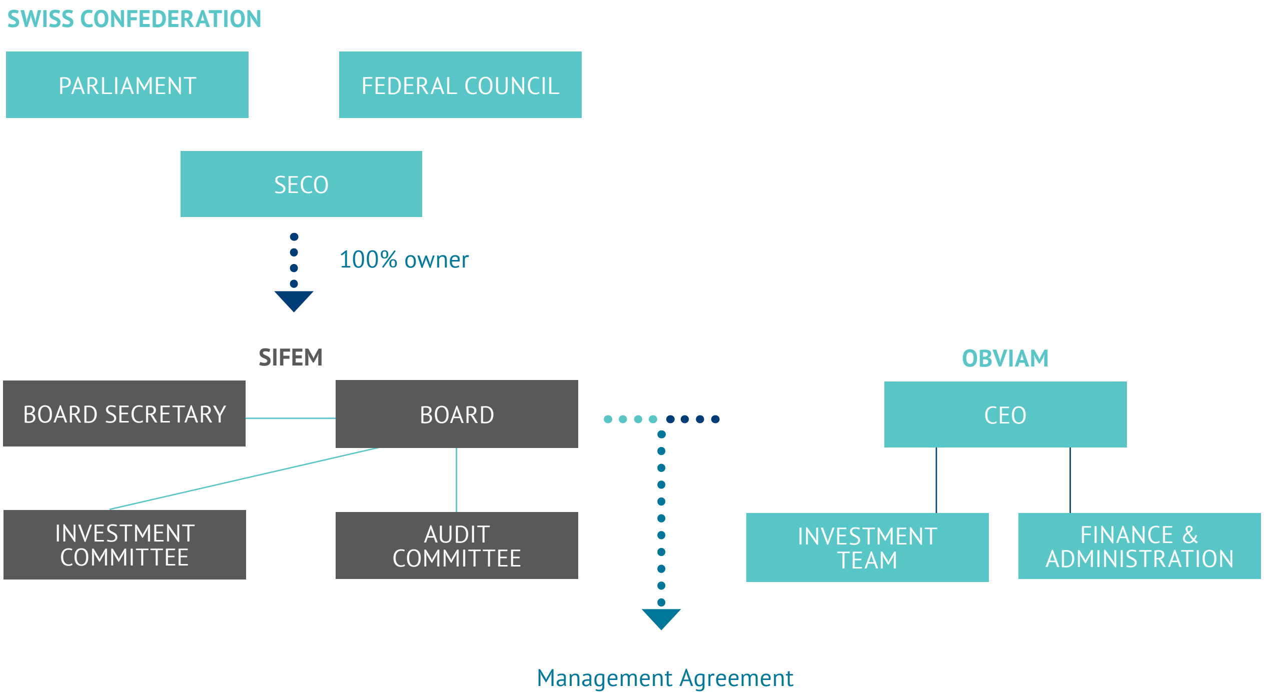
The management of SIFEM's investment portfolio and its day-to-day operations have been delegated to Obviam, an independent company specialised in impact investments in developing and emerging countries, through a public tender process carried out in 2015. This facilitates the raising of third-party capital 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 and respects the standards of the Swiss Confederation.

The corporate structure of SIFEM ensures consistency with the principles of the corporate governance report of the Federal Administration and constitutes a suitable vehicle for safeguarding, complementing, and capitalising on the know-how and quality networks acquired over the past years in the area of risk capital for emerging markets and developing economies.

[3] Verordnung vom 12. Dezember 1977 über die internationale Entwicklungszusammenarbeit und humanitäre Hilfe , SR 974.01

[4] 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

In 2019, SIFEM's Board of Directors continued its reflections on future strategic orientations and, in particular, priorities in terms of development impact. These discussions aim to prepare SIFEM for the implementation of the next strategic cycle, which will start in 2021. The priorities of the Federal Council for Swiss development cooperation for the years 2021–24 are naturally at the heart of these considerations, especially regarding the creation of decent jobs and the facilitation of the energy transition in developing and emerging countries. In this perspective, the Board of Directors commissioned a research study on the job effects of SIFEM's investments in the manufacturing sector, in order to shed light on the experiences to date when dealing with technological changes and automation at the level of fund managers and the portfolio companies. The study shows that most manufacturing companies supported by SIFEM appear to manage the ongoing trends of automation with caution. The results and recommendations of this study will be used to strengthen the management and monitoring of risks related to working conditions in the different investments.

Aware of the importance of credible impact reporting, the SIFEM Board of Directors decided to be among the first group of signatories of the Operating Principles for Impact Management launched by the IFC in April 2019 in Washington DC. These Principles provide a common market standard for what constitutes an impact investment. They describe the essential features of managing investments in companies or organisations with the intention to contribute to measurable positive social or environmental impact, alongside financial returns. Impact considerations have to be integrated into all phases of the investment lifecycle. Critically, the Principles call for annual disclosure as to how signatories implement them, including independent verification. This will provide credibility to the Principles.

SIFEM also joined the "2X-Challenge: Financing for Women Initiative" in October 2019. This initiative was initially launched by the DFIs from the G7 countries as a commitment to mobilise financing for women's economic empowerment globally, and then opened to other DFIs as well. The initiative will unlock resources that will help advance women's position in emerging markets as entrepreneurs, as business leaders, as employees and as consumers of products and services that enhance their economic participation.

At the operational level, the SIFEM accounting mandate was formally awarded to PwC in September 2019, following a WTO tender process.

Investment Committee

In 2019, SIFEM's Investment Committee held nine formal meetings to review investment proposals presented by Obviam. Concept approval was granted for twelve new proposals, allowing Obviam to conduct due diligence on these deals and submit them to the Investment Committee for final approval. Ten proposals were submitted following due diligence and received final approval from the Investment Committee; nine transactions closed before year-end for a total of USD 104.5 million. For further details on the transactions closed during the year, see Section 3.1.

Audit Committee

The Audit Committee held five meetings in 2019 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 2019 financial accounts. As in previous years, ensuring that the portfolio is valued at fair market value was the overarching topic and absorbed much time.

2.4 SHORT BIOGRAPHIC PROFILES OF SIFEM BOARD MEMBERS

Jörg Frieden

Chairman of the Board, Chairman of the Investment Committee, since May 2018

Jörg Frieden's career at the Federal Department of Foreign Affairs, from 1986 to 2018, covered a broad range of posts and responsibilities. He worked as coordinator in Mozambique, advisor for the World Bank in Washington, and as Head of the Eastern and Southern Africa Section in Bern. Between 1999 and 2003, his professional career took a sidestep to the Federal Office for Refugees where he held the position of Deputy Director. In 2003, he returned to the Swiss Agency for Development and Cooperation (SDC) where he took up the position of Resident Director of Development Programmes in Nepal. From 2008 to 2010, he was Deputy Director of the SDC and headed the Global Cooperation Department. He was also an advisor to and representative of Federal Councillor Micheline Calmy-Rey in the UN Commission on Sustainable Development. From 2011 to 2016, Jörg Frieden was Executive Director of Switzerland at the World Bank Group, specifically at the International Finance Corporation (IFC) and then Swiss Ambassador to Nepal until 2018. Jörg Frieden is also a board member of Helvetas, an NGO working in the field of development cooperation based in Zurich.

Susanne Grossmann

Vice-Chairperson 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 the Dalyan Foundation, a charitable foundation supporting women and children in India and Turkey. Since 2014, she has also been a Managing Director at FinanceContact GmbH in charge of administering the SECO start-up fund. She serves as a member of the advisory committees of Weconnex, a service and project management firm focusing on Base-of-the-Pyramid markets, and of the Department of Environmental Systems Science of ETH Zurich. She is also a member of the investment committee of Dreilinden GmbH in Hamburg, a company supporting social acceptance of gender and sexual diversity.

Julia Balandina Jaquier

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

Dr. Julia Balandina Jaquier has over 25 years of investment and strategic consulting experience, the last 16 of which have been focused on impact investing. She has facilitated development of a broad range of mission-driven investment programs and funds, acting in a principal capacity as well as a trusted adviser to major private, institutional and sovereign investors. Julia is the founder of KATALYST, the capacity-building platform for families of wealth. She lectures/d on impact investment at IMD, St. Gallen University, Harvard, Yale and CEIBS. She is an author of two books on impact investment and serves on (advisory) boards of Unilever, FORE Partnership and Toniic 100. Balandina Jaquier 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.

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 to address specifically 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, and Norfund. He is a board member of the Ascent Rift Valley private equity fund in Mauritius and of Gebana AG in Zurich. He sits on the investment committee of various funds or investment structures active in emerging markets (responsAbility, AfricInvest, Islamic Infrastructure Fund), as well as on various advisory boards (South Asian Clean Energy Fund, Mekong Brahmaputra Clean Development Fund, Grofin).

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. In this position, she focuses currently on the engagement of global standard-setting bodies in financial inclusion. Following nearly twenty years with the Swiss Agency for Development and Cooperation (SDC), where she led SDC's macroeconomic and financial sector work, 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 to the Swiss Parliament's National Council. In 2003, she was elected to the Cantonal Government of the Canton of Zurich where she headed the Education Directorate until her departure in 2015. She is a member of the board of various foundations (Kulturama, I care for you), as well as board member of Movis AG in Zurich. She is also chairperson of the Association "Schulen nach Bern". Regine Aeppli studied law at the University of Zurich, where she obtained her diploma.

Angela de Wolff

Member of the Investment Committee, 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 capitalised on her experience to create Conser, an independent firm specialised 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), the Audemars-Watkins foundation in Geneva, and the Race for Water foundation in Lausanne. She is also a member of the supervisory committee of Sustainable Finance Geneva. Angela de Wolff obtained a Master's in economics from Lausanne University in 1989. She became a Certified European Financial Analyst (CEFA) in 2000.

2.5 COMPENSATION REPORT

Board Compensation

In 2019, the fixed annual compensation for the entire SIFEM Board amounted to CHF 315,800, excluding social security contributions.

The Chairman of the Board received a total gross compensation of CHF 54,000 in 2019. This consists of a base compensation of CHF 30,000 for his role as Chairman of the Board and CHF 24,000 for his role as Chairman of the Investment Committee.

Excluding the Chairman, the other SIFEM Board Members received on average CHF 43,633 gross compensation, including compensation for work in Board Subcommittees.

Compensation of Obviam

The compensation of Obviam is determined by the terms of the Management Agreement.[5] Under this Agreement, Obviam is compensated within a budget that is approved annually in advance by the Board. Obviam has complied with the salary restrictions stated in the Management Agreement.[6]

The Board of SIFEM agreed to the annual budget proposed by Obviam for 2019 under the aforementioned Management Agreement. For the year 2019, the budget for Obviam was CHF 8.3 million, excluding VAT and accruals for variable compensation. The costs incurred under this budget amounted to CHF 8.0 million, corresponding to 0.98 per cent of total active commitments, which equals the previous year's ratio.

As per the Management Agreement, the Board may decide to allocate a variable compensation element to Obviam based on performance against pre-defined objectives.[7] The Board fixed the annual, short-term component of the incentive scheme for 2019 at 6.0 per cent of the overall fixed salary cost. As regards the long-term component of the incentive scheme, which is tied to performance against the SIFEM strategic objectives, accruals were made in 2019. The total management costs, including VAT, bonus payments and accruals for the financial year 2019 amounted to CHF 9.5 million.

SIFEM's total operating costs include the compensation of the Board, of Obviam, and the expenses for administration, custodian, and other administrative expenses. In 2019, the total operating costs of SIFEM amounted to CHF 10.8 million. This corresponds to 1.33 per cent of the total active commitments of SIFEM, which is below the cap of 1.5 per cent defined by the Federal Council. The corresponding 2018 figure was 1.29 per cent. Around half of the increase can be attributed to foreign exchange rate effects. The other half is due to the increase in Board remuneration and expenses as well as accounting effects.

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[5] 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.

[6] The wording of Clause 4.17 of the Management Agreement is as follows:

4.17 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.

[7] The wording of Clauses 4.9 to 4.11 of the Management Agreement is as follows:

4.9 The Board will allocate a performance bonus (the "Performance Bonus") equal to an amount up to twenty (20) Percent 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.

3. PERFORMANCE OF THE INVESTMENT PORTFOLIO[8]

3.1 NEW INVESTMENTS

In 2019, a total of USD 104.5 million of new investment commitments were made. The 2019 investments consist of four private equity funds (Navegar II, Cathay AfricInvest Innovation Fund, African Development Partners III and Excelsior Capital Vietnam Partners), two Microfinance organisations (HKL, Microfinance Organization KMF), and three loans to financial institutions (Xac Bank, Victoria Commercial Bank, and Bank of Georgia).

The regional breakdown of 2019 investments consists of three investments in Africa (Victoria Commercial Bank, Cathay AfricInvest Innovation Fund and African Development Partners III), three investments in East and South East Asia (HKL, Navegar II and Excelsior Capital Vietnam Partners) as well as two investments in Eastern Europe and Central Asia (Microfinance Organization KMF and Bank of Georgia).

The new portfolio positions are as follows:

Cathay AfricInvest Innovation Fund (EUR 7 million committed)
The Cathay AfricInvest Innovation Fund (CAIF) is a pan-African fund that targets innovative companies using recent technologies, including mobile connectivity and internet-based services. Target sectors include education, where e-learning technology could increase reach and provide access to educational material at lower costs, and agriculture, where, for example, technology could provide data to farmers to allow for better access to markets. Further sectors for investment include energy and clean technology, healthcare, financial services, and retail and distribution. SIFEM's investment in CAIF will support a response to Africa's socio-economic challenges with innovative products and services. It will foster financial sector deepening, financial innovation, and support technological research and innovation as well as social inclusion.

Hatta Kaksekar Limited HKL (USD 15 million committed)
HKL is the third largest Microfinance Institution in Cambodia and is in the process of converting into a bank. Its product offering includes micro and SME (MSME) loans, personal and mortgage loans, as well as current and savings accounts. Eighty-two per cent of its clients live in the rural regions of Cambodia, and 66 per cent are women. Nearly two-thirds of the loan portfolio is directed towards MSMEs, and the small loan sizes facilitate access to finance among the low-income population. HKL has endorsed the Client Protection Principles and achieved certification in 2016. It has implemented a dedicated financial education programme for its credit officers to enable them to provide basic financial literacy training to HKL's clients. Credit officers also raise their clients awareness on environmental and social issues relevant for their businesses. SIFEM's loan to HKL supports access to credit for MSMEs, and contributes to job support, financial inclusion and the overall growth of the Cambodian economy.

Microfinance Organization KMF (USD 10 million committed)
KMF is the largest microfinance institution in Kazakhstan, with over 245,000 clients. It has a network of nearly 120 branches and outlets situated in urban and rural areas. The Institution offers loans for agriculture and business purposes to micro and small entrepreneurs, with a focus on rural areas; it fosters financial inclusion through its reach to the lower income segment of the population, and offers both individual and group loans. Micro loans represent 79 per cent of the portfolio, 59 per cent of the total portfolio are loans provided to women and 35 per cent of the total portfolio are loans for agriculture purposes. KMF is supporting its clients by providing not only financial services but also financial literacy education and business management training. SIFEM's long-term loan will support KMF to provide financing to MSME clients that have largely been ignored by commercial banks, enabling them to operate and further grow their businesses. It will contribute to the long-term sustainability of the Kazakh economy through financial sector deepening and job creation.

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

Navegar II (USD 15 million committed)

Navegar II will invest in mid-sized companies in the Philippines in need of growth capital. The Fund will target sectors such as fast-moving consumer goods, financial services, healthcare, and tourism. The Fund Manager seeks to maximise the value of its portfolio companies by providing financial, operational and strategic guidance. With a population of over 105 million, the Philippines remains an underdeveloped country with significant hurdles to broad economic prosperity and job creation. While the poverty rate has fallen in recent years, more than 20 per cent of the population is still living below the national poverty line. SIFEM's investment will contribute to economic and social development by creating more and better jobs in the country. The investment will also help broaden the country's tax base.

Victoria Commercial Bank (USD 10 million committed)

Victoria Commercial Bank is a privately-owned bank specialised in SME financing in Kenya with a focus on the medium-size company segment. Through its four branches in Nairobi, it reached more than 800 borrowers and around 2,300 depositors in 2018. The Bank aims to grow by expanding its SME customer base, including outside of the capital Nairobi. SMEs in Kenya account for 78 per cent of the entire labour force but they lack access to finance and are therefore constrained in their growth prospects. SIFEM's loan to Victoria Commercial Bank will support access to credit for SMEs and contribute towards the creation and maintenance of jobs.

XacBank (USD 10 million committed)

XacBank began its operations in 1998 as a microfinance project in Mongolia and obtained a banking license in 2001. It has 480,000 active depositors and 120,000 borrowers who are served through 87 branches, half of them are located in rural areas. It offers retail, microfinance, SME and corporate banking services. Women represent the majority of XacBank's clients (64 per cent in 2018) and one of the ways the bank demonstrates its commitment to female clients is by offering tailor-made products and discount rates to women entrepreneurs. SIFEM's loan is part of a syndicated transaction led by IFC, and will help XacBank to provide additional financing support to micro and small entrepreneurs during the economic recovery. It will foster financial inclusion by increasing access to finance in rural areas and contribute to diversification and long-term sustainability of the Mongolian economy through job creation, financial sector deepening and financial innovation.

African Development Partners III (USD 15 million committed)

African Development Partners III is a private-equity fund that will make up to 14 investments to support established and growing consumer focused businesses by improving their processes and expand regionally across Africa. The Fund is managed by DPI, an independent Pan-African private equity firm known for its strong track record and desire to have a best-in-class approach to fund management, investment, value-add, and ESG. DPI stands out as the only women-led Fund Manager operating in the African upper mid-market and as of one of the very few women-led private-equity managers across the entire African market. SIFEM's investment will contribute to economic and social development by creating more and better jobs and address gender inequality.

Bank of Georgia (USD 10 million committed)

Established in 1994 as a private bank, Bank of Georgia is an industry-leading and systemically important universal bank, serving 2.5 million clients through 276 branches, which is the largest distribution network in Georgia. Currently, the Bank is the largest contributor to MSME lending in Georgia. SIFEM will participate in a syndicated transaction led by FMO (Netherlands) to provide Bank of Georgia with a subordinated loan. This transaction will allow Bank of Georgia to further grow its loan portfolio towards the MSMEs segment, which continues to be of the main drivers of economic growth in Georgia, employing more than 60 per cent of the total work force. It is also a good opportunity for SIFEM to provide its first direct debt investment in Georgia and increase its footprint in the Caucasus, an under-invested region.

Excelsior Capital Vietnam Partners (USD 12 million committed)

Excelsior Capital Vietnam Partners is a private-equity fund that will primarily invest in established SMEs and mid-sized businesses in Vietnam. The fund will specifically target high-growth sectors such as healthcare, industrials, clean technologies, food & agri-business, media, as well as consumer products. The fund will be managed by a newly established Vietnam Team of the Excelsior Capital group, a leading private equity house in Asia. SIFEM's investment will contribute to the further development of Vietnamese SMEs and medium-sized businesses, and in particular, to the formalisation of jobs through increased training and skills development.

3.2 PORTFOLIO CONSTRUCTION

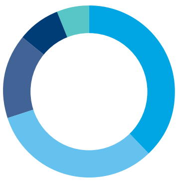
SIFEM's portfolio has developed over a period of two decades, with the first investments by SECO dating back to 1997.[9] Since its inception, SIFEM has committed USD 1059.3 million to 141 projects across Africa, Asia, Eastern Europe, and Latin America.

During 2019, Capital commitments to Africa and Asia have increased compared to 2018 and account for 70 per cent of the portfolio, while the relative share of projects which either focus on other regions or which are multi-regional have slightly decreased.

SIFEM CAPITAL COMMITMENTS BY GEOGRAPHY AND FOCUS AS OF 31 DECEMBER 2019[10]

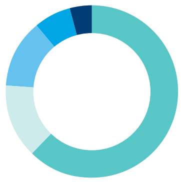
GEOGRAPHY

Figure 2



INSTRUMENTS

Figure 3



The portfolio consists primarily of private equity funds investing in growth companies and SMEs (63 per cent), infrastructure (3 per cent) and current income funds (13 per cent). Investments in microfinance comprise 7 per cent and other financial intermediaries 14 per cent of the portfolio, which represents a slight increase compared to the previous year.

Across these different instruments, 33.5 per cent of the total portfolio consists of current income earning assets, while the remaining 66.5 per cent consist of equity and quasi-equity instruments.

As of 30 June 2019, SIFEM had invested directly and indirectly in 531 companies in over 75 countries. The ten countries with the largest financial exposures account for 55 per cent of the total invested capital.

SIFEM UNDERLYING PORTFOLIO ALLOCATION AS OF 30 JUNE 2019

LARGEST COUNTRY EXPOSURES BY INVESTED CAPITAL

Figure 4

LARGEST COUNTRY EXPOSURES BY NUMBER OF COMPANIES

Figure 5

Note: SIFEM's exposure to China is due to historical investments made since inception until 2014. Since China is no longer eligible for SIFEM investments, the relative share of China is deemed to decrease over time.

[9] Investments made between 1997 and 2005 were transferred to SIFEM.

[10] The CEE & CIS region includes Southern & Eastern European countries as well as the Ukraine.

LARGEST INVESTED CAPITAL EXPOSURE PER SECTOR

Figure 6

- Financial intermediation 39%
- Energy and water supply 11%
- Industrial services 8%
- Consumer goods 8%
- Healthcare 7%
- Consumer services 6%
- Agriculture, fishing and forestry 4%
- Basic materials 3%
- Communications 3%
- Education 3%
- Technology 3%
- Industrial goods 2%
- Construction 2%

LARGEST EXPOSURE PER SECTOR BY NUMBER OF COMPANIES

Figure 7

- Financial intermediation, 169
- Energy and water supply, 88
- Healthcare, 47
- Consumer goods, 40
- Consumer services, 38
- Industrial services, 32
- Agriculture, fishing and forestry, 25
- Technology, 21
- Education, 21
- Communications, 16
- Basic materials, 13
- Industrial goods, 12
- Construction, 9

SIFEM had invested directly and indirectly in 169 entities in the financial sector as of 30 June 2019; approximately 90 of these companies are active in the microfinance sector.

3.3 VALUATION

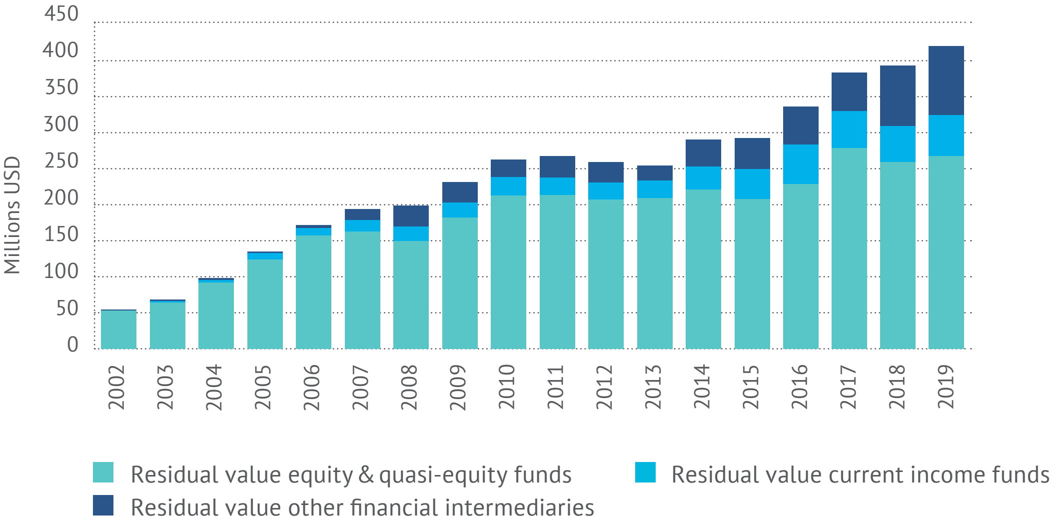
SIFEM's 2019 financial statements were independently audited by early March 2020, in accordance with the requirements of the shareholder, so that they could be consolidated in the Swiss Confederation's accounts. However, this timeline did not allow sufficient time to obtain and integrate the audited accounts of all portfolio companies. Hence, SIFEM has used the latest available valuations (as of September 2019) 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 INDICATORS

As of 31 December 2019, SIFEM's total active commitments stood at USD 839.0 million. The residual value of SIFEM's investment portfolio amounted to USD 420.5 million, an increase of USD 32.2 million or 8 per cent compared to 31 December 2018. Changes in the portfolio value are driven by (i) fluctuations in the value of the underlying investments, (ii) the inflows and outflows of cash generated by new investments, and (iii) realisations of investments.

FIGURE 8: SIFEM PORTFOLIO RESIDUAL VALUE SINCE INCEPTION

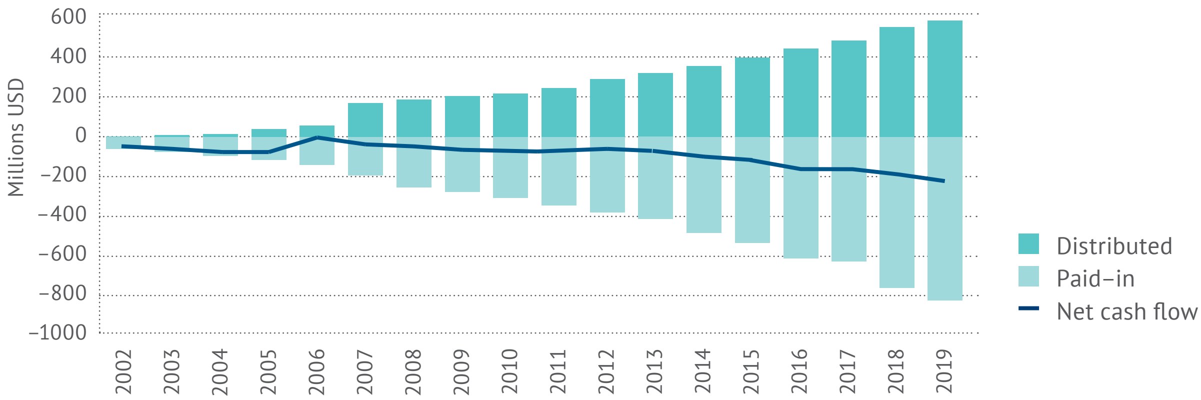
RESIDUAL VALUE



Since inception, USD 820.2 million has been paid into the SIFEM investment portfolio, and the portfolio has generated reflows totalling USD 596.3 million. During the same period, the cumulative net cash flow amounts to USD -223.9 million, which can be explained by a combination of an expanding portfolio, the long-term nature of patient capital investments, and the continued slow exit environment in emerging markets.

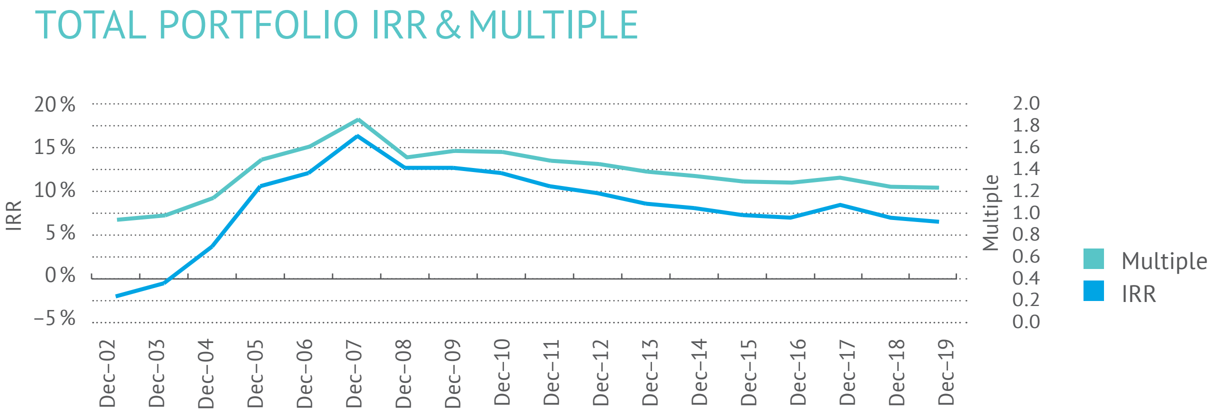
FIGURE 9: SIFEM CUMULATIVE CASH FLOWS

CUMULATIVE CASH FLOWS IN USDm



As of 31 December 2019, the Internal Rate of Return (IRR) of the SIFEM portfolio was 6.0 per cent. The IRR is a measure to show the historical profitability of assets. On the one hand, it refers to the current fair value of the portfolio and, on the other hand, it includes all historical cash flows in its calculation. In a growing portfolio, i.e. where new investments tend to exceed divestments, the so-called "J-curve-effect" plays an important role: typically, the upfront costs incurred with new investments added to the portfolio will only be offset by the growth valuation of these investments after several years. The slight decrease observed in 2019 compared to 2018 is the logical consequence of the dilution effect of new investments in an open-ended, growing fund structure with no termination date ("evergreen") such as SIFEM. Over the long term, the IRR is expected to flatten out and normalise around a certain value.

FIGURE 10: SIFEM TOTAL PORTFOLIO IRR & MULTIPLE SINCE INCEPTION



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 converted 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 (i) reducing cash holdings in the main fund denomination currencies other than USD (i.e. Euro, Rand, Yuan), and (ii) hedging SIFEM's Euro exposure 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

As per December 2019, the breakdown of the SIFEM portfolio in terms of investments per risk category is as follows:

FIGURE 11: NUMBER OF SIFEM INVESTMENTS PER RISK CATEGORY AS OF DECEMBER 2019

Projects per risk category	2018		2019	
Very low risk	10	11 %	15	16 %
Low risk	20	22 %	15	16 %
Moderate risk	31	33 %	29	31 %
High risk	12	13 %	15	16 %
Very high risk	20	22 %	20	21 %

Note: The percentages in the table have been rounded and therefore may not add up to 100 per cent.

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. Over the past year, the proportion of the riskier projects has further increased compared to lower risk and moderate risk projects. The continuously high number of high-risk and very high risks investments is an inherent result of SIFEM’s development mandate.

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.

A more comprehensive review of SIFEM’s Portfolio Risk can be found in Annex 2 of this report.

5. FINANCIAL RESULTS

5.1 SIFEM RESULT FOR 2019

SIFEM ended 2019 with a positive annual result. In accordance with IFRS accounting standards, it recorded a total profit on investment activities of CHF 16.0 million. This compares to a loss of CHF 12.5 million in 2018.

Total operating costs and other operating results[11] amounted to CHF 10.9 million versus CHF 10.0 million in the previous year. This results in a net operating profit of CHF 5.1 million compared to a net operating loss of CHF 22.5 million in 2018.

The positive annual result is explained by a combination of increased interest income from debt investments (CHF 9.9 million vs. CHF 9.3 million in 2018), maintained gains on realised investments (CHF 14.4 million vs. CHF 14.1 million in 2018), and a reduced unrealised loss on the fair value of investments (CHF −16.6 million vs. CHF −36.0 million in 2018). The loss allowance for the year 2019 was positive (i.e. CHF 8.1 million) due to a reversal of the loss allowance of one single debt investment which has been written off in the same period. At the same time, the cost of managing the portfolio was kept in line with the portfolio size.

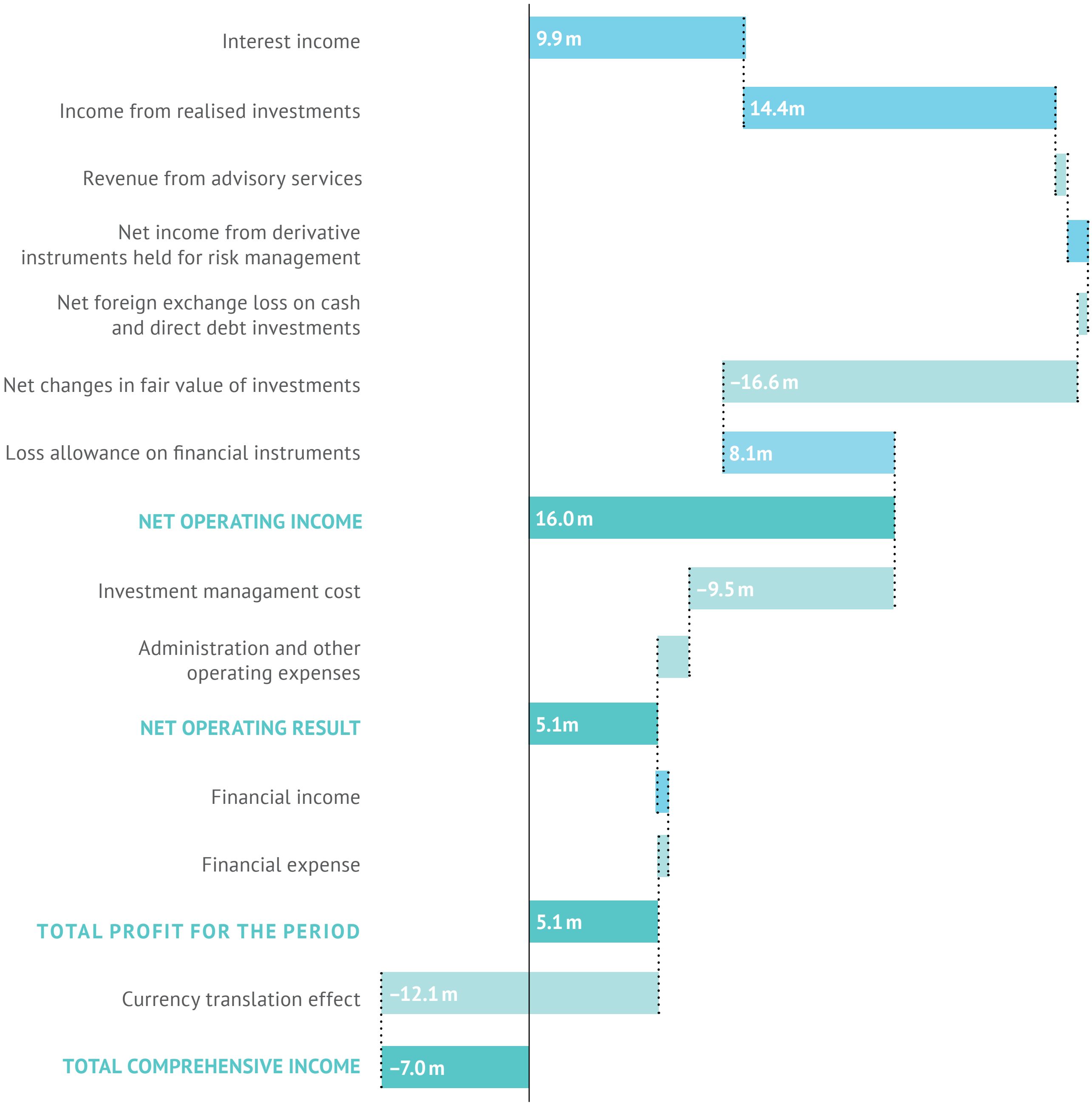
As compared to the previous reporting years, the effect of the exchange rate movements between the Swiss Franc and the US Dollar had much less of an impact on SIFEM’s financial result since the shareholder loans which denominated in CHF were converted into equity in 2018. Not surprisingly, the impact on the result through financial income and expenses were close to nil on a net basis compared to −7.7 million in 2018. Combining the operating result with the financial result leaves SIFEM with a net profit for 2019 of CHF 5.1 million.

When adjusting the result for the exchange rate effects from SIFEM’s functional currency (USD) to the presentation currency (CHF), a total comprehensive loss of close to CHF 7 million results for 2019. It should be noted that this is a pure translation effect.

SIFEM still holds substantial amounts of cash for covering its unfunded commitments of USD 240.3 million. These unfunded commitments marginally exceeded cash holdings of USD 224.3 million at year-end, and hence SIFEM is over-committed by 1.9 per cent of total active commitments. This compares to 0.5 per cent of over-commitment at the end of the previous year. Currently, the allowed maximum over-commitment ratio is at 6 per cent.

[11] Predominantly composed of stamp duties.

FIGURE 12: BREAKDOWN OF TOTAL COMPREHENSIVE PROFIT AND LOSS 2019



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 mirrors the movements in the unrealised value of SIFEM's portfolio investments more transparently than the reporting under the Swiss Code of Obligations (SCO), and the operating result reflects well the performance of SIFEM's investment activities.

No significant changes in accounting standards occurred since the last reporting period.

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. Indeed, as a public company operating under Swiss private law, SIFEM is required to report under SCO accounting standards. Under SCO accounting rules, SIFEM recorded net earnings before translation of CHF 9.8 million in 2019.

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. Since the appreciation of investments is recognised only at the time of realisation, a temporary understatement of the performance of SIFEM's investment assets typically is reflected in the SCO statements.

5.4 FINAL REMARKS

With an escalating trade war during 2019, emerging markets continued to be under pressure over the reporting period. A series of adjustments to valuations were required accordingly. Nevertheless, the exit environment is not further deteriorating at the time being, and SIFEM's investee funds were able to realise many of its performing underlying investments in a profitable manner.

For the global economy, the outlook remains uncertain. While the trade war with the United Stated is currently not expected to escalate any further, a global virus pandemic has begun to massively rattle integrated economies and trade. At the time of writing, the exact impact of the pandemic on economic growth in 2020 cannot be estimated.

The increase in the allocation to debt investments and the continuation of the currency hedging strategy implemented since 2015 continue to stabilise the income from investment activities. Effectively, the current income of the debt portfolio now reached more than USD 10 million and therefore more than covers the management cost of SIFEM. These factors have played an important role in the operating result in 2019 and will continue to do so in the future. This can be considered as a positive step towards the operational sustainability of SIFEM as a DFI.

FINANCIAL REPORT

2019 – IFRS – FINANCIAL STATEMENTS

Phone +41 44 444 37 08
Fax +41 44 444 35 35
www.bdo.ch
franco.straub@bdo.ch

BDO Ltd
Schiffbaustrasse 2
8031 Zurich

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 2019 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 2019 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, 5 March 2020

BDO Ltd

Franco A. Straub	Marc Escher
Auditor in Charge Licensed Audit Expert	Licensed Audit Expert

STATEMENT OF FINANCIAL POSITION

in '000 CHF	NOTE	31.12.2019	31.12.2018
ASSETS			
Cash and cash equivalents	6	217,211	218,475
Derivative financial assets held for risk management	7	13,036	14,106
Other receivables, prepayments and accrued income	8	5,877	5,970
Total current assets		**236,124**	**238,551**
Equity instruments	9	298,513	293,382
Debt instruments	9	108,697	89,451
Total non-current assets		**407,210**	**382,833**
Total assets		**643,334**	**621,384**
LIABILITIES AND EQUITY			
Derivative financial liabilities held for risk management	7	12,973	14,213
Other liabilities and accrued expenses		1,580	1,140
Total current liabilities		**14,553**	**15,353**
Total liabilities		**14,553**	**15,353**
Share capital		584,444	554,444
Capital reserve (additionally paid in capital)		84,701	84,701
Legal reserve		1,096	1,096
Translation reserve		7,862	19,951
Retained earnings / accumulated losses		−49,322	−54,161
Total equity	**11**	**628,781**	**606,031**
Total liabilities and equity		**643,334**	**621,384**

STATEMENT OF PROFIT OR LOSS

for the year in '000 CHF	NOTE	2019	2018
Interest income	12	9,898	9,346
Dividend income			672
Income from realised gains on investments		14,419	14,124
Other direct investment related costs			–327
Revenue from advisory services		36	40
Net income from derivative financial instruments held for risk management	15	835	1,055
Net foreign exchange gain/-loss on cash and cash equivalents and direct debt investments	16	–631	–639
Net changes in fair value of investments at fair value through profit or loss	17	–16,600	–35,970
Loss allowance on financial instruments	19	8,109	–756
Total net income/-loss		**16,066**	**–12,455**
Investment management costs	13	–9,502	–8,739
Administration and custodian fees	14	–414	–351
Personnel expenses		–450	–322
Administration expenses		–371	–420
Advertising expenses		–98	–74
Other operating result		–93	–94
Operating result		**5,138**	**–22,455**
Financial income	18	4	9,096
Financial expense	18	–3	–1,382
Total profit/-loss for the period		**5,139**	**–14,741**
Currency translation effect from translation to presentation currency		*–12,089*	*–2,237*
Total comprehensive income		*–6,950*	*–16,978*

STATEMENT OF CHANGES IN EQUITY

in '000 CHF	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	LEGAL RESERVES	TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL
Balance at 31 December 2017	150,000	89,680	1,096	22,188	−25,254	237,710
Adjustment on initial application of IFRS 9					**−10,122**	**−10,122**
Balance at 1 January 2018	150,000	89,680	1,096	22,188	−35,376	227,588
Total comprehensive income for the year						
Loss for the year					−14,741	−14,741
Currency translation effect from translation to presentation currency				−2,237		−2,237
Total comprehensive income for the year	**0**	**0**	**0**	**−2,237**	**−14,741**	**−16,978**
Transactions with owners of the Company, recognised directly in equity						
Issue of ordinary shares	404,444					404,444
Transaction costs in connection with transactions with owners of the Company					−4,044	−4,044
Other capital contributions		−4,979				−4,979
Total transactions with owners of the Company	**404,444**	**−4,979**	**0**	**0**	**−4,044**	**395,421**
Balance at 31 December 2018	554,444	84,701	1,096	19,951	−54,161	606,031
Total comprehensive income for the year						
Profit for the year					5,139	5,139
Currency translation effect from translation to presentation currency				−12,089		−12,089
Total comprehensive income for the year	**0**	**0**	**0**	**−12,089**	**5,139**	**−6,950**
Transactions with owners of the Company, recognised directly in equity						
Issue of ordinary shares	30,000					30,000
Transaction costs in connection with transactions with owners of the Company					−300	−300
Other capital contributions						
Total transactions with owners of the Company	**30,000**	**0**	**0**	**0**	**−300**	**29,700**
Balance at 31 December 2019	584,444	84,701	1,096	7,862	−49,322	628,781

STATEMENT OF CASH FLOWS

for the year in '000 CHF	NOTE	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/-loss for the year		5,139	–14,741
Adjustments for:			
Interest income	12	–9,898	–9,346
Dividend		0	–672
Income from realised gains on Investments		–14,419	–14,124
Other direct investment related costs		0	327
Interest expense	18	0	1,250
Net foreign exchange gain/-loss		630	–8,326
Net income from derivative financial instruments held for risk management		–726	–1,162
Changes in fair value of investments at fair value through profit or loss	17	8,491	36,726
Changes in:			
Derivative financial instruments held for risk management		–174	–133
Other receivables, prepayments and accrued income		5	676
Other liabilities and accrued expenses		478	–159
Purchase of investments		–89,436	–93,481
Proceeds from sale of investments		48,429	35,130
Interest received		9,879	9,346
Dividend / other investment income received		0	672
Income from realised gains on Investments received		14,419	13,797
Proceeds from sale of derivative financial instruments		726	1,162
Net cash flow from operating activities		**–26,457**	**–43,058**
Net cash flow from investing activities		**0**	**0**
Proceeds from issue of share capital		29,700	25,956
Net cash from financing activities		**29,700**	**25,956**
Net increase / -decrease in cash and cash equivalents		**3,243**	**–17,102**
Cash and cash equivalents at 1 January	6	218,475	233,453
Effect of movements in exchange rates on cash and cash equivalents		–4,507	2,124
Cash and cash equivalents at 31 December	**6**	**217,211**	**218,475**

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 at 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 provides financing to small- and medium-sized enterprises (SMEs), primarily through private equity or mezzanine funds, but also direct debt investments in financial intermediaries and loans to pooled investment vehicles, with the objective of generating development impact in line with best practise environmental, social and governance principles.

Both, the investment activities and the daily 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

These financial statements have been prepared for the year ended 31 December 2019 in accordance with International Financial Reporting Standards (IFRS) – in addition to the statutory financial statements which are prepared in accordance with the Swiss Code of Obligation (CO).

These financial statements were authorised for issue by the Board of Directors on 5th of March 2020.

(b) Basis of measurement

These financial statements have been prepared on the basis of historical cost except for financial instruments (equity- and debt instruments as well as derivative financial assets and liabilities held for risk management), which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Swiss Francs (CHF). The functional currency of the Company is US Dollar (USD). All amounts presented in Swiss Francs were rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

SIFEM has consistently applied the accounting policies as set out below in 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 are translated into USD at the exchange rate at the reporting 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 when 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 changes in fair value of investments 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 year 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 respective reporting period. The exchange differences on translating balance sheets and income statements are recognized as a separate line item 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:

	2019		2018	
	Balance sheet rate	Average rate	Balance sheet rate	Average rate
USD/CHF	1.032684	0.995737	1.014405	1.013328
USD/EUR	1.122500		1.143150	
USD/ZAR	0.071513		0.069517	
USD/CNY	0.143561		0.145652	
CHF/USD	0.968350	1.004282	0.985800	0.986848

(b) Cash and cash equivalents

Cash and cash equivalents comprise non-restricted cash deposits with maturities of three months or less from the acquisition date. Cash and cash equivalents are subject to an insignificant risk of changes in the fair value, and are used to cover the Company's short-term commitments.

(c) Derivative financial instruments held for risk management

Derivative financial instruments held for risk management comprise foreign exchange forward contracts and 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 are measured at fair value, with changes in fair value generally recognised in profit or loss.

SIFEM uses derivative financial instruments solely to economically hedge its exposure to foreign exchange rate risks arising from operating activities. SIFEM does not hold or issue derivative financial instruments for trading purposes.

(d) Financial instruments

On initial recognition, a financial asset is classified as measured at either "fair value through profit or loss" (FVTPL), "fair value through other comprehensive income" (FVOCI) or at "amortised cost".
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest (SPPI).

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

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 FVTPL 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 FVTPL 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 managed within "hold to collect" business model and their contractual cash flows are SPPI. Therefore, the debt instruments are accounted for at amortised cost. For some debt instruments the fair-value-option is exercised and these investments are accounted for at FVTPL. Necessary expected credit loss allowances 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 not SPPI. Therefore, they are accounted for as at FVTPL.

Subsequent measurement – financial assets 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, adjusted for any expected credit loss allowance.

Subsequent measurement – financial assets at FVTPL
Subsequent to initial measurement, all financial assets at FVTPL 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 changes 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 unless there are restrictions.

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. Refer also to note 9.

Fair value hierarchy
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).
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.

(e) 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.

(f) 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 reliably estimated, 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.

(g) 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.

(h) Interest income, dividend income and income from realised 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.

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

(j) Income tax
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 is subject to withholding tax imposed in certain countries of origin. Such income is recognised net of taxes through profit and loss.

(k) New and revised standards and interpretations not adopted

The following new, revised and amended standards and interpretations have been issued before the date of approval of the 2019 financial statements, but are not yet effective or applied 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.

New standards or interpretations	Expected effect	Effective date	Planned application by SIFEM
IFRS 17 Insurance contracts	*	1 January 2021	2021
Revisions and amendments of standards and interpretations			
IFRS 3 Amendment: Definition of a Business	*	1 January 2020	2020
IAS 1 and IAS 8 Amendment: Definition of Material	*	1 January 2020	2020
IFRS 9, IAS 39, and IFRS 7 Amendment: Interest	*	1 January 2020	2020
Amendments to References to the Conceptual Framework in IFRS Standard	*	1 January 2020	2020

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

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

SIFEM risk management framework relies on a comprehensive manual of procedures which describes how the business is conducted, and, in particular, how operational and investment risks are identified, mitigated, monitored and managed. The Board of Directors is responsible for the development, monitoring and enhancement of the entire framework, whereas Obviam, as business and investment manager, is in charge of the continuous implementation thereof.

Investment risk management

SIFEM is exposed to various financial risks resulting from the investment activities in emerging countries. Its investment risk management is based on three pillars:
- Portfolio Risk Management
- Environmental, Social and Governance (ESG) Risk Management
- Treasury Risk Management

In addition, SIFEM receives investment management support through financial expertise.

Obviam, responsible for the identification, evaluation and selection of investment opportunities, as well as for the monitoring of SIFEM's portfolio asset positions, follows the pre-defined procedures relevant for the investment risk management at each stage of the investment process. The framework also contains an internal risk rating tool which is applied at least once a year to revalue each of the portfolio's investment instruments.

Credit risk

All assets of SIFEM entail the risk that a counterparty becomes insolvent (credit risk). This would result in a financial loss for SIFEM. Principally, the credit risk arises from debt securities held, other receivables as well as cash and cash equivalents.

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

in '000 CHF	Mandatorily measured at FVTPL	Optionally measured at FVTPL	Amortised cost	Total carrying amount
31 December 2019				
Cash and cash equivalents			217,211	217,211
Derivative financial assets held for risk management	13,036			13,036
Other receivables, prepayments and accrued income			5,508	5,508
Debt investments				108,697
– Banks and other financial intermediaries		7	88,231	
– Funds and other pooled investment vehicles		10,304	10,155	
Equity investments				298,513
– Banks and other financial intermediaries	6,933			
– Funds and other pooled investment vehicles	291,580			
Total	**311,549**	**10,311**	**321,105**	**642,965**
Derivative financial liabilities held for risk management	−12,973			−12,973
Other liabilities and accrued expenses			−1,552	−1,552
Total	**−12,973**		**−1,552**	**−14,525**
31 December 2018				
Cash and cash equivalents			218,475	218,475
Derivative financial assets held for risk management	14,106			14,106
Other receivables, prepayments and accrued income			5,628	5,628
Debt investments				89,451
– Banks and other financial intermediaries		16	71,214	
– Funds and other pooled investment vehicles		10,877	7,344	
Equity investments				293,382
– Banks and other financial intermediaries	2,873			
– Funds and other pooled investment vehicles	290,509			
Total	**307,488**	**10,893**	**302,661**	**621,042**
Derivative financial liabilities held for risk management	−14,213			−14,213
Other liabilities and accrued expenses			−1,104	−1,104
Total	**−14,213**		**−1,104**	**−15,317**

The tables above only include financial instruments. Other receivables, prepayments and accrued income do therefore not include tax receivables and prepaid costs TCHF 365 (2018: TCHF 342). The position other liabilities and accrued expenses do not include tax payables and advances received TCHF 28 (2018: TCHF 36).

Management of credit risk

The approach to credit risk management is determined by its annual updated risk rating tool for financial institutions, as well as through the procedure to constitute the expected credit loss allowances for financial instruments carried at amortised cost in accordance to IFRS 9. Obviam monitors on a quarterly basis the ability and willingness of an issuer to fulfil its financial obligations in full and on a timely basis. A significant shift in
the credit risk will be reported to the Board of Directors. A yearly risk report is issued to the shareholder.

In case of a major event, the risk rating will be adjusted to reflect the current inherent risk of the given investment.

Significant increase in credit risk

In the model, all financial assets in SIFEM's portfolio in scope with the new impairment model are classified as "performing" (stage 1) at initial recognition. If circumstances change and risk increases, an asset eventually moves from stage 1 to stage 2 which indicates "significantly increased risk since initial recognition" (stage 2).

SIFEM's approach for defining the boundaries between stage 1 and 2 is based on four factors (one of them forward-looking) which are considered to be causes for a significant increase in credit risk since initial recognition associated with a financial asset:

i. Arrears in interest or principle payments larger than 30 days
ii. Non-material covenant breaches (whereby the materiality is assessed by the Audit Committee)
iii. Reclassification of the financial instrument's internal risk score to the higher risk categories 1 ("very high risk") or 2 ("high risk") in Obviam proprietary risk scoring system
iv. Qualitative aspects as assessed by the Audit Committee such as specific knowledge provided by Obviam or as acquired by external parties about internal issues at a borrower or progress on plans to solve such issues (e.g. knowledge from co-investing peers of SIFEM or other trustworthy sources about materiality and timing of scheduled capital increases, awareness about lenders' group arrangement for avoiding cross-default, or other factors that support an expert's judgement on the riskiness of a financial asset).

An asset moves from stage 2 back to stage 1 if the reason for its move from stage 1 to 2 ceases to apply.

SIFEM includes a forward-looking element into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of Expected Credit Loss (ECL). The proprietary risk scoring model uses a set of input variables which serves as a proxy for early indication of increased risk such as increased financial and operating risks of the borrower, but also macroeconomic and market infrastructure risks in the country or region concerned. A deterioration in an investee's risk score is likely to signal an increase in the credit risk for that same borrower, hence a decrease in the risk score can be read as an early indication for an increased risk.

For the measurement of an investments total risk score, forward-looking macro-economic indicators, namely the long-term economic risk and long-term political risk, are considered among other factors, whereby the forward-looking indicators are substantially over-weighted in the calculation of an investments total risk score.

Credit impaired financial assets

The threshold at which a financial asset becomes "credit impaired" (i.e. is moved from stage 2 to stage 3) is triggered if any of the following causes is recognized for a financial asset:

i. Arrears in interest or principle payments larger than 90 days
ii. Material covenant breaches
iii. Distressed restructuring with material NPV loss
iv. Principal or interest write-off realized or imminent
v. Bankruptcy filed for, or imminent for the borrower
vi. Qualitative aspects as assessed by the Audit Committee such as specific knowledge about internal issues at a borrower or progress on plans to solve such issues

If one or more of the six factors is triggered, an asset may be considered as defaulted. In this case, the Audit Committee of SIFEM would either decide to move the financial asset under concern to Stage 3 unless there are good reasons that justify the rebuttal of this presumption in accordance with IFRS 9.

An asset is moved back from Stage 3 to Stage 2 if none of the six factors as defined above continues to indicate potential default.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. For financial assets in stage 2 and 3, SIFEM calculates a "Lifetime Expected Credit Loss", which is based on the PD over the remaining lifetime of each individual financial asset and then discounted at the appropriate discount rate, which is the asset's original effective interest rate.

Inputs, assumptions and estimation techniques

Since data on Probabilities of Default are difficult to obtain for certain regions of SIFEM's operations, input information for PDs must be estimated in many cases. For this, the latest available data from Standard & Poor's (S&P) Annual Global Corporate Default Study is being used as a basis. If a rating for a particular borrower is not available, an alternative rating source such as Moody's or Fitch are used and then translated in the nearest corresponding S&P rating. In case no rating of a major international rating agency is available for a particular borrower, a rating is estimated by using data from the borrower's closest peers.

Once a rating has been attributed to a borrower, the corresponding PD is derived from the latest available S&P Corporate Default Study.

Since there is no indicator for SIFEM that forward-looking Probabilities of Default are significantly different to historic PDs and therefore the ratings from agencies are considered to be reasonable basis to imply PDs for the portfolio of SIFEM. The PDs will be adjusted by an expert judgement however, if activities and forward-looking information according to the stage assessment above will indicate a higher or lower PD.

For financial assets in Stage 1, a 12-months PD is estimated using the above database. The same procedure applies to financial assets in stage 2. However, the PD in those cases is an estimate for the remaining lifetime of the financial asset. Finally, the PD for financial assets in Stage 3 is assumed to be 100 %.

Similar to the procedure for estimating the Probabilities of Default, the Loss Given Default is derived from historic data, whereby in this case most appropriate data-points from the latest available information as provided by Moody's Recovery Database is used.

SIFEM's maximum credit exposure at the reporting date is represented by the respective carrying amounts of the relevant financial assets and amounts to TCHF 344,817 as of 31 December 2019 (31 December 2018: TCHF 328,002).

Write-off

Financial assets are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when SIFEM determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Financial assets that are written off could still be subject to enforcement activities in order to comply with SIFEM's procedures for recovery of amounts due.

Credit quality analysis

Cash and cash equivalents

Cash Holdings at Credit Suisse and the Swiss National Bank have S&P (long-term) ratings of A and AAA, respectively, and hence are considered to be stage 1 assets with no material ECL.

Debt instruments – loss allowance

				2019	2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
for the year in '000 CHF					
Balance at 1 January	**78,557**	**0**	**0**	**78,557**	**59,346**
Transfer to Stage 1					
Transfer to Stage 2	−9,139	9,139		0	
Transfer to Stage 3					
Net remeasurement of loss allowance	−380	−1,484	9,683	7,819	−10,758
New financial assets acquired	38,163			38,163	38,446
Financial assets derecognised	−15,080		−2,944	−18,024	−9,165
Write-offs			−6,739	−6,739	
Effects of movements in exchange rates	−1,390			−1,390	688
Balance at 31 December	**90,731**	**7,655**	**0**	**98,386**	**78,557**

Other Receivables – loss allowance

Other Receivables are considered to be stage 1 assets with no material ECL.

Significant changes in gross carrying amounts

The following table provides an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in loss allowance.

IMPACT INCREASE / DECREASE	Stage 1	Stage 2	Stage 3	2019 Total	2018 Total
for the year in '000 CHF					
Cash and cash equivalents					0
Debt Instruments	13,944	9,139	−9,683	13,400	29,281
Other receivables					0

The net increase in debt instruments in stage 1 of TCHF 13,944 (2018: TCHF 29,281) contributed to the increase of the loss allowance by TCHF 311 (2018: TCHF 206).

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 provided 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	Gross amounts of recognised financial assets	Gross amounts of recognised financial assets off-set in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instru-ments (including non-cash collateral)	Collateral pledged used for netting	Net amount
in '000 CHF						
31 December 2019						
Derivative financial assets held for risk management	13,036	0	13,036	13,036	4,851	4,851
Total	**13,036**	**0**	**13,036**	**13,036**	**4,851**	**4,851**
31 December 2018						
Derivative financial assets held for risk management	14,106	0	14,106	14,106	4,939	4,939
Total	**14,106**	**0**	**14,106**	**14,106**	**4,939**	**4,939**

FINANCIAL LIABILITIES	Gross amounts of recognised financial assets	Gross amounts of recognised financial assets off-set in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instru-ments (including non-cash collateral)	Collateral pledged used for netting	Net amount
in '000 CHF						
31 December 2019						
Derivative financial liabilities held for risk management	12,973	0	12,973	13,036	0	−63
Total	**12,973**	**0**	**12,973**	**13,036**	**0**	**−63**
31 December 2018						
Derivative financial liabilities held for risk management	14,213	0	14,213	14,106	0	107
Total	**14,213**	**0**	**14,213**	**14,106**	**0**	**107**

Concentration of credit risk

Obviam 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 2019.

DEBT INSTRUMENTS

in '000 CHF	31.12.2019	31.12.2018
CARRYING AMOUNT		
Concentration by sector		
Banks and other financial intermediaries	89,773	67,325
Mezzanine funds	3,918	2,869
Debt funds	15,006	19,257
Total	**108,697**	**89,451**
Concentration by location		
Latin America	42,885	42,872
Asia	45,812	31,781
Central Eastern Europe (CEE) / Commonwealth of Independent States (CIS)	4,571	0
Africa	2,815	
Global / supranational	12,614	14,798
Total	**108,697**	**89,451**

Liquidity risk

Liquidity risk is the risk that SIFEM will fail to meet its financial obligations. The most important factors for determining the necessary liquidity are the expected settlement dates for the investment commitments of SIFEM, as well as the maturity dates of the loans in compliance with the loan conditions and the expected due dates for further contractual obligations.

Management of liquidity risk

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

The funds in which SIFEM invests do not typically call the total amount of committed capital in once and in particular not all funds are likely to call the maximum of committed capital at the same time. The business plan for new investments is based on the capital contributions 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. To maintain enough uncommitted capital in form of cash and cash equivalents, to meet the business plan targets, is a key aspect of the Cash Management policy.

The investment policy of SIFEM allows over-commitments only with a formal approval of the Board of Directors. The Board of Directors approved an over-commitment ratio of up to 6 % of total active commitments. As of December 31, 2019, SIFEM reached an over-commitment ratio of 1.91 % (31 December 2018: 0.5 %).

The Cash Management result is reviewed by the SIFEM Audit Committee on a regular basis.

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 2019					
Derivative financial liabilities held for risk management	12,973	–12,973	–12,973		
Other liabilities and accrued expenses	1,552	–1,552	–1,552		
Total	**14,525**	**–14,525**	**–14,525**	**0**	**0**
31 December 2018					
Derivative financial liabilities held for risk management	14,213	–14,213	–14,213		
Other liabilities and accrued expenses	1,104	–1,104	–1,104		
Total	**15,317**	**–15,317**	**–15,317**	**0**	**0**

This table outlines 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.

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 market risk management strategy is being driven by the investment objectives of promoting sustainable growth in the private sector of developing and emerging countries.

In order to manage the market risk Obviam 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.

All investment positions are monitored quarterly by Obviam, based on the financial reporting provided by the underlying investments. As part of the market risk management approach a yearly risk assessment is performed using the risk rating tool. In case of a major event, the risk rating will be adjusted to reflect the current inherent risk of the given investment.

A performance report is sent to the Board of Directors on a quarterly basis and a yearly risk report is issued to the shareholders.

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	31.12.2019	31.12.2018
Debt instruments	61,921	58,737
Fixed-rate instruments (assets)	**61,921**	**58,737**
Cash and cash equivalents	217,211	218,475
Debt instruments	46,776	30,714
Variable rate instruments (assets)	**263,987**	**249,189**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by TCHF 2,640 (31 December 2018: TCHF 2,492). 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	31.12.2019	31.12.2018
EUR	–2,097	–1,114
CHF	–595	–291
CNY	4,232	
Total net exposure	**1,540**	**–1,405**

The following sensitivity analysis shows the impact on the income statement should the CHF/USD, the EUR/USD, or the CNY/USD exchange rates change by 5 % in the applicable exchange rate at 31 December 2019 and 31 December 2018, with all other variables held constant:

INCOME IMPACT ON BALANCE SHEET ITEMS

in '000 CHF	31.12.2019	31.12.2018
EUR (sensitivity to USD changes)	+/– 105	+/– 56
CHF (sensitivity to USD changes)	+/– 30	+/– 15
CNY (sensitivity to USD changes)	+/– 212	

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	31.12.2019	31.12.2018
Equity instruments to banks and other financial intermediaries	6,933	2,873
Equity instruments to funds and other pooled investments	291,580	290,509
Total exposure in Equity Instruments	**298,513**	**293,382**

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 considering geography, type of investment instruments, currency, etc.

Operational risk

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.

6. CASH AND CASH EQUIVALENTS

in '000 CHF	31.12.2019	31.12.2018
Cash at Bank	217,211	218,475
Total cash and cash equivalent	**217,211**	**218,475**

Cash and cash equivalents are denominated in CHF (0.3 %), in USD (97.5 %), in EUR (0.3 %), and in CNY (1.9 %) as of 31 December 2019. (31 December 2018: CHF (0.2 %), in USD (98.8 %), in EUR (1.0 %)). TCHF 178,504 (31 December 2018: TCHF 182,444) 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

in '000 CHF	31.12.2019		31.12.2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign exchange contracts	13,036	12,973	14,106	14,213
Total derivative financial instruments	**13,036**	**12,973**	**14,106**	**14,213**

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

8. OTHER RECEIVABLES, PREPAYMENTS AND ACCRUED INCOME

At 31 December 2019, other receivables, prepayments and accrued income mainly include collaterals (TCHF 4,851), management costs reimbursement (TCHF 301) and accrued interest receivables (TCHF 639). At 31 December 2018, other receivables, prepayments and accrued income mainly included collaterals (TCHF 4,939), management costs reimbursement (TCHF 254) and accrued interest receivables (TCHF 689).

9. FINANCIAL INVESTMENTS

in '000 CHF	31.12.2019	31.12.2018
Equity instruments to banks and other financial intermediaries	6,933	2,873
Equity instruments to funds and other pooled investment vehicles	291,580	290,509
Equity investments	**298,513**	**293,382**
Debt instruments to banks and other financial intermediaries	88,238	71,230
Debt instruments to funds and other pooled investment vehicles	20,459	18,221
Debt investments	**108,697**	**89,451**
Total Financial Investments	**407,210**	**382,833**

Valuation of financial instruments

SIFEM's accounting policy on fair value measurement is disclosed in the accounting policies (note 3).

SIFEM measures fair value using a fair value hierarchy as described in note 3(d).

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

The table below analyses financial instruments 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 2019				
Derivative financial assets for risk management		13,036		13,036
Derivative financial liabilities for risk management		−12,973		−12,973
Equity instruments to banks and other financial intermediaries			6,933	6,933
Equity instruments to funds and other pooled investment vehicles		24,027	267,553	291,580
	0	**24,090**	**274,486**	**298,576**
31 December 2018				
Derivative financial assets for risk management		14,106		14,106
Derivative financial liabilities for risk management		−14,213		−14,213
Equity instruments to banks and other financial intermediaries			2,873	2,873
Equity instruments to funds and other pooled investment vehicles		26,329	264,180	290,509
	0	**26,222**	**267,053**	**293,275**

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

for the year in '000 CHF	Equity investments to Banks and other financial intermediaries	Equity investments to funds and other pooled investment vehicles	Total
Balance as at 1 January 2019	**2,873**	**264,180**	**267,053**
Total gains/losses recognised in profit or loss	514	−7,912	−7,398
Purchases	3,597	42,234	45,831
Sales		−26,438	−26,438
Transfer out of Level 3		165	165
Foreign currency exchange differences	−51	−4,676	−4,727
Balance as at 31 December 2019	**6,933**	**267,553**	**274,486**
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	514	−7,912	−7,398
Balance as at 1 January 2018	**4,173**	**243,078**	**247,251**
Total gains/losses recognised in profit or loss	−266	−10,903	−11,169
Purchases	9	−2,590	−2,581
Sales	245	53,859	54,104
Transfer out of Level 3	−1,337	−22,082	−23,419
Foreign currency exchange differences	49	2,818	2,867
Balance as at 31 December 2018	**2,873**	**264,180**	**267,053**
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	−257	−13,493	−13,750

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 2 and 3 fair values

Obviam undertakes a detailed process of multiple reviews before any fund value is accepted by the Board of Directors.

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. Discounts may be applied in case of enforceable restrictions attributable to the security that would impact the price a market participant would pay at the time of measurement.
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 funds advisory boards which is comprised of investor representatives, including Obviam Investment Managers acting as SIFEM's investment adviser, reviews and approves the NAV provided by the fund manager.

Valuations are included into the fund accounts and presented to the fund's auditors for audit, once they are approved by the advisory board.

In general, the NAV reported to SIFEM 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. Other reasons could also lead to adjustments to the NAV of a fund (special features of an investment agreement; subsequent events; changing economic or market conditions; NAV not determined in accordance with IFRS 13; etc.).

Further, SIFEM has various control procedures in place to ensure that the NAV of the underlying fund investments is calculated in a manner consistent with IFRS 13 (thorough due diligence and ongoing monitoring procedures; backtesting; qualifications in the fund auditor's report; etc.).

Before any of the valuations are entered into SIFEM's accounts, the Obviam CFO reviews and approves the fund's adjusted NAV. These are then submitted to the SIFEM Audit Committee, which is comprised of experienced investment professionals who review and challenge Obviam on the valuations. This includes a review of the valuation material and methodology, as well as discussions with Obviam Investment Managers, where needed. Based on this review, the adjusted NAV could be revised if needed. Once approved by the Audit Committee, the valuations are presented to the SIFEM Board of Directors for final confirmation and 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

The Swiss Confederation had granted SIFEM four interest-free loans which were measured at amortised cost. A discount rate of 1 % was applied to determine the present value of all loans, as IFRS requires initial recognition at fair value and the fair value of an interest free loan equals the present value of all future cash flows. The application of the effective interest method resulted in an interest expense of TCHF 1,250 in 2018.

A total amount of TCHF 14,462 was capitalised as equity in 2015 to cover amortisations over the entire period of the loans. At the occasion of the share capital increase with offset of these loans on 2 May 2018, the remaining amount of this amortisation of TCHF 4,979 was eliminated from the equity. For more information, please refer to notes 5 – Financial risk management and 19 – Related party transactions.

11. EQUITY

Share capital

On 31 December 2019, the number of outstanding shares amounted to 58,444,401 with a nominal value of CHF 10 each (31 December 2018: 55,444,401 with a nominal value of CHF 10 each). As per 31 December 2019 SIFEM did not hold any treasury shares (31 December 2018: 0). All shares issued by the Company were fully paid in.

In 2011, 2012, 2015, 2016, 2018 and 2019 SIFEM has received capital contributions (share capital and shareholder loans) from its shareholder. In 2018, all shareholder loans have been converted into equity for an amount of TCHF 374,444, while at the same time SIFEM has received an additional injection of TCHF 30,000. In 2019, the share capital has been raised by another TCHF 30,000 bringing the total share capital to TCHF 584,444.

Dividends

The amount available for dividend distribution is based on the available distributable retained earnings of SIFEM AG, determined in accordance with the legal provisions of the Swiss Code of Obligations (CO). The Company did not distribute a dividend in 2019 neither in 2018 and it is not expected that SIFEM will do so in the near future.

Capital reserve

The capital reserve mainly 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.

Retained Earnings

1 % emission tax in the amount of CHF 300,000 (2018: 4,044,440) in connection with the increase in share capital was deducted as transaction costs from retained earnings according to IAS 32.39.

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	2019	2018
Interest income from cash and cash equivalents	3,965	3,446
Interest income from investments	5,933	5,900
Total interest income	**9,898**	**9,346**

At 31 December 2019, an amount of TCHF 639 (2018: TCHF 689) has not been received yet in cash and is included in other receivables, prepayments and accrued income. The amounts reported have been calculated using the effective interest method.

13. INVESTMENT MANAGEMENT COSTS

The investment management costs contain fees invoiced by Obviam for Portfolio Management, Business Management, bonus accruals and VAT on those charges. SIFEM has delegated these functions to Obviam.

14. ADMINISTRATION AND CUSTODIAN FEES

Administration and custodian fees mainly consist of expenses paid for administration and custodian services to the custodian bank. The administration fee for the financial year 2019 amounted to TCHF 237 (2018: TCHF 218) and the custodian fee for the financial year 2019 amounted to TCHF 177 (2018: TCHF 133).

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

for the year in '000 CHF	2019	2018
Realized gain from derivative financial instruments	832	1,592
Realized loss from derivative financial instruments	–106	–430
Increase/-decrease in fair value from derivative financial instruments	109	–107
Net income from derivative financial instruments	**835**	**1,055**

16. NET FOREIGN EXCHANGE GAINS / LOSSES

for the year in '000 CHF	2019	2018
Net foreign exchange gain/-loss from cash and cash equivalents	–426	–172
Net foreign exchange gain/-loss from debt instruments	–205	–467
Total net foreign exchange gains/-losses	**–631**	**–639**

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

for the year in '000 CHF	2019	2018
Increase in fair value of equity instruments	2,820	1,880
Increase in fair value of debt instruments	102	635
Decrease in fair value of equity instruments	–12,397	–38,259
Decrease in fair value of debt instruments	–7,125	–226
Net changes in fair value of financial assets at fair value through profit or loss	**–16,600**	**–35,970**

18. FINANCIAL INCOME / EXPENSE

for the year in '000 CHF	2019	2018
Foreign exchange gain	4	9,096
Financial income	**4**	**9,096**
Interest expense	0	–1,250
Foreign exchange loss	–3	–132
Financial expense	**1**	**–1,382**

Foreign exchange gain in 2019 arises from exchange differences applying the exchange rate as of the balance sheet date. The foreign exchange gain of the previous year arises from the application of the effective interest rate method (refer to note 10).

Interest expense in 2018 arises from the application of the effective interest rate method on the shareholder loans (refer to note 10).

Foreign exchange loss in 2019 arises from exchange differences applying the exchange rate as of the balance sheet date. In the previous year a foreign exchange loss arose from the shareholder loans granted in Swiss Francs.

19. LOSS ALLOWANCE ON FINANCIAL INSTRUMENTS

The loss allowance on financial instruments measures the net effect on profit and loss of the provisioning taken on debt investments and the release of such provisioning. In 2019, the release of the significant loss allowance for one specific investment lead to a large net positive change in SIFEM's loss allowance.

20. RELATED PARTY TRANSACTIONS

Shareholder

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

The Swiss Confederation granted SIFEM interest-free loans which have been offset and converted into equity in connection with the capital increase on 2 May 2018 (refer to note 10 and 11).

SIFEM holds a deposit account with the Swiss National Bank (refer to note 6). The interest rate is at arm's length.

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

Portfolio and business manager

SIFEM appointed Obviam as its portfolio and business manager as result of a public tender. The compensation of Obviam is determined in accordance with the Management Agreement.

Obviam is compensated for the actual costs incurred, within a budget which is annually approved in advance by the Board of Directors. The management fees (excl. VAT, excl. bonuses and accruals) paid for the financial year 2019 amounted to TCHF 7,987 (2018: TCHF 7,524). This corresponds to 0.98 % of total active commitments (2018: 0.98 %). The investment management costs (incl. VAT, bonuses and accruals) paid for the financial year 2019 amounted to TCHF 9,502 (2018: TCHF 8,739). 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 costs, administration and custodian fees, personnel expenses, administration expenses and advertising expenses) in 2019 amounts to 1.33 % (2018: 1.29 %) of SIFEM's total active commitments as of 31 December. 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 54,000 in 2019 (2018: CHF 44,000). This consists of a base compensation of CHF 30,000 (2018: 30,000) for his role as Chairman of the Board and CHF 24,000 (2018: 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 (2018: CHF 22,100). Members of the Investment Committee received an additional compensation of CHF 20,400 (2018: CHF 11,900) and Members of the Audit Committee received an additional compensation of CHF 13,600 (2018: CHF 8,500).

21. CAPITAL COMMITMENTS

As of 31 December 2019 the Company had capital commitments with debt- and equity instruments which were not yet called by the relevant fund managers for TCHF 232,699 (31 December 2018: TCHF 221,891).

22. SUBSEQUENT EVENT

No events occurred between 31 December 2019 and 5th of March 2020 that would require adjustments to the amounts recognised in these financial statements or would need to be disclosed under this heading.


Vitalait

2019 – SWISS CODE OF OBLIGATIONS – FINANCIAL STATEMENTS

Phone +41 44 444 37 08
Fax +41 44 444 35 35
www.bdo.ch
franco.straub@bdo.ch

BDO Ltd
Schiffbaustrasse 2
8031 Zurich

REPORT OF THE STATUTORY AUDITOR
To the General Meeting of

SIFEM AG, Berne

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, the income statement and notes for the year ended as of 31 December 2019.

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 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 2019 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 recommend that the financial statements submitted to you be approved.

Zurich, 5 March 2020

BDO Ltd

Franco A. Straub	Marc Escher
Auditor in Charge	
Licensed Audit Expert	Licensed Audit Expert

BALANCE SHEET

in CHF	NOTE	31.12.2019		31.12.2018	
ASSETS					
Current assets					
Cash and cash equivalents	1	217,210,675	37.5 %	218,474,832	39.6 %
Other current receivables	2	4,909,405	0.8 %	4,986,188	0.9 %
Accrued income and prepaid expenses	3	968,575	0.2 %	983,848	0.2 %
Total current assets		**223,088,655**	**38.5 %**	**224,444,868**	**40.7 %**
Non-current assets					
Financial assets	4	330,902,501	57.1 %	295,309,111	53.6 %
Shareholdings	5	25,977,714	4.5 %	31,362,605	5.7 %
Total non-current assets		**356,880,215**	**61.6 %**	**326,671,716**	**59.3 %**
TOTAL ASSETS		**579,968,870**	**100.0 %**	**551,116,584**	**100.0 %**
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Short-term liabilities					
Other current liabilities	6	63,425	0.0 %	117,551	0.0 %
Deferred income and accrued expenses	7	374,435	0.1 %	600,053	0.1 %
Total short-term liabilities		**437,860**	**0.1 %**	**717,604**	**0.1 %**
Long-term liabilities					
Provisions including retained bonus		1,142,560	0.2 %	528,543	0.1 %
Total long-term liabilities		**1,142,560**	**0.2 %**	**528,543**	**0.1 %**
Total Liabilities		**1,580,420**	**0.3 %**	**1,246,147**	**0.2 %**
Shareholders' Equity					
Share capital	8	584,444,010	100.8 %	554,444,010	100.6 %
General legal retained earnings		1,096,430	0.2 %	1,096,430	0.2 %
Voluntary retained earnings' – Results carried forward		–7,151,990	–1.2 %	–5,670,003	–1.0 %
Total shareholders' equity		**578,388,450**	**99.7 %**	**549,870,437**	**99.8 %**
Total liabilities and Shareholders' Equity		**579,968,870**	**100.0 %**	**551,116,584**	**100.0 %**

INCOME STATEMENT

for the year in CHF	NOTE	2019	2018
Net proceeds from sales of services	**9**	**36,286**	**39,707**
Costs for third party services		−9,502,034	−8,738,908
Staff costs	10	−450,134	−321,530
Other operational costs	11	−829,488	−4,695,404
Earnings before interests and taxes		**−10,745,370**	**−13,716,135**
Financial result general	12	3,119,573	11,998,557
Financial result from financial assets and shareholdings	13	16,651,957	−3,299,990
Financial result from derivative financial instruments	14	769,618	1,055,140
Earnings before currency translation and taxes		**9,795,778**	**−3,962,428**
Result from currency translation from functional currency (USD) to reporting currency		−11,277,764	−3,349,299
Loss for the year		**−1,481,986**	**−7,311,727**

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	31.12.2019	31.12.2018
1 Cash and cash equivalents		
Cash at banks	217,210,675	218,474,832
Total	**217,210,675**	**218,474,832**
2 Other current receivables		
Receivables from investment transactions	18,156	0
Collaterals	4,851,090	4,938,504
Withholding tax receivables	39,425	47,118
Other current receivables	734	566
Total	**4,909,405**	**4,986,188**
3 Accrued income and prepaid expenses		
Prepaid expenses	329,117	294,702
Accrued income	639,458	689,146
Total	**968,575**	**983,848**
4 Financial assets		
Equity instruments	223,377,523	207,455,446
Debt instruments	107,524,978	87,853,665
Total	**330,902,501**	**295,309,111**

5 Shareholdings

Company/ Domicile	Share capital in local currency 31.12.2019		Share capital in local currency 31.12.2018		Holding of capital and votings in % 31.12.2019	Holding of capital and votings in % 31.12.2018	Book value in CHF 31.12.2019	Book value in CHF 31.12.2018
Sino Swiss Partnership Fund	CNY	197,302,502	CNY	197,302,502	70.19 %	70.19 %	12,907,050	13,331,009
SwissTec Venture Capital Fund	USD	14,026	USD	14,026	99.99 %	99.99 %	562,998	610,299
SEAF CEE Growth Fund	USD	2,882,925	USD	2,882,925	20.81 %	20.81 %	13,349	111,976
Fidelity Equity Fund I	USD	1,358,089	USD	1,358,089	47.06 %	47.06 %	–	–
SEAF South Balkan Fund	EUR	6,601,774	EUR	6,601,774	30.52 %	30.52 %	1,748,074	1,709,141
SEAF Blue Waters Growth Fund	USD	17,963,815	USD	17,963,815	28.00 %	28.00 %	–	–
Aureos Latin America Fund II	USD	36,795,441	USD	36,795,441	28.29 %	28.29 %	2,858,958	2,977,509
Altra Private Equity Fund I	USD	4,781,033	USD	4,781,033	43.11 %	43.11 %	41,746	42,499
SEAF Trans Andean Fund	USD	12,442,481	USD	12,442,481	39.62 %	39.62 %	–	–
SEAF LATAM Growth Fund	USD	14,220,612	USD	14,220,612	41.18 %	41.18 %	1,809,545	1,520,138
Kaizen Private Equity	USD	30,039,512	USD	30,039,512	22.81 %	22.81 %	6,035,994	6,131,036
CVCSI	USD	–	USD	5,000,000	0.00 %	100.00 %	–	4,928,998
TOTAL							25,977,714	31,362,605

in CHF	31.12.2019	31.12.2018
6 Other current liabilities		
Other current liabilities	46,464	138
Social insurances liabilities	12,202	4,534
Liabilities due to pension scheme	1,533	1,290
Liabilities due to authorities	3,226	4,888
Provision for foreign exchange forward contracts	–	106,700
Total	**63,425**	**117,550**
7 Deferred income and accrued expenses		
Accrued expenses	374,435	600,053
Total	**374,435**	**600,053**

8 Share capital

The share capital consists of 58,444,401 shares with a nominal value of CHF 10 each (31.12.2018 55,444,401 shares with a nominal value of CHF 10 each).

In connection with the capital increase as of 2 May 2018 long–term liabilites in the amount of CHF 374,444,018 have been offset.

for the year in CHF	2019	2018
9 Net proceeds from sales services		
Income from fund retrocessions	36,286	39,707
Total	**36,286**	**39,707**
10 Staff costs		
Salaries and wages	–18,830	–22,720
Board compensation	–315,136	–252,351
Social security and pension costs	–27,549	–22,696
Other personnel costs	–88,619	–23,763
Total	**–450,134**	**–321,530**

for the year in CHF	2019	2018
11 Other operational costs		
Insurance premiums	–13,350	–13,780
Accounting and payroll expenses	–185,001	–197,815
Audit expenses	–63,619	–78,319
Other administration expenses	–409,303	–4,243,626
Stamp duty	–60,088	–87,486
Sponsorship and membership contributions	–98,128	–74,377
Total	**–829,488**	**–4,695,404**

Other administration expenses include the emission duty of CHF 300,000 on the capital increase of 14 May 2019 (2018: CHF4,044,440). Audit expenses in 2018 consists of CHF 66,320 for audit services and CHF 11,999 for other services.

12 Financial result general		
Interest income	3,980,204	3,467,102
Interest expenses	–15,277	–21,429
Bank charges	–421,073	–358,041
Foreign exchange gains	1,879	9,184,203
Foreign exchange losses	–426,160	–273,278
Total	**3,119,573**	**11,998,557**

13 Financial result from financial assets and shareholdings		
Interest income from financial assets	5,933,296	5,900,287
Distributions and dividends	14,419,326	14,796,636
Expenses	–19,898	–327,753
Capital gains	529,301	100,668
Capital losses	–3,349,981	–23,297,336
Foreign exchange gains	–562,625	570,388
Foreign exchange losses	–297,462	–1,042,880
Total	**16,651,957**	**–3,299,990**

14 Financial result from derivative financial instruments		
Capital gains	766,417	1,592,387
Capital losses	3,201	–537,247
Total	**769,618**	**1,055,140**

FURTHER INFORMATION

15 Fulltime employees

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

16 Disclosure of derivative financial instruments

in CHF	31.12.2019	31.12.2018
Foreign exchange forward contracts (long)	13,035,546	14,106,176
Foreign exchange forward contracts (short)	−13,035,546	−14,212,876
Total (included in other current liabilities – s. Note 6)	**–**	**−106,700**

17 Collateral

Assets pledged to secure own losses on derivative financial instruments amount to CHF 4,851,090 (31.12.2018: CHF 4,938,504).

18 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.

19 Outstanding capital commitments

	31.12.2019		31.12.2018	
Debt investments				
Amret / Loan	USD	1	USD	1
CAMIF II / Loan	USD	891,000	USD	2,042,000
Cooperativa Pacifico (Loan)	USD	0	USD	3,000,000
E + Co, / Loan	USD	2,300,000	USD	2,300,000
European Financing Partners / Loan (EFP II) European Financing Partners / Loan (EFP III) European Financing Partners / Loan (EFP IV)	EUR	5,295,467	EUR	5,309,680
Interact Climate Change Facility / Loan	EUR	12,774,545	EUR	14,785,532
Social Investment Fund 6.0	USD	2,500,000	USD	5,000,000
Bank of Georgia	USD	5,240,187		
Microfinance Organization KMF	USD	10,000,000		
Victoria Comercial Bank / Loan	USD	7,000,000		
Equity investments				
7L Capital Partners Emerging Europe	EUR	25,059	EUR	25,059
Abraaj Global Credit Fund	USD	7,733,005	USD	7,755,434
Abraaj North Africa II	USD	1,648,642	USD	1,851,613
Adenia Capital IV	EUR	5,682,434	EUR	6,463,786
Africa Forestry Fund II	USD	5,552,012	USD	6,774,437
AfricInvest Fund II	EUR	205,000	EUR	242,000
AfricInvest Fund III	EUR	969,033	EUR	1,043,315
agRIF / Shares	USD	664,170	USD	745,154
Amethis Maghreb Fund I	EUR	1,479,219	EUR	1,661,619
Apis Growth Fund I	USD	2,110,370	USD	2,053,108
Armstrong South East Asia Clean Energy Fund	USD	347,671	USD	507,015
Ashmore Andean Fund II	USD	2,686,124	USD	4,421,469
Aureos East Africa Fund	USD	62,751	USD	62,751

		31.12.2019		31.12.2018
Equity investments continued				
BioVeda China Fund III	USD	205,233	USD	262,839
BTS India Private Equity Fund	USD	1,881,635	USD	1,881,635
BPI East Africa	USD	822,516	USD	1,385,541
Cambodia-Laos Development Fund	USD	139,993	USD	139,993
Cambodia-Laos-Myanmar Development Fund II	USD	860,433	USD	1,953,412
CAMIF II / Equity	USD	891,412	USD	2,042,062
Capital North Africa Venture Fund	EUR	767,545	EUR	767,545
Capsquare Asia Partners Fund II	USD	6,796,924	USD	7,126,388
Catalyst Fund I	USD	83	USD	83
Catalyst Fund II	USD	4,175,115	USD	5,487,253
Central American Small Enterprise Investment Fund II	USD	529,495	USD	529,495
Central American Small Enterprise Investment Fund III	USD	1,533,196	USD	2,421,196
CoreCo Central America Fund I	USD	316,690	USD	399,661
Darby Latin American Private Debt Fund III	USD	7,048,684	USD	7,048,684
Ethos Mezzanine Partners III	USD	8,062,586	USD	8,045,908
Europe Virgin Fund	USD	897,086	USD	897,086
EV Amadeus Asian Clean Energy Fund	USD	5,387,798	USD	5,387,798
Evolution II	USD	6,815,062	USD	6,459,358
Evolution One	USD	85,611	USD	113,257
Falcon House Partners Indonesia Fund I	USD	1	USD	102,024
Fidelity Equity Fund II	USD	883,820	USD	883,820
Frontier Energy II	USD	5,850,980	USD	6,350,566
GEF Africa Sustainable Forestry Fund	USD	183	USD	20,308
Growth Capital Partners (Lok III)	USD	1,708,741	USD	3,914,016
Horizon Fund III	ZAR	4,319,757	ZAR	3,952,979
IFHA II	USD	3,817,233	USD	5,060,387
JS Private Equity Fund I	USD	5,278,483	USD	5,288,905
Kaizen Private Equity Fund II	USD	3,699,660	USD	5,850,060
Kendall Court Mezzanine Fund	USD	205,480	USD	236,158
Latin Renewables Infrastructure Fund	USD	860,508	USD	1,109,939
Maghreb Private Equity Fund II	EUR	15,709	EUR	15,709
Maghreb Private Equity Fund III	EUR	579,577	EUR	811,178
Maghreb Private Equity Fund IV	EUR	6,529,367	EUR	7,722,133
Medu Capital Fund III	USD	1,002,014	USD	2,228,527
Mongolia Opportunities Fund I	USD	916,386	USD	991,810
Omnivore Fund II	USD	5,559,356	USD	7,000,000
Progression Eastern African Microfinance Equity Fund	USD	1,100,610	USD	1,140,531
rABOP	USD	510,917	USD	510,917
Renewable Energy Asia Fund II	USD	498,060	USD	2,536,059
South Asia Growth Fund II	USD	7,357,383	USD	10,000,000
Synergy Private Equity Fund	USD	416,542	USD	581,807
Synergy Private Equity Fund II	USD	7,306,161	USD	9,032,880
Vantage Mezzanine Fund	ZAR	–	ZAR	2,379,545
Vantage III Pan African Fund	USD	2,152,002	USD	2,575,188
Vantage III Southern African Fund	ZAR	45,566,166	ZAR	45,566,165
VenturEast Proactive Fund	USD	–7,309	USD	–7,309
VenturEast Proactive Fund II	USD	4,485,917	USD	5,333,917
VI (Vietnam Investments) Fund I	USD	1	USD	1
VI (Vietnam Investments) Fund II	USD	632,355	USD	632,355

		31.12.2019		31.12.2018
Equity investments continued				
Cathay Africinvest Innovation Fund	EUR	4,773,343		
BioVeda Realization Fund	USD	438,977		
African Development Partners III	USD	15,000,000		
Excelsior Capital Vietnam Partners	USD	12,000,000		
Navegar II	USD	14,286,266		
Shareholdings				
Altra Private Equity Fund I	USD	1	USD	1
Aureos Latin America Fund II	USD	9,500	USD	9,500
CVCSI / B Share		–	USD	15,000,000
Fidelity Equity Fund I		–	USD	500
Kaizen Private Equity		–	USD	225,585
Kaizen Private Equity Fund II		–		–
SEAF Blue Waters Growth Fund		–	USD	570,132
SEAF LATAM Growth Fund	USD	1,111,038	USD	1,132,040
SEAF South Balkan Fund	EUR	520,851	EUR	520,851
SEAF Trans Andean Fund		–	USD	70,329
VenturEast Proactive Fund II		–		–

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

in CHF	31.12.2019	31.12.2018
Retained earnings / -loss brought forward	–5,670,003	1,641,724
Net profit or -loss for the year	–1,481,986	–7,311,727
Available earnings / accumulated losses	**–7,151,990**	**–5,670,003**

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

To be carried forward	–7,151,990	–5,670,003
Total	**–7,151,990**	**–5,670,003**

ANNEX


kinley
TRUST IN EVERY DROP
Coca-Cola
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Coca-Cola
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TRUST IN EVERY DROP
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ANNEX 1: PERFORMANCE RESULTS AGAINST THE OPERATIONALISED OBJECTIVES FOR THE 2018–2020 STRATEGIC PERIOD

PART 1: PROGRAMME-RELATED OBJECTIVES

OBJECTIVE	TARGET	PERFORMANCE
SUSTAINABILITY	**a)** SIFEM commits all financial intermediaries to observe its Responsible Investment Policy[12] and requires those intermediaries to ensure compliance with that policy at the level of their respective investees and clients. Portfolio companies adhere to national regulations and work towards the adoption of the relevant international standards defined in the Responsible Investment Policy.	**On track:** All deals closed to date comply with the requirement. Of the nine investments made by SIFEM in 2019, one had an Environmental and Social Action Plan that was subsequently successfully completed within the agreed upon deadlines.
FINANCIAL ADDITIONALITY	**a)** At least 25 % of investments target least developed countries and other low income countries (rolling 3 year average).	**On track:** 29 % of SIFEM's deals closed in 2018–2019 are expected to result in investments in least developed countries or other low-income countries.
	b) At least half of the number of investment commitments of SIFEM AG serve to reach the 1st closing of the target funds.	**On track:** 67 % of SIFEM's deals closed in 2018–2019 served to reach the 1st closing of the target funds.
NON-FINANCIAL ADDITIONALITY	**a)** SIFEM provides guidance to financial intermediaries and facilitates access to technical assistance for financial intermediaries and portfolio companies on a case by case basis with a view to: • Strengthen the strategy and management capacities, in particular with regard to ESG standards, of financial intermediaries.	**Descriptive reporting (no target level):** Guidance and support were provided to financial intermediaries on E&S matters on a regular basis in 2019. Considerable internal resources were devoted to eight funds and financial institutions. Of these eight investments, one received technical assistance from SECO's Technical Assistance programme and another received support directly from Obviam.

[12] SIFEM invests only in funds and financial institutions that uphold high standards in environmental, social and corporate governance (ESG) and that also oblige their portfolio companies to uphold these standards. This is reflected in SIFEM's Responsible Investment Policy, available online at https://www.sifem.ch/our-task/investing-responsibly/

	b) • Strengthen the business management of portfolio companies, particularly in areas such as corporate governance, as well as environmental and social standards. • Promote skills development (1) among the employees of portfolio companies, (2) along a value chain of portfolio companies.	**Descriptive reporting (no target level):** 25 technical assistance interventions were approved in 2019, financed by the SIFEM Technical Assistance Facility. The investees of two funds and one financial institution benefited from these interventions, mainly in Central and South America.
LEVERAGE EFFECT	One USD invested by SIFEM mobilises at least 4 USD from private investors (i.e. excluding the contribution of other DFIs).	**On track:** Every USD 1 invested by SIFEM mobilised approximately USD 5 of private investment for the 2018–19 investments.
GEOGRAPHIC CONCENTRATION	100 % of SIFEM direct investments and at least 60 % of the indirect investments are made in priority countries or regions for Swiss development cooperation. Regional or global funds are deemed to be investments in focal countries if it can be assumed that on the basis of credible documentation and the information relating to the deal pipeline at least 50 % of the investments by the fund will be made in priority countries and regions of Swiss development cooperation (this share is set at 20 % for Sub-Saharan Africa).	**On track:** During the period 2018–19, 100 % of direct investments and 70 % of fund investments targeted SIFEM priority countries.

PART 2: TASKS AND COMPANY-RELATED OBJECTIVES

OBJECTIVE	TARGET	PERFORMANCE
EMPLOYMENT EFFECTS	**a)** SIFEM creates or maintains at least 10,000 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.	**On track:** SIFEM's pro rata share of new jobs created and sustained in the reporting year 2019 is 19,950 jobs. The average number of pro-rata jobs for both 2018 and 2019 is 15,000.[13]
	b) The number of jobs in the SIFEM portfolio companies increases by at least 6 % on a three-year average.	**On track:** The employment numbers in existing fund investees grew on average by 6 % per year between 2016 and 2018 (2017–2018: 8 %).[14]

[13] *Corrigendum:* The corresponding figure reported in the Annual Report 2018 has been revised, due to newly available information. The reported figure of 9,200 jobs should be replaced by 10,470.

[14] *Corrigendum:* The corresponding figure reported in the Annual Report 2018 has been revised, due to newly available information. The reported figure of 3 % job growth should be replaced by 4.5 %.

	c) All portfolio companies take the necessary steps to comply with labour regulations in line with the ILO core labour standards and the environmental, health and safety principles.	**On track:** 100 % of SIFEM's deals closed in 2018–2019, portfolio companies have committed to comply with SIFEM's Responsible Investment Policy (which refers to ILO core labour standards and to other applicable E&S standards including occupational health & safety) and are required to commit in turn their respective investees and clients to comply with that policy.
	d) Portfolio companies document their progress in achieving work safety targets beyond and above minimum legal requirements.	**On track:** In 2018–2019, SIFEM invested in ten funds, which have all committed to report year-on-year occupational, health and safety targets for their respective portfolio companies.
	e) Demonstrate the business case as well as the economic and societal benefits of investing in the quality of jobs.	**On track:** A research study on the contribution of SIFEM to the creation of more and better jobs in the manufacturing sector was conducted in 2019. While noting the context-specific nature of what constitutes job quality, the research supports the view that SIFEM's investments sustain the creation and maintenance of quality jobs over time.
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.	**On track:** 82 % of investments in SIFEM's total portfolio have received an ex-post development effects score of "good" or "very good" as per latest assessment during 2019.[15]
INSTRUMENT MIX	Total commitments and number of investments by country, sector (incl. micro finance, infrastructure) as well as number of firms receiving support.	See the data and charts on the investment mix in Section 3.2.
EFFECTIVENESS	SIFEM is an anchor fund investor and takes a seat on the funds' supervisory bodies (Advisory Board).	**On track:** SIFEM has secured a seat on the supervisory bodies of 100% of its fund deals closed in 2018 and 2019.
MOBILISATION	SIFEM directly leverages at least CHF 30 million from private and/or institutional investors on the 2018ff. capital increase from the Swiss Confederation.	**On track:** Obviam signed a "Memo-randum of Understanding" with one Swiss foundation for a new impact management mandate. This is expected to be turned into a formal agreement in 2020.

[15] *Corrigendum:* The corresponding figure reported in the Annual Report 2018 has been revised. The reported figure of 78 % should be replaced by 84 %. Last year's reported figure was based on a new methodology affecting the definition of one of the pillars of the rating system. In order to ensure consistency and comparability with the same methodology used in the last ten years, a reversion was made to the original methodology used up to 2017.

MONITORING	Report on the development effects in line with the SIFEM Impact Policy.	**On track:** The SIFEM published its new report "Investing in Sustainable Development" in 2019, focusing on climate investments. In 2018, the report focused on financial inclusion.
POSITIONING	**a)** Contribution to the target outcomes of the economic and trade measures under the 2017–2020 Dispatch on International Cooperation: – Target outcome „more and better jobs" + Number of jobs created or retained + Capital mobilised in USD – Target outcome „low-emission and climate-resilient economies" + Greenhouse gas emissions saved + Additional kilowatt hours from renewable energy	**Descriptive reporting (no target level):** The requested information is published in the Report "SIFEM-Investing in Sustainable Development" in 2019: • 830,000 jobs supported and created since 2005 (together with co-investors). • 5,470 GWh of clean energy produced and 6.1 million tons of CO_2 emissions avoided (together with co-investors). • More than USD 500 million private capital mobilised alongside SIFEM's fund investments in 2018–2019.
	b) Synergies with the economic development instruments of SECO, namely in the realm of local financial markets development and regulation and financial infrastructure.	**Descriptive reporting (no target level):** Regular interactions have taken place with SECO and local field offices in the context of due diligence and monitoring missions.
	c) Contribution in particular to the following UN Sustainable Development Goals: • 8.5. "(...) achieve full and productive employment and decent work for all women and men (...)" • 7a. "(...) promote investment in energy infrastructure and clean energy technology" • 17.3 "Mobilise additional financial resources for developing countries from multiple sources"	**Descriptive reporting (no target level):** Contributions to the SDGs: • SDG 8: 65 % of investments made in 2018–19 • SDG 7: 12 % of investments made in 2018–19 • SDG 17: 24 % of investments made in 2018–19 NB: all SIFEM investments identify a maximum of 3 SDGs per investment, where the expected SDG contribution is based on measurable evidence.
DEVELOPMENT	**a)** At least 30% of the commitments contribute to foster social inclusion (enabling affordable access to goods, services and jobs for poorer/disadvantaged segments of the local economies) and/or to the provision of global public goods such as climate protection, healthcare, education, food security and basic infrastructure.	**On track:** 53 % of SIFEM's investments closed in 2018–2019 contribute either to fostering social inclusion or to the provision of global public goods such as climate protection, healthcare, education, food security and basic infrastructure.
	b) As part of these commitments, at least 3 new investments are made in the field of climate protection.	**On track:** two of SIFEM's investments closed in 2018 were made in the field of climate protection. No new climate investment was closed in 2019, but there are at least two potential investments in the pipeline.

RISK POLICY	The proportion of the investments which are classified as high and very high risk projects is • less than 45 % for funds • less than 20 % for debt instruments	**On track:** • Funds: 42.9 % • Debt instruments: 7.7 %

PART 3: FINANCIAL OBJECTIVES

OBJECTIVE	TARGET	PERFORMANCE
OPERATING EFFICIENCY	Operating cost ceiling of 1.5 % of the active commitments.	**On track:** Total operating costs reached 1.3 % in 2019, i.e. below the ceiling of 1.5 %.
FINANCING	**a)** The operating costs of SIFEM and the new commitments can be met in full over the target period out of reflows from successfully concluded investments, uncommitted cash reserves and by way of over-commitment (according to the terms defined by the Federal Council on 14 May 2014).	**On track:** The sum of total operating costs and new commitments made in 2018–19 (CHF 192 million) was less than the over-commitment headroom including capital increases (CHF 110.3 million) and the reflows received in 2018–19 (CHF 110.5 million).
	b) The average annual reflows increase by at least 10 % compared to the average annual reflows between 2014–2017.	**On track:** 2018–19 average reflows are 36 % above the average reflows during the 2014–2017 period.
FINANCIAL RESULT	Positive operating result in accordance with IFRS.	**Off track:** Even with a positive operating result of CHF 5.1 million in 2019, the cumulative operating profit since 2018 is still negative at CHF −17.5 million.
INVESTMENTS	**a)** Internal Rate of Return exceeding 3 %. Value multiplier (Total Value over Paid-in) exceeding 1,15.	**On track:** IRR 6.0 %, TVPI 1.24
	b) At least 1–2 investment institutions should be selected for comparing the performance of SIFEM with other investment institutions.	**On track:** Two institutions were selected. Performance analysis is under way.

PART 4: COOPERATION ARRANGEMENTS

OBJECTIVE	TARGET	PERFORMANCE
NETWORKS	a) SIFEM actively participates in sector organisations (in particular EDFI and its working groups) with a view to contribute to increase harmonization of and progress in impact measurement and reporting.	**On track:** SIFEM actively contributed to different technical working groups in 2019. In particular, SIFEM co-chaired the EDFI harmonization task force in 2019, which has set an ambitious harmonization agenda for 2019–2020. See section 1.3.
	b) SIFEM considers membership in the International Aid Transparency Initiative (IATI).	**On track:** SIFEM has started to assess the technical requirements for IATI reporting.

ANNEX 2: RISK MANAGEMENT

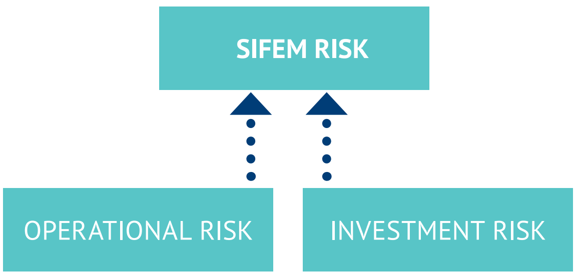
1. SIFEM RISK MANAGEMENT PRINCIPLES

Identifying, mitigating, monitoring, and managing operational and investment 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 adverse events is comparatively high.

SIFEM relies on a comprehensive Board-approved Manual of Procedures, which 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 A: 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.

2. OPERATIONAL RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

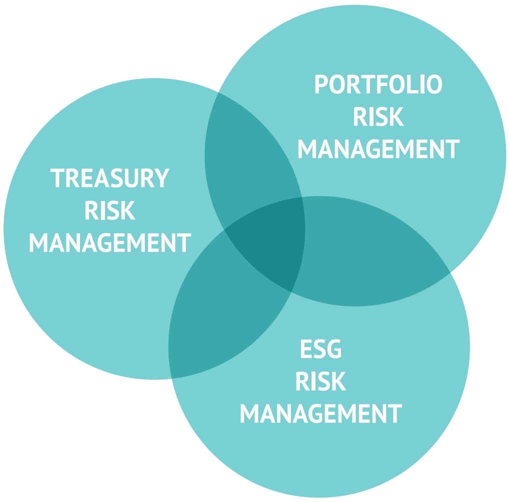
SIFEM is subject to a full audit conducted annually in accordance with the Swiss Code of Obligations. Since the 2008 revision of the Swiss Code of Obligations, companies undergoing a full audit are required to demonstrate the existence and quality of an Internal Control System (ICS). The Board of Directors 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.

3. 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.

FIGURE B: INVESTMENT RISK MANAGEMENT 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.

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. Each investment is rated on an annual basis. Comprehensive descriptions of the tool and of portfolio risk analysis are provided in Section 4.4 and Section 4.5 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. Periodic 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 mitigate currency risk.

ESG Risk Management

As a responsible investor, SIFEM is committed to investing in accordance with international best-practice ESG standards, in order to minimise 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 the quality of ESG management in SIFEM investments. 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). These plans govern the remediation of non-compliance within acceptable timeframes. Investees 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.

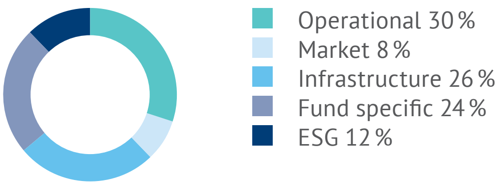
ESG risk ratings and other key information (including compliance status and serious incidents) are maintained in a Management Information System. Watch lists are periodically generated to track and monitor risks. The ESG risk profile of SIFEM's entire portfolio is generated annually.

4. PORTFOLIO RISK RATING TOOL

In 2012 Obviam developed and implemented a comprehensive in-house risk rating system for the SIFEM portfolio. The system includes different rating metrics for private equity funds, financial institutions (FIs), and debt funds in microfinance or other asset classes. It measures financial risk primarily, but it 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

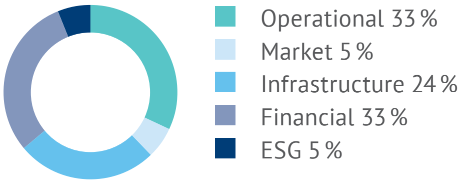
Figure C



These indicators are weighted and then aggregated 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 take into consideration the different risk profiles of SIFEM's investment instruments. To determine the risk score of direct investments in FIs, an alternative set of qualitative criteria is applied, which gives more weight to endogenous factors.

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

Figure D



The risk rating system is used throughout Obviam's investment process, with the 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.

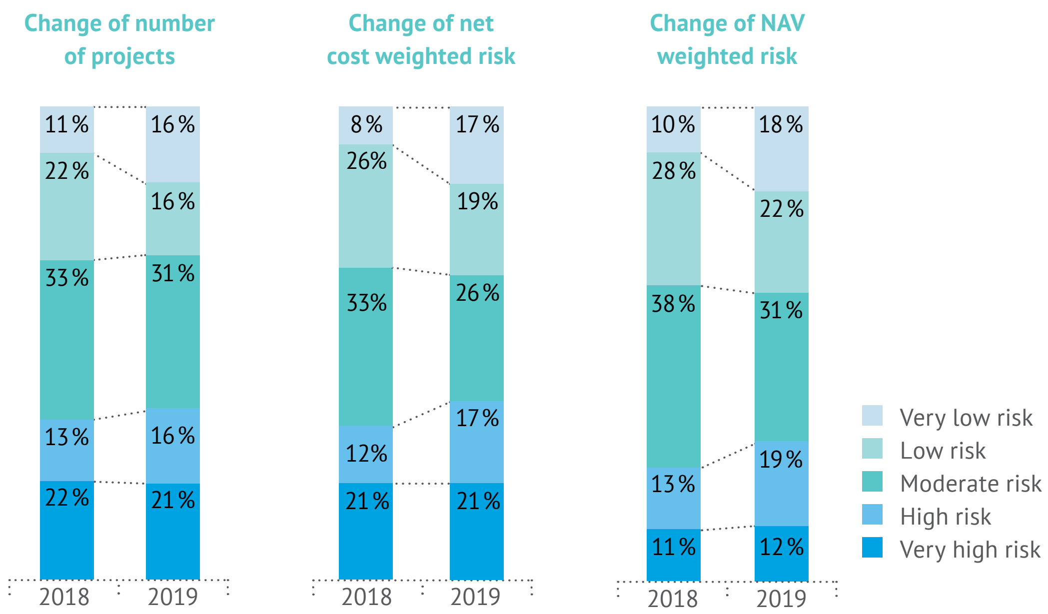
The individual rating of each investment is rescaled into a risk score ranging from 1 (very high risk) to 5 (very low risk). Risk scores of 4 or 5 classify an investment as low risk or even very low risk, respectively, while a risk score of 3 indicates a moderate risk. A risk score of 2 puts an investment 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.

5. SIFEM PORTFOLIO RISK RATINGS OVERVIEW 2019

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 a more forward-looking approach, since it determines the amount of remaining value that is at risk of being lost in the future.

When measuring the exposure to each risk category by weighing each investment by its NAV, the largest concentration falls within the moderate risk category. Risky projects tend to be more 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. In 2019 overall risk remained relatively balanced. A slight trend can be observed, however, away from moderate risk towards higher and lower risks. Compared to 2018, an overall increase in the risk weighted by NAV can be observed for high and very high risk projects. At the same time, however, projects with low and very low risk also increased in scope.

FIGURE E: CHANGE IN NUMBER OF PROJECTS, CHANGE OF NET COST WEIGHTED RISK, AND CHANGE OF NAV WEIGHTED RISK OF SIFEM PORTFOLIO PER RISK CATEGORY AS OF DECEMBER 2019



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 F, debt instruments overall have a lower risk profile, which partially offsets the higher risk born by equity investments.

FIGURE F: NUMBER OF SIFEM INVESTMENTS PER RISK CATEGORY AND INSTRUMENT AS OF DECEMBER 2019

Projects per risk category	Private Equity Funds		Pooled Debt Vehicles		Direct Debt Investments	
Very low risk	8	12 %	7	47 %		
Low risk	6	9 %	4	27 %	5	38 %
Moderate risk	20	31 %	3	20 %	6	46 %
High risk	14	21 %			1	8 %
Very high risk	18	27%	1	7%	1	8 %

Note: The percentages in the table have been rounded and therefore may not add up to 100 per cent.

An even more granular view on the risk allocation within the portfolio can be attained by again applying the different weighting approaches (cost vs. NAV), differentiating by type of financing instrument. Figure G 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.

Only if a debt instrument is provisioned, e.g. is moved to stage 2 or 3 under the IFRS 9 accounting standard, a change in risk category allocation occurs and a significant change in the NAV weighted risk could be observed. 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 substantially lowered, there is also less value at risk for future losses with respect to that particular investment.

FIGURE G: PROJECTS, NET COST AND NAV OF THE SIFEM PORTFOLIO AS A PERCENTAGE PER RISK CATEGORY AS OF DECEMBER 2019

Private Equity Funds	PROJECTS	COST	RESIDUAL VALUE
Very low risk	12 %	13 %	12 %
Low risk	9 %	12 %	15 %
Moderate risk	30 %	24 %	30 %
High risk	21 %	23 %	26 %
Very high risk	27 %	28 %	17 %
Pooled Debt Vehicles			
Very low risk	47 %	71 %	72 %
Low risk	27 %	15 %	14 %
Moderate risk	20 %	14 %	14 %
High risk			
Very high risk	7 %	1 %	0 %
Direct Debt			
Very low risk			
Low risk	38 %	41 %	45 %
Moderate risk	46 %	39 %	43 %
High risk	8 %	10 %	9 %
Very high risk	8 %	10 %	1 %

Note: The percentages in the table have been rounded and therefore may not add up to 100 per cent.

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 in SIFEM's average portfolio risk, regardless of the weighting approach applied.

Typically, the movements between risk categories are not significant, as most investments move by only one or two categories up or down at a time. As shown in the risk matrix below (Figure H), there were 28 projects that changed their risk category in 2019, out of which 13 displayed a deterioration and 15 an improvement. During the year, one project moved from the high-risk to the very high-risk category, while seven projects that were previously classified as moderate risk are now in the high-risk. Two projects moved from low risk, respectively, very low risk to the high risk category.

At the same time, three projects moved from high-risk to the moderate category and one to the low risk, three projects from the moderate-risk to the low-risk category and three to the very low-risk group and, finally, five projects went from low to very low risk.

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

2019 \ 2018 — 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	19	**1**	0	0	0	20	21%
2 High risk	1	0	5	**7**	**1**	**1**	15	16%
3 Moderate risk	5	0	**3**	18	**3**	0	29	31%
4 Low risk	2	0	**1**	**3**	9	0	15	16%
5 Very low risk	0	0	0	**3**	**5**	7	15	16%

GLOSSARY

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

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 of developing countries.

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

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.

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.

International Private Equity and 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.

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

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.

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

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

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

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

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.

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.

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 fair value of investments, and impairment losses on debt investments.

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

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.

LIST OF ABBREVIATIONS

AG	Swiss public limited company (Aktiengesellschaft)
Art.	Article
CDC	British DFI
CEE	Central and Eastern Europe
CGDF	Corporate Governance Development Framework
CHF	Swiss Franc
CNY	Chinese Yuan Renminbi
CIS	Commonwealth of Independent States
DE	Development Effectiveness/Effects
DEG	German DFI
DFI	Development Finance Institution
EAD	Exposure at default
EC	European Commission
ECL	Expected credit loss
EDFI	European Development Finance Institutions
E&S	Environmental and Social
ESG	Environmental, social and governance
EU	European Union
EUR	Euro
FDFA	Federal Department of Foreign Affairs
FI	Financial institution
FMO	Dutch DFI
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDP	Gross domestic product
GPR	Corporate policy project rating tool (developed by DEG)
IATI	International Aid Transparency Initiative
ICS	Internal Control System
ICT	Information and communication technology
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
LGD	Loss given default
LIC	Lower income countries
MENA	Middle East and North Africa
MFI	Microfinance institution
MSME	Micro small and medium-sized enterprise
NAV	Net asset value
No.	Number
NPV	Net present value
OCI	Other comprehensive income
OECD	Organisation for Economic Co-operation and Development
PD	Probability of default
PE	Private equity
PEF	Private equity fund
SCO	Swiss Code of Obligations
SDC	Swiss Agency for Development and Cooperation
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
SSPI	Solely payment of principal and interest
TA	Technical assistance
TVPI	Total value over paid-in capital
UN	United Nations
USD	United States Dollar
WTO	World Trade Organisation
ZAR	South African Rand

SIFEM AG
c/o Obviam DFI AG
Helvetiastrasse 17
P.O. Box
3000 Bern 6
Switzerland

info@sifem.ch
+41 31 310 09 30

www.sifem.ch

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Obviam, Bern

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Push'n'Pull, Bern

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