SIFEM
SWISS INVESTMENT FUND
FOR EMERGING MARKETS

ANNUAL REPORT 2018

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2018 FINANCIAL HIGHLIGHTS

	2018	2017
OPERATIONAL HIGHLIGHTS in USDm		
Commitments and cash flows		
Total commitments made to date	958.1	899.4
Total active commitments	782.0	757.1
Uncalled commitments	225.2	258.5
Cumulative paid-in capital to date	742.5	647.9
Cumulative reflows received to date	539.8	483.9
Cumulative net cash flow to date	–202.7	–164.0
New investment commitments	70.0	87.4
Reflows from investments	55.9	40.9
Investment Portfolio Valuation		
Residual value	388.4	377.0
Internal rate of return (%)	6.30 %	7.44 %
Total value over paid-in capital	125 %	133 %
Private finance mobilised		
Total private investor commitments advised by Obviam	123.5	123.5
New co-investments from private investors	5.3	7.8
FINANCIAL STATEMENT HIGHLIGHTS in CHFm		
Annual Results		
Investment profit/-loss	–12.5	45.0
Operating result	–22.5	36.7
Total comprehensive income	–17.0	7.8
Balance Sheet		
Balance sheet total	621.4	623.7
Cash and cash equivalents	218.5	233.5
Uncommitted capital	–3.5	–18.4
Financial assets	382.8	367.1
Long-term liabilities	0	368.2
Shareholder's equity	606.0	237.7
Equity ratio (%)	97.5 %	38.1 %

USD 70.0 m

NEW INVESTEMENT COMMITMENTS

CHF 382.8 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 2018.

2018
ANNUAL REVIEW

FOREWORD BY
JÖRG FRIEDEN

Dear reader,

During my first year in office as Chairman of SIFEM's Board, I have had the opportunity to learn more about the activities of SIFEM as implemented by Obviam, our investment manager. I am pleased to report that what I saw during the Board visit to Kenya and Tanzania, what I heard and discussed in Tunisia, Myanmar and Laos, and what I learned in the monthly investment committee meetings has confirmed the relevance and timeliness of SIFEM's contribution to Switzerland's international development cooperation. Indeed, SIFEM's investments are highly complementary to the efforts deployed by the Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (SECO).

In particular, I have been struck by two dimensions of SIFEM interventions. First, when managers of the funds in which we are invested are supported by financial resources, advice, and trust on the part of international partners, they are able to assist in the transformation of the organisation, technology, and products of the underlying enterprises in their portfolio. Second, done in the context of respect for high environmental and social standards, these changes unleash new opportunities for the employees and their communities, create additional and better jobs, and generate revenues for the investors and tax proceeds for the host states. The financial returns from these investments do not always correspond to expectations, and some ventures may even fail, but in the majority of cases the enterprises become financially sustainable and are able to grow on the basis of retained earnings. In this respect, the SIFEM model is an important complement to other forms of private-public partnership that depend on grants provided by donors or by the local public sector.

I dare to advance this proposition after a difficult year: during 2018, the world economy was affected by political uncertainty, increased interest rates, currency fluctuations, stock market volatility and the slow progression of international trade. All of these developments have taken their toll on the emerging markets in which SIFEM operates, especially on those which are the least developed. Additional difficulties have been imposed by the implosion of an important investment platform operating in the Middle East and Africa, and by the unfavorable evolution of some of the most advanced emerging economies. In such a challenging context, like many other investors, including some of the major players in international finance, SIFEM closed 2018 with an operational loss of CHF 22.5 million. The main source of this result is a significant reduction in value of the shares of an investment made in 1999, well before the establishment of SIFEM. For contractual reasons, it was not until mid-2018 that the SIFEM Board was in a position to start discussing a responsible exit strategy.

Confronted with this loss, which absorbs a large part of last year's record high operational profit (CHF 36.7 million), our Board has analysed the portfolio, its valuation, its present performance, and its perspectives. It has come to the conclusion that SIFEM's balance sheet is sound and that the investments approved over the past few years – barring dramatic changes in the world economy – will generate the returns expected by the stakeholders. I am therefore convinced that the CHF 30 million capital increase provided by the Swiss Government in 2018 and the other injection of capital already approved by the parliament for 2019 will have been put to good use and will generate both the development impact and the financial returns that the SIFEM model of development cooperation requires go hand in hand.

Yours faithfully,

Jörg Frieden
Chairman of the Board of SIFEM

FOREWORD BY **CLAUDE BARRAS**

Dear reader,

SIFEM operated in a challenging international context during the past year. The year 2018 has seen the emergence of storm clouds over the global economy: growth weakened, tensions in trading relationships remained high, and market volatility increased in developing and emerging markets, with some developing countries experiencing financial stress.

It is inevitable that this has affected the risk profile of SIFEM's investments as well as the market value of its investments. This year SIFEM recorded a total comprehensive loss of CHF 17 million. Yet excluding the negative impact of one legacy investment in Asia, SIFEM's operational results would have been marginally positive.

The good performance, with the exception of this one investment, confirms that the underlying investment strategy of SIFEM is working and that the portfolio is performing as anticipated. It is important to note also that the level of investment reflows (which are then re-injected into new investments) in 2018 has been much higher than the average annual reflows for the preceding strategic period 2014–2017.

In terms of new investments made in 2018, SIFEM committed a total of USD 70 million over eight projects. Almost 40 per cent of new investments were committed to funds active in least developed countries (LDCs), particularly in Sub-Saharan Africa. For instance, SIFEM invested in a private equity fund focusing on developing, constructing, and operating renewable energy generation projects in Eastern Africa. SIFEM also invested in three operations contributing to the financial inclusion of low-income clients in Latin America, Sub-Saharan Africa, and Asia. For instance, one of these investments is a fund providing capital to early stage companies in South Asia that develop breakthrough technologies for farmers in rural areas. Other examples of SIFEM's role in financial inclusion are available in the latest Development Impact Report published by SIFEM in November 2018. A summary of SIFEM's development effects is included in this report, but I encourage our readers to consult the various case studies on the SIFEM website (www.sifem.ch), which capture more comprehensively the development effects of SIFEM's investments.

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

A TOTAL OF APPROX. USD 958.1M HAS BEEN **INVESTED IN 132 INVESTMENTS TO DATE.**

SIFEM HAS INVESTED DIRECTLY AND INDIRECTLY IN **478 COMPANIES IN OVER 70 COUNTRIES.**

THE SIFEM PORTFOLIO, TOGETHER WITH ITS CO-FINANCIERS, HAS **SUPPORTED OVER 650,000 JOBS** (SINCE THE IMPLEMENTATION OF ITS DEVELOPMENT EFFECT MONITORING SYSTEM IN 2005).

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 (SME) and other fast-growing companies in developing and emerging countries, focusing on the priority countries of Switzerland's development cooperation. This helps to 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.

In 2018, SIFEM entered a new strategic period. 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, recognizing 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 business in developing and emerging countries, based on internationally recognised environmental, social, and governance standards;
- SIFEM contributes to strengthening 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 mobilizes 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 catalyzing knowledge and expertise, promoting social or environmental standards, or fostering good corporate governance or skills development.
- **Leverage effect:** SIFEM mobilizes 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 applied in developing and emerging countries, 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 maximizing 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 (by enabling increased access to affordable goods and services, and to jobs for disadvantaged segments of local economies) and/or tackle global challenges, including climate protection, 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 fully in line with the 2030 Agenda for Sustainable Development adopted by the United Nations in 2015 featuring 17 specific goals (Sustainable Development Goals – SDGs). These goals put great emphasis on a development model where the private and public sectors have complementary roles in supporting sustainable growth and improving lives.

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 indicators are collected for each investment to measure development effects, which can be aggregated at the portfolio level and reported to Parliament. These indicators are harmonised, to the extent possible, with other DFIs and with the standardised metrics developed by the impact investing community. 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 development impact report, based on data from the previous year. The next report is due in October 2019. An overview of the main development figures published in November 2018 is provided in Figure 1.

1.3 PERFORMANCE AGAINST OPERATIONALISED OBJECTIVES 2018–2020

SIFEM's financial performance and development impact are defined by a catalogue of strategic objectives, which is split into four thematic groups: (1) programme-related objectives with a particular focus on compliance with SIFEM's investment guiding principles; (2) company-related objectives and tasks based on SIFEM's ability to balance financial sustainability and development impact within its portfolio; (3) financial objectives related to SIFEM's long-term financial sustainability; and (4) objectives related to SIFEM's efforts to develop and sustain cooperation agreements with other DFIs.

The year 2018 marks the first year of implementation of the new strategic objectives assigned to SIFEM for the period 2018–2020. These objectives are similar to those defined in the previous strategic period, given the long-term nature of SIFEM's investments. They also come with more ambitious targets in terms of development effects, in line with the expected complementary contribution of SIFEM to the 2030 Agenda for Sustainable Development and its SDGs.

SIFEM is on the right track to meet most of its strategic objectives by 2020. To date, 29 of the 32 targets are on track to be met for the entire strategic period. Results are currently below target for job creation and the annual financial result. For the most recent reporting year (2017), the number of jobs supported by SIFEM stands at 9,200 on a pro-rata basis, just below the target of 10,000. Employment in the SIFEM portfolio companies grew by 3 percent in 2016–2017. Although still positive, this is significantly less than the previous years (2015–2016: 13 percent): the job growth in African and Latin American portfolio companies has been declining, mainly due to a few large companies experiencing difficulties. This is part of the volatility on a year-to-year basis that is to be expected. On the financial side, the operational result for 2018 shows a loss of CHF 22.5 million, which is mainly due to the sharp decline in the market value of one particular investment.

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

FIGURE 1: SIFEM DEVELOPMENT HIGHLIGHTS PUBLISHED IN THE 2017 DEVELOPMENT IMPACT REPORT

EMPLOYMENT
650,000 JOBS SUPPORTED AND CREATED SINCE 2005 (TOGETHER WITH INVESTMENT PARTNERS)

GENDER
40 % OF THE EMPLOYEES IN SIFEM PORTFOLIO COMPANIES ARE WOMEN (*)

TRAINING
80 % OF SIFEM PORTFOLIO COMPANIES PROVIDE TRAINING TO THEIR EMPLOYEES (*)

DOMESTIC REVENUE MOBILISATION
USD 770 MILLION IN TAXES PAID BY UNDERLYING PORTFOLIO COMPANIES IN TOTAL (*)

CLIMATE CHANGE MITIGATION
3,330 GWH OF CLEAN ENERGY PRODUCED AND 4.4 MILLION TONS OF CO_2 EMISSIONS AVOIDED (TOGETHER WITH INVESTMENT PARTNERS) IN 2017

ACCESS TO FINANCE
3.6 MILLION MICRO LOANS, 71,000 SME LOANS AND 105,000 HOUSING LOANS OUTSTANDING AS OF END 2017 AT THE LEVEL OF SIFEM PARTNER INSTITUTIONS AND THEIR UNDERLYING PORTFOLIO COMPANIES (*)

* For post-2013 investments as of end 2017
Note: “Investment partners” refer to co-investors

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

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 thus 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; and
- Contribute to achieving the Sustainable Development Goals.

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 flow 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 five EDFI working groups.

EDFI Board

DFIs are increasingly at the centre of development finance priorities; this increasing visibility poses significant opportunities and challenges for EDFI members. This situation strengthens the case for European DFIs to collaborate closely and to have a strong joint voice in the decisions that shape the development agenda. Against this background, the EDFI Board has identified three strategic focus areas for the period 2018–2020: (i) enhance opportunities for exchange and learning among members (ii) provide common representation to members on international policy issues and (iii) promote financing opportunities for members and partners.

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

- **EDFI Working Group on Environmental and Social Matters**
  Develops common standards in monitoring environmental practices, social practices and governance.
- **EDFI Task Force on Taxation**
  Develops principles on responsible taxation. The task force was led by Obviam's CEO, Claude Barras.
- **EDFI Working Group on Development Effectiveness**
  Develops ideas and initiatives to improve and harmonize the measurement and the evaluation of the development impact of EDFI institutions' investments, as well as for networking and general knowledge sharing.
- **EDFI Working Group on Technical Assistance**
  Allows EDFI members to share, via an informal platform, their experiences in the field of technical assistance, and thus facilitates the sharing of best-practice.
- **EDFI Working Group on Communication**
  Discusses challenges and highlights of the communication work at the level of member institutions.
- **DFI Working Group on Corporate Governance**
  Reviews progress on the implementation of the Corporate Governance Development Framework (CGDF) established in 2011, which is a common set of guidelines that 35 DFIs, including SIFEM, apply.
- **International Finance Institutions Working Group on Harmonization of Indicators**
  Comprises twelve members of EDFI, including SIFEM, and fifteen IFIs such as the IFC, the Asian Development Bank, and the African Development Bank.

2. CORPORATE GOVERNANCE

2.1 SIFEM'S LEGAL FRAMEWORK

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

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

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

2.2 CORPORATE STRUCTURE

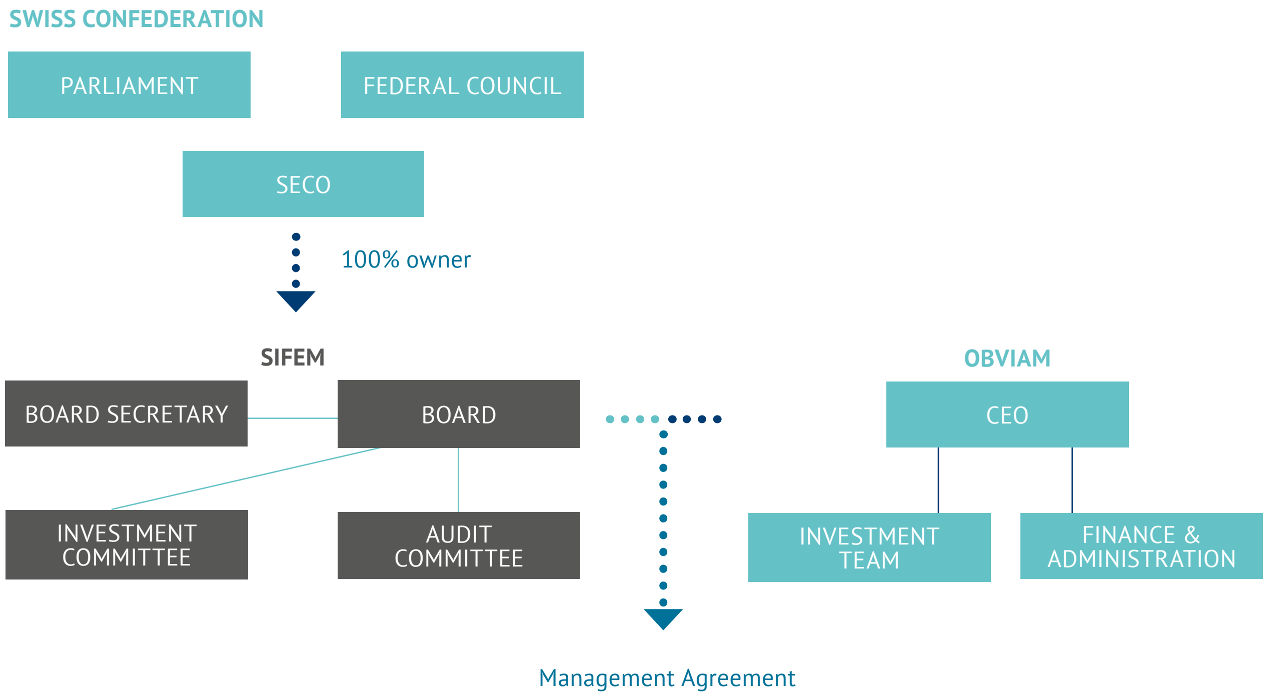
The Board of SIFEM is responsible for investment decisions and other executive management tasks. In accordance with its Organisational Regulations, the Board structure includes two committees: the Investment Committee and the Audit Committee. Investment and divestment decisions are delegated to the Investment 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 one 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 capitalizing on the know-how and quality networks acquired over the past years in the area of risk capital for emerging markets and developing economies.

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

FIGURE 2: SIFEM CORPORATE STRUCTURE AND GOVERNANCE



2.3 GOVERNANCE AND POLICY ACTIONS

Board

The board continuously reviews the performance of the underlying portfolio. Following the financial result achieved in 2018, the Board specifically analysed the reasons behind the loss, and concluded that it was mainly due to market volatility and some company restructurings, and that no strategic shift was needed at this time. Indeed, market volatility has negatively affected the valuation of some critical investments, which has led to negative unrealised gains. In addition, adverse exchange rate effects have added to total losses. The Board will continue to closely monitor SIFEM's financial performance in 2019 and assess whether any adjustments are needed in order to reduce the inherent volatility of SIFEM's financial results.

In 2018, the Board supervised the implementation of the 2018–2020 strategic objectives and focused on defining SIFEM's future strategic orientation in order to maximize its development impact. In particular, the Board launched an ambitious discussion aimed at sharpening SIFEM's development profile and positioning in the future. In this context, the Board reviewed SIFEM's role and contribution to building local capacity of fund managers and FIs, innovation, gender and to building private sector in LDCs and lower-income countries, and discussed possible priorities.

At the operational level, the SIFEM auditor mandate was formally awarded to BDO in March 2018, following a WTO tender process. Another third-party service provider contract (accounting mandate) will become due for retendering in 2019.

Investment Committee

In 2018, the Investment Committee met eight times to review investment proposals presented by Obviam. Concept approval was granted for thirteen new proposals, allowing Obviam to conduct due diligence on most of these deals and submit them to the Investment Committee for final approval. Nine transactions were submitted following due diligence and received final investment approval from the Investment Committee; eight transactions closed before year-end for a total of USD 70 million. For further details on the transactions closed during the year, see Section 3.1.

Audit Committee

The Audit Committee held five meetings in 2018 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. An audit of the billing system used by Obviam was also commissioned, which confirmed that all required controls were in place and that the split of billable hours between mandates was fully in compliance with the Management Agreement. The Audit Committee recommended that the Board approve SIFEM's 2018 financial accounts. As in previous years, ensuring that the portfolio is valued at fair market value was the overarching topic and absorbed much time. The Audit Committee also met with SIFEM's auditor and accountant to verify adherence to and compliance with internal controls and cash management policies.

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 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 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 Zürich.

Susanne Grossmann

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

Susanne Grossmann has been active in private sector finance in emerging markets and developing economies since 1999. From 2007–2014 she was Managing Partner at BTS Investment Advisors, a private equity fund advisor for investments in non-listed Indian small- and mid-sized companies. Today, Ms. Grossmann manages the Dalyan Foundation, a charitable foundation supporting women and children in India and Turkey. Since 2014, she is also a Managing Director at FinanceContact GmbH in charge of administering the SECO Start-Up Fund. She serves as 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 Zürich. 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, since 2011, Chair of the Audit Committee, since 2014

Dr. Julia Balandina Jaquier has 25 years of investment and strategic consulting experience, the last 15 of which have been focused on impact investing. She started her career at McKinsey and subsequently held senior positions at ABB Financial Services and AIG Global Investment Group, where she managed the AIG's European direct private equity business. In 2010, she founded an independent impact investment consultancy and has since served as a trusted adviser to major private, institutional and sovereign investors. Julia is a Senior Fellow and Advisory Board Member of the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich, where she leads the NextGen Impact Accelerator. She lectures on impact investment at IMD, St. Gallen University, Harvard, Yale and CEIBS. She also serves on the (advisory) boards of Unilever, FORE Partnership, toniic 100 and PYMWYMIC Field Building Center. She is also a member of the selection committee of Swiss Bluetec Bridge and member of the impact steering committee of Kieger, an independent wealth and asset manager.

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 Zürich. 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. She is also a member of the board of the Microfinance Investment Support Facility in Afghanistan.

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 at 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 Zürich. 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 member of the supervisory committee of Sustainable Finance Geneva. Angela de Wolff obtained a Master in economics from Lausanne University in 1989. She became a Certified European Financial Analyst (CEFA) in 2000.

2.5 COMPENSATION REPORT

Board Compensation

In 2018, the fixed annual compensation for the entire Board of SIFEM amounted to CHF 253,100, excluding social security contributions.

The Chairman of the Board received a total gross compensation of CHF 44,000 in 2018.[4] This consists of a base compensation of CHF 30,000 for his role as Chairman of the Board and CHF 14,000 for his role as Chairman of the Investment Committee.

[4] This amount was shared on a pro rata basis between the two Chairpersons active in 2018.

Excluding the Chairman, the other SIFEM Board members received on average CHF 35,000 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. Under this Agreement, Obviam is compensated within a budget that is approved annually in advance by the Board.

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

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

4.7 The amount of the Management Fee shall be calculated using an annual budget to be approved by the Board, consisting of the expected human resource and other portfolio management expenditure directly attributable to the services provided under this Agreement, and a pro-rata share of the general expenses (not directly attributable to any mandate) of the Obviam Group. For the avoidance of doubt, the share of general expenses to be borne by SIFEM shall be calculated in accordance with the pro-rata share of SIFEM's active commitments against the total active commitments on all mandates of the Obviam Group […].In preparing the annual budget, the Manager shall take into account the fees to be generated by engagements and mandates assigned to the Manager by any third party as well as the allocation of costs to a plurality of engagements and mandates. SIFEM will pay the Portfolio Manager an annual management fee (the "Management Fee") equal to an amount agreed before the end of the previous year by the Board and the Portfolio Manager.

The Board of SIFEM agreed to the annual budget proposed by Obviam for 2018 under the aforementioned Management Agreement. For the year 2018, the budget for Obviam was CHF 7.76 million, excluding VAT and accruals for variable compensation. The total management costs reached CHF 8.7 million, which represent 1.13 per cent of the SIFEM total active commitments as of year-end 2018. It is important to note that a certain volatility is to be expected in this ratio depending on changes in active commitments (including new commitment and exits) in a given calendar year.

The total actual expenses for operative costs of SIFEM amounted to CHF 10 million in 2018, which corresponds to 1.29 per cent of the total active commitments of SIFEM and which remains below the threshold of 1.5 per cent defined by the Federal Council. The corresponding 2017 figure was 1.12 per cent, but the calculation basis was slightly different: indeed, the new management contract which entered into force in July 2017 deployed its full effects only in 2018. The total actual spending on administrative costs encompasses all operating costs, including management expenses, other administrative expense items such as administration, custodian fees and Board compensation as well as regular stamp duty costs ("Umsatzabgabe" in German). Note, however, that the extraordinary stamp duty (CHF 4.04 million) levied on the conversion of the shareholder loan into equity implemented in 2018 ("Emissionsabgabe" in German) has been imputed to reserves, and not as an administrative expenditure.

Obviam has complied with Clause 4.17 of the Management Agreement:

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

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

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

In accordance with the above, the bonus for 2018 was retained in a blocked account.

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

- *One part of the annual bonus for 2018 was based on the performance against quantitative targets for the year. According to the mechanism established by the Board, Obviam's CEO was entitled to 82.5 per cent of his immediate bonus component for 2018, which amounts to 5.50 per cent of his annual fixed salary. The immediate bonuses of individual Obviam staff members are determined by the CEO from the CEO annual bonus, subject to a cap of 6.67 per cent of individual annual salaries per Obviam staff member.*

3. PERFORMANCE OF THE INVESTMENT PORTFOLIO[5]

3.1 NEW INVESTMENTS

In 2018, a total of USD 70 million of new investment commitments were made. The 2018 investments consist of commitments to five private equity funds (Frontier Energy II, Omnivore Partners India Fund II, Social Investment Fund 6.0, South Asia Growth Fund II, and Synergy Private Equity Fund II), one mezzanine debt fund (Ethos Mezzanine Partners III), and two loans to financial institutions (Acceso Crediticio and Cooperativa Pacífico). The regional breakdown of 2018 investments consists of three investments in Sub-Saharan Africa (Ethos III, Frontier Energy II, and Synergy II), two investments in East and South East Asia (Omnivore II, and South Asia Growth Fund II), and two investments in Latin America (Acceso Crediticio and Cooperativa Pacífico). Social Investment Fund 6.0 invests in Latin America as well as in Sub-Saharan Africa.

The new portfolio positions are as follows:

Acceso Crediticio (USD 10 million committed)
Established in 1999, Acceso Crediticio is a financial institution in Peru specialised in providing financing for taxis to lower income customers, most of them without a formal business, and for other productive vehicles such as buses and trucks to MSMEs. In 2018, taxis accounted for more than half of Acceso Crediticio's loan portfolio, and almost 80 per cent by the number of outstanding loans. Since 2010, the Institution has only financed the acquisition of liquefied natural gas (LNG) and liquefied petroleum gas (LPG) fuelled taxis in Lima. Through its 21 branches the Institution reaches nearly 14,000 clients many of whom were previously underserved by traditional financial institutions.

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

Peru is one of the countries in Latin America with the lowest penetration of vehicle use, and there is an insufficient supply of vehicle financing available from the traditional financial system. Through the financing of productive vehicles, Acceso Crediticio supports its clients in their self-employment, and offers them financial inclusion, as 40 per cent of its new clients in 2017–2018 were unbanked. SIFEM's investment of USD 10 million in Acceso Crediticio helps to further develop the financial sector beyond the traditional banking sector and to foster low income individuals' and MSMEs' access to funding, as well as supports employment generation and financial inclusion.

Cooperativa Pacífico (USD 8 million committed)
Established in 1970, Cooperativa Pacífico is the largest credit and saving cooperative in Peru and as such is owned by its 45,000 members. It offers a wide range of services including business and individual loans, mortgages, deposits, transfers and mobile banking services. Cooperativa Pacifico's core focus lies on SMEs with 85 per cent of its loan portfolio allocated to small and medium-sized companies.
SMEs in Peru struggle to access financing, due to high fees and commissions and cumbersome collateral requirements. As a cooperative, Cooperativa Pacífico looks beyond the maximization of profit, and focuses on offering affordable financial and non-financial services to its members in order to contribute to individual and community development. For example, it has established financial literacy training programs for its members and their families. SIFEM's USD 8 million loan enables the institution to meet the increasing demand from its members for additional and longer-term SME loans. This contributes to the deepening of the financial sector beyond the traditional banking sector and supports formal job creation.

Ethos Mezzanine Partners III (USD 10 million committed)
Ethos Mezzanine Partners III is a sector-agnostic mezzanine debt fund aiming to provide growth capital to larger SMEs and mid-market companies in Eastern and Southern Africa. The Fund targets sectors such as consumer goods, technology, media and telecom, tourism, healthcare, and agri-industries by offering tailored solutions specific to each company's operating needs.
In Sub-Saharan Africa, the lack of credit and banking services available to SMEs and mid-market companies are impediments to economic progress and the reduction of poverty in the region. By introducing mezzanine financing options to companies, the Fund will deepen and diversify local capital markets and fill a critical financing gap for growing businesses. Going further, EMP III takes an active investment approach through participation in strategic planning committees and offering guidance on improved corporate governance and meeting international best environmental and social standards. SIFEM's investment of USD 10m will help enable the Fund to develop successful, sustainable companies and drive local employment in Eastern and Southern Africa.

Frontier Energy II (USD 10 million committed)
Frontier Energy II is a renewable energy fund focused on developing, constructing and operating renewable energy generation projects, with a primary focus on hydroelectric, geothermal, wind, and solar opportunities in Kenya, Uganda, Rwanda and Tanzania. The largest part of the investment will be used for construction purposes and the Fund Manager will oversee this critical phase to ensure that quality, time, budget, and ESG standards are met. The Fund's portfolio is expected to provide more than 2,700 GwH/year of additional renewable energy, which roughly equates to meeting nearly 2.5 million households' annual energy needs in the target countries. Sub-Saharan Africa is home to 13 per cent of the world's population but also accounts for nearly 50 per cent of the global share of people living without access to electricity. Because of the energy gap, companies across Sub-Saharan Africa suffer from a competitive disadvantage, which leads to lost business opportunities and lower job growth. Investment in additional power capacity is required in order meet the demand, in particular, investment in renewable energy in order to ensure it is a significant part of the energy mix. SIFEM's investment of USD 10m in Frontier II supports Africa's energy security and economic development by adding capacity to the power grid and assists climate change mitigation through avoided CO_2 emissions.

Omnivore Partners India Fund II (USD 7m committed)
Omnivore II invests in Indian start-ups developing breakthrough technologies for food and agriculture, which primarily benefits the rural economy. The Fund Manager believes the key to transforming rural India lies in increasing the profitability, improving the sustainability, and reducing the uncertainty faced by smallholder farmers.
Although India has made good progress in its transformation to an industry and service-based economy, 42 per cent of the total workforce are still working in the agriculture sector. Smallholder farmers represent 85 per cent of total farm households yet remain at or slightly above the global poverty line. They are faced

with multiple challenges, including low yields, water scarcity, soil degradation, and low access to agricultural credit and insurance. Omnivore II's investment in early-stage companies which propose business solutions for such challenges supports the farmers to realise higher and more sustainable incomes. SIFEM's investment of USD 7 million helps to reduce the inequalities in the rural sector and promotes sustainable food production, ultimately fostering broad-based and long-term private sector growth in one of the most important sectors of the Indian economy.

Social Investment Fund 6.0 (USD 5 million committed)

Social Investment Fund 6.0 (SIF 6.0) lends money to micro-finance institutions and farmers' cooperatives that offer a combination of financial and non-financial services in Latin America and Sub-Saharan Africa, with a focus on women and rural areas. The Fund also explores innovative business models for social inclusion targeting areas such as entrepreneurship, agriculture, green technology, home improvement, and artisan market access. The end beneficiaries are clients at the base-of-the pyramid, including women with small income-generating activities or smallholder families living from subsistence farming.

The number of unbanked adults in Latin America and Sub-Saharan Africa amounts to 210 million and 350 million respectively, the majority of which are women. SIF 6.0 supports the portfolio companies in providing underserved clients with effective access to financial products and services in a responsible way. In addition to requiring that its micro finance clients endorse the Smart Campaign's Client Protection Principles, the Fund Manager provides support to its clients' delivery of a combination of financial and non-financial services - for example in the form of financial literacy programs. SIFEM's investment of USD 5 million in SIF 6.0 fosters the financial inclusion of unbanked people and helps them to earn a living and improve their lives.

South Asia Growth Fund II (USD 10 million committed)

The South Asia Growth Fund II contributes to the promotion of a more efficient use of energy and water in India and Bangladesh, through investment in companies creating products or services which impact the broader clean energy and water value chains. The Fund intends to contribute to climate change mitigation through the more efficient use of energy and natural resources in the target region.

The demand for energy is increasing in both India and Bangladesh due to population growth and rising rates of urbanisation. India alone is estimated to have over 300 million people without access to electricity, and those that do often have limited access. Enhancing the capacity, delivery, and efficiency of energy supply chains is therefore a key priority for economic development. In the same way, water is a critical resource for agriculture, industry, food security, and manufacturing. The Fund enables increased energy and water efficiency in the region, and SIFEM's investment of USD 10 million supports greater public access and encourages sustainable business practices in South Asia.

Synergy Private Equity Fund II (USD 10 million committed)

Synergy Private Equity Fund II is a sector-agnostic private equity fund aimed at providing growth capital to emerging small and medium-sized enterprises in anglophone West Africa. The Fund targets companies in sectors such as healthcare, basic infrastructure, ICT, consumer goods, financial services, business solutions and transportation & logistics. The focus is on investees which have the potential to become leaders in their sectors and present prospects for regionalizing across West Africa with the Fund's financial and operational support.

Anglophone West Africa is experiencing encouraging economic development, but there is also broad-based recognition of the need to diversify the area's economic base by investing in SMEs. SMEs contribute to the economy by producing a variety of goods and services, creating jobs, and eventually becoming vehicles of skills development and income disparity reduction. However, SMEs struggle to grow and ultimately survive, mostly due to a lack of financing, management capacity and business development, and generally require significant input and active support. SIFEM's investment of USD 10 million will help the Fund to provide much-needed access to capital to SMEs, assisting them to develop their business and reach financial viability.

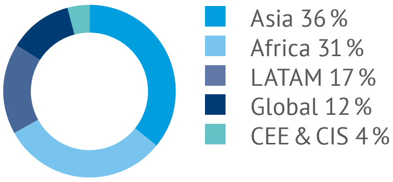
3.2 PORTFOLIO CONSTRUCTION

SIFEM's portfolio has developed over a period of two decades, with the first investments by SECO dating back to 1997.[6] Since inception, SIFEM has committed USD 958.1 million to 132 projects across Africa, Asia, Eastern Europe and Latin America. Asia remains the largest region in terms of volume of investment commitments, followed closely by Africa. The relative shares of capital commitments to Asia and Latin America have increased compared to 2017, while the relative share of the CEE & CIS region has slightly decreased.

SIFEM CAPITAL COMMITMENTS BY GEOGRAPHY AND FOCUS AS OF 31 DECEMBER 2018[7]

GEOGRAPHY

Figure 3



INSTRUMENTS

Figure 4

The portfolio consists primarily of private equity funds investing in growth companies and SMEs (64 per cent), infrastructure (4 per cent) and current income funds (17 per cent). Investments in microfinance instruments comprise 4 per cent of the portfolio and investments in other financial intermediaries 11 per cent.

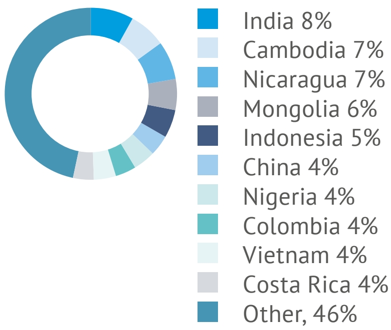
Across these different instruments, 31.7 per cent of the total portfolio consists of current income earning assets, with the remaining 68.3 per cent consisting of equity and quasi-equity instruments.

As of 30 June 2018 SIFEM had invested directly and indirectly in 478 companies in 73 countries. The ten countries with the largest financial exposures account for 54 per cent of the total invested capital.

SIFEM UNDERLYING PORTFOLIO ALLOCATION AS OF 30 JUNE 2018

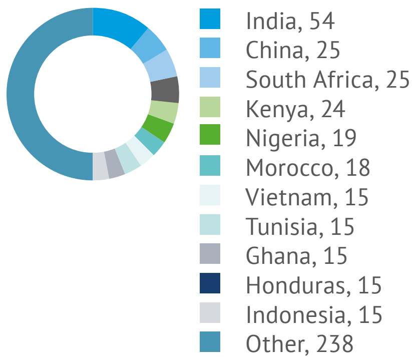
LARGEST COUNTRY EXPOSURES BY INVESTED CAPITAL

Figure 5



LARGEST COUNTRY EXPOSURES BY NUMBER OF COMPANIES

Figure 6



Note: SIFEM exposure to China are 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.

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

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

LARGEST INVESTED CAPITAL EXPOSURE PER SECTOR

Figure 7

- Financial intermediation 41%
- Energy and water supply 10%
- Industrial services 9%
- Consumer goods 7%
- Consumer services 6%
- Healthcare 6%
- Agriculture, fishing and forestry 4%
- Basic materials 4%
- Communications 4%
- Education 4%
- Technology 3%
- Industrial goods 3%
- Construction 1%

LARGEST EXPOSURE PER SECTOR BY NUMBER OF COMPANIES

Figure 8

- Financial intermediation, 152
- Energy and water supply, 68
- Healthcare, 47
- Consumer goods, 38
- Industrial services, 34
- Consumer services, 34
- Technology, 19
- Education, 19
- Agriculture, fishing and forestry, 18
- Communications, 17
- Basic materials, 14
- Industrial goods, 12
- Construction, 6

SIFEM had invested directly and indirectly in 152 entities in the financial sector as of 30 June 2018; approximately 80 of these companies are active in the microfinance sector.

3.3 VALUATION

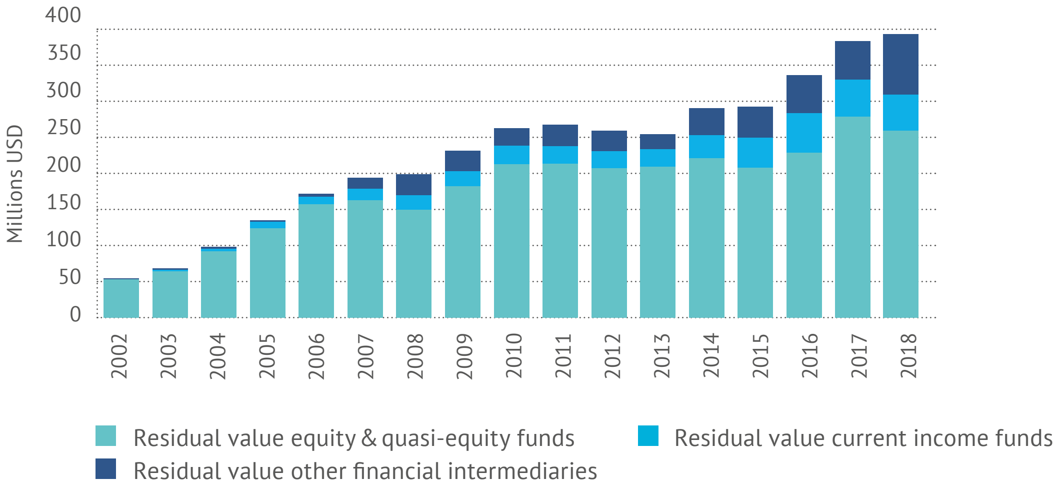
SIFEM's 2018 financial statements were independently audited by early March 2019, in accordance with the requirements of the shareholder, so that they could be consolidated in the Swiss Confederation's accounts. However, this timeline did not allow sufficient time to obtain and integrate the audited accounts of all portfolio companies. Hence, SIFEM has used the latest available valuations (as of September 2018) and rolled them forward to the year-end.

3.4 EVOLUTION OF KEY PERFORMANCE BENCHMARKS

As of 31 December 2018, SIFEM's total active commitments stood at USD 782.0 million. The residual value of SIFEM's investment portfolio amounted to USD 388.4 million, an increase of USD 11.4 million or 3 per cent compared to 31 December 2017. 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 9: SIFEM PORTFOLIO RESIDUAL VALUE SINCE INCEPTION

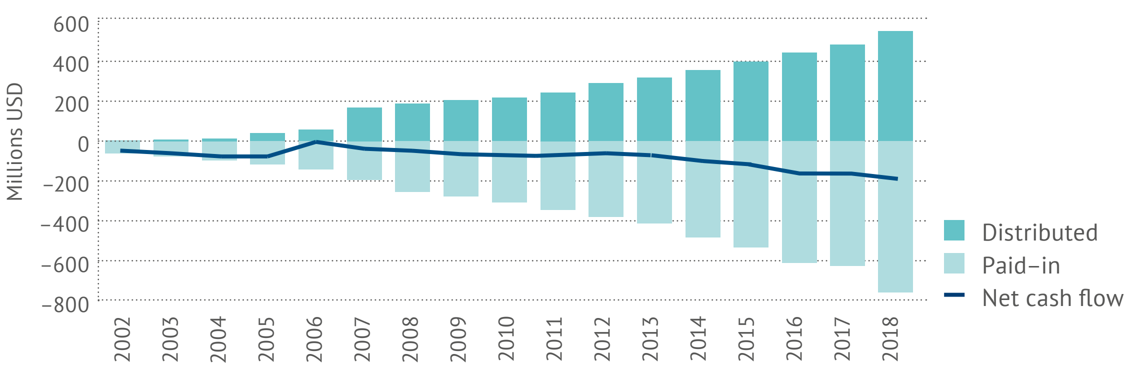
RESIDUAL VALUE



Since inception, USD 742.5 million has been paid into the SIFEM investment portfolio, and the portfolio has generated reflows totalling USD 539.8 million. During the same period, the cumulative net cash flow amounts to USD -202.7 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.

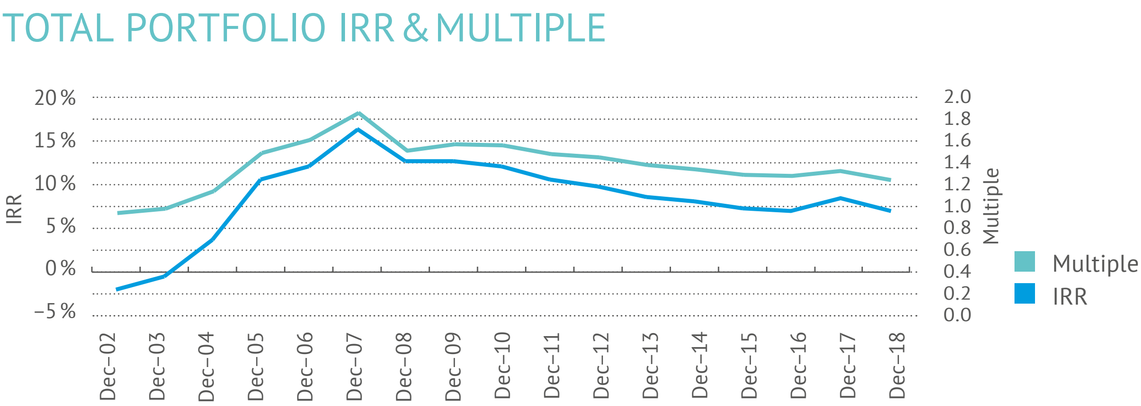
FIGURE 10: SIFEM CUMULATIVE CASH FLOWS SINCE INCEPTION

CUMULATIVE CASH FLOWS IN USDm



As of 31 December 2018, the Internal Rate of Return (IRR) of the SIFEM portfolio was 6.3 per cent. The IRR tracks the performance of the portfolio since inception. It should be noted that SIFEM is an open-ended investment vehicle: it is an "evergreen" investment vehicle, as reflows from past investments are entirely reinvested.

FIGURE 11: SIFEM TOTAL PORTFOLIO IRR & MULTIPLE SINCE INCEPTION



In 2018, the IRR decreased to 6.3 per cent, from 7.4 per cent in 2017. This decrease is not a concern as it results from the addition of new private equity funds in the portfolio which exacerbate the J-curve effect. Typically funds show positive valuations only after four to five years of operations, when portfolio companies reach maturity and the higher valuations exceed the cost of managing the fund. Not including the one single material portfolio position (see Chapter 5), write downs due to the poor performance of some individual companies have been offset to a large extent by realised and unrealised gains in other positions.

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 2018, the breakdown of the SIFEM portfolio in terms of investments per risk category is as follows:

FIGURE 12: NUMBER OF SIFEM INVESTMENTS PER RISK CATEGORY AS OF DECEMBER 2018

Projects per risk category	2017		2018	
Very low risk	12	13 %	10	11 %
Low risk	14	15 %	20	22 %
Moderate risk	31	34 %	31	33 %
High risk	15	16 %	12	13 %
Very high risk	19	21 %	20	22 %

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

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

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

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 2018

SIFEM ended 2018 with a negative annual result. In accordance with IFRS accounting standards, it recorded a total loss on investment activities of CHF 12.5 million. Total operating expenses amounted to CHF 10.0 million. This results in a net operating loss of CHF 22.5 million compared to a net operating profit of CHF 36.7 million in the previous year.

The negative annual result is explained by the value decrease of CHF 22.7 million of one single large underlying investment (unrealised). The company in question was listed on the stock exchange during 2018, and hence its share price closely corelates with overall market volatility, which led to a significant increase in the valuation in 2017 and then an equally large decrease in the valuation in 2018. SIFEM aims to sell the shareholding in the company over the next 24 months but sales restrictions following the listing still apply. Selling even at current (depressed) market prices would still yield a very significant value uplift compared to the amount originally invested.

Otherwise, the investment portfolio of SIFEM performed well. Certain investments which experienced an uplift in value over the past few years were exited successfully: these exits led to an income from realised gains of more than CHF 14 million in 2018 compared to 9.4 million in the previous year. However, the picture from unrealised gains is different: even without the large exposure in the listed company mentioned above, the fair market value of the remaining investments decreased by CHF 13.3 million thereby offsetting some of the observed positive result of CHF 28.6 million in the previous year.

Interest income from debt investments increased by 35 per cent in 2018 over the previous year to CHF 9.3 million and therefore significantly contributed to the stabilization of net income from investments.

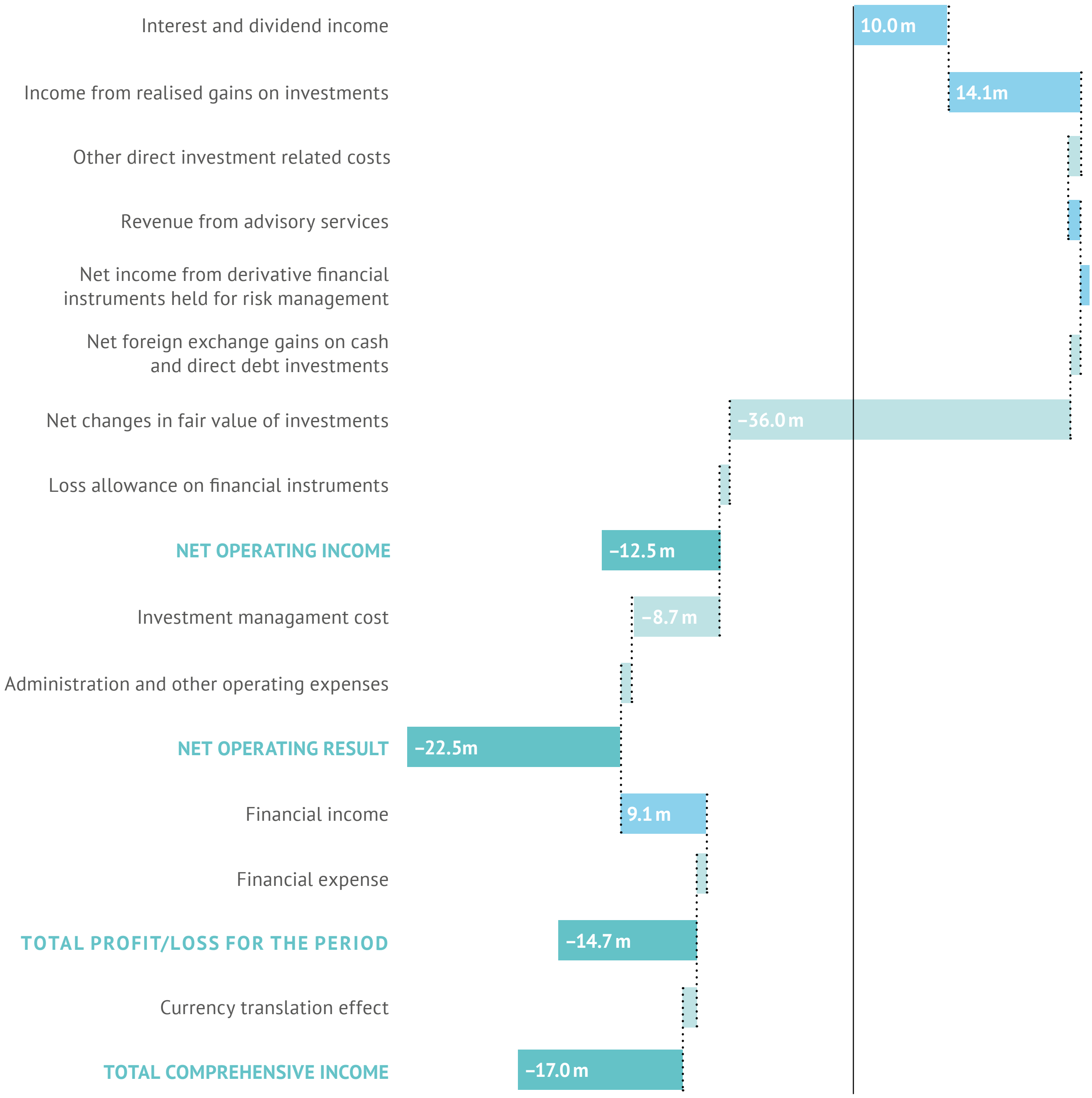
The operating cost increased in parallel with the growing portfolio of SIFEM to a total of CHF 10.0 million. Adding the operating expenses to the loss from investment activities, a negative operating result of CHF –22.5 million is recorded. Excluding the extraordinary effect caused by the listed company, SIFEM would have had a slightly positive operating result of CHF 0.2 million.

Meanwhile, the overall financial result of SIFEM was positively influenced by a strengthening USD due to the CHF denominated liabilities in the form of the shareholder loans on SIFEM's balance sheet. Taking into consideration the amortization of the interest on these shareholder loans, SIFEM realised a net financial result of CHF 7.7 million, which compares favourably to the net financial loss of CHF 19.1 million incurred in the previous year due to a weakening USD over the course of 2017. Since the shareholder loans were converted to equity in the first half of 2018, the financial result of SIFEM will be significantly less impacted by the fluctuations in the USD/CHF exchange rate in the future.

Adding the operating result to the financial result leaves SIFEM with a net loss for 2018 of CHF 14.7 million, and 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 17 million results for 2018. SIFEM's retained earnings were adjusted accordingly.

SIFEM still holds substantial amounts of cash for covering its unfunded commitments. The unfunded commitments only marginally exceeded cash holdings of CHF 233.5 million at year-end, and hence SIFEM is only slightly over-committed (0.5 per cent of total active commitments). This compares to 2.5 per cent of over-commitment at the end of the previous year. Due to a strong pipeline at year-end 2018, SIFEM might well use its capacity for over-committing again in the future.

FIGURE 13: BREAKDOWN OF TOTAL COMPREHENSIVE PROFIT AND LOSS 2018



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.

With regards to the valuations of investments, a significant change in the IFRS accounting standard occurred in the year 2018 during which IFRS 9 was first applied: under the new IFRS 9 standard, additional provisions for debt investments have to be recorded. Those provisions directly affect SIFEM's operating income at the time of recognition.

IFRS is less well suited than the SCO to reflecting the liabilities side of SIFEM's balance sheet. SIFEM is entirely financed by the Swiss Confederation at zero cost of capital. Nonetheless, IFRS requires that SIFEM account for implied interest charges on the shareholder loans, which amounted to CHF 1.3 million in 2018. In addition, since the liability in form of shareholder loans is denominated in CHF, and the USD appreciated against the CHF during 2018, a net foreign exchange gain for the year of CHF 9.0 million resulted. These effects, as reflected in SIFEM's financial result under IFRS, add up to a net financial gain of CHF 7.7 million for the year. Since the shareholder loans were converted to equity in the first half of 2018, the financial result of SIFEM will be significantly less impacted by the fluctuations in the USD/CHF exchange rate in the future.

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 a loss of CHF 7.3 million in 2018.

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

5.4 FINAL REMARKS

Over the past year, the macroeconomic situation in many emerging markets and developing countries in which SIFEM is operating deteriorated as a consequence of global political and macro-economic trends. The full impact of the increased market volatility in the second half of 2018 may not yet be fully reflected in year-end valuations. It remains to be seen whether the increasing tensions in global trade will translate in an extended economic downturn in the coming years which would certainly affect the performance of the SIFEM portfolio. On the other hand, SIFEM was able to realise many promising investments recently which have a good chance of adding positively to SIFEM's overall performance upon their exit in the years to come.

The increase in the allocation to debt investments and the continuation of the currency hedging strategy implemented since 2015 have continued to stabilise the income from investment activities. These factors have played an important role in the operating result in 2018 and will continue to do so in 2019. This is a positive step towards the operational sustainability of SIFEM as a DFI over time.


Baristar
Ms. Sreyka
PARK


iCare BENEFITS

2018
IFRS – FINANCIAL STATEMENTS

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AUDITOR'S REPORT

To the Board of Directors of

SIFEM AG, Bern

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **SIFEM AG**, which comprise the statement of financial position as at 31 December 2018 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 2018 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, 6 March 2019

BDO Ltd

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

STATEMENT OF FINANCIAL POSITION

in '000 CHF	NOTE	31.12.2018	31.12.2017*
ASSETS			
Cash and cash equivalents	7	218,475	233,453
Derivative financial assets held for risk management	8	14,106	16,249
Other receivables, prepayments and accrued income	9	5,970	6,569
Total current assets		**238,551**	**256,271**
Equity instruments	10	293,382	295,608
Debt instruments	10	89,451	71,832
Total non-current assets		**382,833**	**367,440**
Total assets		**621,384**	**623,711**
LIABILITIES AND EQUITY			
Derivative financial liabilities held for risk management	8	14,213	16,485
Other liabilities and accrued expenses		1,140	1,283
Total current liabilities		**15,353**	**17,768**
Loans and borrowings	11	0	368,233
Total non-current liabilities		**0**	**368,233**
Total liabilities		**15,353**	**386,001**
Share capital		554,444	150,000
Capital reserve (additionally paid in capital)		84,701	89,680
Legal reserve		1,096	1,096
Translation reserve		19,951	22,188
Retained earnings / accumulated losses		–54,161	–25,254
Total equity	12	**606,031**	**237,710**
Total liabilities and equity		**621,384**	**623,711**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information has not been restated.

STATEMENT OF PROFIT OR LOSS

for the year in '000 CHF	NOTE	2018	2017*
Interest income	13	9,346	6,937
Dividend income		672	0
Income from realised gains on investments		14,124	9,382
Other direct investment related costs		–327	0
Revenue from advisory services		40	41
Net income from derivative financial instruments held for risk management	16	1,055	–2,127
Net foreign exchange gains on cash and cash equivalents and direct debt investments	17	–639	2,175
Net changes in fair value of investments at fair value through profit or loss	18	–35,970	28,616
Loss allowance on financial instruments		–756	0
Total net income/-loss		**–12,455**	**45,024**
Investment management costs	14	–8,739	–7,214
Administration and custodian fees	15	–351	–387
Personnel expenses		–322	–300
Administration expenses		–420	–258
Advertising expenses		–74	–74
Other operating result		–94	–62
Operating result		**–22,455**	**36,729**
Financial income	19	9,096	319
Financial expense	19	–1,382	–19,419
Total profit/-loss for the period		**–14,741**	**17,629**
Currency translation effect from translation to presentation currency		*–2,237*	*–9,875*
Total comprehensive income		*–16,978*	*7,754*

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information has not been restated.

STATEMENT OF CHANGES IN EQUITY

in '000 CHF	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	LEGAL RESERVES	TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL
Equity at 1 January 2017	150,000	89,680	355	32,063	−42,142	229,956
Total comprehensive income for the year						
Profit for the year					17,629	17,629
Foreign currency translation differences from translation to presentation currency				−9,875		−9,875
Transfer to legal reserve			741		−741	0
Total comprehensive income for the year	**0**	**0**	**741**	**−9,875**	**16,888**	**7,754**
Transactions with owners of the Company, recognised directly in equity						
Issue of ordinary shares						
Other capital contributions						
Total transactions with owners of the Company	**0**	**0**	**0**	**0**	**0**	**0**
Equity at 31 December 2017	150,000	89,680	1,096	22,188	−25,254	237,710
Adjustment on initial application of IFRS 9					**−10,122**	**−10,122**
Equity 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
Foreign currency translation differences from translation to presentation currency				−2,237		−2,237
Transfer to legal reserves						
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**
Equity at 31 December 2018	554,444	84,701	1,096	19,951	−54,161	606,031

STATEMENT OF CASH FLOWS

for the year in '000 CHF	NOTE	2018	2017*
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/-loss for the year		–14,741	17,629
Adjustments for:			
Interest income	13	–9,346	–6,938
Dividend		–672	0
Income from realised gains on Investments		–14,124	–9,382
Other direct investment related costs		327	0
Interest expense	19	1,250	3,637
Net foreign exchange gain/-loss		–8,326	13,289
Net income from derivative financial instruments held for risk management		–1,162	1,885
Changes in fair value of investments at fair value through profit or loss	18	36,726	–28,616
Changes in:			
Derivative financial instruments held for risk management		–133	240
Other receivables, prepayments and accrued income		676	–382
Other liabilities and accrued expenses		–159	–99
Purchase of investments		–93,481	–38,579
Proceeds from sale of investments		35,130	27,540
Interest received		9,346	6,962
Dividend / other investment income received		672	0
Income from realised gains on Investments received		13,797	9,382
Proceeds from sale of derivative financial instruments		1,162	–1,909
Net cash flow from operating activities		**–43,058**	**–5,341**
Net cash flow from investing activities		**0**	**0**
Proceeds from issue of share capital		25,956	0
Net cash from financing activities		**25,956**	**0**
Net increase/-decrease in cash and cash equivalents		**–17,102**	**–5,341**
Cash and cash equivalents at 1 January	7	233,453	248,380
Effect of exchange rate fluctuations on cash and cash equivalents		2,124	–9,586
Cash and cash equivalents at year-end	**7**	**218,475**	**233,453**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information has not been restated.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

SIFEM AG – Swiss Investment Fund for Emerging Markets ("SIFEM" or the "Company") is a company domiciled in Switzerland. The address of the entity's registered office is c/o Obviam DFI AG, Helvetiastrasse 17, 3005 Bern. The Company's shares are fully owned by the Swiss Government.

SIFEM is the Development Finance Institution (DFI) of Switzerland. It 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 2018 in accordance with International Financial Reporting Standards (IFRS) in addition to the statutory financial statements which are prepared in accordance with the Swiss Code of Obligation (SCO).

These financial statements were authorised for issue by the Board of Directors on 6th of March 2019.

(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. The functional currency of the Company is US Dollar. All financial information presented in Swiss Francs were rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in note 4, SIFEM has consistently applied the accounting policies as set out below in periods presented in these consolidated financial statements.

(a) Foreign currency

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

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

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

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

The following exchange rates were applied:

	2018		2017	
	Balance sheet rate	Average rate	Balance sheet rate	Average rate
USD/CHF	1.014405	1.013328	1.026167	1.002505
USD/EUR	1.143150		1.200800	
USD/ZAR	0.069517		0.080775	
USD/CNY	0.145652		0.153563	
CHF/USD	0.985800	0.9868477	0.974500	0.997502

(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 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 SPPI (solely payments of principal and interest).

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 investment 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 fair value through profit or loss are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition. The Company and its subsidiary meet the criteria for an investment entity in accordance with IFRS 10 Consolidated Financial Statements. As per 1 January 2013, the Company therefore applied the exception to consolidation for investment entities included in IFRS 10, as amended, and continues measuring its investments at fair value through profit or loss.

Financial assets not at fair value through profit or loss are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition. Financial assets are partially or fully derecognised if SIFEM's contractual rights to the cash flows from the financial assets have either expired or were transferred and SIFEM is neither exposed to any risks arising from these assets nor has any entitlement to income from them.

Debt instruments

This position includes loans and debt notes granted to funds and other pooled investment vehicles, banks and other financial intermediaries. Debt instruments are 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 fair value through profit or loss.

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 fair value through profit or loss

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

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

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

If the market for a financial instrument is not active, then SIFEM establishes fair value using a valuation technique appropriate for the circumstances. Valuation techniques include comparison to similar instruments for which observable prices exist and other valuation models in accordance with International Private Equity Valuation (IPEV) Guidelines. The chosen valuation technique makes maximum use of relevant observable inputs, relies as little as possible on unobservable inputs and estimates specific to SIFEM, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. SIFEM calibrates valuation techniques and tests them for validating using prices from observable current market transactions in the same instrument or based on other available observable market data (refer also to note 10).

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 realised and unrealised 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 realised gains on investments is the cumulative income resulting mainly from exits in funds at a price higher than the paid in price. Realised 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 until the date of approval of the 2018 financial statements, but are not yet effective and are not applied early in these financial statements. Their impact on the financial statements of SIFEM has not yet been systematically analysed. The expected effects as disclosed in the table below reflect only a tentative first assessment.

New standards or interpretations	Expected effect	Effective date	Planned application by SIFEM
IFRS 16 Leases	*	1 January 2019	2019
Revisions and amendments of standards and interpretations			
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	**	Date to be determined by the IASB	n/a

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

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

4. CHANGES IN ACCOUNTING POLICIES

SIFEM has initially adopted IFRS 9 from 1 January 2018. Due to the transition method chosen by the Company in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect its requirements. As the comparatives in these financial statements have not been restated, refer to the 2017 financial statements for the accounting policies under the previous standard (IAS 39).

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the Statement of profit or loss and OCI of interest revenue calculated using the effective interest method.

Additionally, the Company has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been applied to the comparative information.
The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in note 23.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Company classifies financial assets under IFRS 9, see note 3(d).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see note 6.

Transition

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

5. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are reviewed and in any future periods affected.

The following estimates used and assumptions made in applying the accounting policies could result in a material adjustment in the financial statements:

(a) Determination of fair values

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risk affecting the specific instrument. Refer also to notes 3(d) and 10.

(b) Determination of functional currency

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

6. FINANCIAL RISK MANAGEMENT

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

Risk management framework

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 credit risk that a counterparty becomes insolvent. This would result in a financial loss for SIFEM. Principally, these kind of losses arise 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 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
Loans and borrowings			0	0
Total	**–14,213**		**–1,104**	**–15,317**

AT FAIR VALUE THROUGH PROFIT OR LOSS	Trading	Designated at fair value	Loans and receivables	Other liabilities at amortised costs	Total Carrying amount
in '000 CHF					

31 December 2017

Cash and cash equivalents			233,453		233,453
Derivative financial assets held for risk management	16,249				16,249
Other receivables, prepayments and accrued income			5,704		5,704
Debt investments					71,832
– Banks and other financial intermediaries			48,940		
– Funds and other pooled investment vehicles			22,892		
Equity investments					295,608
– Banks and other financial intermediaries		4,173			
– Funds and other pooled investment vehicles		291,435			
Total	**16,249**	**295,608**	**310,989**	**0**	**622,846**
Derivative financial liabilities held for risk management	16,485				16,485
Other liabilities and accrued expenses				1,257	1,257
Loans and borrowings				368,233	368,233
Total	**16,485**	**0**	**0**	**369,490**	**385,975**

The tables above only includes financial instruments. Other receivables, prepayments and accrued income do therefore not include tax receivables and prepaid costs (TCHF 342). The position other liabilities and accrued expenses do not include tax payables and advances received (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 asset 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 the "performing" (stage 1) to the stage 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 recognised 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 realised 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 will be 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 328,002 as of 31 December 2018 (31 December 2017: TCHF 328,103).

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

for the year in '000 CHF	Stage 1	Stage 2	Stage 3	2018 Total	2017 Total
Balance at 1 January	**50,282**	**0**	**9,064**	**59,346**	
Transfer to Stage 1					50,282
Transfer to Stage 2					
Transfer to Stage 3					9,745
Net remeasurement of loss allowance	–1,589		–9,169	–10,758	–681
New financial assets acquired	38,446			38,446	
Financial assets derecognised	–9,165			–9,165	
Write-offs					
Effects of movements in exchange rates	583		105	688	
Balance at 31 December	**78,557**	**0**	**0**	**78,557**	**59,346**

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 for the year in '000 CHF	Stage 1	Stage 2	Stage 3	2018 Total
Cash and cash equivalents				0
Debt Instruments	29,281			29,281
Other receivables				0

The net increase in debt instruments in stage 1 of TCHF 29,281 contributed to the increase of the loss allowance by 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 granted a collateral in the form of cash in respect of derivative transactions.

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

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

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

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 2018.

DEBT INSTRUMENTS

in '000 CHF	31.12.2018	31.12.2017*
Carrying amount **Concentration by sector**		
Banks and other financial intermediaries	67,325	49,671
Mezzanine funds	2,869	2,883
Debt funds	19,257	19,278
Total	**89,451**	**71,832**
Concentration by location		
Latin America	42,872	20,667
Asia	31,781	25,717
Central Eastern Europe (CEE) / Commonwealth of Independent States (CIS)	0	9,064
Global / supranational	14,798	16,383
Total	**89,451**	**71,832**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information has not been restated.

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 from 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. In 2018, the Board of Directors approved an over-commitment ratio of up to 6 % of total active commitments (2017: 6 %). As of December 31, 2018, SIFEM reached an over-commitment ratio of 0.5 % (31 December 2017: 2.5 %).

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 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		
Loans and borrowings					
Total	**15,317**	**–15,317**	**–15,317**	**0**	**0**
31 December 2017					
Derivative financial liabilities held for risk management	16,485	–16,485	–16,485		
Other liabilities and accrued expenses	1,257	–1,257	–1,257		
Loans and borrowings	368,233	–368,233		–368,233	
Total	**385,975**	**–385,975**	**–17,742**	**–368,233**	**0**

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. The loan agreements with the Swiss Confederation were granted in 2011 with a lending period of 4 years. As no notice of termination was issued, they were automatically extended until 2019. In the course of the capital increase on 2 May 2018 the loans have been offset and converted into equity.

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	31.12.2018	31.12.2017
Debt instruments	58,737	32,159
Fixed-rate instruments (assets)	**58,737**	**32,159**
Cash and cash equivalents	218,475	233,453
Debt instruments	30,714	39,673
Variable rate instruments (assets)	**249,189**	**273,126**
Fixed rate loans and borrowings	0	–368,233
Fixed-rate instruments (liabilities)	**0**	**–368,233**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by TCHF 2,492 (31 December 2017: TCHF 2,731). 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	31.12.2018	31.12.2017
EUR	–1,114	–2,452
CHF	–291	–374,963
Total net exposure	**–1,405**	**–377,415**

The following sensitivity analysis shows the impact on the income statement should the CHF/USD or the EUR/USD exchange rates change by 5 % in the applicable exchange rate at 31 December 2018 and 31 December 2017, with all other variables held constant:

INCOME IMPACT ON BALANCE SHEET ITEMS

in '000 CHF	31.12.2018	31.12.2017
EUR (sensitivity to USD changes)	+/– 56	+/–123
CHF (sensitivity to USD changes)	+/–15	+/–18,748

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	31.12.2018	31.12.2017
Equity instruments to banks and other financial intermediaries	2,873	4,173
Equity instruments to funds and other pooled investments	290,509	291,435
Total exposure in Equity Instruments	**293,382**	**295,608**

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.

7. CASH AND CASH EQUIVALENTS

in '000 CHF	31.12.2018	31.12.2017
Cash at Bank	218,475	233,453
Total cash and cash equivalent	**218,475**	**233,453**

Cash and cash equivalents are denominated in CHF (0.2 %), in USD (98.8 %), in EUR (1.0 %) as of 31 December 2018. (31 December 2017: CHF (1.0 %), in USD (98.3 %), in EUR (0.7 %)). TCHF 182,444 (31 December 2017: TCHF 192,282) 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.

8. DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR RISK MANAGEMENT

in '000 CHF	31.12.2018		31.12.2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign exchange	14,106	14,213	16,249	16,485
Total derivative financial instruments	**14,106**	**14,213**	**16,249**	**16,485**

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

9. OTHER RECEIVABLES, PREPAYMENTS AND ACCRUED INCOME

At 31 December 2018, other receivables, prepayments and accrued income mainly include collaterals (TCHF 4,939), management costs reimbursement (TCHF 254) and accrued interest receivables (TCHF 689). At 31 December 2017, other receivables, prepayments and accrued income mainly included collaterals (TCHF 4,882), management costs reimbursement (TCHF 807), proceeds from investments (TCHF 484) and accrued interest receivables (TCHF 339).

10. FINANCIAL INVESTMENTS

in '000 CHF	31.12.2018	31.12.2017
Equity instruments to banks and other financial intermediaries	2,873	4,173
Equity instruments to funds and other pooled investment vehicles	290,509	291,435
Equity investments	**293,382**	**295,608**
Debt instruments to banks and other financial intermediaries	71,230	48,940
Debt instruments to funds and other pooled investment vehicles	18,221	22,892
Debt investments	**89,451**	**71,832**
Total Financial Investments	**382,833**	**367,440**

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

in '000 CHF	Level 1	Level 2	Level 3	Total
31 December 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**
31 December 2017				
Derivative financial assets for risk management		16,249		16,249
Derivative financial liabilities for risk management		−16,485		−16,485
Equity instruments to banks and other financial intermediaries			4,173	4,173
Equity instruments to funds and other pooled investment vehicles		48,357	243,078	291,435
	0	**48,121**	**247,251**	**295,372**

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 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
Balance as at 1 January 2017	**2,431**	**260,524**	**262,955**
Total gains/losses recognised in profit or loss	430	−7,400	−6,970
Purchases	1,456	26,902	28,358
Sales	−1	−12,117	−12,118
Transfer out of Level 3	0	−14,262	−14,262
Foreign currency exchange differences	−143	−10,569	−10,712
Balance as at 31 December 2017	**4,173**	**243,078**	**247,251**
Total gains or losses for the period included in profit or loss relating to assets and liabilities held at the end of the reporting period	430	−7,400	−6,970

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

Valuation technique used to Level 2 and 3 fair values

Obviam undertakes a detailed process of multiple reviews before any fund value is accepted by the Board. All investments held by SIFEM's underlying funds report fair value using guidelines in compliance with IPEV Guidelines, which provide the underlying fund managers a framework upon which they exercise judgment in selecting and applying the appropriate valuation methodology for each investment. This Framework covers the valuations for:

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

11. LOANS AND BORROWING

in '000 CHF	31.12.2018	31.12.2017
Loan A	0	187,777
Loan B	0	122,136
Loan C	0	29,160
Loan D	0	29,160
Total non-current liabilities	**0**	**368,233**

On 2 May 2018 all loans granted by the Swiss Confederation have been offset in connection with the share capital increase.

The Swiss Confederation had granted SIFEM four interest-free loans which were measured at amortised cost. IFRS requires the initial recognition of financial assets and liabilities at their fair value, whereas the fair value of an interest free loan is the present value of all future cash flows under the loan agreement, discounted using a market interest rate. A discount rate of 1 % was applied to determine the present value of all loans. The discount rate to be used is the prevailing market rate for a similar loan, i.e. the rate that a third party would charge the borrower for a loan with otherwise similar terms (currency, maturity, collateral, etc.). The application of the effective interest method resulted in an interest expense of TCHF 1,250 (2017: TCHF 3,637).

The loans with a minimum term until 17 August 2015 (loans granted in 2011) and 19 December 2015 (loans granted in 2012) had not been terminated and hence were automatically extended for an additional period of four years (i.e. until 17 August 2019 and 19 December 2019, respectively). The term of the loans was extended for an additional four years on an ongoing basis unless either party would have terminated a loan one year in advance. A total amount of TCHF 14,462 was capitalised as equity in 2015 to cover amortizations 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 amortization of TCHF 4,979 was eliminated from the equity.

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

12. EQUITY

Share capital

On 31 December 2018, the number of outstanding shares amounted to 55,444,401 shares with a nominal value of CHF 10 each (31 December 2017: 15,000,000 with a nominal value of CHF 10 each). As per 31 December 2018 SIFEM did not hold any treasury shares (31 December 2017: 0). All shares issued by the Company were fully paid in.

In 2011, 2012, 2015 and 2016, 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, bringing the total share capital to TCHF 554,444.

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 2018 neither in 2017 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 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).

13. INTEREST INCOME

for the year in '000 CHF	2018	2017
Interest income from cash and cash equivalents	3,446	1,941
Interest income from investments	5,900	4,996
Total interest income	**9,346**	**6,937**

At 31 December 2018, an amount of TCHF 689 (2017: TCHF 339) 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.

14. INVESTMENT MANAGEMENT COSTS

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

15. 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 2018 amounted to TCHF 218 (2017: TCHF 231) and the custodian fee for the financial year 2018 amounted to TCHF 133 (2017: TCHF 156).

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

for the year in '000 CHF	2018	2017
Net interest income from derivative financial instruments	0	2
Realised gain from derivative financial instruments	1,592	0
Realised loss from derivative financial instruments	–430	–1,887
Increase /-decrease in fair value from derivative financial instruments	–107	–242
Net income from derivative financial instruments	**1,055**	**–2,127**

17. NET FOREIGN EXCHANGE GAINS / LOSSES

for the year in '000 CHF	2018	2017
Net foreign exchange gain/-loss from cash and cash equivalents	–172	530
Net foreign exchange gain/-loss from debt instruments	–467	1,645
Total net foreign exchange gains/-losses	**–639**	**2,175**

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

for the year in '000 CHF	2018	2017
Increase in fair value of equity instruments	1,880	34,825
Increase in fair value of debt instruments	635	1,012
Decrease in fair value of equity instruments	–38,259	–6,568
Decrease in fair value of debt instruments	–226	–653
Net changes in fair value of financial assets at fair value through profit or loss	**–35,970**	**28,616**

Note: The net change in fair value has been significantly impacted by the value of one fund whose single remaining portfolio company was publicly listed but under a lock-up period until July 2018. This company was subject to high market volatility. In 2018 this affected the decrease in fair value by TCHF 22,614, while in the previous year it contributed to an increase in fair value of TCHF 21,398.

19. FINANCIAL INCOME / EXPENSE

for the year in '000 CHF	2018	2017
Foreign exchange gain	9,096	319
Financial income	**9,096**	**319**
Interest expense	–1,250	–3,637
Foreign exchange loss	–132	–15,782
Financial expense	**–1,382**	**–19,419**

Foreign exchange gain in 2018 arises from the shareholder loans granted in Swiss Francs. The foreign exchange gain of the previous year arises from the application of the effective interest rate method (refer to note 11).

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

Foreign exchange loss in 2018 arises from exchange differences applying the exchange rate as of the balance sheet date and the application of the effective interest rate method (refer to note 11). In the previous year a foreign exchange loss arose from the shareholder loans granted in Swiss Francs.

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 11 and 12) (31 December 2017: TCHF 368,233).

SIFEM holds a deposit account with the Swiss National Bank (refer to note 7). The interest rate is at arm's length.

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

Portfolio and business manager

SIFEM appointed Obviam 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 costs (incl. VAT) paid for the financial year 2018 amounted to TCHF 8,739 (2017: TCHF 7,214). 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 2018 amounts to 1.29 % (2017: 1.12 %) 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 44,000 in 2018 (2017: CHF 44,000). This consists of a base compensation of CHF 30,000 (2017: 30,000) for his role as Chairman of the Board and CHF 14,000 (2017: 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 (2017: CHF 22,100). Members of the Investment Committee received an additional compensation of CHF 11,900 (2017: CHF 11,900) and Members of the Audit Committee received an additional compensation of CHF 8,500 (2017: CHF 8,500).

21. CAPITAL COMMITMENTS

As of 31 December 2018 the Company had capital commitments with debt- and equity instruments which were not yet called by the relevant fund managers for TCHF 221,891 (31 December 2017: TCHF 251,951).

22. SUBSEQUENT EVENT

No events occurred between 31 December 2018 and 6th of March 2019 that would require adjustments to the amounts recognised in these financial statements or would need to be disclosed under this heading.

23. IFRS 9 IMPLEMENTATION

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for SIFEM's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New Carrying amount under IFRS 9
in '000 CHF				
Cash and cash equivalents	Loans and receivables	Amortised cost	233,453	233,453
Derivative financial assets held for risk management	FVTPL	FVTPL (mandatory)	16,249	16,249
Other receivables, prepayments and accrued income	Loans and receivables	Amortised cost	5,705	5,705
Debt investments with banks and other financial intermediaries	Loans and receivables	Amortised cost	48,911	39,114
Debt investments with banks and other financial intermediaries	Loans and receivables	FVTPL (option)	29	29
Debt investments with funds and other pooled investment vehicles	Loans and receivables	Amortised cost	10,435	10,344
Debt investments with funds and other pooled investment vehicles	Loans and receivables	FVTPL (option)	12,456	12,456
Equity investments with banks and other financial intermediaries	FVTPL (designated)	FVTPL (mandatory)	4,173	4,173
Equity investments with funds and other pooled investment vehicles	FVTPL (designated)	FVTPL (mandatory)	291,435	291,435
Total financial assets			**622,846**	**612,958**
Derivative financial liabilities held for risk management	FVTPL	FVTPL (mandatory)	16,485	16,485
Other liabilities and accrued expenses	Other liabilities at amortised costs	Amortised cost	1,257	1,257
Loans and borrowings	Other liabilities at amortised costs	Amortised cost	368,233	368,233
Total financial liabilities			**385,975**	**385,975**

The following table reconciles the closing impairment allowance for financial assets under IAS 39 as at 31 December 2017 to the opening ECL allowance determined under IFRS 9 as at 1 January 2018.

	Impairments as at 31 December 2017 IAS 39	Remeasurement	1.1.2018 IFRS
in '000 CHF			
Cash and cash equivalents			
Derivative financial assets held for risk management			
Other receivables, prepayments and accrued income			
Debt investments with banks and other financial intermediaries	681	9,797	10,478
Debt investments with funds and other pooled investment vehicles		91	91
Equity investments with banks and other financial intermediaries			
Equity investments with funds and other pooled investment vehicles			
Derivative financial liabilities held for risk management			
Other liabilities and accrued expenses			
Loans and borrowings			

2018
SWISS CODE OF OBLIGATIONS – FINANCIAL STATEMENTS

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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 2018.

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 2018 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, 6 March 2019

BDO Ltd

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

BALANCE SHEET

in CHF	NOTE	31.12.2018		31.12.2017	
ASSETS					
Current assets					
Cash and cash equivalents	1	218,474,832	39.6 %	233,453,019	44.2 %
Other current receivables	2	4,986,188	0.9 %	5,397,488	1.0 %
Accrued income and prepaid expenses	3	983,848	0.2 %	1,171,659	0.2 %
Total current assets		**224,444,868**	**40.7 %**	**240,022,166**	**45.4 %**
Non-current assets					
Financial assets	4	295,309,111	53.6 %	244,675,575	46.3 %
Shareholdings	5	31,362,605	5.7 %	44,004,200	8.3 %
Total non-current assets		**326,671,716**	**59.3 %**	**288,679,775**	**54.6 %**
TOTAL ASSETS		**551,116,584**	**100.0 %**	**528,701,941**	**100.0 %**
LIABILITIES AND SHAREHOLDER'S EQUITY					
Short-term liabilities					
Other current liabilities	6	117,551	0.0 %	242,899	0.0 %
Deferred income and accrued expenses	7	600,053	0.1 %	1,276,870	0.2 %
Total short-term liabilities		**717,604**	**0.1 %**	**1,519,769**	**0.3 %**
Long-term liabilities					
Long-term liabilities due to shareholder	8	0	0.0 %	374,444,018	70.8 %
Provisions and similar items required by law		528,543	0.1 %	0	0.0 %
Total long-term liabilities		**528,543**	**0.1 %**	**374,444,018**	**70.8 %**
Total Liabilities		**1,246,147**	**0.2 %**	**375,963,787**	**71.1 %**
Shareholders' Equity					
Share capital	9	554,444,010	100.6 %	150,000,000	28.4 %
General legal retained earnings		1,096,430	0.2 %	1,096,430	0.2 %
Voluntary retained earnings' – Results carried forward		–5,670,003	–1.0 %	1,641,724	0.3 %
Total shareholders' equity		**549,870,437**	**99.8 %**	**152,738,154**	**28.9 %**
Total liabilities and Shareholders' Equity		**551,116,584**	**100.0 %**	**528,701,941**	**100.0 %**

INCOME STATEMENT

for the year in CHF	NOTE	2018	2017
Net proceeds from sales of services	**10**	**39,707**	**40,696**
Costs for third party services		–8,738,908	–7,213,768
Staff costs	11	–321,530	–299,744
Other operational costs	12	–4,695,404	–331,701
Earnings before interests and taxes		**–13,716,135**	**–7,804,517**
Financial result general	13	11,998,557	–13,704,221
Financial result from financial assets and shareholdings	14	–3,299,990	12,632,033
Financial result from derivative financial instruments	15	1,055,140	–2,127,012
Earnings before currency translation and taxes		**–3,962,428**	**–11,003,717**
Result from currency translation from functional currency (USD) to reporting currency		–3,349,299	–6,768,356
Loss before taxes		**–7,311,727**	**–17,772,073**
Taxes (stamp duties)	12		–58,158
Loss for the year		**–7,311,727**	**–17,830,231**

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	31.12.2018	31.12.2017
1 Cash and cash equivalents		
Cash at banks	218,474,832	233,453,019
Total	**218,474,832**	**233,453,019**
2 Other current receivables		
Receivables from investment transactions	0	483,899
Collaterals	4,938,504	4,881,898
Withholding tax receivables	47,118	25,178
Other current receivables	566	6,513
Total	**4,986,188**	**5,397,488**
3 Accrued income and prepaid expenses		
Prepaid expenses	294,702	832,670
Accrued income	689,146	338,989
Total	**983,848**	**1,171,659**
4 Financial assets		
Equity instruments	207,455,446	175,055,638
Debt instruments	87,853,665	69,619,937
Total	**295,309,111**	**244,675,575**

5 Shareholdings

Company/Domicile	Share capital in local currency				Holding of capital and votings in %		Book value in CHF	
	31.12.2018		31.12.2017		31.12.2018	31.12.2017	31.12.2018	31.12.2017
Sino Swiss Partnership Fund	CNY	197,302,502	CNY	197,302,502	70.19 %	70.19 %	13,331,009	13,933,332
SwissTec Venture Capital Fund	USD	14,026	USD	14,026	99.99 %	99.99 %	610,299	603,303
SEAF CEE Growth Fund	USD	2,882,925	USD	2,882,925	20.81 %	20.81 %	111,976	164,277
SEAF Central Asia Small Enterprise Fund		–	USD	9,617,524	0.00 %	41.98 %	–	0
Fidelity Equity Fund I	USD	1,358,089	USD	1,358,089	47.06 %	47.06 %	0	0
SEAF South Balkan Fund	EUR	6,601,774	EUR	6,601,774	30.52 %	30.52 %	1,709,141	1,608,738
SEAF Blue Waters Growth Fund	USD	17,963,815	USD	17,963,815	28.00 %	28.00 %	0	0
Aureos Latin America Fund II	USD	36,795,441	USD	36,795,441	28.29 %	28.29 %	2,977,509	5,139,515
Altra Private Equity Fund I	USD	4,781,033	USD	13,610,012	43.11 %	43.11 %	42,499	5,717,810
SEAF Trans Andean Fund	USD	12,442,481	USD	12,442,481	39.62 %	39.62 %	0	497,541
SEAF LATAM Growth Fund	USD	14,220,612	USD	14,220,612	41.18 %	41.18 %	1,520,138	1,790,067
Kaizen Private Equity	USD	30,039,512	USD	32,032,418	22.81 %	22.81 %	6,131,036	6,852,005
CVCSI	USD	5,000,000	USD	5,000,000	100.00 %	100.00 %	4,928,998	4,872,501
Ventureast Proactive Fund II	USD	21,181,973	USD	6,696,202	18.10 %	22.22 %	–	2,120,486
Kaizen Private Equity II	USD	14,910,663	USD	4,141,000	18.21 %	24.15 %	–	704,625
TOTAL							31,362,605	44,004,200

Due to the decrease in the holding of capital and votings of under 20 % of Ventureast Proactive Fund II and Kaizen Private Equity II in 2018 these investments have been reclassified and are now shown as financial assets.

in CHF	31.12.2018	31.12.2017
6 Other current liabilities		
Other current liabilities	138	2,761
Social insurances liabilities	4,534	0
Liabilities due to pension scheme	1,290	1,056
Liabilities due to authorities	4,888	2,444
Provision for foreign exchange forward contracts	106,700	236,638
Total	**117,550**	**242,899**
7 Deferred income and accrued expenses		
Accrued expenses	600,053	1,276,870
Total	**600,053**	**1,276,870**
8 Long-term liabilities due to shareholder		
Loans due to shareholder	0	374,444,018
Total	**0**	**374,444,018**
Maturity structure		
Up to five years	0	374,444,018
Total	**0**	**374,444,018**

9 Share capital

The share capital consists of 55,444,401 shares with a nominal value of CHF 10 each (31.12.2017 15,000,000 shares with a nominal value of CHF 10 each).

On 2 May 2018 all loans granted to SIFEM by the Swiss Confederation in the amount of CHF 374,444,018 have been offset and converted into equity, while at the same time SIFEM has received an additional injection of CHF 30,000,000, bringing the total share capital to CHF 554,444,010.

for the year in CHF	2018	2017
10 Net proceeds from sales services		
Income from fund retrocessions	39,707	40,696
Total	**39,707**	**40,696**
11 Staff costs		
Salaries and wages	–22,720	–17,120
Board compensation	–252,351	–223,319
Social security and pension costs	–22,696	–19,351
Other personnel costs	–23,763	–39,954
Total	**–321,530**	**–299,744**

for the year in CHF	2018	2017
12 Other operational costs		
Insurance premiums	−13,780	−13,700
Accounting and payroll expenses	−197,815	−169,926
Audit expenses	−78,319	−74,499
Other administration expenses	−4,243,626	−79
Stamp duty	−87,486	0
Sponsorship and membership contributions	−74,377	−73,497
Total	**−4,695,404**	**−331,701**

Other administration expenses include the emission duty of CHF 4,044,440 on the capital increase of 2 May 2018. In 2017 stamp duties amounted to CHF 58,158 has not been classified as other operational costs and were mentioned separately in the income statement. Audit expenses consists of CHF 66,320 for audit services and CHF 11,999 for other services.

	2018	2017
13 Financial result general		
Interest income	3'467'102	1'962'574
Interest expenses	−21'429	−21'385
Bank charges	−358'041	−393'321
Foreign exchange gains	9'184'203	602'253
Foreign exchange losses	−273'278	−15'854'342
Total	**11'998'557**	**−13'704'221**
14 Financial result from financial assets and shareholdings		
Interest income from financial assets	5,900,287	4,996,251
Distributions and dividends	14,796,636	9,381,691
Expenses	−327,753	2,787
Capital gains	100,668	0
Capital losses	−23,297,336	−6,059,567
Foreign exchange gains	570,388	4,310,871
Foreign exchange losses	−1,042,880	0
Total	**−3,299,990**	**12,632,033**
15 Financial result from derivative financial instruments		
Interest income	0	28,983
Interest expenses	0	−4,617
Capital gains	1,592,387	0
Capital losses	−537,247	−2,128,735
Other expenses	0	−22,643
Total	**1,055,140**	**−2,127,012**

FURTHER INFORMATION

16 Fulltime employees

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

17 Disclosure of derivative financial instruments

	2018	2017
Foreign exchange forward contracts (long)	14,106,176	16,248,817
Foreign exchange forward contracts (short)	–14,212,876	–16,485,455
Total (included in other current liabilities – s. Note 6)	**–106,700**	**–236,638**

18 Collateral

Assets pledged to secure own losses on derivative financial instruments amount to CHF 4,938,504 (31.12.2017: CHF 4,881,898).

19 Significant events after the balance sheet date

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

20 Outstanding capital commitments

		31.12.2018		31.12.2017
Debt investments				
Amret / Loan	USD	1	USD	1
Banco Improsa / Loan	USD	0	USD	12,000,000
CAMIF II / Loan	USD	2,042,000	USD	2,042,000
Cooperativa De Ahorro Y Credito Pacifico / Loan	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	5,309,680	EUR	5,325,988
Interact Climate Change Facility / Loan	EUR	14,785,532	EUR	15,417,368
Indosurya Inti Finance / Loan	USD	0	USD	12,000,000
Social Investment Fund 6.0 / Loan	USD	5,000,000		
Equity investments				
7L Capital Partners Emerging Europe	EUR	25,059	EUR	25,059
Abraaj Global Credit Fund	USD	7,755,434	USD	8,991,935
Abraaj North Africa II	USD	1,851,613	USD	1,981,788
Adenia Capital IV	EUR	6,463,786	EUR	8,660,367
Africa Forestry Fund II	USD	6,774,437	USD	7,000,000
AfricInvest Fund II	EUR	242,000	EUR	300,000
AfricInvest Fund III	EUR	1,043,315	EUR	3,336,995
agRIF / Shares	USD	745,154	USD	1,346,000
Amethis Maghreb Fund I	EUR	1,661,619	EUR	1,928,102
Apis Growth Fund I	USD	2,053,108	USD	3,301,837
Armstrong South East Asia Clean Energy Fund	USD	507,015	USD	887,667
Ashmore Andean Fund II	USD	4,421,469	USD	9,183,998
Aureos East Africa Fund	USD	62,751	USD	62,751
BioVeda China Fund III	USD	262,839	USD	553,684

	31.12.2018		31.12.2017	
Equity investments continued				
BTS India Private Equity Fund	USD	1,881,635	USD	1,881,635
BPI East Africa	USD	1,385,541	USD	1,634,422
Cambodia-Laos Development Fund	USD	139,993	USD	162,347
Cambodia-Laos-Myanmar Development Fund II	USD	1,953,412	USD	2,818,061
CAMIF II / Equity	USD	2,042,062	USD	2,042,062
Capital North Africa Venture Fund	EUR	767,545	EUR	767,545
Capsquare Asia Partners Fund II	USD	7,126,388	USD	10,000,000
Catalyst Fund I	USD	83	USD	40,836
Catalyst Fund II	USD	5,487,253	USD	6,753,811
Central American Small Enterprise Investment Fund II	USD	529,495	USD	529,495
Central American Small Enterprise Investment Fund III	USD	2,421,196	USD	2,541,196
CoreCo Central America Fund I	USD	399,661	USD	558,387
Darby Latin American Private Debt Fund III	USD	7,048,684	USD	9,655,562
Ethos Mezzanine Partners 3	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	6,459,358	USD	8,788,104
Evolution One	USD	113,257	USD	103,183
Falcon House Partners Indonesia Fund I	USD	102,024	USD	1,029,399
Fidelity Equity Fund II	USD	883,820	USD	883,820
Frontier Energy II	USD	6,350,566		
GEF Africa Sustainable Forestry Fund	USD	20,308	USD	20,308
Growth Capital Partners (Lok III)	USD	3,914,016	USD	8,000,000
Horizon Fund III	ZAR	3,952,979	ZAR	3,726,733
IFHA II	USD	5,060,387	USD	7,389,107
JS Private Equity Fund I	USD	5,288,905	USD	5,294,556
Kaizen Private Equity Fund II	USD	5,850,060		–
Kendall Court Mezzanine Fund	USD	236,158	USD	249,591
Latin Renewables Infrastructure Fund	USD	1,109,939	USD	2,937,727
Maghreb Private Equity Fund II	EUR	15,709	EUR	15,248
Maghreb Private Equity Fund III	EUR	811,178	EUR	908,376
Maghreb Private Equity Fund IV	EUR	7,722,133	EUR	10,000,000
Medu Capital Fund III	USD	2,228,527	USD	2,683,631
Mongolia Opportunities Fund I	USD	991,810	USD	1,060,665
Omnivore Fund II	USD	7,000,000		
Progression Eastern African Microfinance Equity Fund	USD	1,140,531	USD	1,406,128
rABOP	USD	510,917	USD	510,917
Renewable Energy Asia Fund II	USD	2,536,059	USD	3,894,565
South Asia Growth Fund II	USD	10,000,000		
Synergy Private Equity Fund	USD	581,807	USD	123,335
Synergy Private Equity Fund II	USD	9,032,880		
Vantage Mezzanine Fund	ZAR	2,379,545	ZAR	2,427,076
Vantage III Pan African Fund	USD	2,575,188	USD	4,183,324
Vantage III Southern African Fund	ZAR	45,566,165	ZAR	36,111,034
VenturEast Proactive Fund	USD	–7,309	USD	–5,562
VenturEast Proactive Fund II	USD	5,333,917		–
VI (Vietnam Investments) Fund I	USD	1	USD	1
VI (Vietnam Investments) Fund II	USD	632,355	USD	631,110

		31.12.2018		31.12.2017
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	USD	15,000,000
Fidelity Equity Fund I	USD	500	USD	500
Kaizen Private Equity	USD	225,585	USD	225,585
Kaizen Private Equity Fund II		–	USD	9,000,000
SEAF Blue Waters Growth Fund	USD	570,132	USD	570,132
SEAF LATAM Growth Fund	USD	1,132,040	USD	1,144,394
SEAF South Balkan Fund	EUR	520,851	EUR	520,851
SEAF Trans Andean Fund	USD	70,329	USD	70,329
VenturEast Proactive Fund II		–	USD	7,492,917

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

in CHF	31.12.2018	31.12.2017
Retained earnings / -loss brought forward	1,641,724	19,471,955
Net profit or -loss for the year	–7,311,727	–17,830,231
Available earnings / accumulated losses	**–5,670,003**	**1,641,724**

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

Transfer to the general legal retained earnings	0	0
To be carried forward	–5,670,003	1,641,724
Total	**–5,670,003**	**1,641,724**

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[8] 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. In one specific case, an extended timeframe was granted to a Fund Manager to fully comply with the ESG requirements, and specific safeguards were put in place.
FINANCIAL ADDITIONALITY	**a)** At least 25 % of investments target least developed countries and other low income countries (rolling 3 year average).	**On track:** 38 % of SIFEM's deals closed in 2018 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:** 50 % of SIFEM's deals closed in 2018 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 was provided to financial intermediaries on E&S matters on a regular basis in 2018. Specific opportunities have already been identified to provide hands-on support to financial intermediaries in the coming years.

8 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):** 37 technical assistance interventions took place in 2018, financed by the SIFEM TA Facility. The interventions were provided to the investees of 5 funds, mainly in Asia and Latin 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 6 of private investment for the 2018 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-Sahara Africa).	**On track:** During the period 2018, 100 % of direct investments and 67 % of fund investments targeted SIFEM priority countries, as defined in the investment guidelines at the time of investment.

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.	**Off track:** SIFEM's pro rata share of new jobs created and sustained between 2016 and 2017 amounts to 9,200.
	b) The number of jobs in the SIFEM portfolio companies increases by at least 6 % on a three-year average.	**Off track:** The employment numbers in existing fund investees grew by 3 % on average between 2016 and 2017.
	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:** For 100 % of SIFEM's deals closed in 2018, 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:** For all investments made in 2018, legal documents contained requirements to set ESG-related targets at the investee level and subsequently report on progress made in the future.
	e) Demonstrate the business case as well as the economic and societal benefits of investing in the quality of jobs.	**On track:** A study on the qualitative dimension of jobs will be commissioned in 2019, based on the discussions initiated by the Board in 2018.
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:** 78 % 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 2018.
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 is an anchor fund investor and takes a seat on the supervisory bodies of 100 % of its fund deals closed in 2018.
MOBILISATION	SIFEM directly leverages at least CHF 30 million from private and/or institutional investors on the 2018ff. capital increase from the Swiss Confederation.	**Unclear:** The last new mandate dates back to 2017. Two sizeable mobilization projects are in the advanced pipeline.
MONITORING	Report on the development effects in line with the SIFEM Impact Policy.	**On track:** The SIFEM Development Impact Report 2017 published in 2018 focuses on financial inclusion, one of the development effects covered by the SIFEM Impact Policy.
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 Development Impact Report 2017: • 650,000 jobs supported and created since 2005 (together with co-investors) • 3'310 GWh of clean energy produced and 4.4 million tons of CO_2 emissions avoided (together with co-investors)
	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 "Mobilize additional financial resources for developing countries from multiple sources"	**Descriptive reporting (no target level):** Contributions to the SDGs: • SDG 8: 63 % of investments made in 2018 • SDG 7: 25 % of investments made in 2018 • SDG 17: 25 % of investments made in 2018 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:** 63 % of SIFEM's investments closed in 2018 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.
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: 33.4 % • Debt instruments: 4.5 %

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 1.29 % in 2018, 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 operating costs and new commitments made during the year (USD 80 million) was less than the overcommitment headroom (USD 54 million) and the reflows received in 2018 (USD 56 million).

	b) The average annual reflows increase by at least 10 % compared to the average annual reflows between 2014–2017.	**On track:** 2018 reflows are 36 % above the average reflows during the 2014–2017 period.
FINANCIAL RESULT	Positive operating result in accordance with IFRS.	**Off track:** The operating loss amounts to CHF 22.5 million.
INVESTMENTS	**a)** Internal Rate of Return exceeding 3 %. Value multiplier (Total Value over Paid-in) exceeding 1,15.	**On track:** IRR 6.30 %, TVPI 1.25
	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 all these working groups in 2018. See section 1.4.
	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

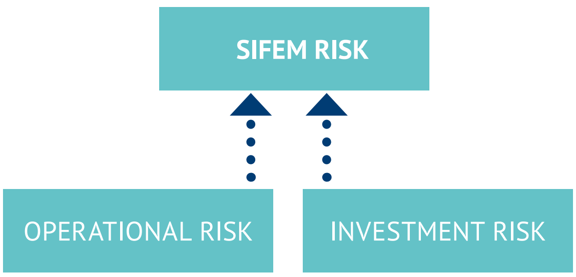
1. SIFEM RISK MANAGEMENT PRINCIPLES

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

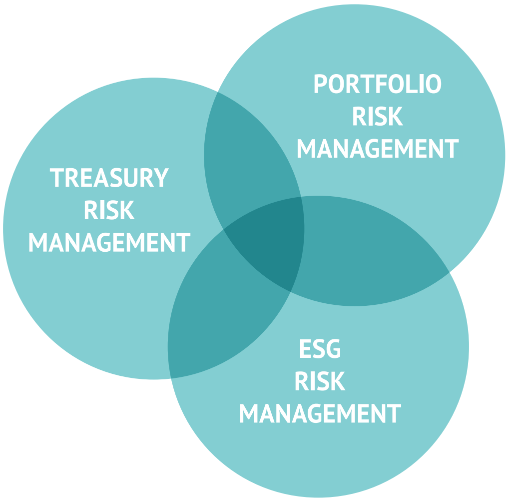
SIFEM is subject to a full audit conducted annually in accordance with the Swiss Code of Obligations. Since the 2008 revision of the Swiss Code of Obligations, companies undergoing a full audit are required to demonstrate the existence and quality of an Internal Control System (ICS). The Board of Directors 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 and Section 5 respectively of this annex.

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 minimize 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.

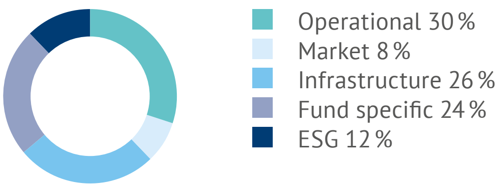
ESG risk ratings and other key information (including compliance status and serious incidents) are maintained in a Management Information System. Watch lists are periodically generated to track and monitor risks. The ESG risk profile of SIFEM's entire portfolio is generated annually.

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

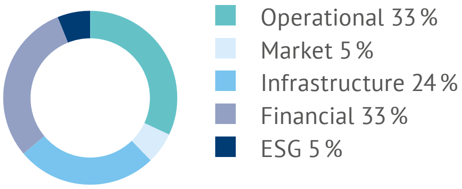
Figure C



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.

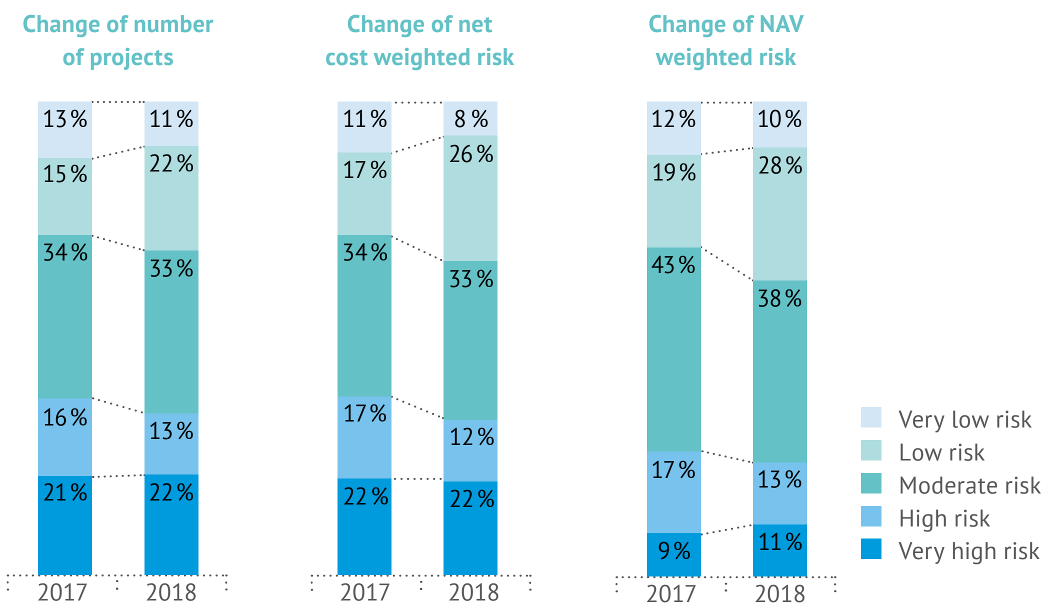
The individual rating of each investment is rescaled into a risk score ranging from 1 (very high risk) to 5 (very low risk). Risk scores of 4 or 5 classify an investment as low risk or even very low risk, respectively, while a risk score of 3 indicates a moderate risk. A risk score of 2, puts an investment 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 2018

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. Figure E below shows the difference between the two methodologies.

When measuring the exposure to each risk category by weighing each investment by its NAV, the largest concentration still falls within the moderate risk category. This is not surprising, since highly-risky projects tend to be more heavily provisioned, or have historically lost value as compared to the original cost of investment, thereby losing relative weight in the total residual value of the SIFEM portfolio. It also needs to be noted that the cumulative share of high-risk and very high-risk projects decreased in 2018. This improvement of the risk profile is even more pronounced when measuring the portfolio risk by using the NAV-weighted approach. One notable reason for this trend is the outstanding performance of some investments previously rated at moderate risk.

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 2018



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 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 2018

Projects per risk category	Private Equity Funds		Pooled Debt Vehicles		Direct Debt Investments	
Very low risk	8	12 %	2	**13 %**		
Low risk	9	14 %	7	**44 %**	3	**33 %**
Moderate risk	22	**33 %**	4	**25 %**	5	**56 %**
High risk	9	**14 %**	2	13 %		
Very high risk	18	**27 %**	1	6 %	1	11 %

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 investment is subject to extraordinary provisions normally a change in the risk category occurs. For fully provisioned debt investments, the exposure to the risk category (typically the highest for such underperforming assets) disappears if weighted by NAV, since a residual value of zero is allocated for that investment. This underlines the forward-looking nature of the NAV-approach: such an investment was a loss for SIFEM, but since its value in the current portfolio is zero, no value is at risk for future losses with respect to that particular investment.

FIGURE G: PROJECTS, NET COST AND NAV OF THE SIFEM PORTFOLIO AS A PERCENTAGE PER RISK CATEGORY AS OF DECEMBER 2018

Private Equity Funds	PROJECTS	COST	RESIDUAL VALUE
Very low risk	12 %	12 %	15 %
Low risk	14 %	17 %	19 %
Moderate risk	33 %	28 %	33 %
High risk	14 %	15 %	17 %
Very high risk	27 %	28 %	16 %
Pooled Debt Vehicles			
Very low risk	13 %	3 %	3 %
Low risk	44 %	47 %	45 %
Moderate risk	25 %	39 %	42 %
High risk	13 %	11 %	10 %
Very high risk	6 %	1 %	0 %
Direct Debt			
Very low risk			
Low risk	33 %	41 %	47 %
Moderate risk	56 %	46 %	53 %
High risk			
Very high risk	11 %	13 %	0 %

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 marginal, as most investments move by only one category 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 2018, out of which 15 displayed a deterioration and 13 an improvement. In fact, during the year, four projects moved from the high-risk to the very high-risk category, while five projects that were previously classified as moderate risk are now in the high-risk and one in the very high-risk category. At the same time, one project moved from very high-risk to high-risk, four projects from high-risk to the moderate-risk category, seven projects from the moderate-risk to the low-risk category and one project to the very low-risk group.

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

2018 \ 2017 – 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	15	**4**	**1**	0	0	20	21.5 %
2 High risk	1	**1**	5	**5**	0	0	12	12.9 %
3 Moderate risk	5	0	**4**	18	**4**	0	31	33.3 %
4 Low risk	2	0	0	**7**	10	**1**	20	21.5 %
5 Very low risk	0	0	**1**	0	0	9	10	10.8 %

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. Neither SIFEM nor the Swiss Confederation are a shareholder of Obviam.

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 NAV 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 Francs
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	Netherlands 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

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Design:
Push'n'Pull, Bern

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Print:
Vögeli Druck, Langnau