

# BUSINESS & FINANCIAL REPORT

# 2020









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# 2020 FINANCIAL HIGHLIGHTS

	2020	2019
<b>OPERATIONAL HIGHLIGHTS</b>		
in USDm		
<b>Commitments and cash flows</b>		
Total commitments made to date	1,146.7	1,059.3
Total active commitments	883.6	839.0
Uncalled commitments	247.4	240.3
Cumulative paid-in capital to date	887.9	820.2
Cumulative reflows received to date	648.0	596.3
Cumulative net cash flow to date	-239.9	-223.9
New investment commitments	85.6	104.5
Reflows from investments	51.7	56.5
<b>Investment portfolio valuation</b>		
Residual value	420.0	420.5
Internal rate of return (%)	5.2%	6.0%
Total value over paid-in (%)	120%	124%
<b>Private finance mobilised</b>		
Total private investor commitments by Obviam clients	173.6	113.5
New co-investments from private investors	17.0	0.0

**USD**  
**85.6 m**  
NEW INVESTEMENT  
COMMITMENTS

## FINANCIAL STATEMENT HIGHLIGHTS

in CHFm

### Annual results

Net operating income/-loss	-17.2	16.0
Operating result	-28.6	5.1
Total profit/-loss for the period	-28.6	5.1

### Balance sheet

Balance sheet total	616.9	643.3
Cash and cash equivalents	209.9	217.2
Uncommitted capital	-8.7	-15.5
Financial assets	386.9	407.2
Shareholder's equity	584.1	628.8
Equity ratio (%)	94.7%	97.7%

**CHF**  
**386.9 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 2020.

# ANNUAL REVIEW

# FOREWORD BY JÖRG FRIEDEN



Dear reader,

The world economy has entered the worst recession since the Great Depression of the 1930s, triggered by the COVID-19 pandemic. The shock has led to massive supply chain disruptions, a steep decline in world trade and commodity prices, and record-high employment losses. For emerging markets and developing countries, the economic and social costs of the current crisis have been severe due to the absence of large-scale safety nets for people and businesses. In those countries, the crisis is likely to push more than 100 million people into extreme poverty in 2020 alone, especially in South Asia and Sub-Saharan Africa. This exogenous and sudden crisis has changed the profile of global poverty by throwing millions of workers into poverty. Indeed, the International Labour Organization (ILO) estimates that nearly 255 million full-time jobs have already been lost in 2020, which could wipe out much of the employment created in developing countries over the past decade.

The events that have occurred since the beginning of spring 2020 therefore constitute a major structural shock, strongly affecting the portfolio of SIFEM, the Swiss Confederation's Development Finance Institution (DFI), whose mission it is to provide long-term financing to private companies in emerging markets and developing countries with a view to contributing to job creation and poverty reduction.

Accordingly, SIFEM's operating result has taken a hit in 2020, with a loss of CHF 28.6 million. This negative result reflects mainly market valuation losses at the level of SIFEM's assets and should be at least partially recovered with the expected improvement of the global economy.

SIFEM has reacted swiftly to the crisis. It has sought to preserve the value and development impact of its assets, but has also continued to invest in new

projects. It provided emergency liquidity to some existing partners as well as targeted guidance and technical assistance in order to preserve the development effects of past investments. It also joined a new COVID-19 financing platform along with other European Finance Institutions. Last but not least, it invested USD 85.6 million in new operations, of which USD 12.8 million were committed to emergency liquidity facilities to respond to the COVID-19 crisis. This was made possible by the extraordinary capital increase of CHF 10 million granted to SIFEM by the Swiss Government.

2020 marks also the end of Strategic Cycle 2018–20. I am pleased to report that SIFEM has achieved all but one of the developmental and financial target indicators assigned by the Federal Council for the entire period. This is a very positive outcome given the circumstances. However, it is important to note that the negative impact of the crisis on the development effects of SIFEM's investments is not yet totally reflected in these results. It is unfortunately to be expected that most of the consequences of the pandemic – and in particular job losses – will be visible in future reports. To put these evolutions in the right perspective, interested readers can consult SIFEM's Impact Report, published in December 2020, which focuses on decent jobs and presents a detailed analysis of the characteristics of jobs in the SIFEM portfolio.<sup>1</sup>

The SIFEM Board is grateful to the Swiss Parliament and to the Federal Government, represented by SECO, for their constant support, and looks forward to continuing these constructive relationships in the context of the new Strategic Period commencing in 2021. It also is thankful to Obviam, SIFEM's Manager, for the efficient and successful implementation of SIFEM's strategy and investment projects. It interprets the acquisition of Obviam by a private Swiss Bank during a financial crisis as a validation by the market of SIFEM results and perspectives. These developments will induce, in 2021, a new

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<sup>1</sup> SIFEM-Investing in Sustainable Development: 2020 edition", [https://sifem.ch/fileadmin/user\\_upload/sifem/pdf/en/Reports/SIFEM\\_Impact\\_Report\\_2020\\_en.pdf](https://sifem.ch/fileadmin/user_upload/sifem/pdf/en/Reports/SIFEM_Impact_Report_2020_en.pdf)

public procurement of the business and the portfolio management mandates, testing further the interest of private institutions for impact investing in emerging markets and development countries.

In the face of an unprecedented crisis, DFIs like SIFEM struggle to preserve businesses in developing countries. At a time when private capital flows to developing countries have declined, these institutions act counter-cyclically, accepting higher risks and absorbing short-term losses. They are determined to participate in rebuilding local economic fabrics and to promote a sustainable growth very much in line with the new mandate defined for SIFEM by the Federal Council and the Paris Agreement objectives. A strong, socially and environmentally conscious response will help responsible private enterprises to emerge stronger from the crisis. Workers, especially the most vulnerable and among them many women, will not be forgotten in this process. It is the joint responsibility of governments local businesses and their international partners to support them in hard times and to prepare them for the challenges of a different economy.

Yours faithfully,



Jörg Frieden  
Chairman of the Board of SIFEM



# FOREWORD BY CLAUDE BARRAS



Dear reader,

To say that 2020 was an extraordinarily challenging year is an understatement. The magnitude of the crisis as well as the sudden lockdowns and travel bans have been disruptive for everyone and has complicated investment monitoring as well as appraisals. In the face of this unprecedented situation, Obviam had to develop innovative solutions with other partner institutions to monitor ongoing operations and assess the potential for new investments remotely, without compromising on the quality and the integrity of our work. Specific guidance was also provided to partners in the field to monitor social and environmental risks, so as to mitigate the negative impacts of the crisis. Emergency liquidity solutions were also worked out in a limited number of cases, in close partnership with other European Development Finance Institutions (EDFIs). The close cooperation with SIFEM's sister institutions has been a critical element of success to support existing partners in weathering the storm. In November 2020, SIFEM participated in the creation of a new dedicated COVID-19 financing initiative through the existing European Financing Partners (EFP) scheme, along with other EDFI members and the European Investment Bank (EIB). This EUR 280 million initiative has been designed to provide financial support to businesses and local financial institutions in emerging markets which are currently faced with economic challenges resulting from the COVID-19 pandemic.

The presentation of SIFEM's financial accounts reflects the severity of the current global crisis. The operational loss of CHF 28.6 million comes from a substantial decrease in the market valuation of the existing assets in the portfolio compared to last year, which is linked to the depressed economic environment at the global level. This does not necessarily indicate that SIFEM's investments are in trouble, but that market value has diminished due to the current crisis. SIFEM's investees have generally held up to the crisis and have shown remarkable resilience. To be sure, financial reflows have remained strong, being only slightly below last year's results, which is encouraging. Of course, the future way out

of the current crisis and the pace of the economic recovery will be crucial for the financial performance of SIFEM's investments in the long run.

In terms of new investments approved in 2020, SIFEM committed a total of USD 85.6 million in ten new investments. The new commitments include six investments in private equity funds that support SMEs and other fast-growing businesses in Sub-Saharan Africa and Latin America, one loan to a financial institution targeting SMEs in Southeast Asia, and three COVID-19 related investments. One concrete example of the commitments approved in 2020 is an investment into Novastar Ventures Africa Fund II, an impact fund, targeting venture capital investments in innovative start-up businesses in East and West Africa. The fund aims at supporting local entrepreneurs with the capability and ambition to transform markets for low-income consumers with innovative products and solutions. Another example is a top-up investment into a fund financing renewable energy and energy efficiency projects in developing countries.

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,

A handwritten signature in black ink, appearing to read 'Barras', with a long, sweeping underline.

Claude Barras  
CEO of Obviam, the Manager of SIFEM





# 1. STRATEGY

## 1.1 SIFEM'S MISSION AND OBJECTIVES

The Swiss Investment Fund for Emerging Markets (SIFEM) is the Swiss Development Finance Institution (DFI). It is owned by the Swiss Government and is an integral part of the instruments of economic development cooperation. SIFEM is specialised in providing long-term financing to small- and medium-sized enterprises (SMEs) and other fast-growing companies in developing and emerging countries, focusing on the priority countries of Switzerland's development cooperation. This helps create and secure more and better jobs and reduce poverty while also contributing towards the integration of these countries into the global economic system.

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

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

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

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

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

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

## 1.2 DEVELOPMENT IMPACT – HOW DOES SIFEM MAKE A DIFFERENCE?

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

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

The result measurement framework used by SIFEM is composed of three different levels: First, an internal rating tool (SIFEM GPR), originally developed by the German DFI (DEG), is used to appraise investments and track their development performance over time. In order to do this, a benchmark is established prior to investment to reflect the expected development effects. Second, a number of quantitative indicators are collected for each investment to measure development effects, which can be aggregated at the portfolio level and reported to Parliament. Third, case studies are conducted on an annual basis to take a closer look at the effects and value-add of SIFEM's investments in specific contexts.<sup>2</sup>

The main development highlights as well as a specific thematic analysis are published annually in a separate report, based on data from the previous year. The latest available report ("SIFEM-Investing in Sustainable Development")<sup>3</sup> was issued towards the end of 2020, with the main development highlights at the portfolio level, as well as a special chapter on SIFEM's role in the decent job agenda and the first effects of the COVID-19 crisis on jobs in the SIFEM portfolio. The report highlights the fact that even if SIFEM portfolio companies have so far been remarkably resilient, some job destruction appears to be inevitable, and much will depend on the timing as well as the pace of the economic recovery. With the emergence of new job data collected by SIFEM, the picture will become clearer by the end of 2021.

SIFEM's current practice of impact management is broadly aligned with the Operating Principles for Impact Management, which were developed by the International Finance Corporation (IFC) and launched in 2019. The Principles provide a common market standard for what constitutes an impact investment. They describe the essential features of managing investments into companies or organisations with the intent to contribute to measurable positive social, economic, or environmental impact, alongside financial returns. Impact considerations have to be integrated into all phases of the investment lifecycle: strategy, origination and structuring, portfolio management, exit, and independent verification. Critically, the Principles call for annual disclosure as to how signatories implement the principles, including independent verification, which will provide credibility to the adoption of the Principles.

SIFEM was among the first adopters of these Principles, committing to manage its impact assets in accordance with the Principles. To date, more than 100 investors have become signatories of these Principles covering more than USD 340 billion of assets under management. SIFEM's alignment with the Principles has been confirmed through an independent verification process carried out in November 2020.<sup>4</sup>

## 1.3 PERFORMANCE AGAINST OPERATIONALISED OBJECTIVES 2018–2020

SIFEM's financial performance and development impact are defined in a catalogue of strategic objectives, which is split into four thematic groups: (1) programme-related objectives with a particular focus on compliance with SIFEM's investment guiding principles; (2) company-related objectives and tasks based on SIFEM's ability to

<sup>2</sup> <http://sifem.ch/impact/case-studies/>

<sup>3</sup> [https://sifem.ch/fileadmin/user\\_upload/sifem/pdf/en/Reports/SIFEM\\_Impact\\_Report\\_2020\\_Web.pdf](https://sifem.ch/fileadmin/user_upload/sifem/pdf/en/Reports/SIFEM_Impact_Report_2020_Web.pdf)

<sup>4</sup> [https://sifem.ch/fileadmin/user\\_upload/sifem/pdf/en/Verification\\_Letter\\_IFC\\_OPIM\\_SIFEM.pdf](https://sifem.ch/fileadmin/user_upload/sifem/pdf/en/Verification_Letter_IFC_OPIM_SIFEM.pdf)



balance financial sustainability and development impact within its portfolio; (3) financial objectives related to SIFEM's long-term financial sustainability; and (4) objectives related to SIFEM's efforts to develop and sustain cooperation agreements with other DFIs.

SIFEM has met 30 out of the 31 targets and sub-targets set by the Federal Council for the entire strategic period. The details of SIFEM's achievements against the operationalised objectives for the 2018-2020 period shows that all development objectives have been met or exceeded, but that the financial objectives have been impacted by the health and economic crisis of 2020. It should be noted that all these results – as well as the management system for these results at the level of the SIFEM Manager – have been validated by external experts, mandated by the Board of Directors to carry out an independent verification. These experts verified not only the validity of the calculations performed, but also the compliance with the processes and rules defined, and the adequacy of the internal management systems.

The Board of Directors considers this to be an excellent result, given the adverse external environment associated with the COVID-19 crisis.

The performance results against the operationalised objectives for the 2018-2020 period 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 therefore seeks to strengthen cooperation and synergies with these institutions informally, and participates actively in joint working groups in a more formal way.

##### **EDFI – European Development Finance Institutions**

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

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

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

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

In 2020, SIFEM also contributed to the Responsible Financing and Impact Measurement Task Force set up at the level of EDFI as well as the EDFI Legal Working Group. SIFEM through Obviam's CEO was also re-appointed to the EDFI Board in May 2020 for another term. In the context of the COVID-19 crisis response, SIFEM has actively taken part in most of the working groups under the lead of the EDFI CIO Task Force and helped shape the collective response of the EDFIs.

SIFEM co-chaired the EDFI Harmonisation Task Force together with FMO (the Dutch DFI), and has taken the lead on the Environmental and Social aspects of the harmonisation agenda. This work has focused on the harmonisation of SDG 5 – Gender Equality (Criteria and Reporting), harmonisation of SDG 8 – Decent Work and Economic Growth (Indirect Jobs using a Joint Impact Model), and SDG 13 Climate Action- Climate (GHG avoidance). Considerable attention has been placed on the development of the EDFI Climate and Energy Statement which was released in November 2020, which factors in the redirection of flows towards the objectives set in the Paris Agreement on climate.

# 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.<sup>5</sup>
- Ordinance on co-operation with Eastern European countries of 6 May 1992.<sup>6</sup>

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

## 2.2 CORPORATE STRUCTURE

The Board of SIFEM is responsible for investment decisions and other executive management tasks. In accordance with its Organisational Regulations, the Board structure includes two committees: the Investment Committee and the Audit Committee. Investment and divestment decisions are delegated to the Investment Committee. The Audit Committee validates the valuations of SIFEM investments, reviews SIFEM's financial accounts and related matters, and liaises with the auditor. SIFEM's sole employee is a part-time Board Secretary.

The management of SIFEM's investment portfolio and its day-to-day operations have been delegated to Obviam, an independent company specialised in impact investments in developing and emerging countries, through a public tender process carried out in 2015. This facilitates the raising of third-party capital by Obviam, thus fulfilling SIFEM's objective of mobilising private investments for target countries, while shielding SIFEM and the Swiss Confederation from liability risks. The contractual framework between SIFEM and Obviam is in line with international best practice for private equity fund managers and respects the standards of the Swiss Confederation.

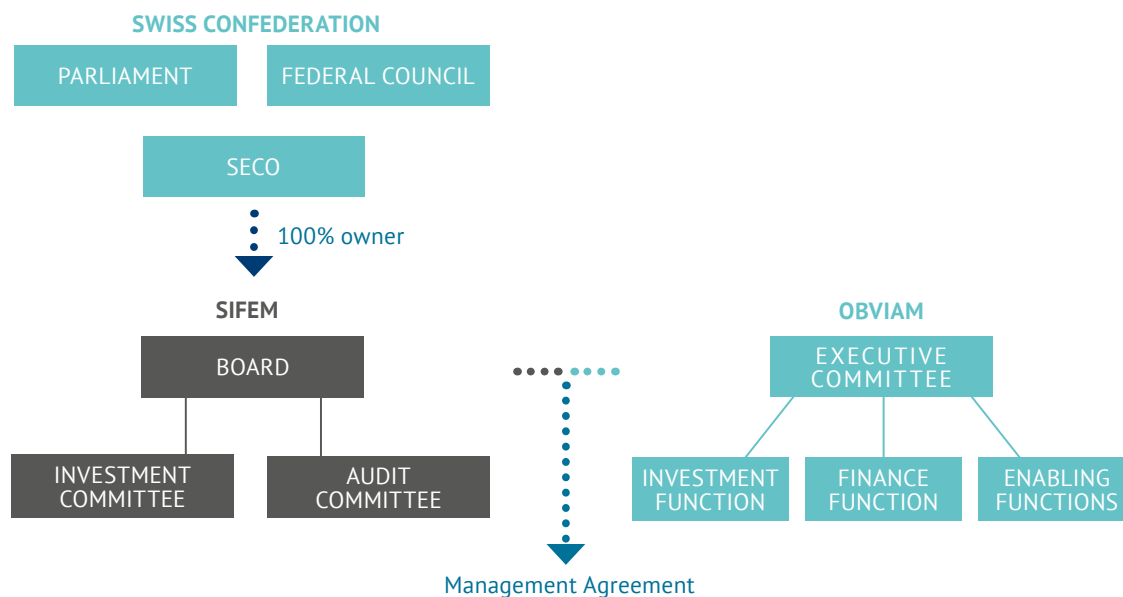
The corporate structure of SIFEM ensures consistency with the principles of the corporate governance report of the Federal Administration and constitutes a suitable vehicle for safeguarding, complementing, and capitalising on the know-how and quality networks acquired over the past years in the area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

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<sup>5</sup> Verordnung vom 12. Dezember 1977 über die internationale Entwicklungszusammenarbeit und humanitäre Hilfe, SR 974.01

<sup>6</sup> Verordnung vom 6. Mai 1992 über die Zusammenarbeit mit den Staaten Osteuropas, SR 974.11

**FIGURE 1: SIFEM CORPORATE STRUCTURE AND GOVERNANCE**



## 2.3 GOVERNANCE AND POLICY ACTIONS

### Board

In 2020, SIFEM's Board of Directors focused its attention on the management of the consequences of the COVID-19 crisis on the SIFEM's portfolio, with a view to preserving long term financial and social value. Periodic reviews were conducted on the status of the SIFEM partners and their investees. The Board reviewed in particular experiences made in managing the social implications of the crisis for different categories of workers and examined the implications for the next strategic period commencing in 2021. The priorities of the Federal Council in matters of development cooperation for the years 2021–24 were at the heart of these reflections, especially regarding the creation of decent jobs and the facilitation of the energy transition in developing and emerging countries.

The Board of Directors also recruited the Dutch consultancy Steward Redqueen to conduct two independent verification mandates, i.e. one on SIFEM's alignment with the IFC Operational Principles on Impact Management, and one on SIFEM's performance against the strategic objectives 2018–20. These verification exercises were aimed at strengthening SIFEM's accountability and providing improvement recommendations in terms of impact management. The result of both exercises was positive.

In 2020, SIFEM also confirmed its commitment to the 2X Challenge's collective target defined for 2021–2022. SIFEM joined the "2X Challenge initiative: Financing for Women Initiative" in 2019, which seeks to mobilise financing for women's economic empowerment globally. To date, more than USD 4.5 bn have been committed and mobilised by 2X Challenge members, which exceeds the original target set by the G7 (USD 3 billion by end of 2020). In view of the positive momentum of the initiative, a new target has been set for the 2021–2022 period, which is to collectively commit and mobilise USD 15 billion.

In addition, in line with the new strategic objectives defined for 2021–24, SIFEM launched technical discussions with the Swiss Development Cooperation (SDC) of the Ministry of Foreign Affairs with a view to set up future cooperation modalities. It has been agreed to implement a partial first-loss guarantee scheme financed by SDC and applicable to selected SIFEM high-risk investments, notably in least developed countries (LDCs). This new cooperation is expected to start in 2021. This will constitute the first "blended finance" instrument made available to SIFEM in the context of its investments.

Finally, the Board of Directors of SIFEM has taken note of the change of control at Obviam and of the planned merger between the latter and Asteria Investment Managers SA, a subsidiary of the Swiss private bank REYL &



Cie SA. The merger should be formalised and become operational in 2021. The new company Asteria Obviam AG has the obligation to fulfil the SIFEM mandate with the existing key persons in accordance with contractual provisions as well as with the strategic objectives defined by the Federal Council. The performance of Asteria Obviam against the contractual provisions of the management contract will be subject to a close monitoring.

The mandate from SIFEM AG to Obviam AG will expire in mid-2022. The award of the management and investment mandates for the period following that date will be subject to a public tender organised in 2021.

### Investment Committee

In 2020, SIFEM's Investment Committee held ten formal meetings to review investment proposals presented by Obviam and to discuss the impact of the COVID-19 on the active portfolio. Concept approval was granted for eight new proposals, allowing Obviam to conduct due diligence on these deals and submit them to the Investment Committee for final approval. Six proposals were submitted following due diligence and five of them received final approval from the Investment Committee; one of them was rejected; three "COVID-19 response" transactions were also approved, with a view to providing liquidity to existing clients and participating in a joint-response facility with other European DFIs. Ten transactions closed before year-end for a total of USD 85.6 million. For further details on the transactions closed during the year, see Section 3.1.

### Audit Committee

The Audit Committee held five meetings in 2020 and examined a wide range of topics, from portfolio performance and valuations to financial accounts, management accounts and budget, risk management, and performance of the accountants, auditors and custodians. The Audit Committee recommended that the Board approve SIFEM's 2020 financial accounts. Ensuring that the portfolio is valued at fair market value was the overarching topic and absorbed much time. Given the extraordinary circumstances of the COVID-19 crisis, special attention was given to the impact of the crisis on valuations.

## 2.4 SHORT BIOGRAPHIC PROFILES OF SIFEM BOARD MEMBERS

### Jörg Frieden

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

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

### Susanne Grossmann

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

Susanne Grossmann has been active in private sector finance in emerging markets and developing economies since 1999. From 2007-2014 she was Managing Partner at BTS Investment Advisors, a private equity fund advisor for investments in non-listed Indian small- and mid-sized companies. Today, Ms. Grossmann manages the Dalyan Foundation, a charitable foundation supporting women and children in India and Turkey. Since 2014, she has also been a Managing Director at FinanceContact GmbH in charge of administering the SECO Start-Up Fund. She serves as a member of the advisory committees of Weconnex, a service and project management firm focusing on Base-of-the-Pyramid markets, and of the Department of Environmental Systems Science of ETH Zurich. She is also a member of the investment committee of Dreilinden GmbH in Hamburg, a company supporting social acceptance of gender and sexual diversity.

### **Julia Balandina Jaquier**

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

Dr. Julia Balandina Jaquier has over 25 years of investment and strategic consulting experience, the last 16 of which have been focused on impact investing. She has facilitated development of a broad range of mission-driven investment programs and funds, acting in a principal capacity as well as a trusted adviser to major private, institutional and sovereign investors. Julia is the founder of KATALYST, the capacity-building platform for families of wealth. She lectures/d on impact investment at IMD, St. Gallen University, Harvard, Yale and CEIBS. She is an author of 2 books on impact investment and serves on (advisory) boards of Unilever, FORE Partnership and toniic 100. Balandina Jaquier started her career at McKinsey and subsequently held senior positions at ABB Financial Services and AIG Global Investment

### **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, of the SDG Frontier Fund in Brussels and of Gebana AG in Zurich. He sits on the investment committee of various funds or investment structures active in emerging markets (responsAbility, AfricInvest, Ascent Rift Valley).

### **Kathryn Imboden**

*Member of the Investment Committee since 2014*

Kathryn Imboden is a Policy Advisor for the Consultative Group to Assist the Poor (CGAP), a research and policy platform on financial inclusion housed at the World Bank. In this position, she focuses currently on the engagement of global standard-setting bodies in financial inclusion. Following nearly twenty years with the Swiss Agency for Development and Cooperation (SDC), where she led SDC's macroeconomic and financial sector work, she held financial sector policy related positions at Women's World Banking, United Nations Capital Development Fund, and the Aga Khan Foundation, before joining CGAP in 2007.

### **Regine Aeppli**

*Member of the Board, since 2017*

Regine Aeppli was a partner in a law firm dealing with family law, state and administrative law from 1986 to 2003. In addition to her work as a lawyer, she was politically active as a representative of the Social Democratic Party of Switzerland. From 1987 to 1996, she was a member of the Zurich Cantonal Council, and from 1995 to 2003, she was elected to the Swiss Parliament's National Council. In 2003, she was elected to the Cantonal Government of the Canton of Zurich where she headed the Education Directorate until her departure in 2015. She is a member of the board of various foundations (Kulturama, I care for you). She is also Chairperson of the Association "Schulen nach Bern". Regine Aeppli studied law at the University of Zurich, where she obtained her diploma.

### **Angela de Wolff**

*Member of the Investment Committee, since 2017*

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

## 2.5 COMPENSATION REPORT

### Board Compensation

In 2020, the fixed annual compensation for the entire SIFEM Board amounted to CHF 315,800, excluding social security contributions.

The Chairman of the Board received a total gross compensation of CHF 54,000 in 2020. This consists of a base compensation of CHF 30,000 for his role as Chairman of the Board and CHF 24,000 for his role as Chairman of the Investment Committee.

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

### Compensation of Obviam

The compensation of Obviam is determined by the terms of the Management Agreement.<sup>7</sup> Under this Agreement, Obviam is compensated within a budget that is approved annually in advance by the Board. Obviam has complied with the salary restrictions stated in the Management Agreement.<sup>8</sup>

The Board of SIFEM agreed to the annual budget proposed by Obviam for 2020 under the aforementioned Management Agreement. For the year 2020, the budget for Obviam was CHF 8.8 million, excluding VAT and accruals for variable compensation. The costs incurred under this budget amounted to CHF 8.3 million, corresponding to 1.07 per cent of total active commitments. This is larger than the previous year's ratio since the Swiss franc value of the total active commitments has actually decreased in 2020 due to the sharp depreciation of the USD against the CHF. Using static exchange rates, the ratio for 2020 would have been 0.97% as compared to 0.98% in 2019.

<sup>7</sup> 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.

<sup>8</sup> The wording of Clause 4.17 of the Management Agreement is as follows:

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



As per the Management Agreement, the Board may decide to allocate a variable compensation element to Obviam based on performance against pre-defined objectives.<sup>9</sup> The Board fixed the annual, short-term component of the incentive scheme for 2020 at 6.0 per cent of the overall fixed salary cost.<sup>10</sup> As regards the long-term component of the incentive scheme, which is tied to performance against the SIFEM strategic objectives, accruals were made in 2020 and will be disbursed in 2021. The total management costs, including VAT, bonus payments and accruals for the financial year 2020 amounted to CHF 9.9 million.

SIFEM's operating costs include the compensation of the Board, of Obviam, and the expenses for administration, custodian, and other administrative expenses. In 2020, the total operating costs of SIFEM amounted to CHF 11.2 million (2019: 10.8 million). This corresponds to 1.44 per cent of the total active commitments of SIFEM, which is below the cap of 1.5 per cent defined by the Federal Council. The corresponding 2019 figure was 1.33 per cent. Owing to the sharp depreciation of the USD against the CHF in 2020, the Swiss franc value of SIFEM's total active commitments has decreased by 4 per cent in 2020 compared to 2019. This exchange rate effect alone explains the move of the operating cost ratio from 1.33 to 1.44 percent. Using the same USD/CHF exchange rate as in 2019, the operating cost ratio would have actually been lower in 2020, at 1.31 percent.

.....  
<sup>9</sup> The wording of Clauses 4.9 to 4.11 of the Management Agreement is as follows:

- 4.9 The Board will allocate a performance bonus (the "Performance Bonus") equal to an amount up to twenty (20) Percent of the annual fixed salary costs indicated in the annual budget prepared in accordance with Clause 4.7 of this Agreement for the year in question. The objectives to be attained by the Manager shall be specified yearly by the Board and agreed with the Manager in the framework of the yearly budget process.
- 4.10 One third of such Performance Bonus shall be disbursed annually to the Manager at the beginning of the year following the year in question (the "Immediate Bonus") depending on the progress made in a given year in attaining objectives specified annually in advance by the Board according to the operational objectives set out in the Supervision and Controlling Concept agreed between SIFEM and the Swiss Confederation.
- 4.11 Two thirds of such Performance Bonus shall be disbursed to a blocked account at the beginning of the year following the year in question (the "Retained Bonus"). Such Retained Bonus payments shall be retained on the blocked account, with the total amount on the blocked account to be disbursed to the Manager at the beginning of the year following the expiry of the strategic objectives, depending on the progress made in attaining the objectives specified in advance by the Board in line with the strategic objectives. For the avoidance of doubt, any undisbursed amount remaining on the blocked account after such period due to non- or partial fulfilment of the agreed objectives shall be returned to SIFEM.

<sup>10</sup> This corresponds to the achievement of 90% of the annual targets set by the SIFEM Board.

# 3. PERFORMANCE OF THE INVESTMENT PORTFOLIO<sup>11</sup>

## 3.1 NEW INVESTMENTS

In 2020, SIFEM made ten new investments totalling USD 85.6 million. The new commitments include six investments in private equity funds that support SMEs and other fast-growing businesses in Sub-Saharan Africa and Latin America, one loan to a financial institution targeting SMEs in Southeast Asia, and three COVID-19 related investments. Three of the new investments target least developed countries in Africa as well as Myanmar. As part of SIFEM's response to the COVID-19 crisis, emergency liquidity was provided to two existing SIFEM clients in Asia and SIFEM invested in a joint funding window facility, along with other EDFI members and the European Investment Bank (EIB). The total COVID-19 related measures by SIFEM amounted to USD 12.8 million. Therefore, SIFEM has been able to fully play its "counter-cyclical" role and continue to invest with a long-term view despite the short-term uncertainties associated with the COVID-19 crisis. The new portfolio positions are as follows:

### Central American Small Enterprise Fund IV (USD 8 million committed)

The Central American Small Enterprise Fund (CASEIF) IV is a growth capital fund for growing small and medium-sized enterprises (SMEs) in Central America, the Dominican Republic, and Colombia. The fourth fund launched by Lafise Investment Managers (LIM) is expected to play a role in boosting the economic recovery in the target region by providing flexible mezzanine funding to SMEs in the aftermath of the COVID-19 crisis. The fund is expected to have a high development impact by addressing the lack of growth capital for SMEs in target countries, which is vital for employment preservation and economic resilience. The Fund Manager has demonstrated over two decades its ability to adapt the private equity model to Central America to fill the SME financing gap in the region.

### Novastar Ventures Africa Fund II (USD 8 million committed)

Novastar Ventures Africa Fund II is an impact fund, targeting venture capital (VC) investments in innovative early stage and start-up businesses in East and West Africa. The primary geographic focus is on Kenya and Nigeria with a secondary focus on Ethiopia, Tanzania, Uganda, Rwanda, and Ghana. The second fund by Novastar Ventures, a leading VC investor in Africa, will focus on developing fully commercial, profitable business models by investing in companies led by entrepreneurs with the capability and ambition to transform markets for low-income consumers. Typical sectors to be targeted include health care, education, housing, transportation, fintech, energy. Many of the investments of the fund will make use of mobile technology as a solution.

### Locfund Next (USD 10 million committed)

Locfund Next is an open-ended fund with the aim to provide local currency financing to microfinance institutions (MFIs) in Latin America and the Caribbean (LAC). It is the third local currency debt fund by Bolivian Investment Management (BIM), a microfinance investor headquartered in La Paz. Locfund Next will focus on supporting MFIs in their digital transformation which will increase their outreach and therefore foster financial inclusion in the region. In Latin America and the Caribbean, 45 per cent of people older than 15 years or approximately 217 million people do not have access to at least one financial service. The investment will also contribute to empowering women and supporting gender equality by financing women-led businesses, as more than 50 per cent of Locfund Next's end beneficiaries are expected to be women.

### Pact Global Microfinance Fund (PGMF) (USD 8 million committed)

Pact Global Microfinance Fund (PGMF) is the largest microfinance institution (MFI) in Myanmar, serving more than one million clients, primarily female micro and small entrepreneurs, via 268 branches. PGMF is fully owned by Pact, an international non-profit development organisation. PGMF has a strong social mission to help alleviate poverty in Myanmar and increase financial inclusion. This is demonstrated by its successful group lending approach, its outreach to rural areas (85%), the percentage of female borrowers (98%), and its well-

<sup>11</sup> Note: All numbers related to the investment portfolio are declared in SIFEM's functional currency USD

developed training programmes for clients. In Myanmar, nearly a third of the population is completely excluded from formal financial services according to the World Bank. This investment is also empowering women and supporting gender equality by financing women-led businesses and by increasing female decision-making power in the household and at the community level.

#### **SPE Africa Industrialization Fund I (USD 10 million committed)**

The SPE Africa Industrialization Fund (AIF) I is a private equity fund, targeting growth capital investments in SMEs and fast-growing businesses in North Africa and selectively in the rest of Africa. The primary focus will be on Egypt, Tunisia, and Morocco. The fund makes investments in healthcare, education, manufacturing and processing, supporting infrastructure and industrial services sectors. Following an economic downturn in the wake of the Arab Spring, from which the region continues to recover, North Africa's economy is now facing the impact of COVID-19. The private sector remains a crucial element in the required transition to inclusive economies that provide opportunities and jobs. SPE Capital, the Fund Manager, is also committed to promoting gender parity and enhancing women's economic participation. SIFEM has qualified AIF I for the 2X Challenge for women's economic empowerment.

#### **Uhuru Growth Fund I (USD 10 million committed)**

Uhuru Growth Fund I is the first fund of Uhuru Investment Partners, an emerging manager in West Africa founded by a team with local origins who have spent most of their professional careers in private equity. Uhuru Growth Fund I is focused on high growth companies in West Africa, with a geographic focus on Ghana, Nigeria and Ivory Coast. Uhuru will focus on investing in established businesses with an operating history, established revenues, strong management teams and a strong competitive position in their markets. The overall objective is to grow these businesses into leading companies within their sectors, and where a regional strategy is involved, into regional champions.

#### **Interact Climate Change Facility (ICCF) – top-up IV (EUR 15 million committed)**

The Interact Climate Change Facility (ICCF) is a joint investment facility for financing climate change and climate efficiency projects in developing countries. It is backed by most of the European Development Finance Institutions (EDFIs), to which SIFEM belongs. ICCF provides long-term loans, guarantees and mezzanine finance of up to EUR 45 m to private sector projects. Since inception, ICCF has invested in some 24 projects in Africa, Asia, Central America, and Southeast Europe. Most of the portfolio is invested in wind power, followed by solar power and energy efficiency projects. SIFEM has already committed a total of EUR 25 million to ICCF in three instalments, out of which EUR 20.9 million have been committed or disbursed to projects. This new contribution of EUR 15 million represents the fourth top-up by SIFEM.

Responses to the COVID-19 crisis:

#### **European Financing Partners (EFP) – COVID-19 Window (EUR 8 million committed)**

European Financing Partners (EFP) is a co-financing mechanism which was set up jointly by the European Investment Bank (EIB) and the European Development Finance Institutions (EDFIs), with the aim to finance private sector investments in countries which are included in the OECD DAC list. In late 2020, eleven EDFI members, including SIFEM, partnered with the European Investment Bank (EIB) to create a new dedicated COVID-19 financing initiative through the existing European Financing Partners (EFP) scheme. The EUR 280 million initiative is designed to provide financial support to businesses and local financial institutions in emerging markets who are faced with economic challenges resulting from the COVID-19 pandemic.

#### **COVID-19 responses – support to two existing clients (USD 3 million committed)**

In the context of the COVID-19 crisis in 2020, SIFEM provided liquidity to local financial intermediaries for the purpose of strengthening financial intermediation and maintaining financing options for local companies. Financing was extended to the Indian Fund Manager Global Catalyst Partners (Lok Capital), which aims to support India's underprivileged and underserved populations via investments in small and medium-sized enterprises (SMEs) focused on financial inclusion. SIFEM also provided financing to the Cambodia-Laos-Myanmar Development Fund II (CLMDF), which is a regional private equity fund managed by Emerging Markets Investments and focused on investing in small and medium enterprises (SMEs) located in Cambodia, Laos and Myanmar.



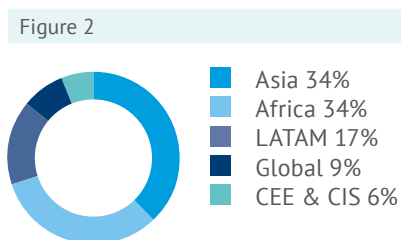
### 3.2 PORTFOLIO CONSTRUCTION

SIFEM's portfolio has developed over a period of two decades, with the first investments by SECO dating back to 1997.<sup>12</sup> Since its inception, SIFEM has committed USD 1,146.7 million to 147 projects across Africa, Asia, Eastern Europe and Latin America.

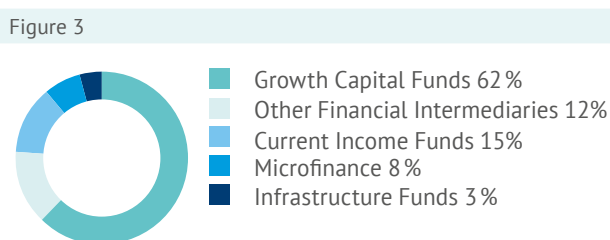
During 2020, capital commitments to Africa, Latin America and Global projects have increased compared to 2019, while the relative share of projects in Asia has decreased.

#### SIFEM CAPITAL COMMITMENTS BY GEOGRAPHY AND FOCUS AS OF 31 DECEMBER 2020 <sup>13</sup>

##### GEOGRAPHY



##### INSTRUMENTS



The portfolio consists primarily of private equity funds investing in growth companies and SMEs (62 per cent), infrastructure (3 per cent) and current income funds (15 per cent). Investments in microfinance comprise 8 per cent and other financial intermediaries 12 per cent of the portfolio.

Across these different instruments, 34.1 per cent of the total portfolio consists of current income earning assets, while the remaining 65.9 per cent consists of equity and quasi-equity instruments.

As of 30 June 2020, SIFEM had invested directly and indirectly in over 560 companies in over 75 countries. The ten countries with the largest financial exposures account for 56 per cent of the total invested capital.

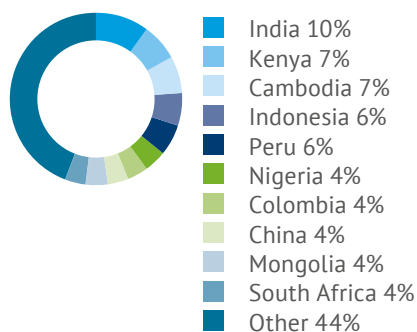
<sup>12</sup> Investments made between 1997 and 2005 were transferred to SIFEM.

<sup>13</sup> The CEE & CIS region includes Southern & Eastern European countries as well as the Ukraine.

## SIFEM UNDERLYING PORTFOLIO ALLOCATION AS OF 30 JUNE 2020

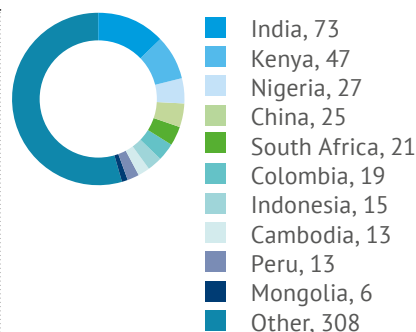
### LARGEST COUNTRY EXPOSURES BY INVESTED CAPITAL

Figure 4



### LARGEST COUNTRY EXPOSURES BY NUMBER OF COMPANIES

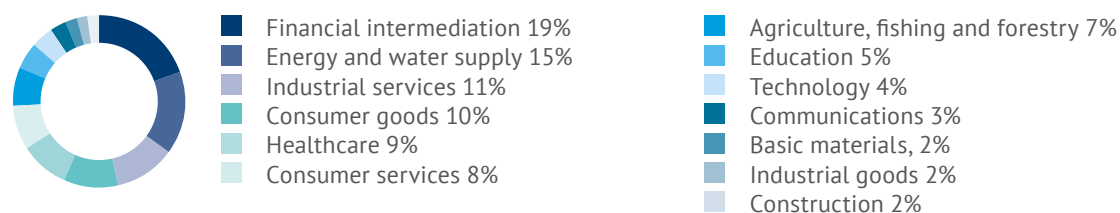
Figure 5



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

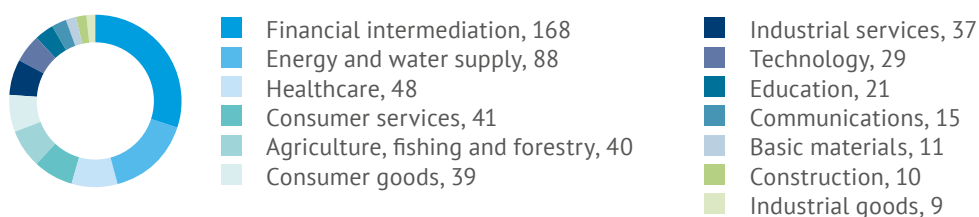
### LARGEST INVESTED CAPITAL EXPOSURE PER SECTOR

Figure 6



### LARGEST EXPOSURE PER SECTOR BY NUMBER OF COMPANIES

Figure 7



SIFEM had invested directly and indirectly in 168 entities in the financial sector as of 30 June 2020; approximately 90 of these companies are active in the microfinance sector.

### 3.3 VALUATION

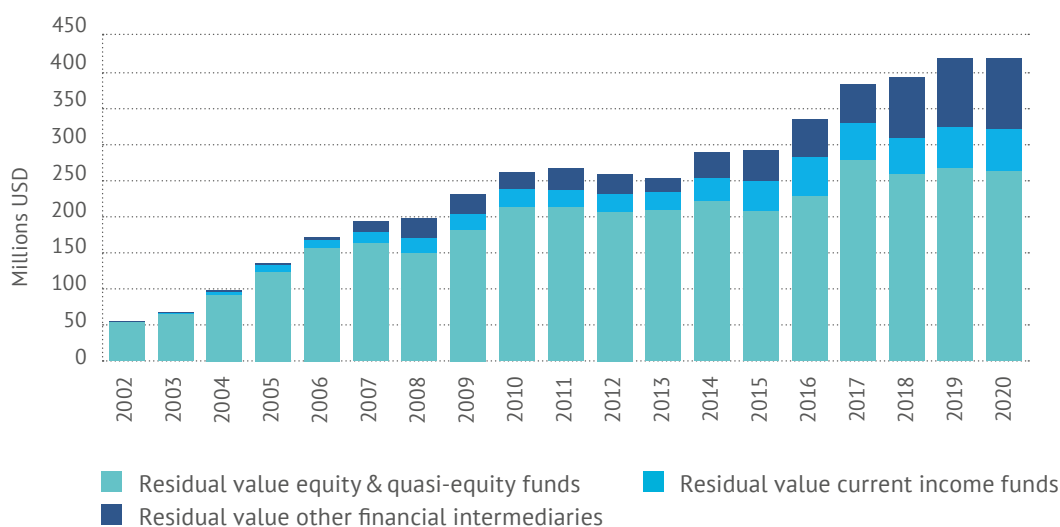
SIFEM's 2020 financial statements were independently audited by early March 2021, in accordance with the requirements of the shareholder, so that they could be consolidated in the Swiss Confederation's accounts. However, this timeline did not allow sufficient time to obtain and integrate the audited accounts of all portfolio companies. Hence, SIFEM has used the latest available valuations (as of September 2020) and rolled them forward to the year-end. This methodology was accepted by the auditors and any differences are not expected to be material.

### 3.4 EVOLUTION OF KEY PERFORMANCE INDICATORS

As of 31 December 2020, SIFEM's total active commitments amounted to USD 883.6 million. The residual value of SIFEM's investment portfolio amounted to USD 420.0 million, a net decrease of USD 0.5 million or 0.1 per cent compared to 31 December 2019. Changes in the portfolio value are driven by (i) fluctuations in the value of the underlying investments, which were significantly impacted by the COVID-19 pandemic in 2020, (ii) the inflows and outflows of cash generated by new investments, and (iii) realisations of investments.

**FIGURE 8: SIFEM PORTFOLIO RESIDUAL VALUE SINCE INCEPTION**

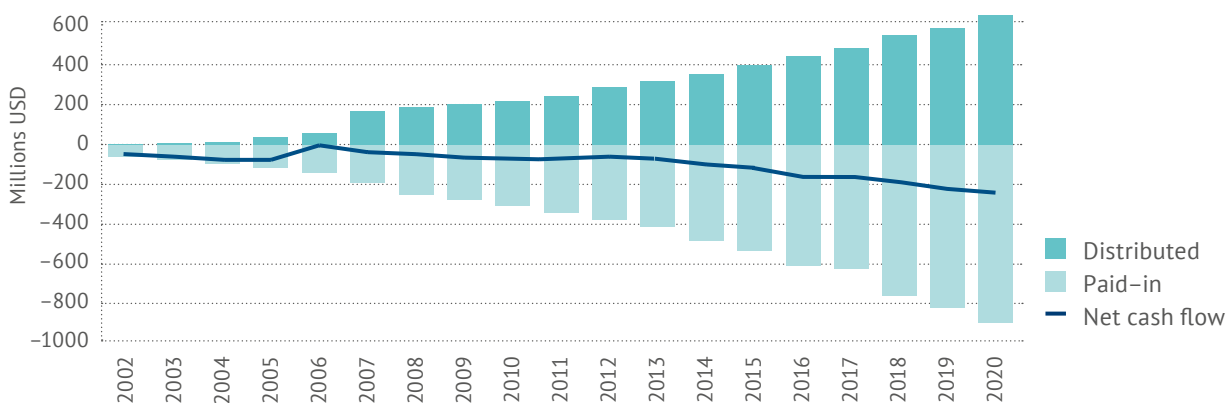
#### RESIDUAL VALUE



Since inception, USD 887.9 million has been paid into the SIFEM investment portfolio, and the portfolio has generated reflows totalling USD 648.0 million. The cumulative net cash flow amounts to USD -239.9 million, which can be explained by a combination of an expanding portfolio, the long-term nature of patient capital investments, and the continued slow exit environment in emerging markets.

**FIGURE 9: SIFEM CUMULATIVE CASH FLOWS**

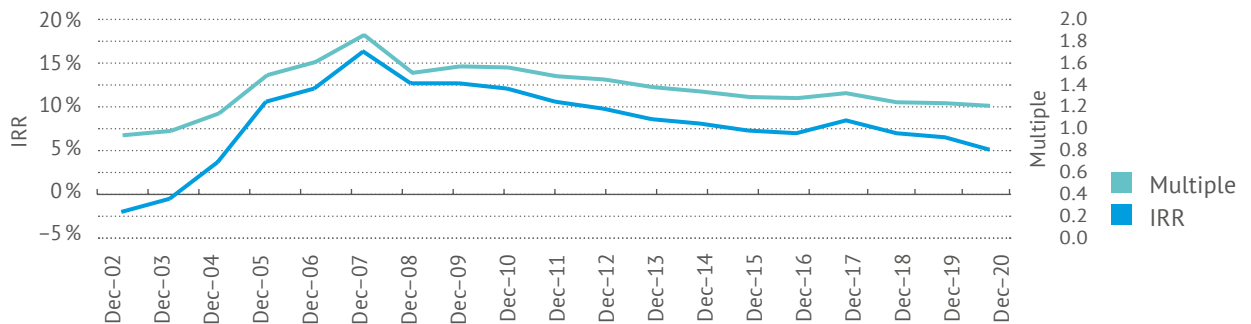
#### CUMULATIVE CASH FLOWS IN USDm



As of 31 December 2020, the Internal Rate of Return (IRR) of the SIFEM portfolio was 5.25 per cent. The IRR is a measure to show the historical profitability of assets. On the one hand, it refers to the current fair value of the portfolio and, on the other hand, it includes all historical cash flows in its calculation. In a growing portfolio, i.e. where new investments tend to exceed divestments, the so-called “J-curve-effect” plays an important role: typically, the upfront costs incurred with new investments added to the portfolio will only be offset by the growth valuation of these investments after several years. The decrease observed in 2020 compared to 2019, however, is mainly the consequence of the COVID-19 pandemic, which impacted the value of the investment portfolio significantly.

**FIGURE 10: SIFEM TOTAL PORTFOLIO IRR & MULTIPLE SINCE INCEPTION**

## TOTAL PORTFOLIO IRR & MULTIPLE



### 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 2020, the breakdown of the SIFEM portfolio in terms of investments per risk category is as follows:

**FIGURE 11: NUMBER OF SIFEM INVESTMENTS PER RISK CATEGORY AS OF DECEMBER 2020**

Projects per risk category	2019		2020	
	Number	Percentage	Number	Percentage
Very low risk	15	16%	16	16%
Low risk	15	16%	10	10%
Moderate risk	29	31%	35	35%
High risk	15	16%	10	10%
Very high risk	20	21%	29	29%

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, as an inherent result of SIFEM’s development mandate. Investments in the low risk or very low risk categories are primarily projects that exceed their expected performance.

Over the past year, the proportion of the very high risk projects has increased. The number of projects with very low risk has remained stable, while there has been a concentration of projects towards moderate risk, from high and low risk.

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 2020

The global economic downturn triggered by the COVID-19 pandemic clearly impacted the financial results of SIFEM. The unrealised value of the investment portfolio decreased by CHF 27.9 million, the loss allowances for debt investments amounted to CHF 4.2 million by year end. The interest income and the realised gains from investments were not sufficient to off-set those losses. As a consequence, SIFEM suffered a net loss from operating activities of CHF 17.2 million (see figure 12), or a return on total assets of -2.7% for the year 2020. This compares to a profit from operating activities of CHF 16.1 million in the previous year.

For the first time in many years, the interest income from SIFEM's debt investments decreased (from CHF 9.9 million in 2019 to CHF 8 million in 2020). This is explained by the various forbearance measures SIFEM granted to some of its borrowers as survival measures during the pandemic. Several loans in SIFEM's portfolio had to be staged down to more risky investment classes with the consequence of an increase in loan loss allowances which flow through the profit and loss accounts of SIFEM's income statement. However, these losses may prove temporary in case the forbearance measures can be lifted later and borrowers restart interest and principal payments as scheduled.

Income from realised gains from investments is also lower compared to the previous year (down from CHF 14.4 million in 2019 to CHF 8.5 million in 2020) due to the substantially more challenging exit environment for private equity investments in substantially all of SIFEM's target countries.

Total operating costs and other operating expenses<sup>14</sup> amounted to CHF 11.4 million versus CHF 10.9 million in the previous year. This results in a negative operating result of CHF -28.6 million compared to an operating result of CHF 5.1 million in 2019.

The financial income and expenses remain an insignificant part of SIFEM's results since the company has no corporate debt to serve and is not exposed to currency effects on its balance sheet (outside its investment portfolio). Hence, the loss of the year is insignificantly different from the operating loss of CHF 28.6 million.

When factoring in the translation effects from SIFEM's functional currency USD to the presentation currency CHF, the total comprehensive loss amounts to CHF 84.3 million in 2020. It should be noted that the CHF -55.7 million is a pure translation effect, which does neither reflect the actual operational nor the actual financial performance of SIFEM.

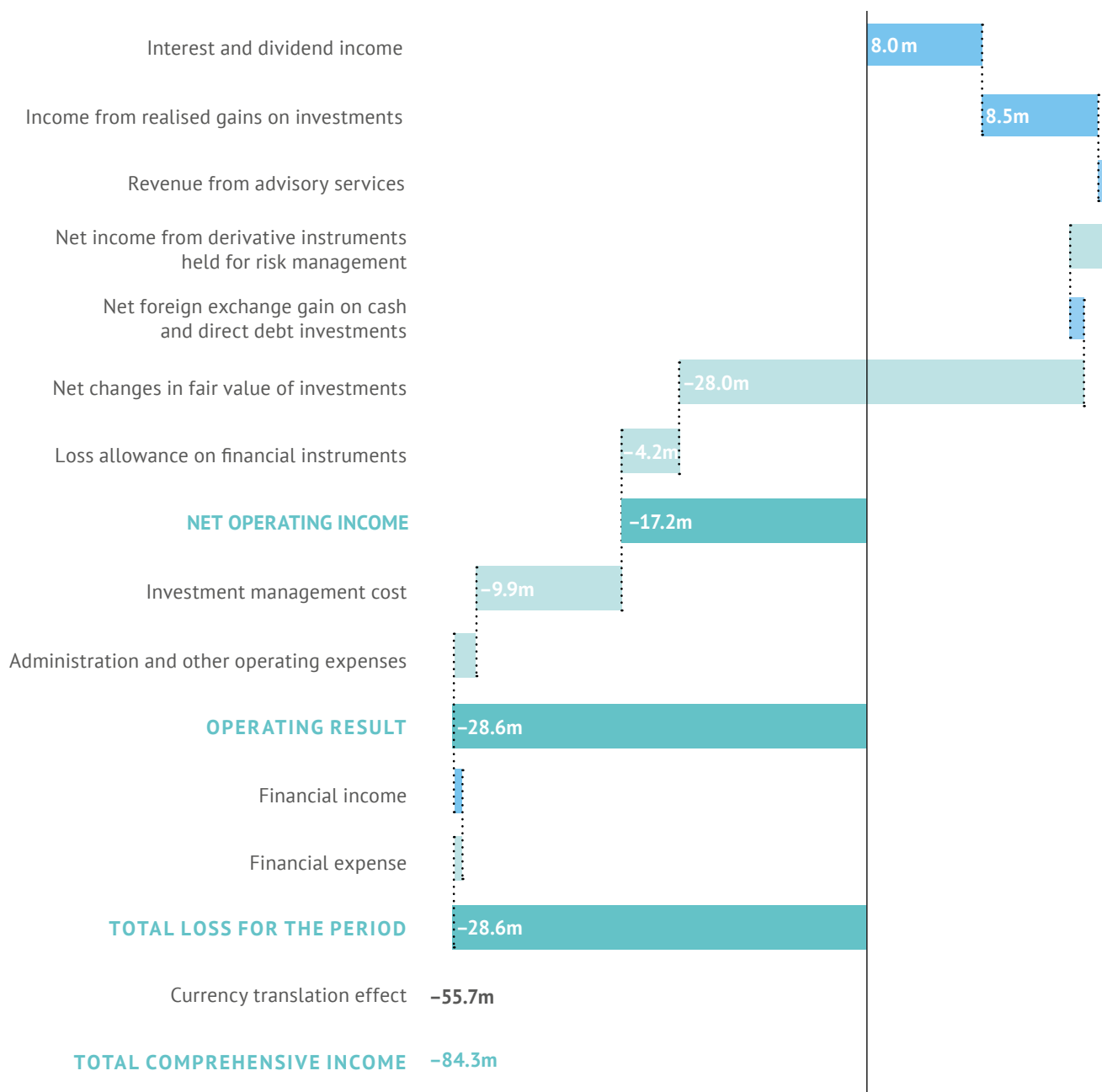
SIFEM still holds substantial amounts of cash for covering its unfunded commitments of USD 247.4 million. These unfunded commitments exceeded cash holdings of USD 237.5 (CHF 209.9 million) by USD 9.9 million at year-end, and hence SIFEM is over-committed by approximately 1.12 per cent of total active commitments of USD 883.6 million. This compares to 1.9 per cent of over-commitment at the end of the previous year. Currently, the allowed maximum over-commitment ratio is at 6 per cent.

## 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.

<sup>14</sup> Predominantly composed of stamp duties.

**FIGURE 12: BREAKDOWN OF TOTAL COMPREHENSIVE PROFIT AND LOSS 2020**



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

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

### **5.3 NOTES ON SIFEM RESULTS UNDER SCO ACCOUNTING**

Although SIFEM has adopted IFRS, reporting under SCO accounting standards continues in parallel, primarily for compliance and statutory purposes. Indeed as a public company operating under Swiss private law, SIFEM is required to report under SCO accounting standards. Under SCO accounting rules, SIFEM recorded net loss before translation of CHF 22.4 million in 2020.

The SCO accounting standards require SIFEM to hold the investment portfolio at values considerably below fair market valuations, which is more conservative but also less accurate. Since the appreciation of investments is recognised only at the time of realisation, a temporary understatement of the performance of SIFEM's investment assets typically is reflected in the SCO statements.

### **5.4 FINAL REMARKS**

Economies are expected to rebound globally in 2021 with the number of people vaccinated against COVID-19 reaching critical levels in the second half of the year in advanced economies. In emerging markets however, the turnaround may be delayed due to a slower roll-out of vaccines and hence the economic recovery could be postponed in certain regions, in particular in Africa. A strengthening USD could further complicate the recovery in highly USD-indebted countries. The investment performance of SIFEM in the countries concerned will likely remain muted and the exit environment for private equities will continue to be challenging. It is expected, however, that most of SIFEM's debt investments will resume their scheduled interest and principal payments in 2021.

# FINANCIAL REPORT





# 2020 – 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 2020 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 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### Basis for Opinion

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

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

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

#### Other Information in the Annual Report

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

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

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

#### Responsibility of the Board of Directors for the Financial Statements

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

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



### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Zurich, 9 March 2021

BDO Ltd

A handwritten signature in blue ink, appearing to read 'Franco A. Straub'.

Franco A. Straub  
Auditor in Charge  
Licensed Audit Expert

A handwritten signature in blue ink, appearing to read 'Marc Escher'.

Marc Escher  
Licensed Audit Expert

# STATEMENT OF FINANCIAL POSITION

NOTE 31.12.2020 31.12.2019

in '000 CHF

## ASSETS

Cash and cash equivalents	6	209,921	217,211
Derivative financial assets held for risk management	7	13,550	13,036
Other receivables, prepayments and accrued income	8	6,518	5,877
<b>Total current assets</b>		<b>229,989</b>	<b>236,124</b>
Equity instruments	9	266,442	298,513
Debt instruments	9	104,592	108,697
Derivative financial assets held for risk management	7	15,911	0
<b>Total non-current assets</b>		<b>386,945</b>	<b>407,210</b>
<b>Total assets</b>		<b>616,934</b>	<b>643,334</b>

## LIABILITIES AND EQUITY

Derivative financial liabilities held for risk management	7	13,499	12,973
Other liabilities and accrued expenses		2,686	1,580
<b>Total current liabilities</b>		<b>16,185</b>	<b>14,553</b>
Derivative financial liabilities held for risk management	7	16,666	0
<b>Total non-current liabilities</b>		<b>16,666</b>	<b>0</b>
<b>Total liabilities</b>		<b>32,851</b>	<b>14,553</b>
Share capital		624,444	584,444
Capital reserve (additionally paid in capital)		84,701	84,701
Legal reserve		1,096	1,096
Translation reserve		-47,820	7,862
Retained earnings / accumulated losses		-78,338	-49,322
<b>Total equity</b>	<b>10</b>	<b>584,083</b>	<b>628,781</b>
<b>Total liabilities and equity</b>		<b>616,934</b>	<b>643,334</b>



# STATEMENT OF PROFIT OR LOSS

	NOTE	2020	2019
in '000 CHF			
Interest income	11	7,608	9,898
Dividend income		394	
Income from realised gains on investments		8,454	14,419
Revenue from advisory services		21	36
Net income from derivative financial instruments held for risk management	14	-2,371	835
Net foreign exchange gain/-loss on cash and cash equivalents and direct debt investments	15	878	-631
Net changes in fair value of investments at fair value through profit or loss	16	-27,958	-16,600
Loss allowance on financial instruments	18	-4,272	8,109
<b>Net operating income/-loss</b>		<b>-17,246</b>	<b>16,066</b>
Investment management costs	12	-9,928	-9,502
Administration and custodian fees	13	-429	-414
Personnel expenses		-399	-450
Administration expenses		-393	-371
Advertising expenses		-91	-98
Other operating result		-133	-93
<b>Operating result</b>		<b>-28,619</b>	<b>5,138</b>
Financial income	17	5	4
Financial expense	17	-2	-3
<b>Total profit/-loss for the period</b>		<b>-28,616</b>	<b>5,139</b>
<i>Currency translation effect from translation to presentation currency</i>	3	-55,682	-12,089
<i>Total comprehensive income</i>		<i>-84,298</i>	<i>-6,950</i>

# STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	LEGAL RESERVES	TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL
in '000 CHF						
Balance at 31 December 2018	554,444	84,701	1,096	19,951	-54,161	606,031
<b>Total comprehensive income for the period</b>						
Profit for the year					5,139	5,139
Currency translation effect from translation to presentation currency				-12,089		-12,089
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-12,089</b>	<b>5,139</b>	<b>-6,950</b>
<b>Transactions with owners of the Company, recognised directly in equity</b>						
Issue of ordinary shares	30,000					30,000
Transaction costs in connection with transactions with owners of the Company					-300	-300
Other capital contributions						
<b>Total transactions with owners of the Company</b>	<b>30,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-300</b>	<b>29,700</b>
Balance at 31 December 2019	584,444	84,701	1,096	7,862	-49,322	628,781
<b>Total comprehensive income for the period</b>						
Loss for the year					-28,616	-28,616
Currency translation effect from translation to presentation currency				-55,682		-55,682
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-55,682</b>	<b>-28,616</b>	<b>-84,298</b>
<b>Transactions with owners of the Company, recognised directly in equity</b>						
Issue of ordinary shares	40,000					40,000
Transaction costs in connection with transactions with owners of the Company					-400	-400
Other capital contributions						
<b>Total transactions with owners of the Company</b>	<b>40,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-400</b>	<b>39,600</b>
Balance at 31 December 2020	624,444	84,701	1,096	-47,820	-78,338	584,083

# STATEMENT OF CASH FLOWS

	NOTE	2020	2019
in '000 CHF			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit/-loss for the period		-28,616	5,139
<b>Adjustments for:</b>			
Interest income	11	-7,608	-9,898
Dividend		-394	0
Income from realised gains on investments		-8,454	-14,419
Other direct investment related costs		0	0
Interest expense		0	0
Net foreign exchange gain/-loss		-881	630
Net income from derivative financial instruments held for risk management		1,608	-726
Changes in fair value of investments at fair value through profit or loss		32,230	8,491
<b>Changes in:</b>			
Derivative financial instruments held for risk management		825	-174
Other receivables, prepayments and accrued income		-1,248	5
Other liabilities and accrued expenses		1,347	478
Purchase of investments		-65,048	-89,436
Proceeds from sale of investments		34,323	48,429
Interest received		7,121	9,879
Dividend / other investment income received		394	0
Income from realised gains on Investments received		8,454	14,419
Proceeds from sale of derivative financial instruments		-1,121	726
<b>Net cash flow from operating activities</b>		<b>-27,068</b>	<b>-26,457</b>
<b>Net cash flow from investing activities</b>		<b>0</b>	<b>0</b>
Proceeds from issue of share capital		39,600	29,700
<b>Net cash from financing activities</b>		<b>39,600</b>	<b>29,700</b>
<b>Net increase /-decrease in cash and cash equivalents</b>		<b>12,532</b>	<b>3,243</b>
Cash and cash equivalents at 1 January	6	217,211	218,475
Effect of movements in exchange rates on cash and cash equivalents		-19,822	-4,507
<b>Cash and cash equivalents at 31 December</b>	<b>6</b>	<b>209,921</b>	<b>217,211</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1 REPORTING ENTITY

SIFEM AG – Swiss Investment Fund for Emerging Markets (“SIFEM” or the “Company”) is a company domiciled in Switzerland. The address of the entity’s registered office is at c/o Obviam 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 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

### Statement of compliance

These financial statements have been prepared for the year ended 31 December 2020 in accordance with International Financial Reporting Standards (IFRS) - in addition to the statutory financial statements which are prepared in accordance with the Swiss Code of Obligation (CO).

These financial statements were authorised for issue by the Board of Directors on 4<sup>th</sup> of March 2021.

### 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.

### Functional and presentation currency

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

## 3 SIGNIFICANT ACCOUNTING POLICIES

SIFEM has consistently applied the accounting policies as set out below in periods presented in these financial statements.

### Foreign currency

Transactions in foreign currencies are translated into USD at the exchange rate at the dates of the transactions.

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

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

For the translation to the presentation currency all assets and liabilities are translated at the exchange rate at the balance sheet date. All equity items other than the profit or loss for the year are translated to the presenta-

tion currency at the historical exchange rate. Income, expenses and cash flows are translated using the average exchange rate of the respective reporting period. The exchange differences on translating balance sheets and income statements are recognized as a separate line item in the Statement of profit or loss. Exchange differences on translating cash, cash equivalents and related cash flows are separately disclosed in the cash flow statement as exchange effect on cash and cash equivalents.

The following exchange rates were applied:

	2020		2019	
	Balance sheet rate	Average rate	Balance sheet rate	Average rate
USD/CHF	1.131286	1.044576	1.032684	0.995737
USD/EUR	1.223550		1.122500	
USD/ZAR	0.068079		0.071513	
USD/CNY	0.152910		0.143561	
CHF/USD	0.883950	0.957326	0.968350	1.004282

Note: The high depreciation of the USD, as the functional currency of the Company, against the CHF, as the presentation currency of the Company, has resulted in the significant negative comprehensive income for the year.

#### 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.

#### Derivative financial instruments held for risk management

Derivative financial instruments held for risk management comprise foreign exchange forward contracts and are initially recognised at fair value, with any directly attributable transaction costs recognised directly in profit or loss. Subsequent to initial recognition, derivative financial instruments held for risk management are measured at fair value, with changes in fair value generally recognised in profit or loss.

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

#### Financial instruments

On initial recognition, a financial asset is classified as measured at either "fair value through profit or loss" (FVTPL), "fair value through other comprehensive income" (FVOCI) or at "amortised cost".

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

The Manager determines the classification of financial assets at the time of acquisition. Trade date accounting is applied for routine purchases and sales of financial assets. Financial assets at FVTPL are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition. The Company and its subsidiary meet the criteria for an investment entity in accordance with IFRS 10 Consolidated Financial Statements. As per 1 January 2013, the Company therefore applied the exception to consolidation for investment entities included in IFRS 10, as amended, and continues measuring its investments at fair value through profit or loss.

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

#### a) 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.

#### b) Equity instruments

This position consists of investments in funds and other pooled investment vehicles as well as direct investments in banks and other financial intermediaries to finance SMEs. These investments refer to indirect exposures to final beneficiaries through such funds, pooled investment vehicles or any other structured financial instruments and are not SPPI. Therefore, they are accounted for as at FVTPL.

#### c) 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.

#### d) Subsequent measurement – financial assets at FVTPL

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

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

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

If the market for a financial instrument is not active, then SIFEM establishes fair value using a valuation technique appropriate for the circumstances. Valuation techniques include comparison to similar instruments for which observable prices exist and other valuation models in accordance with International Private Equity Valuation (IPEV) Guidelines. The chosen valuation technique makes maximum use of relevant observable inputs, relies as little as possible on unobservable inputs and estimates specific to SIFEM, incorporates all factors that



market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. SIFEM calibrates valuation techniques and tests them for validating using prices from observable current market transactions in the same instrument or based on other available observable market data. Refer also to note 9.

#### e) 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.

#### 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.

#### 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 changes of derivative instruments related to foreign exchange differences.

#### 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.

#### Fees and commission expense

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

#### 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.

#### New and revised standards and interpretations not adopted

The following new, revised and amended standards and interpretations have been issued before the date of approval of the 2020 financial statements, but are not yet effective or applied in these financial statements. The expected effects as disclosed below the table reflect only a tentative first assessment.

	Expected effect	Effective date	Planned application by SIFEM
<b>New standards or interpretations</b>			
IFRS 17 Insurance contracts	*	1 January 2023	2023
IAS 16 Amendment: Deduction of cost of property, plant and equipment	*	1 January 2022	2022
IAS 37 Amendment: Specify which costs a company includes when assessing whether a contract will be loss-making	*	1 January 2022	2022

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

#### 4 USE OF ESTIMATES AND JUDGEMENTS

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

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

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

##### 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 (Financial instruments) and 9.

##### Determination of functional currency

Functional currency is the currency of the primary economic environment in which SIFEM operates. When indicators or the primary economic environments are mixed, management uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. Management has determined that the functional currency of SIFEM is the US Dollar.

Since globally active private equity funds-of-funds like SIFEM tend to be highly diversified, this factor does not give a clear indicator of SIFEM's functional currency. However, the US Dollar is the single most important currency affecting the pricing of transactions, not only for SIFEM but for the entire emerging markets private equity industry. Furthermore, SIFEM reports its investment performance to its investor in US Dollar only.

#### 5 RISK MANAGEMENT

##### 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.

### Financial risk management

SIFEM has exposure to the following risks from financial instruments:

- Credit risk,
- Liquidity risk,
- Market risk,
- Operational risk and
- Counterparty risk.

#### a) Credit risk

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

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

	Mandatorily measured at FVTPL	Optionally measured at FVTPL	Amortised cost	Total carrying amount
in '000 CHF				
<b>31 December 2020</b>				
Cash and cash equivalents			209,921	209,921
Derivative financial assets held for risk management	13,550	15,911		29,461
Other receivables, prepayments and accrued income			5,998	5,998
Debt investments				104,592
– Banks and other financial intermediaries		15,462	65,570	
– Funds and other pooled investment vehicles		9,577	13,983	
Equity investments				266,442
– Banks and other financial intermediaries	6,429			
– Funds and other pooled investment vehicles	260,013			
<b>Total</b>	<b>279,992</b>	<b>40,950</b>	<b>295,472</b>	<b>616,414</b>
Derivative financial liabilities held for risk management	-30,165			-30,165
Other liabilities and accrued expenses			-2,663	-2,663
<b>Total</b>	<b>-30,165</b>		<b>-2,663</b>	<b>-32,828</b>

## 31 December 2019

Cash and cash equivalents			217,211	217,211
Derivative financial assets held for risk management	13,036			13,036
Other receivables, prepayments and accrued income			5,508	5,508
Debt investments				108,697
– Banks and other financial intermediaries		7	88,231	
– Funds and other pooled investment vehicles		10,304	10,155	
Equity investments				298,513
– Banks and other financial intermediaries	6,933			
– Funds and other pooled investment vehicles	291,580			
<b>Total</b>	<b>311,549</b>	<b>10,311</b>	<b>321,105</b>	<b>642,965</b>
Derivative financial liabilities held for risk management	-12,973			-12,973
Other liabilities and accrued expenses			-1,552	-1,552
<b>Total</b>	<b>-12,973</b>		<b>-1,552</b>	<b>-14,525</b>

The tables above only include financial instruments. Other receivables, prepayments and accrued income do therefore not include tax receivables and prepaid costs TCHF 521 (2019: TCHF 365). The position other liabilities and accrued expenses do not include tax payables and advances received TCHF 23 (2019: TCHF 28).

### *Management of credit risk*

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

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

### *Significant increase in credit risk*

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

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

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

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

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

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

### **Credit impaired financial assets**

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

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

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

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

### **Measurement of ECL**

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

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

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

### **Inputs, assumptions and estimation techniques**

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

Once a rating has been attributed to a borrower, the corresponding PD 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 350,492 as of 31 December 2020 (31 December 2019: TCHF 344,817).

### 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

#### i 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.

#### ii Debt instruments – loss allowance

	Stage 1	Stage 2	Stage 3	2020 Total	2019 Total
in '000 CHF					
<b>Balance at 1 January</b>	<b>90,731</b>	<b>7,655</b>	<b>0</b>	<b>98,386</b>	<b>78,557</b>
Transfer to Stage 1					
Transfer to Stage 2					
Transfer to Stage 3	-15,479		15,479	0	
Net remeasurement of loss allowance	-87	345	-3,960	-3,702	7,819
New financial assets recognized (acquired)	9,614			9,614	38,163
Financial assets derecognised	-12,590	-884	-2,698	-16,172	-18,024
Write-offs					-6,739
Effects of movements in exchange rates	-7,908	-667		-8,575	-1,390
<b>Balance at 31 December</b>	<b>64,281</b>	<b>6,449</b>	<b>8,821</b>	<b>79,551</b>	<b>98,386</b>



iii. Other Receivables – loss allowance

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

iv. 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				2020	2019
	Stage 1	Stage 2	Stage 3	Total	Total
in '000 CHF					
Cash and cash equivalents					0
Debt Instruments	-2,976	-884	-2,698	-6,558	13,400
Other receivables					0
Increase /(-) decrease in loss allowance	-186	-171	-536	-894	311

*Offsetting financial assets and financial liabilities*

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

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

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

i. Financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments (including non-cash collateral)	Collateral pledged used for netting	Net amount

in '000 CHF

### 31 December 2020

Derivative financial assets held for risk management (current)	13,550	0	13,550	13,550	4,428	4,428
Derivative financial assets held for risk management (non-current)	15,911	0	15,911	15,911	619	619
<b>Total</b>	<b>29,461</b>	<b>0</b>	<b>29,461</b>	<b>29,461</b>	<b>5,047</b>	<b>5,047</b>

### 31 December 2019

Derivative financial assets held for risk management	13,036	0	13,036	13,036	4,851	4,851
<b>Total</b>	<b>13,036</b>	<b>0</b>	<b>13,036</b>	<b>13,036</b>	<b>4,851</b>	<b>4,851</b>

ii. Financial liabilities	Gross amounts of recognised financial assets	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments (including non-cash collateral)	Collateral pledged used for netting	Net amount

in '000 CHF

### 31 December 2020

Derivative financial liabilities held for risk management (current)	-13,499	0	-13,499	-13,549	0	50
Derivative financial liabilities held for risk management (non-current)	-16,666	0	-16,666	-15,911	0	-755
<b>Total</b>	<b>-30,165</b>	<b>0</b>	<b>-30,165</b>	<b>-29,460</b>	<b>0</b>	<b>-705</b>

### 31 December 2019

Derivative financial liabilities held for risk management	-12,973	0	-12,973	-13,036	0	63
<b>Total</b>	<b>-12,973</b>	<b>0</b>	<b>-12,973</b>	<b>-13,036</b>	<b>0</b>	<b>63</b>

### 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 2020.

## DEBT INSTRUMENTS

31.12.2020 31.12.2019

in '000 CHF

### CARRYING AMOUNT

#### Concentration by sector

Banks and other financial intermediaries	84,774	89,773
Mezzanine funds	3,910	3,918
Debt funds	16,147	15,006
<b>Total</b>	<b>104,831</b>	<b>108,697</b>

#### Concentration by location

Latin America	36,039	42,885
Asia	37,155	45,812
Central Eastern Europe (CEE) / Commonwealth of Independent States (CIS)	17,616	4,571
Africa	2,252	2,815
Global / supranational	11,767	12,614
<b>Total</b>	<b>104,831</b>	<b>108,697</b>

### b) Liquidity risk

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

#### Management of liquidity risk

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

The funds in which SIFEM invests do not typically call the total amount of committed capital in once and in particular not all funds are likely to call the maximum of committed capital at the same time. The business plan for new investments is based on the capital contributions foreseen and on the availability of existing reserves and reflows from maturing investments. The volatility and relatively high unpredictability of reflows from historic investments require a frequent adjustment of the business plan for new investments. To maintain enough uncommitted capital in form of cash and cash equivalents, to meet the business plan targets, is a key aspect of the Cash Management policy.

The investment policy of SIFEM allows over-commitments only with a formal approval of the Board of Directors. The Board of Directors approved an over-commitment ratio of up to 6% of total active commitments. As of December 31, 2020, SIFEM reached an over-commitment ratio of 1.12% (31 December 2019: 1.91%).

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
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in '000 CHF

### 31 December 2020

Derivative financial liabilities held for risk management	33,045	-33,045	14,788	18,257	
Other liabilities and accrued expenses	2,917	-2,917	-2,917		
<b>Total</b>	<b>35,962</b>	<b>-35,962</b>	<b>11,871</b>	<b>18,257</b>	<b>0</b>

### 31 December 2019

Derivative financial liabilities held for risk management	12,973	12,973	12,973		
Other liabilities and accrued expenses	1,552	1,552	1,552		
<b>Total</b>	<b>14,525</b>	<b>14,525</b>	<b>14,525</b>	<b>0</b>	<b>0</b>

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.

#### c) 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):

	31.12.2020	31.12.2019
in '000 CHF		
Debt instruments	54,559	61,921
Derivative financial assets held for risk management	8,839	0
<b>Fixed-rate instruments (assets)</b>	<b>63,398</b>	<b>61,921</b>
Cash and cash equivalents	209,921	217,211
Debt instruments	50,033	46,776
Derivative financial assets held for risk management	7,072	0
<b>Variable rate instruments (assets)</b>	<b>267,026</b>	<b>263,986</b>
Derivative financial liabilities held for risk management	-15,911	0
<b>Fixed-rate instruments (liabilities)</b>	<b>-15,911</b>	<b>0</b>

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by TCHF 2,600 (31 December 2019: TCHF 2,640). 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:

	31.12.2020	31.12.2019
in '000 CHF		
EUR	-1,642	-2,097
CHF	-1,906	-595
CNY	0	4,232
<b>Total net exposure</b>	<b>-3,548</b>	<b>1,540</b>

The following sensitivity analysis shows the impact on the income statement should the CHF/USD, the EUR/USD, or the CNY/USD exchange rates change by 5% in the applicable exchange rate at 31 December 2020 and 31 December 2019, with all other variables held constant:

<b>INCOME IMPACT ON BALANCE SHEET ITEMS</b>	31.12.2020	31.12.2019
in '000 CHF		
EUR (sensitivity to USD changes)	+/- 82	+/- 105
CHF (sensitivity to USD changes)	+/- 95	+/- 30
CNY (sensitivity to USD changes)	+/- 0	+/- 212

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

In addition, the portfolio is subject to the risk from currency effects resulting from the local currencies of markets in which direct or indirect beneficiaries of SIFEM investments are operationally active. However, in contrast to transactions denominated in the above-mentioned currencies, such currency effects manifest themselves in the market price of the underlying assets.

#### Other market price risk

At the reporting date the carrying amount of SIFEM's equity instruments in CHF were as follows:

	31.12.2020	31.12.2019
in '000 CHF		
Equity instruments to banks and other financial intermediaries	6,429	6,933
Equity instruments to funds and other pooled investments	260,013	291,580
<b>Total exposure in Equity Instruments</b>	<b>266,442</b>	<b>298,513</b>

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.

#### d) 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.

#### e) Counterparty risk

The counterparty risk is the risk that a counterparty to a financial transaction or contract of the Company is unable or unwilling to fulfil its contractual obligations. In particular, SIFEM is exposed to counterparty risk on investments, credit transactions and contracts for derivative financial instruments held for risk management.

## 6 CASH AND CASH EQUIVALENTS

	31.12.2020	31.12.2019
in '000 CHF		
Cash at Bank	209,921	217,211
<b>Total cash and cash equivalent</b>	<b>209,921</b>	<b>217,211</b>

Cash and cash equivalents are denominated in CHF (0.1 %), in USD (98.8 %), in EUR (1.1 %), and in CNY (0.0 %) as of 31 December 2020. (31 December 2019: CHF (0.3 %), in USD (97.5 %), in EUR (0.3 %), and in CNY (1.9 %)). TCHF 155,384 (31 December 2019: TCHF 178,504) of Cash at bank is placed at the Swiss National Bank.

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

## 7 DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR RISK MANAGEMENT

	31.12.2020		31.12.2019	
in '000 CHF				
	Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts	13,550	13,499	13,036	12,973
Cross-currency swap	15,911	16,666		
<b>Total derivative financial instruments</b>	<b>29,461</b>	<b>30,165</b>	<b>13,036</b>	<b>12,973</b>

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

## 8 OTHER RECEIVABLES, PREPAYMENTS AND ACCRUED INCOME

At 31 December 2020, other receivables, prepayments and accrued income mainly include collaterals (TCHF 5,047), management costs reimbursement (TCHF 477) and accrued interest receivables (TCHF 951). At 31 December 2019, other receivables, prepayments and accrued income mainly included collaterals (TCHF 4,851), management costs reimbursement (TCHF 301) and accrued interest receivables (TCHF 639).

## 9 FINANCIAL INVESTMENTS

	31.12.2020		31.12.2019	
in '000 CHF				
Equity instruments to banks and other financial intermediaries		6,429		6,933
Equity instruments to funds and other pooled investment vehicles		260,013		291,580
<b>Total Equity investments</b>		<b>266,442</b>		<b>298,513</b>
Debt instruments to banks and other financial intermediaries		81,032		88,238
Debt instruments to funds and other pooled investment vehicles		23,560		20,459
<b>Total Debt investments</b>		<b>104,592</b>		<b>108,697</b>
<b>Total Financial investments</b>		<b>371,034</b>		<b>407,210</b>

### 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 (Financial instruments).

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



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

	Level 1	Level 2	Level 3	Total
in '000 CHF				
<b>31 December 2020</b>				
Derivative financial assets for risk management		29,461		29,461
Derivative financial liabilities for risk management		-30,165		-30,165
Equity instruments to banks & other financial intermediaries			6,429	6,429
Equity instruments to funds & other pooled investment vehicles		26,696	233,317	260,013
	<b>0</b>	<b>25,992</b>	<b>239,746</b>	<b>265,738</b>

<b>31 December 2019</b>				
Derivative financial assets for risk management		13,036		13,036
Derivative financial liabilities for risk management		-12,973		-12,973
Equity instruments to banks & other financial intermediaries			6,933	6,933
Equity instruments to funds & other pooled investment vehicles		24,027	267,553	291,580
	<b>0</b>	<b>24,090</b>	<b>274,486</b>	<b>298,576</b>

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:

	Equity investments to Banks and other financial intermediaries	Equity investments to funds and other pooled investment vehicles	Total
in '000 CHF			
<b>Balance as at 1 January 2020</b>	<b>6,933</b>	<b>267,553</b>	<b>274,487</b>
Total gains/losses recognised in profit or loss	100	-29,723	-29,623
Purchases	0	33,042	33,042
Sales	0	-14,236	-14,236
Foreign currency exchange differences	-604	-23,319	-23,924
<b>Balance as at 31 December 2020</b>	<b>6,429</b>	<b>233,317</b>	<b>239,746</b>
Total gains or losses for the year included in profit or loss relating to assets and liabilities held at the end of the reporting period	100	-29,723	-29,623
<b>Balance as at 1 January 2019</b>	<b>2,873</b>	<b>264,180</b>	<b>267,053</b>
Total gains/losses recognised in profit or loss	514	-7,912	-7,398
Purchases	3,597	42,234	45,831
Sales	0	-26,438	-26,438
Transfer into Level 3		165	165
Foreign currency exchange differences	-51	-4,676	-4,727
<b>Balance as at 31 December 2019</b>	<b>6,933</b>	<b>267,553</b>	<b>274,486</b>
Total gains or losses for the year included in profit or loss relating to assets and liabilities held at the end of the reporting period	514	-7,912	-7,398

Although SIFEM believes that its estimates of the fair values are appropriate, the use of different methodologies or assumptions could have led to different measurements of fair value. We refer to note 5 – Risk management, where we performed a quantitative sensitivity analysis.

#### **Valuation technique used to Level 2 and 3 fair values**

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

All investments held by SIFEM's underlying funds report fair value using guidelines in compliance with IPEV Guidelines, which provide the underlying fund managers a framework upon which they exercise judgment in selecting and applying the appropriate valuation methodology for each investment. This Framework covers the valuations for:

- i. **Quoted Equity investments:** In respect of actively publicly-traded investments, the fair value is determined by the bid price on the reporting date of such investment as is readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency. Discounts may be applied in case of enforceable restrictions attributable to the security that would impact the price a market participant would pay at the time of measurement.
- ii. **Unquoted Equity investments:** In respect of unquoted investments, the fair value is determined using the most appropriate of the following methodologies or combination thereof: (a) Price of Recent Investment (b) Earnings Multiple, (c) Net Assets, and (d) Discounted Cash Flow.

The valuation of a fund is generally based on the latest available net asset value (NAV) reported by the corresponding fund manager, provided that the NAV has been determined by using fair value principles in accordance with IFRS 13. The funds advisory boards which is comprised of investor representatives, including Obviam Investment Managers acting as SIFEM's investment adviser, reviews and approves the NAV provided by the fund manager.

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

In general, the NAV reported to SIFEM is adjusted by capital calls and distributions falling between the date of the latest NAV of the fund and the reporting date. In addition, the valuations of listed underlying investee companies which are valued at mark-to-market by the fund manager are adjusted to reflect the current share price on their primary stock exchange as of the reporting date. Other reasons could also lead to adjustments to the NAV of a fund (special features of an investment agreement; subsequent events; changing economic or market conditions; NAV not determined in accordance with IFRS 13; etc.).

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

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

#### **Sensitivity Analysis Level 3 fair values**

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

## 10 EQUITY

### Share capital

On 31 December 2020, the number of outstanding shares amounted to 62,444,401 with a nominal value of CHF 10 each (31 December 2019: 58,444,401 with a nominal value of CHF 10 each). As per 31 December 2020 SIFEM did not hold any treasury shares (31 December 2019: 0). All shares issued by the Company were fully paid in.

During 2020 SIFEM has again received capital contributions from its shareholder, as it has frequently in the past few financial years. In 2019, the share capital has been raised by TCHF 30,000 bringing the total share capital to TCHF 584,444. During the year 2020, the share capital has been raised twice by TCHF 30,000 in May and TCHF 10,000 in October to a total share capital of TCHF 624,444.

### 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 2020 neither in 2019 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 400,000 (2019: 300,000) 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).

## 11 INTEREST INCOME

	2020	2019
in '000 CHF		
Interest income from cash and cash equivalents	506	3,965
Interest income from investments	7,102	5,933
<b>Total interest income</b>	<b>7,608</b>	<b>9,898</b>

At 31 December 2020, an amount of TCHF 951 (2019: TCHF 639) 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.

## 12 INVESTMENT MANAGEMENT COSTS

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

## 13 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 2020 amounted to TCHF 250 (2019: TCHF 237) and the custodian fee for the financial year 2020 amounted to TCHF 179 (2019: TCHF 177).

**14 NET INCOME FROM DERIVATIVE FINANCIAL INSTRUMENTS  
HELD FOR RISK MANAGEMENT**

	2020	2019
in '000 CHF		
Net interest income from derivative financial instruments	-487	0
Realized gain from derivative financial instruments	220	832
Realized loss from derivative financial instruments	-1,341	-106
Increase/-decrease in fair value from derivative financial instruments	-763	109
<b>Net income from derivative financial instruments</b>	<b>-2,371</b>	<b>835</b>

**15 NET FOREIGN EXCHANGE GAINS / LOSSES**

	2020	2019
in '000 CHF		
Net foreign exchange gain/-loss from cash and cash equivalents	114	-426
Net foreign exchange gain/-loss from debt instruments	764	-205
<b>Total net foreign exchange gains/-losses</b>	<b>878</b>	<b>-631</b>

**16 NET CHANGES IN FAIR VALUE OF INVESTMENTS AT FAIR  
VALUE THROUGH PROFIT OR LOSS**

	2020	2019
in '000 CHF		
Increase in fair value of equity instruments	5,147	2,820
Increase in fair value of debt instruments	1	102
Decrease in fair value of equity instruments	-32,070	-12,397
Decrease in fair value of debt instruments	-1,036	-7,125
<b>Net changes in fair value of financial assets at fair value through profit or loss</b>	<b>-27,958</b>	<b>-16,600</b>

Note: The effect of the Covid-19 crisis has been considered accordingly which is reflected in the net change in fair value of equity and debt instruments in 2020.

**17 FINANCIAL INCOME / EXPENSE**

	2020	2019
in '000 CHF		
Foreign exchange gain	5	4
<b>Financial income</b>	<b>5</b>	<b>4</b>
Foreign exchange loss	-2	-3
<b>Financial expense</b>	<b>-2</b>	<b>-3</b>

Foreign exchange gain and losses in 2020 and 2019 arises from exchange differences applying the exchange rate as of the balance sheet date.

## 18 LOSS ALLOWANCE ON FINANCIAL INSTRUMENTS

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

## 19 RELATED PARTY TRANSACTIONS

### Shareholder

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

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

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

### Portfolio and business manager

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

Obviam is compensated for the actual costs incurred, within a budget which is annually approved in advance by the Board of Directors. The management fees (excl. VAT, excl. bonuses and accruals) paid for the financial year 2020 amounted to TCHF 8,337, (2019: TCHF 7,987). This corresponds to 1.07 % of total active commitments (2019: 0.98 %). The investment management costs (incl. VAT, bonuses and accruals) paid for the financial year 2020 amounted to TCHF 9,928 (2019: TCHF 9,502). 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 2020 amounts to 1.44% (2019: 1.33 %) of SIFEM's total active commitments as of 31 December. The threshold for total administrative expenses set by the Federal Council is 1.5 % of SIFEM's total active commitments.

### Key management personnel compensation

The Chairman of the Board received total compensation of CHF 54,000 in 2020 (2019: CHF 54,000). This consists of a base compensation of CHF 30,000 (2019: 30,000) for his role as Chairman of the Board and CHF 24,000 (2019: 24,000) for his role as Chairman of the Investment Committee.

The Vice-Chairman and Board members received a base compensation of CHF 22,100 (2019: CHF 22,100). Members of the Investment Committee received an additional compensation of CHF 20,400 (2019: CHF 20,400) and Members of the Audit Committee received an additional compensation of CHF 13,600 (2019: CHF 13,600).

## 20 CAPITAL COMMITMENTS

As of 31 December 2020 the Company had capital commitments with debt- and equity instruments which were not yet called by the relevant fund managers for TCHF 218,437 (31 December 2019: TCHF 232,699).

## 21 SUBSEQUENT EVENT

No events occurred between 31 December 2020 and 4<sup>th</sup> of March 2021 that would require adjustments to the amounts recognised in these financial statements or would need to be disclosed under this heading.



# 2020 – 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 2020.

#### 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 2020 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, 9 March 2021

BDO Ltd

A handwritten signature in blue ink, appearing to read 'Franco A. Straub'.

Franco A. Straub

Auditor in Charge  
Licensed Audit Expert

A handwritten signature in blue ink, appearing to read 'Marc Escher'.

Marc Escher

Licensed Audit Expert

# BALANCE SHEET

	NOTE	31.12.2020		31.12.2019	
in CHF					
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	1	209,921,336	38.4 %	217,210,675	37.5 %
Other current receivables	2	5,055,941	0.9 %	4,909,405	0.8 %
Accrued income and prepaid expenses	3	1,462,386	0.3 %	968,575	0.2 %
<b>Total current assets</b>		<b>216,439,663</b>	<b>39.5 %</b>	<b>223,088,655</b>	<b>38.5 %</b>
<b>Non-current assets</b>					
Financial assets	4	310,532,590	56.6 %	330,902,501	57.0 %
Shareholdings	5	21,350,987	3.9 %	25,977,714	4.5 %
<b>Total non-current assets</b>		<b>331,883,577</b>	<b>60.5 %</b>	<b>356,880,215</b>	<b>61.5 %</b>
<b>TOTAL ASSETS</b>		<b>548,323,240</b>	<b>100.0 %</b>	<b>579,968,870</b>	<b>100.0 %</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>					
<b>Short-term liabilities</b>					
Other current liabilities	6	729,076	0.1 %	63,425	0.0 %
Deferred income and accrued expenses	7	2,649,864	0.5 %	374,435	0.1 %
<b>Total short-term liabilities</b>		<b>3,378,940</b>	<b>0.6 %</b>	<b>437,860</b>	<b>0.1 %</b>
<b>Long-term liabilities</b>					
Provisions and similar items required by law	8	754,527	0.1 %	1,142,560	0.2 %
<b>Total long-term liabilities</b>		<b>754,527</b>	<b>0.1 %</b>	<b>1,142,560</b>	<b>0.2 %</b>
<b>Total Liabilities</b>		<b>4,133,467</b>	<b>0.7 %</b>	<b>1,580,420</b>	<b>0.3 %</b>
<b>Shareholders' Equity</b>					
Share capital	9	624,444,010	113.9 %	584,444,010	100.7 %
General legal retained earnings		1,096,430	0.2 %	1,096,430	0.2 %
Voluntary retained earnings' – Results carried forward		-81,350,667	-14.8 %	-7,151,990	-1.2 %
<b>Total shareholders' equity</b>		<b>544,189,773</b>	<b>99.3 %</b>	<b>578,388,450</b>	<b>99.7 %</b>
<b>Total liabilities and Shareholders' Equity</b>		<b>548,323,240</b>	<b>100.0 %</b>	<b>579,968,870</b>	<b>100.0 %</b>

# INCOME STATEMENT

	NOTE	2020	2019
in CHF			
<b>Net proceeds from sales of services</b>	<b>10</b>	<b>21,665</b>	<b>36,286</b>
Costs for third party services		-9,928,179	-9,502,034
Staff costs	11	-399,094	-450,134
Other operational costs	12	-943,072	-829,488
<b>Earnings before interests and taxes</b>		<b>-11,248,680</b>	<b>-10,745,370</b>
Financial result general	13	186,581	3,119,573
Financial result from financial assets and shareholdings	14	-8,972,504	16,651,957
Financial result from derivative financial instruments	15	-2,362,979	769,618
<b>Earnings before currency translation and taxes</b>		<b>-22,397,582</b>	<b>9,795,778</b>
Result from currency translation from functional currency (USD) to reporting currency		-51,801,095	-11,277,764
<b>Loss for the year</b>		<b>-74,198,677</b>	<b>-1,481,986</b>

# NOTES TO THE FINANCIAL STATEMENTS

## BASIS OF PREPARATION

### General

These statutory financial statements have been prepared in accordance with the Swiss Code of Obligations (32<sup>th</sup> 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

	31.12.2020	31.12.2019
in CHF		
<b>1 – Cash and cash equivalents</b>		
Cash at banks	209,921,336	217,210,675
<b>Total</b>	<b>209,921,336</b>	<b>217,210,675</b>
<b>2 – Other current receivables</b>		
Receivables from investment transactions	–	18,156
Collaterals	5,047,038	4,851,090
Withholding tax receivables	8,520	39,425
Other current receivables	383	734
<b>Total</b>	<b>5,055,941</b>	<b>4,909,405</b>
<b>3 – Accrued income and prepaid expenses</b>		
Prepaid expenses	511,745	329,117
Accrued income	950,641	639,458
<b>Total</b>	<b>1,462,386</b>	<b>968,575</b>
<b>4 – Financial assets</b>		
Equity instruments	206,383,643	223,377,523
Debt instruments	104,148,947	107,524,978
<b>Total</b>	<b>310,532,590</b>	<b>330,902,501</b>

As of balance sheet date equity instruments considering a foreign exchange gain of CHF 499,880 (2019: 0; see note 6 other current liabilities)."

## 5 – Shareholdings

	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Company / Domicile	Share capital in local currency		Holding of capital and votings in %		Book value in CHF	
Sino Swiss Partnership Fund	CNY 197,302,502	CNY 197,302,502	70.19 %	70.19 %	12,549,356	12,907,050
SwissTec Venture Capital Fund	USD –	USD 14,026	0.00 %	99.99 %	–	562,998
SEAF CEE Growth Fund	USD 2,653,951	USD 2,882,925	20.81 %	20.81 %	–	13,349
SEAF South Balkan Fund	EUR 6,211,135	EUR 6,601,774	30.52 %	30.52 %	1,783,426	1,748,074
Colony Latin America Fund	USD 36,795,441	USD 36,795,441	28.29 %	28.29 %	1,150,549	2,858,958
Altra Private Equity Fund I	USD 1,000	USD 4,781,033	43.11 %	43.11 %	38,108	41,746
SEAF Trans Andean Fund	USD –	USD 12,442,481	0.00 %	39.62 %	–	–
SEAF LATAM Growth Fund	USD 10,712,523	USD 14,220,612	41.18 %	41.18 %	1,666,145	1,809,545
Kaizen Private Equity	USD 30,039,512	USD 30,039,512	22.81 %	22.81 %	4,163,403	6,035,994
<b>TOTAL</b>					<b>21,350,987</b>	<b>25,977,714</b>

Aureos Latin America Fund II has been renamed in Colony Latin America in 2020.

The investment SEAF South Balkan Fund considers a foreign exchange gain of CHF 192,929 (2019: CHF 0; s. note 6 other current liabilities).

31.12.2020 | 31.12.2019

in CHF

**6 – Other current liabilities**

Other current liabilities	18,789	46,464
Social insurances liabilities	9,715	12,202
Liabilities due to pension scheme	1,441	1,533
Liabilities due to authorities	6,322	3,226
Provision for unrealised foreign exchange gain	692,809	–
<b>Total</b>	<b>729,076</b>	<b>63,425</b>

**7 – Deferred income and accrued expenses**

Accrued expenses	2,649,864	374,435
<b>Total</b>	<b>2,649,864</b>	<b>374,435</b>

**8 – Provisions and similar items required by law**

Provision for foreign exchange forward contracts	754,527	–
Other provision	–	1,142,560
<b>Total</b>	<b>754,527</b>	<b>1,142,560</b>

**9 – Share capital**

The share capital consists of 62,444,401 shares with a nominal value of CHF 10 each (31.12.2019 58,444,401 shares with a nominal value of CHF 10 each).

2020 | 2019

in CHF

**10 – Net proceeds from sales services**

Income from fund retrocessions	21,665	36,286
<b>Total</b>	<b>21,665</b>	<b>36,286</b>

**11 – Staff costs**

Salaries and wages	–30,934	–18,830
Board compensation	–317,789	–315,136
Social security and pension costs	–29,563	–27,549
Other personnel costs	–20,808	–88,619
<b>Total</b>	<b>–399,094</b>	<b>–450,134</b>



2020

2019

in CHF

**12 – Other operational costs**

Insurance premiums	-14,535	-13,350
Accounting and payroll expenses	-184,948	-185,001
Audit expenses	-66,138	-63,619
Other administration expenses	-532,259	-409,303
Stamp duty	-55,083	-60,088
Sponsorship and membership contributions	-90,109	-98,128
<b>Total</b>	<b>-943,072</b>	<b>-829,488</b>

Other administration expenses include the emission duty of CHF 400,000 on the capital increase of 6 May and 9 October 2020 (2019: CHF 300,000).

**13 – Financial result general**

Interest income	526,612	3,980,204
Interest expenses	-20,095	-15,277
Bank charges	-436,442	-421,073
Foreign exchange gains	266,069	1,879
Foreign exchange losses	-149,563	-426,160
<b>Total</b>	<b>186,582</b>	<b>3,119,573</b>

**14 – Financial result from financial assets and shareholdings**

Interest income from financial assets	7,101,676	5,933,296
Distributions and dividends	8,847,629	14,419,326
Expenses	-62,394	-19,898
Capital gains	426,369	529,301
Capital losses	-29,018,656	-3,349,981
Foreign exchange gains	2,790,751	-562,625
Foreign exchange losses	942,121	-297,462
<b>Total</b>	<b>-8,972,504</b>	<b>16,651,957</b>

**15 – Financial result from derivative financial instruments**

Interest income	111,287	
Interest expenses	-598,412	
Capital gains	282,029	766,417
Capital losses	-2,157,883	3,201
<b>Total</b>	<b>-2,362,979</b>	<b>769,618</b>

## 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

	31.12.2020	31.12.2019
in CHF		
Foreign exchange forward contracts (long)	13,549,293	13,035,546
Foreign exchange forward contracts (short)	-13,549,293	-13,035,546
Cross-currency interest rate SWAPS (long)	15,911,096	
Cross-currency interest rate SWAPS (short)	-16,665,623	
<b>Total (included in other current liabilities – s. Note 6 &amp; provision and similar items – s. Note 8)</b>	<b>-754,527</b>	<b>0</b>

### 18 – Collateral

CS, Margin Account Derivative Instruments	4,428,273	4,851,090
TCX, Margin Account Derivative Instruments	618,765	
<b>Total assets pledged to secure own losses on derivative financial instruments</b>	<b>5,047,038</b>	<b>4,851,090</b>

### 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

	31.12.2020	31.12.2019
<b>Debt investments</b>		
Amret / Loan	USD 1	USD 1
CAMIF II / Loan	USD –	USD 891,000
E + Co. / Loan	USD –	USD 2,300,000
European Financing Partners / Loan (EFP II)		
European Financing Partners / Loan (EFP III)	EUR 84,574	EUR 5,295,467
European Financing Partners / Loan (EFP IV)		
Interact Climate Change Facility / Loan	EUR 20,806,117	EUR 12,774,545
Social Investment Fund 6.0	USD 2,500,000	USD 2,500,000
Bank of Georgia	USD –	USD 5,240,187
Microfinance organization KMF	USD –	USD 10,000,000
Victoria Comercial Bank / Loan	USD 7,000,000	USD 7,000,000
European Financing Partners / Loan (EFP VI)	EUR 8,000,000	
Locfund Next / Loan	USD 1,000,000	
<b>Equity investments</b>		
7L Capital Partners Emerging Europe	EUR 25,059	EUR 25,059
Abraaj Global Credit Fund	USD 7,753,884	USD 7,733,005
Abraaj North Africa II	USD 201,044	USD 1,648,642
Adenia Capital IV	EUR 5,385,347	EUR 5,682,434
Africa Forestry Fund II	USD 5,564,520	USD 5,552,012
AfricInvest Fund II	EUR 197,000	EUR 205,000

## Equity investments continued

AfricInvest Fund III	EUR	761,663	EUR	969,033
agRIF / Shares	USD	583,839	USD	664,170
Amethis Maghreb Fund I	EUR	1,424,019	EUR	1,479,219
Apis Growth Fund I	USD	118,728	USD	2,110,370
Armstrong South East Asia Clean Energy Fund	USD	289,932	USD	347,671
Ashmore Andean Fund II	USD	594,585	USD	2,686,124
Aureos East Africa Fund	USD	62,751	USD	62,751
BioVeda China Fund III	USD	148,704	USD	205,233
BTS India Private Equity Fund	USD	1,881,635	USD	1,881,635
BPI East Africa	USD	822,516	USD	822,516
Cambodia-Laos Development Fund	USD	109,597	USD	139,993
Cambodia-Laos-Myanmar Development Fund II	USD	493,446	USD	860,433
CAMIF II / Equity	USD	492	USD	891,412
Capital North Africa Venture Fund	EUR	767,545	EUR	767,545
Capsquare Asia Partners Fund II	USD	5,797,303	USD	6,796,924
Catalyst Fund I	USD	83	USD	83
Catalyst Fund II	USD	3,830,526	USD	4,175,115
Central American Small Enterprise Investment Fund II	USD	529,495	USD	529,495
Central American Small Enterprise Investment Fund III	USD	693,196	USD	1,533,196
Central American Small Enterprise Investment Fund IV	USD	8,000,000		
CoreCo Central America Fund I	USD	280,456	USD	316,690
Darby Latin American Private Debt Fund III	USD	7,058,025	USD	7,048,684
Ethos Mezzanine Partners III	USD	6,902,881	USD	8,062,586
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	4,267,999	USD	6,815,062
Evolution One	USD	77,176	USD	85,611
Falcon House Partners Indonesia Fund I	USD	1	USD	1
Fidelity Equity Fund II	USD	883,820	USD	883,820
Frontier Energy II	USD	5,178,817	USD	5,850,980
GEF Africa Sustainable Forestry Fund	USD	183	USD	183
Growth Capital Partners (Lok III)	USD	3,760,772	USD	1,708,741
Horizon Fund III	ZAR	-	ZAR	4,319,757
IFHA II	USD	2,668,787	USD	3,817,233
JS Private Equity Fund I	USD	5,300,227	USD	5,278,483
Kaizen Private Equity Fund II	USD	3,184,995	USD	3,699,660
Kendall Court Mezzanine Fund	USD	178,683	USD	205,480
Latin Renewables Infrastructure Fund	USD	695,987	USD	860,508
Maghreb Private Equity Fund II	EUR	15,709	EUR	15,709
Maghreb Private Equity Fund III	EUR	343,474	EUR	579,577
Maghreb Private Equity Fund IV	EUR	6,333,602	EUR	6,529,367
Medu Capital Fund III	USD	891,030	USD	1,002,014
Mongolia Opportunities Fund I	USD	879,210	USD	916,386
Omnivore Fund II	USD	4,038,620	USD	5,559,356
Progression Eastern African Microfinance Equity Fund	USD	1,039,310	USD	1,100,610
rABOP	USD	510,917	USD	510,917
Renewable Energy Asia Fund II	USD	852,767	USD	498,060
South Asia Growth Fund II	USD	3,556,897	USD	7,357,383

31.12.2020 | 31.12.2019

**Equity investments continued**

Synergy Private Equity Fund	USD	320,817	USD	416,542
Synergy Private Equity Fund II	USD	7,270,484	USD	7,306,161
Vantage III Pan African Fund	USD	101,512	USD	2,152,002
Vantage III Southern African Fund	ZAR	43,139,829	ZAR	45,566,166
VenturEast Proactive Fund	USD	-7,309	USD	-7,309
VenturEast Proactive Fund II	USD	3,605,917	USD	4,485,917
VI (Vietnam Investments) Fund I	USD	1	USD	1
VI (Vietnam Investments) Fund II	USD	257,355	USD	632,355
Cathay Africinvest Innovation Fund	EUR	4,483,840	EUR	4,773,343
BioVeda Realization Fund	USD	375,017	USD	438,977
African Development Partners III	USD	11,631,204	USD	15,000,000
Excelsior Capital Vietnam Partners	USD	11,598,707	USD	12,000,000
Navegar II	USD	13,189,996	USD	14,286,266
Locfund Next	USD	1,600,000		
Novastar Ventures Africa Fund II	USD	6,573,264		
SPE AIF I	USD	10,000,000		

**Shareholdings**

Altra Private Equity Fund I	USD	1	USD	1
Colony Latin America Fund	USD	9,500	USD	9,500
SEAF LATAM Growth Fund	USD	1,096,008	USD	1,111,038
SEAF South Balkan Fund	EUR	480,111	EUR	520,851

## PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

31.12.2020 | 31.12.2019

in CHF

Retained earnings / -loss brought forward	-7,151,990	-5,670,003
Net loss for the year	-74,198,677	-1,481,986
<b>Accumulated losses</b>	<b>-81,350,667</b>	<b>-7,151,990</b>

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

To be carried forward	-81,350,667	-7,151,990
<b>Total</b>	<b>-81,350,667</b>	<b>-7,151,990</b>

# ANNEX

# ANNEX 1: PERFORMANCE RESULTS AGAINST THE OPERATIONALISED OBJECTIVES FOR THE 2018–2020 STRATEGIC PERIOD

## PART 1: PROGRAMME-RELATED OBJECTIVES

OBJECTIVE	TARGET	PERFORMANCE
SUSTAINABILITY	<p>a) SIFEM commits all financial intermediaries to observe its Responsible Investment Policy<sup>15</sup> 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.</p>	<p><b>Achieved:</b> All investments made in 2018–20 have complied with this formal requirement. A waiver to comply with one particular component of SIFEM's Approach to Responsible Policy was granted in the context of one investment.</p> <p>As regards implementation, 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. Only one investee is currently experiencing delays in completing its action plan to meet the relevant standards. These delays are COVID-19-related.</p>
FINANCIAL ADDITIONALITY	<p>a) At least 25 % of investments target least developed countries and other low income countries (rolling 3 year average).</p>	<p><b>Achieved:</b> 33 % of SIFEM's transactions made in 2018–20 are expected to result in investments in least developed countries (LDCs) or other low-income countries.</p>
	<p>b) At least half of the number of investment commitments of SIFEM AG serve to reach the 1<sup>st</sup> closing of the target funds.</p>	<p><b>Achieved:</b> 64 % of SIFEM's deals closed in 2018–2020 served to reach the 1<sup>st</sup> closing of the target funds.</p>
NON-FINANCIAL ADDITIONALITY	<p>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:</p> <ul style="list-style-type: none"> <li>• Strengthen the strategy and management capacities, in particular with regard to ESG standards, of financial intermediaries.</li> </ul>	<p><b>Descriptive reporting (no target level):</b> Guidance and support were provided to financial intermediaries on E&amp;S matters on a regular basis in 2020. Direct support has been provided to ten Fund Managers on environmental and social management matters. A special training module was also developed in the context of the COVID-19 crisis to deal with remote monitoring of environmental and social risks.</p>

<sup>15</sup> 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/>

	<ul style="list-style-type: none"> <li>b) • Strengthen the business management of portfolio companies, particularly in areas such as corporate governance, as well as environmental and social standards.</li> <li>• Promote skills development (1) among the employees of portfolio companies, (2) along a value chain of portfolio companies.</li> </ul>	<b>Descriptive reporting (no target level):</b> 23 technical assistance interventions were approved in 2020, financed by the SIFEM Technical Assistance Facility. The investees of two funds active in Latin America benefited from these interventions.
<b>LEVERAGE EFFECT</b>	One USD invested by SIFEM mobilises at least 4 USD from private investors (i.e. excluding the contribution of other DFIs).	<b>Achieved:</b> For every USD 1 invested by SIFEM, there was approximately USD 5.8 of private investment for the 2018–20 investments.
<b>GEOGRAPHIC CONCENTRATION</b>	100 % of SIFEM direct investments and at least 60 % of the indirect investments are made in priority countries or regions for Swiss development cooperation. Regional or global funds are deemed to be investments in focal countries if it can be assumed that on the basis of credible documentation and the information relating to the deal pipeline at least 50 % of the investments by the fund will be made in priority countries and regions of Swiss development cooperation (this share is set at 20 % for Sub-Saharan Africa).	<b>Achieved:</b> During the period 2018–20, 100 % of direct investments and 80 % of fund investments targeted SIFEM priority countries.

## PART 2: TASKS AND COMPANY-RELATED OBJECTIVES

OBJECTIVE	TARGET	PERFORMANCE
<b>EMPLOYMENT EFFECTS</b>	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.	<b>Achieved:</b> SIFEM's pro rata share of new jobs created and sustained in the reporting year 2020 is 12,839. The average number of pro-rata jobs for the entire period is 15,100 per year. <sup>16</sup>
	b) The number of jobs in the SIFEM portfolio companies increases by at least 6 % on a three-year average.	<b>Achieved:</b> The employment numbers in the SIFEM portfolio companies grew on average by 6.66 % on a three-year average.

<sup>16</sup> *Corrigendum:* The 2018 and 2019 figures used for the calculations have been revised, due to newly available information. The final 2018 and 2019 figures are 12'597 and 19'923, respectively.

	<p>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.</p>	<p><b>Achieved:</b> 100 % of SIFEM's deals closed in 2018–2020, portfolio companies have committed to comply with SIFEM's Responsible Investment Policy (which refers to ILO core labour standards and to other applicable E&amp;S standards including occupational health &amp; safety) and are required to commit in turn their respective investees and clients to comply with that policy.</p>
	<p>d) Portfolio companies document their progress in achieving work safety targets beyond and above minimum legal requirements.</p>	<p><b>Achieved:</b> All but one Fund Manager of SIFEM's fund investments committed in 2018–20 have committed to report year-on-year occupational, health and safety targets for their respective portfolio companies. These targets are company specific since they depend on the nature of the company's activities and the company's performance against occupational health and safety standards.</p>
	<p>e) Demonstrate the business case as well as the economic and societal benefits of investing in the quality of jobs.</p>	<p><b>Achieved:</b> A research study on the contribution of SIFEM to the creation of more and better jobs in the manufacturing sector was conducted in 2019. While noting the context-specific nature of what constitutes job quality, the research supports the view that SIFEM's investments sustain the creation and maintenance of quality jobs over time.</p>
<p><b>OVERALL IMPACT ON DEVELOPMENT</b></p>	<p>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.</p>	<p><b>Achieved:</b> 85 % 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 2020.</p>
<p><b>INSTRUMENT MIX</b></p>	<p>Total commitments and number of investments by country, sector (incl. micro finance, infrastructure) as well as number of firms receiving support.</p>	<p><b>Descriptive reporting (no target level):</b> See the data and charts on the investment mix in Section 3.2.</p>
<p><b>EFFECTIVENESS</b></p>	<p>SIFEM is an anchor fund investor and takes a seat on the funds' supervisory bodies (Advisory Board).</p>	<p><b>Achieved:</b> SIFEM has secured a seat on the supervisory bodies of 100 % of its fund deals closed in 2018 and 2020.</p>
<p><b>MOBILISATION</b></p>	<p>SIFEM directly leverages at least CHF 30 million from private and/or institutional investors on the 2018ff. capital increase from the Swiss Confederation.</p>	<p><b>Achieved:</b> Obviam signed a new management contract in May 2020 with a Swiss Foundation for USD 60 million.</p>



MONITORING	Report on the development effects in line with the SIFEM Impact Policy.	<b>Achieved:</b> Three development impact reports were published by SIFEM in 2018–20, with special thematic chapters on financial inclusion (2018), climate change financing (2019) and decent jobs (2020).
POSITIONING	<p>a) Contribution to the target outcomes of the economic and trade measures under the 2017–2020 Dispatch on International Cooperation:</p> <ul style="list-style-type: none"> <li>– Target outcome „more and better jobs“</li> <li>+ Number of jobs created or retained</li> <li>+ Capital mobilised in USD</li> <li>– Target outcome „low-emission and climate-resilient economies“</li> <li>+ Greenhouse gas emissions saved</li> <li>+ Additional kilowatt hours from renewable energy</li> </ul>	<p><b>Descriptive reporting (no target level):</b></p> <ul style="list-style-type: none"> <li>• 870,600 jobs supported and created since 2005 (together with co-investors).</li> <li>• More than USD 750 million private capital mobilised alongside SIFEM's fund investments in 2018–2020.</li> <li>• 5,882 GWh of clean energy produced and 5.5 million tons of CO<sub>2</sub> emissions avoided (together with co-investors).</li> </ul>
	<p>b) Synergies with the economic development instruments of SECO, namely in the realm of local financial markets development and regulation and financial infrastructure.</p>	<p><b>Descriptive reporting (no target level):</b> Regular interactions have taken place with SECO and local field offices in the context of due diligence and monitoring missions.</p>
	<p>c) Contribution in particular to the following UN Sustainable Development Goals:</p> <ul style="list-style-type: none"> <li>• 8.5. „(...) achieve full and productive employment and decent work for all women and men (...)“</li> <li>• 7a. „(...) promote investment in energy infrastructure and clean energy technology“</li> <li>• 17.3 “Mobilise additional financial resources for developing countries from multiple sources”</li> </ul>	<p><b>Descriptive reporting (no target level):</b></p> <p>Contributions to the SDGs:</p> <ul style="list-style-type: none"> <li>• SDG 8: 65 % of investments made in 2018–20</li> <li>• SDG 7: 13 % of investments made in 2018–20</li> <li>• SDG 17: 26 % of investments made in 2018–20</li> </ul> <p>NB: all SIFEM investments identify a maximum of 3 SDGs per investment, where the expected SDG contribution is based on measurable evidence.</p>
DEVELOPMENT	<p>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.</p>	<p><b>Achieved:</b> 58 % of SIFEM's investments closed in 2018–2020 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.</p>
	<p>b) As part of these commitments, at least 3 new investments are made in the field of climate protection.</p>	<p><b>Achieved:</b> One new investment was made in the field of climate protection in 2020, adding to two previous SIFEM's climate investments closed in 2018.</p>

## 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

### Achieved:

- Funds: 39.7 %
- Debt instruments: 9.2 %

## PART 3: FINANCIAL OBJECTIVES

### OBJECTIVE

### TARGET

### PERFORMANCE

#### OPERATING EFFICIENCY

Operating cost ceiling of 1.5 % of the active commitments.

**Achieved:** Total operating costs reached 1.4 % in 2020 i.e. below the ceiling of 1.5 %. On average, total operating costs reached 1.35 % of total active commitments during 2018–20.

#### 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).

**Achieved:** The sum of total operating costs and new commitments made in 2018–20 (CHF 277 million) was less than the overcommitment headroom including capital increases and the reflows received in 2018–20 (CHF 281.6 million).

b) The average annual reflows increase by at least 10 % compared to the average annual reflows between 2014–2017.

**Achieved:** 2018–20 average reflows grew by 33 % compared to the average reflows during the 2014–2017 period.

#### FINANCIAL RESULT

Positive operating result in accordance with IFRS.

**Not achieved:** The operating result was of CHF –28.6 million in 2020. The cumulative operating result over the entire strategic period totalled CHF –46 million.

#### INVESTMENTS

a) Internal Rate of Return exceeding 3 %. Value multiplier (Total Value over Paid-in) exceeding 1,15.

**Achieved:** The IRR of the overall portfolio as of 2020 was 5.2 %; the TVPI was 1.20

b) At least 1–2 investment institutions should be selected for comparing the performance of SIFEM with other investment institutions.

**Achieved:** Two comparable Development Finance Institutions (DFIs) in Europe were selected at the beginning of the strategic period. Over the last three years SIFEM's operational efficiency seems to have been better than that of these counterparts, while its profitability is in the middle range.

**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 harmonisation of and progress in impact measurement and reporting.

**Achieved:** SIFEM actively contributed to different technical working groups in 2020. In particular, SIFEM co-chaired the EDFI Harmonisation Task Force in 2020. See section 1.3 for details.

b) SIFEM considers membership in the International Aid Transparency Initiative (IATI).

**Achieved:** SIFEM assessed the potential for membership in the International Aid Transparency Initiative in 2020. It has come to the conclusion that it would not join the initiative, which is more suitable for donor flows than development finance institutions.

# ANNEX 2: RISK MANAGEMENT

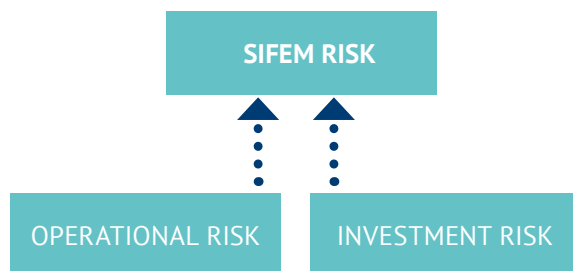
## 1. SIFEM RISK MANAGEMENT PRINCIPLES

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

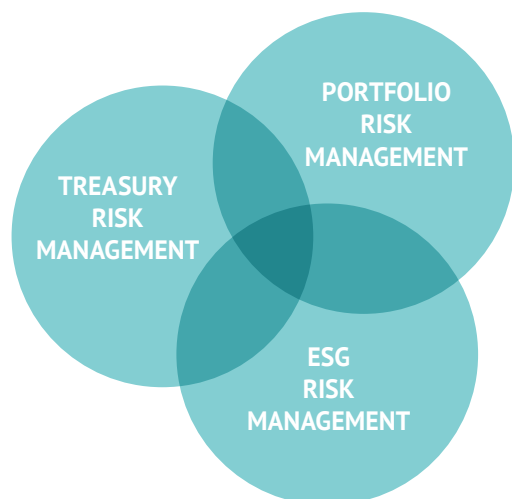
SIFEM is subject to a full audit conducted annually in accordance with the Swiss Code of Obligations. Since the 2008 revision of the Swiss Code of Obligations, companies undergoing a full audit are required to demonstrate the existence of an Internal Control System (ICS). The Board of Directors and the 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, which has been validated by SIFEM's auditor. Each investment is rated on an annual basis. Comprehensive descriptions of the tool and of portfolio risk analysis are provided in Section 4.4 and Section 4.5 respectively.

#### Treasury Management

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

#### ESG Risk Management

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

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

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

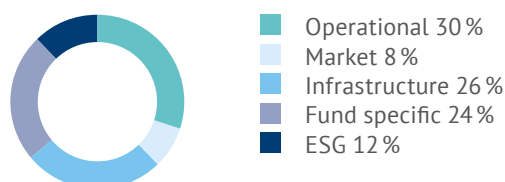
ESG risk ratings and other key information (including compliance status and serious incidents) are maintained in a Management Information System. Watch lists are periodically generated to track and monitor risks. The ESG risk profile of SIFEM's entire portfolio is generated annually.

#### 4. PORTFOLIO RISK RATING TOOL

In 2012 Obviam developed and implemented a comprehensive in-house risk rating system for the SIFEM portfolio, which was validated by SIFEM's auditor. 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.

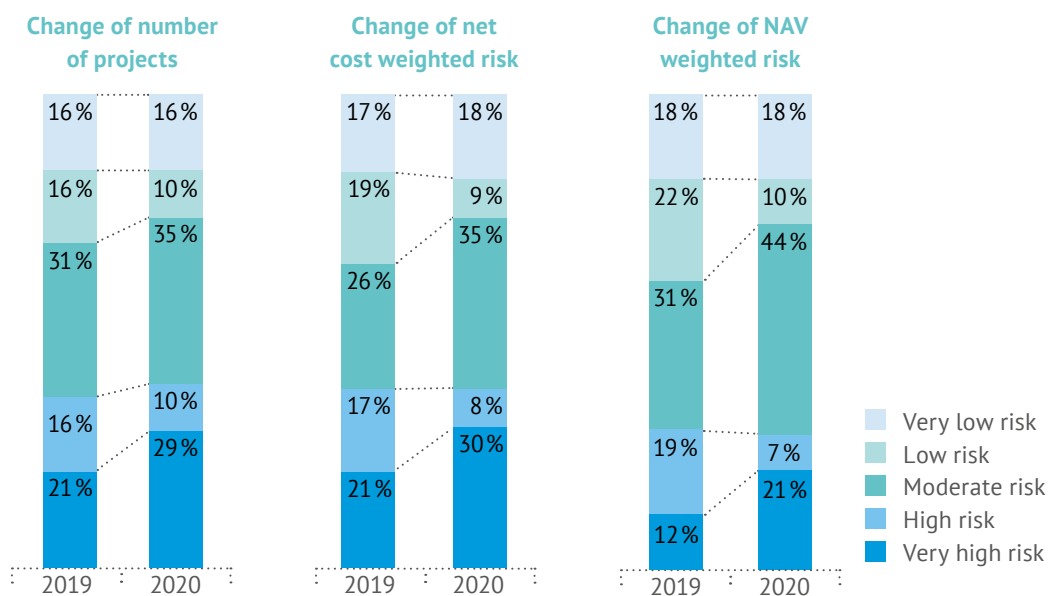
The individual rating of each investment is rescaled into a risk score ranging from 1 (very high risk) to 5 (very low risk). Risk scores of 4 or 5 classify an investment as low risk or even very low risk, respectively, while a risk score of 3 indicates a moderate risk. A risk score of 2, puts an investment 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 2020

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

When measuring the exposure to each risk category by weighing each investment by its NAV, the largest concentration falls within the moderate risk category. 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. In 2020, a trend from low-risk to moderate-risk projects has become noticeable, while other risk categories have remained relatively stable.

**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 2020



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 2020**

Projects per risk category	Private Equity Funds		Pooled Debt Vehicles		Direct Debt Investments	
<b>Very low risk</b>	8	11%	8	53%		
<b>Low risk</b>	4	6%	5	33%	1	7%
<b>Moderate risk</b>	23	32%	2	13%	10	71%
<b>High risk</b>	8	11%			2	14%
<b>Very high risk</b>	28	39%			1	7%

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

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

The debt instruments such as debt funds and other pooled debt vehicles show a very different picture: here, most investments can be considered to be lower risk. This is not surprising, since the underlying assets of such vehicles consist of debt or sub-ordinated debt, which is senior to equity investments. Also, the pooled vehicles offer a degree of diversification, which typically makes them less risky than direct debt transactions.

Only if a debt instrument is provisioned, e.g. is moved to stage 2 or 3 under the IFRS 9 accounting standard, a change in risk category allocation occurs and a significant change in the NAV weighted risk could be observed. This underlines the forward-looking nature of the NAV-approach: such an investment was a loss for SIFEM, but since its value in the current portfolio is substantially lowered, there is also less value at risk for future losses with respect to that particular investment.



**FIGURE G: PROJECTS, NET COST AND NAV OF THE SIFEM PORTFOLIO AS A PERCENTAGE PER RISK CATEGORY AS OF DECEMBER 2020**

Private Equity Funds	PROJECTS	COST	RESIDUAL VALUE
<b>Very low risk</b>	11 %	12 %	11 %
<b>Low risk</b>	6 %	7 %	9 %
<b>Moderate risk</b>	32 %	30 %	41 %
<b>High risk</b>	11 %	8 %	8 %
<b>Very high risk</b>	39 %	43 %	32 %
<b>Pooled Debt Vehicles</b>			
<b>Very low risk</b>	53 %	78 %	80 %
<b>Low risk</b>	33 %	19 %	17 %
<b>Moderate risk</b>	13 %	4 %	3 %
<b>High risk</b>			
<b>Very high risk</b>			
<b>Direct Debt</b>			
<b>Very low risk</b>			
<b>Low risk</b>	7 %	7 %	8 %
<b>Moderate risk</b>	71 %	70 %	77 %
<b>High risk</b>	14 %	13 %	11 %
<b>Very high risk</b>	7 %	9 %	4 %

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

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

Typically, the movements between risk categories are not significant, as most investments move by only one or two categories up or down at a time. As shown in the risk matrix below (Figure H), there were 23 projects that changed their risk category in 2020, out of which 20 displayed a deterioration and only 3 an improvement. During the year, nine projects moved from high-risk and one from moderate-risk to the very high-risk category, while four projects that were previously classified as moderate-risk are now high-risk. One project moved from low-risk to high-risk and five projects from low-risk to the moderate-risk category.

On the other side, two projects moved from high-risk to the moderate category and one from moderate-risk to the low-risk category.

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

		2019							
		1	2	3	4	5			
Number of Projects	New Projects	Very high risk	High risk	Moderate risk	Low risk	Very low risk	Total	Total %	
2020	1 Very high risk	0	<b>19</b>	<b>9</b>	<b>1</b>	0	0	29	29%
	2 High risk	1	0	4	<b>4</b>	<b>1</b>	0	10	10%
	3 Moderate risk	5	0	<b>2</b>	23	<b>5</b>	0	35	35%
	4 Low risk	0	0	0	<b>1</b>	9	0	10	10%
	5 Very low risk	1	0	0	0	0	15	16	16%

# GLOSSARY

## **Custodian**

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

## **Private Equity Fund**

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

## **Development Finance Institution (DFI)**

A term used to refer to the range of bilateral and multilateral institutions that provide risk capital to the private sector of developing countries.

## **Reflows**

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

## **European Development Finance Institutions (EDFI)**

The association of 15 European based, bilateral Development Finance Institutions whereby SIFEM is a member.

## **Legacy Position**

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

## **Internal Rate of Return (IRR)**

The annualised effective compounded rate of return for an investment and is commonly used to evaluate the desirability of investment projects. It is the standard measure of financial return used in the Private Equity Industry.

## **Mezzanine Fund**

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

## **International Financial Reporting Standards (IFRS)**

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

## **Net Asset Value (NAV)**

The amount attributable to the investors of a portfolio on the basis of the fair value of its Assets less its liabilities.

## **International Private Equity 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.

## **Net income**

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

## **Obviam**

A Bern-based investment management company formed by the former management of SIFEM to act as Investment Advisor to SIFEM. The company is fully owned by its employees and does not hold SIFEM or the Swiss Confederation as a shareholder. Operating Result In SIFEM's IFRS financial statements, the operating result is calculated by subtracting administrative and operating costs from the net income.

## **Private Equity**

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

## **Total Comprehensive Income**

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

## **Current income investments**

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

# LIST OF ABBREVIATIONS

<b>AG</b>	Swiss public limited company (Aktiengesellschaft)	<b>No.</b>	Number
<b>Art.</b>	Article	<b>NPV</b>	Net present value
<b>CDC</b>	British DFI	<b>OCI</b>	Other comprehensive income
<b>CEE</b>	Central and Eastern Europe	<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>CGDF</b>	Corporate Governance Development Framework	<b>PD</b>	Probability of default
<b>CHF</b>	Swiss Franc	<b>PE</b>	Private equity
<b>CNY</b>	Chinese Yuan Renminbi	<b>PEF</b>	Private equity fund
<b>CIS</b>	Commonwealth of Independent States	<b>SCO</b>	Swiss Code of Obligations
<b>DE</b>	Development Effectiveness/Effects	<b>SDC</b>	Swiss Agency for Development and Cooperation
<b>DEG</b>	German DFI	<b>SDGs</b>	Sustainable Development Goals
<b>DFI</b>	Development Finance Institution	<b>SECO</b>	Swiss State Secretariat for Economic Affairs
<b>EAD</b>	Exposure at default	<b>SIFEM</b>	Swiss Investment Fund for Emerging Markets
<b>EC</b>	European Commission	<b>SME</b>	Small and medium-sized enterprise
<b>ECL</b>	Expected credit loss	<b>SNB</b>	Swiss National Bank
<b>EDFI</b>	European Development Finance Institutions	<b>SR</b>	Classified Compilation of Swiss Federal Legislation
<b>E&amp;S</b>	Environmental and Social	<b>SSA</b>	Sub-Saharan Africa
<b>ESG</b>	Environmental, social and governance	<b>SSPI</b>	Solely payment of principal and interest
<b>EU</b>	European Union	<b>TA</b>	Technical assistance
<b>EUR</b>	Euro	<b>TVPI</b>	Total value over paid-in capital
<b>FDFA</b>	Federal Department of Foreign Affairs	<b>UN</b>	United Nations
<b>FI</b>	Financial institution	<b>USD</b>	United States Dollar
<b>FMO</b>	Dutch DFI	<b>WTO</b>	World Trade Organisation
<b>FVOCI</b>	Fair value through other comprehensive income	<b>ZAR</b>	South African Rand
<b>FVTPL</b>	Fair value through profit or loss		
<b>GDP</b>	Gross domestic product		
<b>GPR</b>	Corporate policy project rating tool (developed by DEG)		
<b>IATI</b>	International Aid Transparency Initiative		
<b>ICS</b>	Internal Control System		
<b>ICT</b>	Information and communication technology		
<b>IFC</b>	International Finance Corporation		
<b>IFI</b>	International Financial Institution		
<b>IFRS</b>	International Financial Reporting Standards		
<b>ILO</b>	International Labour Organisation		
<b>IPEV</b>	International Private Equity Valuation Guidelines		
<b>IRR</b>	Internal Rate of Return		
<b>m</b>	Million		
<b>LATAM</b>	Latin America		
<b>LDC</b>	Least developed countries		
<b>LGD</b>	Loss given default		
<b>LIC</b>	Lower income countries		
<b>MENA</b>	Middle East and North Africa		
<b>MFI</b>	Microfinance institution		
<b>MSME</b>	Micro small and medium-sized enterprise		
<b>NAV</b>	Net asset value		







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